Sopheon

2020 Annual Report


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

TABLE OF CONTENTS

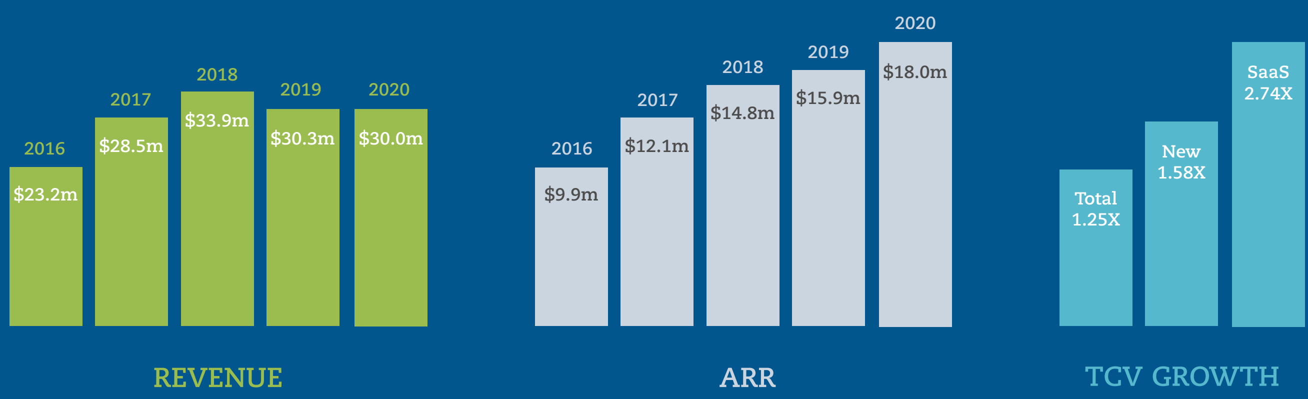
Sopheon’s mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation.

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

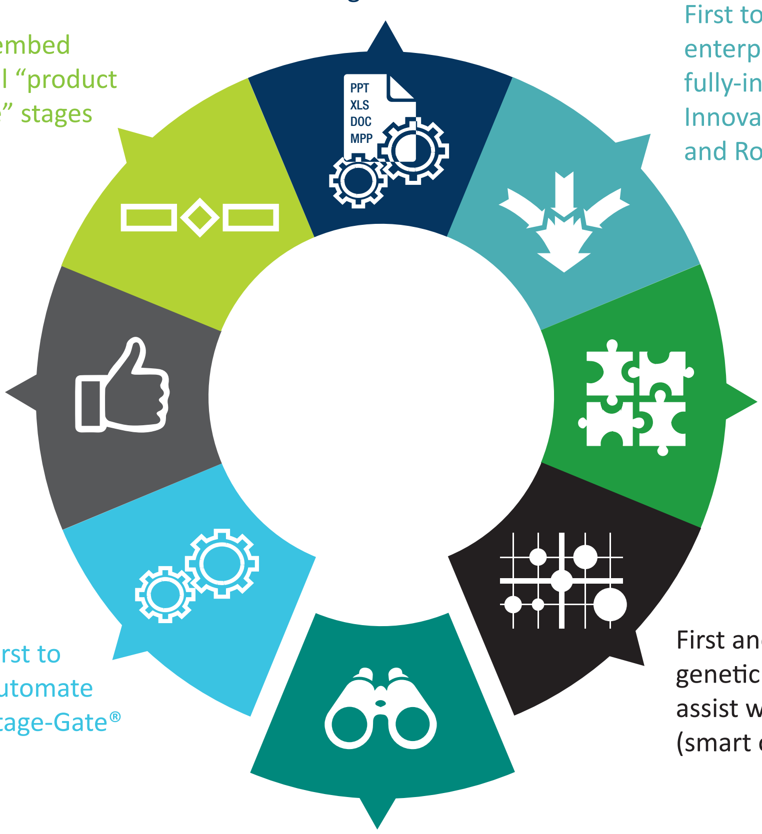
First and only to provide a genetic (learning) algorithm to assist with portfolio alignment (smart optimization)

First to embed proactive knowledge discovery

First to automate Stage-Gate®

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

First to embed graphical “product life cycle” stages



Land O'Lakes, Inc. Leprino Foods LG Parker PEPSICO P&G سابك sabic

CHAIRMAN'S STATEMENT

I am very proud to report a growth in contractual bookings over the previous year in a period of unpredictability and unparalleled disruption. We are reporting $30m revenue in 2020, matching the prior year, and with several other indicators showing rising commercial traction, even in the face of dual headwinds. Besides the global shock caused by the pandemic, this was our first full year of prioritizing Software as a Service (SaaS) contracts for our new customer engagements. Each of these factors created downward pressure on revenues, highlighting the strength of our achievement. The pandemic introduced new challenges to sales and retention; and our strategy to make selling new SaaS contracts a priority reduces revenue recognition in the first year compared to traditional perpetual licenses, trading this for a higher quality and predictable ongoing recurring revenue stream in the future. Other key metrics, core to measuring the progress of our cloud transition, are encouraging – Total Contract Value (TCV) of sales booked in the year was up a quarter, and we nearly tripled the TCV of new SaaS contracts booked. Six of the new deals signed exceeded $1m in initial TCV, and Annual Recurring Revenue (ARR) closed at $18m, an historic high up from $15.9m a year ago. Retention did suffer during the initial stages of the pandemic, then rebounded later in the year. Furthermore, we achieved all of this while continuing to deliver a solidly profitable and cash generative year, also reporting new highs in cash balances and closing net assets.

Sopheon is a business in transition. As our CEO Andy Michuda explains in his report, we are embarking on the development of new cloud-native products, which will contribute to the growth of our well-established enterprise solution, Accolade®. These new cloud-based applications will bring value to personal and workgroup productivity alongside the corporate value points we are well known for. This strategy and investment will lead to multiple benefits. Our new applications will address needs of a work-from-home trend that is now unstoppable and will introduce a low cost, high volume market "pull" sales model by targeting innovation professionals in our target markets. This parallel sales model will produce upsell enterprise opportunities; and our strong enterprise brand and reputation will in turn feed the cloud-based application sales funnel. Our cloud products will integrate seamlessly with our current enterprise solution – and over time, we expect many existing enterprise customers to adopt the cloud applications. In addition, we fully expect to add new cloud capability and market presence through acquisitions. We will move rapidly when the right opportunity is identified.

In this context of transition, I have the bittersweet task of noting that this will be my last report as Chairman of Sopheon. I have been in this role since inception of the company. It has been a privilege to lead such talented employees, and to build a business that is making a real difference to so many major corporations. Yet, as we embrace change in our own business, the time has come to pass the baton. I can think of no better person to take on the Executive Chairman role and to steer Sopheon through the coming years than our CEO, Andy

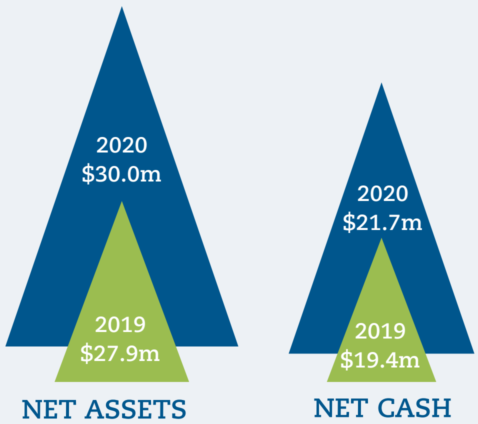
> We fully expect to add new cloud capability and market presence through acquisitions. We will move rapidly when the right opportunity is identified.

Michuda. As well as governance, Andy will focus on partnerships and acquisitions. He will be replaced as CEO by Greg Coticchia who joined us in October 2020. We also welcome Greg to the board of the company. As we have previously shared, Greg is a recognized entrepreneur, business leader, professor and author, with over thirty years' experience in software products and services. He has great experience in leading the strategic transition we face and is now fully embedded and supported by our senior leadership team. The board and I are delighted with these two appointments. The changes I have described will take effect on 31 March 2021. My personal commitment to Sopheon is undimmed, and I will remain a non-executive director and major shareholder in the company as we go through this exciting new chapter in the Sopheon story.

Although SaaS will dominate new deals and represents our future, I should emphasize that we fully expect to continue to sign some perpetual licenses, driven mainly by existing customers. Adding our year-to-date license sales and consulting services backlog to ARR takes overall revenue visibility[1] for 2021 to $24.5m at the time of this report, compared to $21.2m a year ago. With this solid revenue base already in place for 2021, plus our strong balance sheet, a superb customer base and a team of great people – I am confident that Sopheon has a great future. We also continue to believe in sharing success with shareholders, and I am therefore pleased to announce that we will again maintain our dividend at 3.25p per share.

Barry Mence
Executive Chairman

23 March 2021



megabuyte QUOTED 25 2020 PEER GROUP WINNER

[1] 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 explains 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.

Our Mission

Sopheon was founded with a mission to provide our customers with world-class product solutions that contribute to exceptional long-term growth and profitability through sustainable innovation. Our Accolade solution digitalizes Enterprise Innovation and other strategic initiatives that provide competitive advantage in the age of digitalization.

LEARNINGS FROM 2020

Our Clients Entered the Journey to Migrate Their Accolade Application to the Cloud

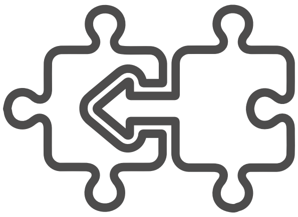
The R&D-intensive industries that Sopheon targets started to accept the cloud in earnest in 2019. Sopheon entered 2020 with the introduction of new programs to assist our clients in moving their data sensitive applications managed by Sopheon's product, Accolade, to the cloud. Customers have responded favorably:

- We introduced a SaaS First program to interest new clients to favor SaaS contracts over the traditional on-premise in perpetuity agreements. The market was very receptive to the offering, resulting in over half of our net new clients in 2020 signing SaaS contracts. We are confident this shift will deepen into 2021.

- We introduced a SaaS Uplift program designed to assist active maintenance-paying clients to transition to the cloud. Our offering reduces cost to the client by removing the need for them to manage our software in their environment. It also enables faster access to new features and capabilities. Four clients converted to SaaS in 2020 as part of our introduction program, validating our business case and ROI proposition. With this success behind us we enter 2021 expecting to increase momentum in this uplift program, targeting our substantial base of perpetual on-premises clients.

Convergence of Physical and Software Innovation Has Created a New Unmet Need

Software start-ups and high-tech leaders are disrupting every industry with new operating models. This has forced traditional companies to invest in software engineers to create “smart” products to compete. As a result, a new challenge has emerged. Companies are struggling to manage the governance between the physical and software aspects of their products to orchestrate the cross-functional product development lifecycle and go-to-market activities. If companies don’t adapt and introduce new agility they will struggle to compete. We see this as a significant opportunity to Sopheon.



Accolade Offers Customers the Agility and Adaptability to Handle Disruption

At the time of writing our annual report last year, we knew very little about COVID-19 and its impacts on our business. What we know now is that while many industries have been devastated by COVID-19, others have thrived. Some of our target market segments were directly impacted, but the majority of our client base was not hurt by COVID-19. Sopheon has fared well due to our target focus on industries that were minimally affected, with several clients expanding their use of our Accolade software to support their newly created virtual work environment. As our CFO Arif Karimjee describes in the financial report, we did however experience a lower than normal client retention rate in the first half of 2020, as some customers took short-term cost actions. Retention rates rebounded in the second half of the year and we expect this to continue.

While the COVID-19 disruption did delay a few buying cycles during 2020, Sopheon booked more in net new contract value in 2020 than in 2019, which demonstrates the resiliency of Accolade’s value proposition during times of market disruption. In addition, we successfully completed several new client deployments, including Mondelez and Orion Engineered Carbons with entirely remote customer engagements and support activities.

Sopheon’s longstanding focus on specific verticals was evident again in 2020, with 100 percent of our ten net new clients coming from our target industries of chemical, consumer goods, aerospace and defense, high-tech and industrial manufacturing. New clients are well-known market leaders, among them DuPont, LG, Hochland, Clif Bar and Mondelez. While our net new pipeline was very active and opportunities continued to move through our sales process we did notice a slow down at the front of the pipeline (suspect development) through mid-2020 but that trend has since shifted in the fall and we exited 2020 with the strongest net new pipe in the history of the company.

GROWTH STRATEGY

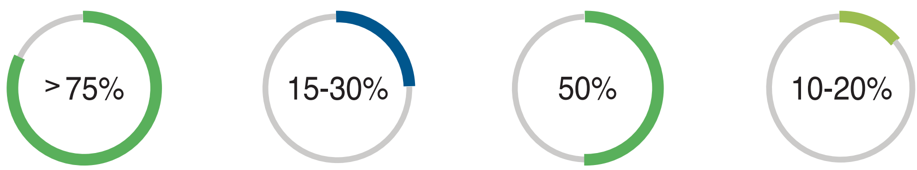
Our growth strategy focuses on three key areas.

1 Organic Growth through Strong Ecosystem Networks

Leverage blue-chip references to extend our Accolade software as the product of choice to digitalize enterprise innovation in our target markets. Sopheon's roster of customers is a Who's Who of the world's leading companies creating a strong and influential ecosystem. The strong brand of our solution is evidenced by the addition of new customers in food and beverage, consumer goods, chemicals and defense sectors, even in the face of COVID-19. We have continued to concentrate on our core industries to grow market share where we hold preferred positions due to strong competency in our product, best-practice content and expertise of our people. I am proud to share that 100 percent of our new sales in 2020 came from these core verticals, proof of our team's dedication to executing on our strategy.

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 for mutual learning and to advance their competency and success. Despite the strength in this area, we have not captured our share of these markets and will therefore invest efforts to do so. In parallel, we continue to test additional industries for expansion such as the automotive and transportation sectors.

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%

Expansion from Product to Enterprise Innovation: We continue to see the use of Accolade expand to support additional business needs such as strategic transformation and business innovation initiatives spanning supply chain; smart, connected product innovation; and more. Our strengths were also recognized by Gartner in their research reports on tools for innovation management[1], product management and roadmapping[2], software for strategy execution management[3] and technologies supporting a digital twin of the organization.[4]

We are in the midst of no ordinary business cycle, but rather one that requires a fundamental transformation by businesses of all sizes and across all industries to operate with more agility and responsiveness. Organizations unable to master this transition will disappear. The key driver of this disruption and resulting "digital revolution" is the changing expectation of customers in the way they choose, buy, obtain and use products. Product innovation is at the heart of our customers' digital transformation and is, now more than ever, critical for business survival. Executing on digital transformation strategies and initiatives has become an imperative for these organizations. This emerging market represents a considerable addressable target market size as a subset of the overall digital transformation market, which is estimated to exceed $2 trillion by 2025.[5]

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 help organizations meet the challenge of digital disruption and 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.

2

Transformation to a SaaS Business

Transition the revenue model: The benefits of moving our revenue model from perpetual License and Initial Maintenance (LIM) to one emphasizing Annual Recurring Revenue (ARR) delivers higher predictability and is driving our investment in our cloud business strategy. This transformation affects every aspect of our company and all cross-functional operations, and will allow Sopheon to innovate more quickly, shorten the time to acquire new customers, improve business predictability (through reducing license spikes and troughs, guaranteeing recurring revenue and guaranteeing paid support), further improve the scalability and performance of our software, and reduce the cost of service delivery. In addition, we will also better meet our customers' preference for greater flexibility and alignment of their investment with consumption of the software. We will continue the Cloud transition by further executing on the programs introduced in 2020 – SaaS First selling and Cloud Uplift for on-premises clients.

Introduce new cloud offerings for product-led growth: As we continue to invest in new cloud-native SaaS capabilities, we will take advantage of opportunities to promote and sell these new capabilities as market consumable applications using a product-led model that affords product trials, freemium usage and self-service provisioning with no or low-cost implementation. This product-led approach represents a new go-to-market channel and will create a "flywheel" effect to accelerate the rate of new customer acquisition, by providing a base of new customers into which our direct sales teams can upsell larger enterprise SaaS deals. The cloud applications will integrate seamlessly with our current enterprise solution – and over time, we expect many existing enterprise customers to migrate.

3

Non-Organic Growth

Partnerships: Sopheon develops and maintains three types of partnerships.

Technology Partners provide enabling technologies and integrations that broaden our solutions and reduce demands on our internal R&D effort. Microsoft® continues to be our most important technology partner and in 2020 Sopheon released a deep integration between Accolade and Microsoft Teams to enable customers to use the Teams platform for workstream collaboration on product and enterprise innovation initiatives. This integration extends user adoption to new individuals and workgroups across the enterprise and was recognized by Gartner as a model for all cloud software vendors in its 2020 report on effective remote working.[6]

Reseller Partners allow Sopheon to sell and support Accolade in regions that require specialized, local knowledge and expertise. Our current reseller partners are Prodex Systems supporting Australia and New Zealand, PCITC supporting China, and Roadmapping Technology supporting certain sectors in the United Kingdom.

Consulting Partners provide specialist innovation management expertise that support successful implementation of our Enterprise Innovation Management solutions. We have worked with consulting partners including Accenture, Deloitte, BCG, PWC, Atos, The Adept Group, and Stage-Gate, Inc.

M&A: We are actively researching opportunities for M&A. Our criteria are for businesses that could extend the capabilities of our solutions as an alternative to internal R&D, expand our footprint within existing customers, attract customers in new verticals, or extend geographic reach by de-risking the pitfalls of organic growth in new territories. Targets will ideally offer cloud native technologies, contribute to ARR growth, fit into the innovation / product management / strategy space we serve, and offer end-user value and an online sales channel alongside our enterprise solution salesforce.

WHAT MAKES SOPHEON DIFFERENT

Our Culture

As a company and as individuals we value integrity, honesty, openness, inclusion, 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, Sopheon is proud of our employee retention of almost 90 percent. The many 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.

Our People

Innovation Specialists with Deep Experience

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 meets 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)

Commitment to Delivering Customer Value

We have had solid uptake and market response to our Value Assurance Approach (VAA) program as a way to streamline the path to customer value and mitigate implementation value risk. In addition to integrating learnings and evolving the process and content, we've expanded the program to introduce a higher level of reuse in what is delivered to customers with prescriptive deliverables and approaches. To further assure customer success, we have begun developing an education and training structure to better enable customers to drive effective usage through their organizations. Our focus on these areas in the past couple of years has created a solid foundation that will allow us to continue to scale our ability to deliver customer value faster, grow our client base and increase client satisfaction. Additional investment in a Customer Success organization is planned to further scale as we expand our SaaS offerings to the market to assure that we not only acquire and lead customers to value quickly, but we are also able to mature and retain those customers for the long term.

Our Product

Sopheon's product team continued to steadily improve and grow Accolade's ability to empower our customers' innovation lifecycles while addressing the impact COVID-19 has had on their processes and innovation programs. In addition to introducing new market-facing capabilities, we invested in our underlying technologies and capabilities that support our cloud and product-led growth initiatives. In 2020 we maintained a regular release cadence while also quickly bringing new and innovative capabilities to market to directly address the disruption caused by COVID-19.

- Accolade Disruption Response Toolkit, released in April, introduced capabilities to view, assess and analyze risks and opportunities based on impacts to consumer demand and available production capacity, supply chains, distribution networks, workforce, and capital. Product and project portfolios can quickly and easily be assessed, recommendations for actions collected, and multiple scenarios then presented for informed executive decision making.

> *"When I saw this new toolkit, I realized that we simply hadn't considered the impacts of the disruption in this way. It gave me a fresh perspective on how we could be looking at this."*
>
> – Heidi Akkerman
> Senior Innovation Manager, Hormel Foods

- Accolade Disruption Offering with deep integration to Microsoft Teams, also released in April, streamlines communication across dispersed innovation team members via Microsoft Teams chat, meetings and video calls. Team members can easily initiate real-time and secure Microsoft Teams communications directly from within Sopheon's Accolade, thereby improving information flow within project teams and across all stakeholders.

- Accolade 13.1, released in May, was focused around three themes – engaging work groups, providing insights and improving usability and administration – all of which continued to extend Accolade's ability to empower users to plan and execute complex product development programs. The release enabled even deeper controls and visualizations for iterative planning and trend analysis for faster response to new market conditions.

- Accolade Connect for Microsoft 365, released in May along with Accolade 13.1, further extended the Accolade 13.1 theme of Engaging Teams by empowering collaboration and team engagement directly through synchronized data and content between Accolade and Microsoft Office 365 documents.

- Accolade 13.2, released in November, furthered our ability to help companies prioritize the most pressing issues first while ignoring distraction. This was enabled through improved interactive data visualizations that enable informed decision making by providing a faster path to uncovering critical insights.

2021 product investments are planned in support of our cloud strategy, and include the expansion of our product management organization, creation of our Product Led Growth solutions and the building out of our cloud infrastructure.

> *"The ability to engage interactively with our data and manipulate it in situ is exciting. This will help both our business leaders and technical users gain immediate answers to their questions, which will dramatically increase the speed to decisions. The value of this is enormous."*
>
> – Dave MacAdam
> Director of Innovation Strategy, Novelis

Our Clients

Sopheon is proud of the quality of our blue-chip customer base. Legendary brands to join the Sopheon fold in 2020 include Mondelez, DuPont, Orion Engineered Carbons, Huber, Hochland, J.R. Simplot, Clif Bar, LG and others. These market leaders provide a strong revenue stream from ongoing maintenance renewals, plus the nature of the relationship offers potential for expanding our user base and application of our software into new areas of their business. 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 by new clients coming into the Sopheon network.

Client Product Uptake and Satisfaction

Migration to current releases is strong

At the time of our Accolade 13.2 release in November 2020 over 94 percent of our clients were on supported releases, up from last year's reported 90 percent.

We remain confident in our growth trajectory and work with passion to achieve the unique market opportunity ahead. Accelerated digital disruption across almost all industries presents a strong driver for Sopheon's growth. As legacy corporations adapt to new competition from digital start-ups and high-tech companies, they are forced to increase the scope and pace of innovation in order to survive. Sopheon's solutions solve for this challenge.

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

Approved by the board and signed on its behalf by:

Andy Michuda
CEO

23 March 2021

[1] *Gartner, Market Guide for Innovation Management Tools, 30 November 2020 (ID: G00729938)*
[2] *Gartner, Market Guide for Product Management and Roadmapping Tools, 5 September 2020 (ID: G00727147)*
[3] *Gartner, Market Guide for Strategy Execution Management Software, 25 November 2019 (ID: G00379060)*
[4] *Gartner, Market Guide for Technologies supporting a DTO, 18 December 2019 (ID: G00464474)*
[5] *Research and Markets, "Digital Transformation Market to 2025"*
[6] *Gartner, To Enable Effective Remote Work, Build Collaboration Features Natively Into your Software Products, 27 July 2020 (ID: G00726943)*

FINANCIAL REVIEW

In this report, our CFO Arif Karimjee provides further analysis of Sopheon's financial results during 2020, our financial position at the end of the year, and an overview of key corporate developments.

Trading Performance

As highlighted by Barry in the Chairman's Statement, sales bookings increased while top line performance for 2020 was broadly flat at $30.0m (2019: $30.3m) despite twin headwinds, being the incidence of the coronavirus pandemic, and also the revenue impact of migrating the business towards a SaaS model.

Total license order volume (including SaaS deals) remained solid at 43 (10 new) license transactions compared to 47 (18 new) the year before; however, the make-up of those deals changed sharply – 22 were SaaS compared to 9 the year before; and 8 (6 new) were at the $1m level or more compared to just 2 (1 new) the year before. Major wins announced included Mondelez, LG, Orion Engineered Carbons and DuPont. These metrics demonstrate both commercial traction with enterprise class accounts, and SaaS traction across the board.

The TCV of SaaS business almost tripled from $2.4m to $6.6m, contributing strongly to ARR growth and underpinning the conversion of the business to a recurring model. Overall revenue recognized from recurring relationships – maintenance, hosting and SaaS – rose to $17.3m from $15.5m in 2019, and ARR at the end of the year had risen to $18.0m (2019: $15.9m). In tune with these trends, perpetual license recognition was $3.0m compared to $5.8m the year before. Consulting services revenue, which is recognized as it is delivered, was $9.7m compared to $9.3m the year before.

Stepping back from the detailed movements by category, the TCV of all contracts signed in 2020 rose by 25 percent to $21.2m.

SaaS and ARR

As Andy has noted, we took two deliberate steps to accelerate SaaS signings in 2020. For new customers, we successfully transitioned the sales team to a "SaaS First" approach where all new customers are encouraged to adopt the SaaS model. For existing perpetual customers that do not host with Sopheon, we have developed a "Cloud Lift" program to encourage them to upgrade their perpetual license to a SaaS license, delivering good ROI by taking on hosting and certain managed services. Four perpetual customers took advantage of Cloud Lift during 2020. We believe this program will gain market momentum due to a market-wide trend to remove corporate IT infrastructure and shift this burden to vendors.

> The TCV of SaaS business almost tripled from $2.4m to $6.6m, contributing strongly to ARR growth and underpinning the conversion of the business to a recurring model.

As highlighted by the metrics above, the conversion of Sopheon's revenue model to SaaS accelerated during 2020 alongside the overall growth in bookings. ARR growth was held back by gross retention at 91.5 percent (2019: 94.2 percent). Although respectable by most standards, it was lower than we are used to but unsurprising given the challenging market conditions for some of our customers. We do note however that two-thirds of the churn value happened in the first half of the year, with a rebound to normal levels during the second half. Our customer base reports they are generally satisfied, with our net promoter ("NPS") surveys recording an overall NPS score of 35 in 2020. Down on 2019's score of 40, a score of 35 is still considered excellent for B2B enterprise software. Our customers remain keen to take on new functionality, with 94 percent of them on Accolade versions 12 or 13, the current supported releases. Further underlining the strength of customer relationships and the appeal of the software, we note that there were 33 license orders from existing customers during the year.

Seasonality and Geography

The revenue calendarization pattern broadly held to experience with the second half of the year accounting for 54 percent of revenues (2019: 55 percent and 2018: 53 percent). As the business migrates to a more recurring model, we expect this seasonality to decline in importance; however, looking at sales bookings rather than recognized revenues, the final quarter continues to dominate with 44 percent of TCV signed (2019: 48 percent).

Though our core markets of the United States and Europe dominate revenues, we continue to see traction in other locations with signings in Korea, Canada, Australia, Japan and Turkey. Our activities in the Pacific region continue to be managed through partners while the broader Americas, Europe and Middle East markets are addressed by our direct sales teams. Unlike 2019, which saw our performance overweight in the United States compared to the past, 2020 was more balanced across the two main regions both in terms of overall revenues and major deal signatures. Overall European revenues including recurring revenues were 37 percent of the total compared to 32 percent the year before.

Gross Margin

Gross margin was 69.8 percent, compared to 70.1 percent in 2019. This remains well within the historical range. Gross margin is calculated after deducting the cost of our consulting organization – both payroll and subcontracted; costs and charges associated our hosting activities, some license royalties due to OEM partners and costs and credits relating to certain indirect taxes. As in previous years, we maintained use of subcontractors last year alongside some new hires, allowing for greater flexibility.

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Pipeline

Revenue visibility for the year now stands over $24.5m compared to $21.2m at this time a year ago. This is quite a step up, supported by ARR growth already referenced. In addition, we have seen interesting development in the sales pipeline. By the end of 2019, it was over 50 percent higher year on year. By June 2020, it had dipped a little, but we saw a rebound in the second half of the year, and it ended 2020 up another 10 percent compared to the 2019 closing level. Within the pipeline, we continue to show rising levels of SaaS opportunities and increasing numbers of larger deals, all in line with the overall strategy.

Research and Development Expenditure

Overall expenditure in product development in 2020 increased again by approximately $0.5m to $6.9m. These amounts can be compared to the headline research and development reported in the income statement showing an increase from $5.7m to $5.9m; the differences are due to the effects of capitalization and amortization of development costs.

This continued expansion of resources will permit Sopheon to embark on the cloud application development strategy that Andy has described in his report. We are maintaining investment in our core enterprise Accolade solution, while also developing cloud-native applications that will bring multiple benefits in the short and medium term. Overall, the amount of 2020 research and development expenditure that met the criteria of IAS38 for capitalization was $3.7m (2019: $3.0m) offset by amortization charges of $2.7m (2019: $2.3m). The higher capitalization rate reflects the greater resources referred to above; the consequent impact on amortization will come through over time as the products are released. Capitalized costs in 2020 are largely attributable to the group's investment in the Accolade 13.1, 13.2 and 13.3 versions, and our first cloud-native release. The Accolade 13.1 and 13.2 releases were issued during 2020; the other two will be released in 2021.

Other Operating Costs

Payroll costs continue to represent over three quarters of our cost base. Sopheon has a relatively mature and highly qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. Our original 2020 plans had ambitious hiring goals, but when the pandemic struck, we froze hiring for several months. Nevertheless, we ended last year with 169 staff, compared to 162 at the end of 2019, many of whom were hired late in the year. Average headcount for the year was 165 (2019: 160). Several recruits over the past year were senior. The higher overall wage costs of $1.4m as reported in Note 7 of the financial statements reflects these additional staff, the annual pay adjustment, and the cost of our corporate bonus scheme, for which all non-sales staff in the company are eligible. The bonus is mainly linked to annual EBITDA goals, and is paid in the following year. In parallel, subcontracting costs rose by approximately $0.4m. Historically, we held back from offshoring technical roles due to management and productivity concerns linked to our smaller scale. This started to change in 2019, and we now have a team of ten working in India through an outsourcing firm to support both consulting and development efforts, more than double the year before. We made significant savings with non-payroll costs which were $1.1m lower thanks mainly to reduced travel costs.

> We have seen interesting development in the sales pipeline. By the end of 2019, it was over 50 percent higher year on year. By June 2020, it had dipped a little, but we saw a rebound in the second half of the year, and it ended 2020 up another 10 percent compared to the 2019 closing level.

Switching to a functional view, specific comments regarding consulting operations and research and development costs are noted above. Overall costs in the sales and marketing area increased by approximately $0.3m. This mainly reflects increases in both product marketing and marketing communications and commercial leadership, offset by lower commission and incentive payments in the sales area. Administration costs have fallen slightly by just over $0.1m with higher staff costs in the IT area offset by lower overheads and share option charges. This area includes all other overheads, office costs, regulatory and compliance costs, and depreciation, as well as the full impact of the notional charge for share option grants, which is allocated entirely to this caption.

With regard to foreign exchange, 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 and Corporate Tax

Adjusted EBITDA (Earnings before interest, tax, depreciation, amortization and employee share-based payment charges) is a key indicator of the underlying performance of our business, commonly used in the technology sector. It is also a key metric for management and the financial analyst community. This measure 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 Adjusted EBITDA performance for 2020 moving to $5.9m, from $6.4m in 2019. Profit before tax reduced to $1.7m (2019: $2.5m) with the larger movement due mainly to the higher amortization associated with capitalized development costs.

The tax charge of $0.2m (2019: $0.4m credit) reported in the income statement comprises two main elements. Although Sopheon benefits from accumulated tax losses in several jurisdictions including at the US federal level, this is not universal, and accordingly a current tax charges of approximately $0.1m each was incurred in Germany and for state taxes in the US. In addition, a $2.6m deferred tax asset is recognized at both 31 December 2019 and 2020, of a total potential asset of $11.1m (2019: $10.6m).

Altogether this leads to a profit after tax of $1.5m (2019: $2.0m). This has also resulted in profit per ordinary share on a fully diluted basis of 14 cents (2019: 19 cents).

Although the impact of COVID-19 on Sopheon has been limited compared with many other organizations, we are closely monitoring its effect on the business as the pandemic continues to affect the global economy. This includes modelling the effects of various revenue scenarios with associated cash flow forecasts for a period in excess of 12 months. Assessment of the impact of COVID risks on the group going concern assumption are set forth in the Directors' Report and the Notes to the financial statements.

Statement of Compliance with Section 172 of the Companies Act 2006

Legislation requires that directors include a separate statement in the annual report that explains how they have had regard to wider stakeholder needs when performing their duty under Section 172(1) of the Companies Act 2006. This duty requires that a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

a) the likely consequences of any decision in the long term;
b) the interests of the company's employees;
c) the need to foster the company's business relationships with suppliers, customers and others;
d) the impact of the company's operations on the community and the environment;
e) the desirability of the company maintaining a reputation for high standards of business conduct; and
f) the need to act fairly as between members of the company.

Guidance recommends that in connection with its statement, the board describe in general terms how key stakeholders, as well as issues relevant to key decisions, are identified, and also the processes for engaging with key stakeholders and understanding those issues. It is the board's view that these requirements are addressed in the corporate governance disclosures we have made in the Directors' Report, which are themselves more extensively discussed on the company's website.

Guidance also recommends that more detailed description is limited to matters that are of strategic importance in order to remain meaningful and informative for shareholders. The board believes that two decisions taken during the year fall into this category and engaged with internal and external stakeholders on this. These are:

- The decision to impose a travel ban and shift to a work-from-home model in early March 2020, before governments encouraged or mandated such steps. We decided to act promptly in order to ensure the safety of our people, and also because we were confident that we had the infrastructure and tools to ensure a seamless shift. Of equal importance was our conviction that Sopheon's culture would readily weather such a transition. The board was proved right on all these measures.
- The decision to underpin the group's shift to SaaS by investing in a cloud-native platform alongside our enterprise Accolade solution. As described in the Chairman's Statement and the Strategy & Market Review, a cloud platform will enable more rapid product development velocity and be even more responsive to market needs, and

will open up a new sales channel that will also act as a lead generator for our enterprise sales. We are making sure that our cloud products can integrate seamlessly with the enterprise solution. This decision adds to the coding complexity and cost, but we believe is vital to greater long-term success and to enhance shareholder value.

Dividend

The board is pleased to maintain Sopheon's dividend at 3.25 pence per share for the year ended 31 December 2020 (2019: 3.25p). We believe this level balances the group's tighter bottom line last year, and the challenging global economic environment, with the positive commercial traction, cash generation and balance sheet strength that Sopheon nevertheless delivered. Subject to approval by the company's shareholders at the annual general meeting scheduled for 10 June 2021, the dividend will be paid on 9 July 2021 with a record date of 11 June 2021.

> The board is pleased to maintain Sopheon's dividend at 3.25 pence per share for the year ended 31 December 2020. We believe this level balances the group's tighter bottom line last year, and the challenging global economic environment, with the positive commercial traction, cash generation and balance sheet strength that Sopheon nevertheless delivered.

Facilities and Assets

As noted last year, the board allowed the group's revolving line of credit facility with Silicon Valley Bank to lapse in February 2020, in view of substantial net cash balances on hand. As detailed below cash levels rose further during 2020 in spite of the tough environment. Our relationship with Silicon Valley Bank remains strong with potential established for funding arrangements in connection with M&A or other corporate activity.

Intangible assets stood at $7.9m (2019: $6.9m) at the end of the year. This includes (i) $6.9m being the net book value of capitalized research and development (2019: $5.9m) and (ii) an additional $1.0m (2019: $1.0m) being goodwill arising on acquisitions completed in previous years. As stated above in our discussion of research and development costs, capitalization and amortization have been broadly in balance for a number of years; however, capitalization has accelerated, and amortization has yet to catch up, as development resources have expanded over the last couple of years. Our spend on tangible fixed assets was held to $0.4m last year (2019: $0.3m) and this broadly equaled depreciation, resulting in net book value staying flat at $0.5m at the end of the year (2019: $0.5m).

As described in Note 1, the adoption of IFRS 16 in 2019 required lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts within scope, with no distinction between financing and operating leases. This has resulted in net book value of right-of-use assets of $1m (2019: $1.6m) and corresponding lease liabilities of $1.1m (2019: $1.6m) at 31 December 2020. Notional amortization and interest charges in connection with the above recognized in the income statement were approximately $0.7m (2019: $0.8m).

Consolidated net assets at the end of the year stood at $30.2m (2019: $27.9m), an increase of $2.3m and including net current assets of $18.7m (2019: $17.2m). Within the net current asset position, net cash at 31 December 2020 amounted to $21.7m (2019: $19.4m). Approximately $9.1m was held in US Dollars, $10.2m in Euros and $2.4m in Sterling. The group has no debt (excluding notional debt from the adoption of IFRS 16).

Approved by the board and signed on its behalf by:

Arif Karimjee
CFO

23 March 2021

DIRECTORS AND ADVISORS

Directors	Barry K. Mence Andrew L. Michuda Arif Karimjee ACA Stuart A. Silcock FCA Daniel Metzger	Executive Chairman Chief Executive Officer Finance Director Non-executive Director 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. 03217859	
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	

BOARD COMMITTEE REPORTS

Remuneration Committee

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.

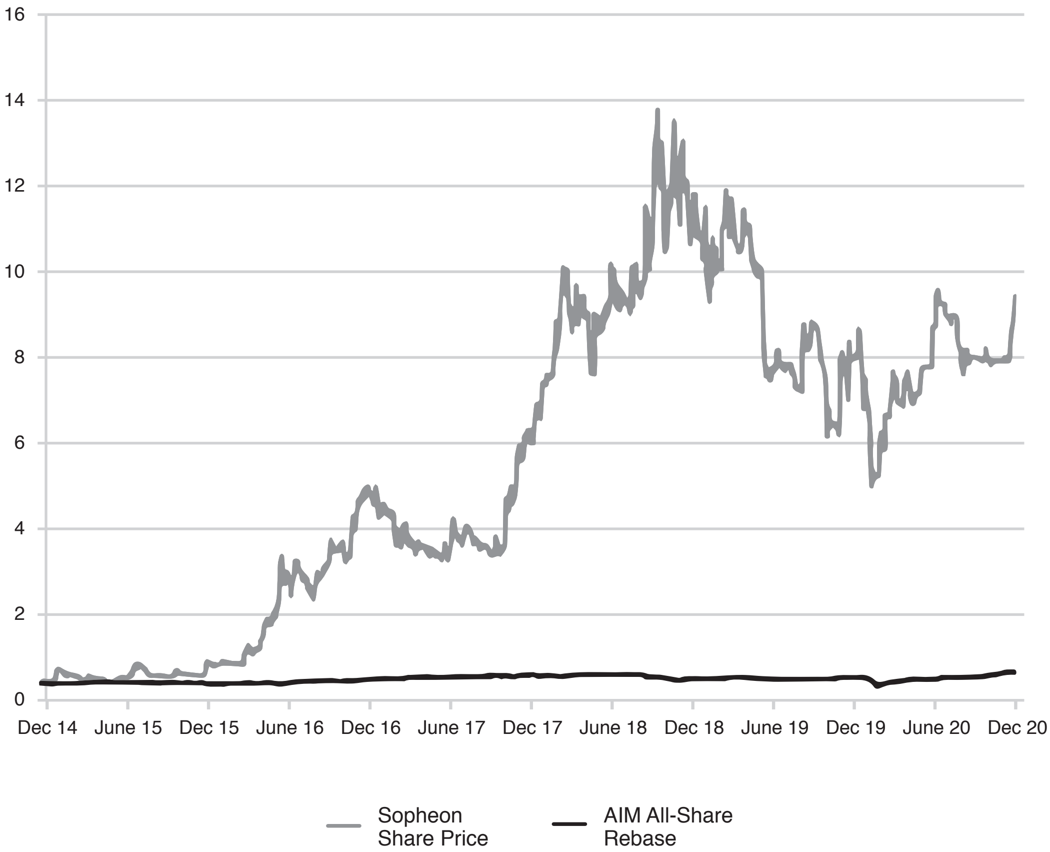
	Pay and Fees 2020 $'000	*Bonus 2020 $'000*	*Benefits 2020 $'000*	*Total 2020 $'000*	*Pay and Fees 2019 $'000*	*Bonus 2019 $'000*	*Benefits 2019 $'000*	*Total 2019 $'000*
Executive Directors								
B.K. Mence	211	50	13	274	203	38	12	253
A.L. Michuda	339	82	11	432	330	63	11	404
A. Karimjee	204	38	9	251	196	37	5	238
Non-executive Directors								
S.A. Silcock	34	-	-	34	33	-	-	33
D. Metzger	34	-	-	34	33	-	-	33
	822	170	33	1,025	795	138	28	961

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 2019 and 2020 these objectives were set with regard to Adjusted 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 2020 contributions of $9,058, $6,269 and $9,563 (2019: $8,963, $3,599 and $9,187) 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 British pounds Sterling, 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:

At 31 December	*Share Options* 2020	2019	*Ordinary Shares* 2020	2019
B.K. Mence	24,250	24,250	2,228,537	2,228,537
A.L. Michuda	320,000	290,000	84,155	84,155
A. Karimjee	85,500	85,000	82,493	82,493
S.A. Silcock	-	-	520,318	520,318
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 7,250 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 504,193 and A. Karimjee in 50,000 ordinary shares.

On 26 February 2021, each of B.K. Mence, A.L. Michuda, S.A. Silcock and A. Karimjee respectively sold 356,829, 185,036, 166,500 and 48,343 shares to a number of financial institutions in an oversubscribed placing at a price of 900 pence per share, for the purposes of estate planning and to improve the liquidity in the Company's shares. On the same day, each of B.K. Mence, A.L. Michuda and A. Karimjee respectively exercised 24,250, 165,000 and 35,850 options.

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 2019*	*Granted During Year*	*Exercised During Year*	*At 31 December 2020*
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	29 September 2012	105p	100,880	-	-	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.L. Michuda	13 July 2020	775p	-	30,000	-	30,000
A. Karimjee	27 August 2010	150p	7,500	-	(7,500)	-
A. Karimjee	29 September 2012	105p	3,125	-	-	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
A. Karimjee	13 July 2020	775p	-	8,000	-	8,000

Vesting of all of the above share options which were outstanding at 31 December 2020 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 2020 was 790p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 490p to 955p. 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.

Audit Committee

The Audit Committee, which includes all of the non-executive directors and is chaired by Stuart Silcock, considers and determines actions regarding any control or financial reporting issues they have identified, or that have been raised by the auditors. During the year, the Audit Committee met twice, and the external auditor and executive directors were invited to attend these meetings. Consideration was given to the external auditor's post-audit reports and these provide opportunities to review the accounting policies, internal control and financial information contained in both the annual and interim reports, as well as the independence of the external auditor. The committee chair is also able to meet with the auditors independently if required.

Approved by the board on 23 March 2021 and signed on its behalf by:

A. Karimjee
Director

DIRECTORS' REPORT

The group's principal activities during the year continued to focus on the provision of software and services for complete Enterprise Innovation Management solutions. The Chairman's Statement on page 6 includes reference to the group's future prospects. In view of the fact that 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 2020 of 3.25 pence per share (2019: 3.25 pence per share), amounting to £332,000 (2019: £331,000).

Directors

The directors who served during the year are disclosed in the Board Committee Reports.

Corporate Governance

The Sopheon board is committed to maintaining high standards of corporate governance. In accordance with 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. In September 2018, the board 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 previously 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. Key principles of the QCA Code have been incorporated into this risk management process.

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 does 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 2020, all directors attended all quarterly meetings either in person or by conference call.

The QCA Code 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 at www.sopheon.com/board-governance.

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 19.
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 2017 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 consider to be principal risks to the group's business are set out on page 26.
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 takes place in July each year, using a QCA-sponsored questionnaire and process. Low scoring or divergent scoring responses are discussed, with gaps and actions for improvement identified. This was last performed formally in 2019.
8. Promote a corporate culture that is based on ethical values and behaviors	Sopheon' 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

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

Principal Risk Areas

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

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

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

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

Sopheon is dependent upon skilled personnel, the loss of whom could have a material impact. While service agreements have been entered into with key executives, retention of key members of staff cannot be guaranteed and departure of such employees could be damaging in the short term. In addition, the competition for qualified employees continues to be difficult and retaining key employees has remained challenging. As a relatively small business, Sopheon is more exposed to this risk than some of its larger competitors. Sopheon management checks staff remuneration against recognized benchmarks and other industry sources and seeks to maintain pay at competitive levels appropriate to its business.

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

Sopheon could be subject to claims for damages in connection with its products and services. Sopheon may be exposed to claims for damages from customers in the event that there are errors in its software products, should support and maintenance service level agreements fail to meet agreed criteria, or should the security features of its software or hosting services fail. Sopheon has sought to protect itself from such risks through excellent development methodologies and high-quality operating procedures, its contract terms and insurance policies. Sopheon has never had any such claims.

Auditors

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

Financial Instruments

Details of the group's financial instruments and its policies with regard to financial risk management are given in Note 22 to the financial statements.

Brexit

The United Kingdom ('UK') formally left the European Union ('EU') on 31 January 2020. This was followed by a transition period until 31 December 2020, during which trade and border arrangements, citizens' rights, and jurisdiction on matters such as dispute resolution, remained broadly unchanged, in accordance with the UK-EU Withdrawal Agreement and the EU (Withdrawal Agreement) Act 2020. Shortly before the expiry of the transition period, on 24 December 2020, the UK and the EU agreed upon a comprehensive Trade and Cooperation Agreement, which incorporated a free trade agreement, a partnership for citizens' security and a horizontal agreement on governance.

The directors currently deem that the effects of the UK's withdrawal from the EU and entering into the Trade and Cooperative Agreement with the EU will not have a significant impact on the group and company's operations, due to the global geographical footprint of the business and the nature of its operations. However, the directors and management continue to monitor the situation to manage the risk of the return of volatility in the global financial markets and impact on global economic performance.

COVID-19

The directors have continued to monitor and respond to the effects of the global COVID-19 pandemic on the group and took rapid steps to ensure there was no material impact on the company's operations and working capital. In particular, in March of last year the board implemented an immediate work from home policy and travel restrictions, supported by well-defined virtual working practices, as well as assuring continuity of business operations and cloud services through co-location and Azure based infrastructure. This all went smoothly, and the group continues to operate virtually today. Future working practices after the pandemic has receded are expected to include a blend of home and office working. Some limited rationalization of office space has already been undertaken as leases permit, but we do not currently anticipate a major reduction in the near future.

Going Concern

The board believes that the business is able to navigate through the continuing impact of the pandemic due to the strength of its customer proposition, its statement of financial position and the net cash position of the group. As further detailed in Note 2 to the financial statement, the group going concern assessment is based on forecasts and projections of anticipated trading performance. The assumptions applied are subjective and management applies judgement in estimating the probability, timing and value of underlying cash flows. The directors confirm that they have a reasonable expectation that the group will have adequate resources to continue in operational existence for the next 12 months from approval of these financial statements and accordingly these financial statements are prepared on a going concern basis, with no material uncertainty over going concern.

Greenhouse Gas Emissions

The 2018 Regulations introduced requirements under Part 15 of the Companies Act 2006 for an enhanced group of companies, which are defined as large by the Companies Act 2006, to disclose their annual energy use and greenhouse gas emissions, and related information. The group is not currently defined as large, but it has chosen to apply the 2018 Regulations. Sopheon plc itself consumes less than 40MWh and therefore is a low energy user, which negates the need to make detailed disclosures of its energy and carbon information. Furthermore and taking account of this, it has applied the option permitted by the 2018 Regulations to exclude any energy and carbon information relating to its subsidiaries where the subsidiary would not itself be obliged to include if reporting on its own account; this applies to all subsidiaries within the group.

Substantial Shareholdings

The directors are aware of the following persons who as at 23 March 2021 were interested directly or indirectly in 3 percent or more of the company's issued ordinary shares:

Name	*No. of Ordinary Shares*	*% Issued Ordinary Shares*
Rivomore Limited and Myrtledare Corp.	2,074,308	19.9
B.K. Mence (director)	1,895,958	18.2
Canaccord Genuity Wealth Group Limited	1,023,846	9.8
Universal-Investment-GmbH	716,102	6.9
S.A. Silcock (director)	353,818	3.4
Chelverton Asset Management Limited	590,069	5.7

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 23 March 2021 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) in conformity with the requirements of the Companies Act 2006. 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 in conformity with the requirements of the Companies Act 2006, 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 on the Financial Statements

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 2020 and of the group’s profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

We have audited the financial statements of Sopheon plc (the ‘parent company’) and its subsidiaries (the ‘group’) for the year ended 31 December 2020 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated cash flow statement, the company cash flow statement, the consolidated statement of changes in equity, the company statement of changes in equity and notes to the consolidated financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

Conclusions Relating to Going Concern

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors’ assessment of the group and the parent company’s ability to continue to adopt the going concern basis of accounting included:

- We assessed the appropriateness of the approach and model used by management when performing their going concern assessment, including assessing and challenging the assumptions to determine whether there was adequate support for the assumptions underlying the forecasts and performing sensitivity analysis to consider cash flow changes if the level of revenue decreases or costs increase.
- We evaluated the directors’ assessment of the group’s ability to continue as a going concern, including challenging the underlying data and key assumptions, being the level of sales and staff costs, used to make the assessment and comparing these to historical performance, post year-end information and the group's sales pipeline analysis.
- Additionally we reviewed and challenged the results of management’s stress testing to assess the reasonableness of economic assumptions in light of the impact of COVID-19 and its effects on the group’s solvency and liquidity position.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorized for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	94.1% (2019: 86.2%) of group profit before tax 99.8% (2019: 99.8%) of group revenue 98.2% (2019: 95.1%) of group total assets		
Key audit matters		2020	2019
	Revenue recognition	✓	✓
	Intangible assets: Development costs capitalization, amortization and impairment	✓	✓
Materiality	*Group financial statements as a whole* $300,000 (2019: $302,000) based on 1% (2019: 1%) of revenue		

An Overview of the Scope of our Audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

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 the Netherlands, with the remaining three trading entities incorporated in the USA.

Based on our assessment of the group, we focused our group audit scope primarily over the significant components, being Sopheon plc, Sopheon UK Limited, Sopheon GmbH and Sopheon Corporation, Minnesota. The significant components in all territories were subject to full scope audits by the group audit team, with desktop reviews performed for the remaining group entities.

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

The figures in the table above demonstrates the coverage from our full scope audit work performed over the significant components within the group for total assets and profit before tax. With regards to revenue, the coverage was obtained through detail testing performed on each component within the group.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, 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) that 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.

[1] *These are areas which have been subject to a full scope audit by the group engagement team*

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue Recognition See accounting policy in Note 2 on page 42 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 key audit matters related to revenue recognition are as follows: • The risk of material misstatement in relation to revenue recognition concerns the recognition around the year-end, particularly in relation to license sales and consulting and implementation service contracts. License sales require a key code to be provided to the customer, which enables access to the Accolade software. This in turn provides evidence of delivery to the customer in relation to the contractual performance obligation. • 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 their performance obligations, to ensure each revenue stream had a standalone value and that revenue is not recorded inaccurately / recognized prematurely.	We have performed the following procedures: • We assessed the appropriateness of the revenue recognition policy, in line with the requirements of applicable accounting standards. • In relation to license contract revenue, we obtained support for a sample of binding contracts that were entered into and confirmed that the delivery of the license key was before the year-end, and that revenue was therefore recognized in the appropriate period. • For the maintenance, software subscriptions and hosting services we selected a sample of contracts and checked that the revenue recognition was in line with the contractual terms of the agreement with the customer. This being the recognition of revenue over the lifetime of the contract. • We checked that for a sample of consulting and implementation services, that an appropriate methodology had been applied in accounting for accrued and deferred revenue on these contracts and that this was in line with the stage of completion based on the work performed as at year end. • Where a sales contract involves multiple service obligations, we checked the allocation of the transaction price has been performed proportionally based on the standalone selling price for each obligation. Furthermore, we checked that management assigned the selling price to each separate performance obligation is based on the cost of satisfying the performance obligation plus an appropriate margin based on experience of standalone sales. • Cut-off procedures including testing revenue recorded in December 2020 and January 2021, verifying back to underlying agreements, to check revenue is being recognized within the period the service is performed. **Key observations:** Based on the work performed we consider that revenue has been recognized appropriately and in accordance with the group's revenue recognition accounting policy.

Key audit matter		How the scope of our audit addressed the key audit matter
Intangible Assets: Development Costs capitalization, amortization and impairment See accounting policy in Note 2 on page 44 and Intangible Assets in Note 14 on page 55.	The group capitalizes costs in relation to the development of the software provided to its clients, being the Accolade platform as described on page 8. In accordance with the requirements of the applicable accounting standard, 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 criteria per the standard. The key audit matters related to this financial statement area is as follows: • Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are not 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 recognition criteria outlined in the applicable accounting standard is not met and that development costs are incorrectly capitalized. Further, a risk exists that the assets estimated useful life is inappropriate or that assets not available for use have not been impaired as required.	We performed the following procedures in connection with capitalized development costs: • discussions were held with the group's technology team to understand the group's processes, procedures and projects in relation to development costs; • checked the accuracy of the contractor and payroll data, on a sample basis, included in the calculations for capitalized costs to supporting documentation including employment contracts and agreements with contractors; • considered the proportion of time allocations for employees and contractor roles, corroborating management's explanations to supporting evidence; • assessed management's estimate of the amortization period applied to the asset by considering relevant industry benchmarks and specific knowledge of the client's product. Additionally considering whether any indicators of impairment exist taking account of any changes in usability of amounts previously capitalized; and • assessed the ability of the asset to generate future economic benefits for the business, which at least exceed its carrying value by assessing the use of the technology platforms in the performance of the group's obligations to customers. **Key observations:** Based on the procedures performed, we noted no instances indicating that the accounting for development costs, including the calculation of the related amortization charge and the evaluation of impairment, was inappropriate.

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. 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 level, 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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2020	*2019*	*2020*	*2019*
Materiality	$300,000	$302,000	$195,000	$196,000
Basis for determining materiality	1% Revenue	1% Revenue	65% Group Materiality	
Rationale for the benchmark applied	We considered revenue to be the most appropriate benchmark as this is the primary KPI which is used to address the performance of the group by the board and an important performance-based metric to the users of the financial statements.		Materiality for the parent company was set at 65%of group materiality paying due consideration to aggregation risk in relation to group materiality.	
Performance materiality	$210,000	$211,000	$136,500	$137,000
Basis for determining performance materiality	Performance materiality was set at 70% due to the facts that there are multiple components within the group. Additionally, there are a select number of areas included in the accounts which are subject to estimates.		Performance materiality was set at 70% due to the fact there are a select number of areas included in the accounts which are subject to estimates.	

Component materiality

We set materiality for each component of the group based on a percentage of between 60 percent and 75 percent of group materiality dependent on the size of the component. Component materiality ranged from $180,000 to $225,000. In the audit of each component, we further applied performance materiality levels of 70 percent of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of $12,000 (2019: $12,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Other Companies Act 2006 Reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report	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. In the light of the knowledge and understanding of the group and 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.
Matters on which we are required to report by exception	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 Statement of Directors' Responsibilities set out on page 29, 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework, rules of the London Stock Exchange for companies trading securities on AIM, the Companies Act 2006 and relevant tax compliance regulations;
- We understood how the group is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit Committee;
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management from across the group to understand where they considered there was a susceptibility to fraud;
- Our audit planning identified fraud risks in relation to management override and inappropriate or incorrect recognition of revenue (revenue recognition assessed as a Key Audit Matter above). We obtained and understanding of the processes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how management monitors that processes and controls; and
- With regards to the fraud risk in management override, our procedures included journal transaction testing, with a focus on large or unusual transactions based on our knowledge of the business. We also performed an assessment on the appropriateness of key judgements and estimates, for example the capitalization of development costs (the risks associated with the capitalization of development costs has been assessed as a Key Audit Matter above), which are subject to managements' judgement and estimation, and could be subject to potential bias.
- We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognizing that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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
London
United Kingdom

23 March 2021

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 2020

	Notes	2020 $'000	2019 $'000
Revenue	3, 4	29,996	30,254
Cost of sales		(9,057)	(9,043)
Gross profit		20,939	21,211
Sales and marketing expense		(9,092)	(8,806)
Research and development expense		(5,894)	(5,682)
Administrative expense		(4,178)	(4,305)
Operating profit		1,775	2,418
Finance income	8	25	166
Finance expense	9	(93)	(127)
Profit before tax	5	1,707	2,457
Income tax charge	10	(211)	(409)
Profit for the year		1,496	2,048
Earnings per share			
Basic (US cents)	12	14.68c	20.16c
Fully diluted (US cents)	12	14.06c	19.20c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 $'000	2019 $'000
Profit for the year	1,496	2,048
Other comprehensive income/(expense)		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	693	(41)
Total comprehensive income for the year	2,189	2,007

The notes on pages 41 to 68 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2020

		Group		*Company*	
	Notes	*2020 $'000*	*2019 $'000*	*2020 $'000*	*2019 $'000*
Assets					
Non-current Assets					
Property, plant and equipment	13	528	510	-	-
Right-of-use assets	21	1,027	1,553	-	-
Intangible assets	14	7,863	6,874	-	-
Investments in subsidiaries	15	-	-	8,353	8,084
Deferred tax asset	10	2,557	2,557	-	-
Other receivables	16	19	123	16,793	14,793
Total non-current assets		11,994	11,617	25,146	22,877
Current Assets					
Trade and other receivables	17	14,566	13,000	109	105
Cash and cash equivalents	18	21,718	19,433	4,547	2,636
Total current assets		36,284	32,433	4,656	2,741
Total assets		48,278	44,050	29,802	25,618
Liabilities					
Current Liabilities					
Trade and other payables	19	5,077	4,238	396	382
Lease liabilities	21	515	643	-	-
Contract liabilities	4	11,985	10,337	-	-
Total current liabilities		17,577	15,218	396	382
Non-current Liabilities					
Lease liabilities	21	546	936	-	-
Total non-current liabilities		546	936	-	-
Total liabilities		18,123	16,154	396	382
Net assets		30,155	27,896	29,406	25,236
Equity					
Share capital	23	3,133	3,126	3,133	3,126
Capital reserves	24	9,398	8,942	9,398	8,942
Translation reserve		702	9	(1,361)	(1,802)
Retained profits		16,922	15,819	18,236	14,970
Total equity		30,155	27,896	29,406	25,236

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 2020 was $3,659,000 (2019: profit of $8,323,000).

Approved by the board and authorized for issue on 23 March 2021.

Barry K. Mence
Director

Arif Karimjee
Director

The notes on pages 41 to 68 form part of these financial statements.

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

		Group		*Company*	
	Notes	*2020 $'000*	*2019 $'000*	*2020 $'000*	*2019 $'000*
Operating Activities					
Profit for the year		1,496	2,048	3,659	8,323
Adjustments for:					
Finance income	8	(25)	(166)	-	-
Finance costs	9	93	127	3	4
Depreciation of property, plant and equipment	13	365	364	-	-
Depreciation of right-of-use assets	21	671	698	-	-
Amortization of intangible assets	14	2,669	2,342	-	-
Share-based payment expense		447	620	79	620
Income tax charge		211	409	-	-
Operating cash flows before movements in working capital		5,927	6,442	3,741	8,947
Intra-group credits and charges		-	-	(331)	(634)
Decrease in provisions against intra-group loans		-	-	(4,344)	(9,359)
(Increase)/decrease in receivables		(1,258)	1,071	(4)	(9)
Increase/(decrease) in payables		2,249	(141)	13	(135)
Net cash generated from/(used in) operating activities		6,918	7,372	(925)	(1,190)
Income taxes paid		(344)	(318)	-	-
Net cash from/(used in) operating activities		6,574	7,054	(925)	(1,190)
Investing Activities					
Finance income	8	25	166	-	-
Purchases of property, plant and equipment	13	(367)	(345)	-	-
Development costs capitalized	14	(3,658)	(3,010)	-	-
Advance of loans to group companies		-	-	(2,369)	(1,940)
Repayment of loans by group companies		-	-	5,412	3,107
Net cash (used in)/generated from investing activities		(4,000)	(3,189)	3,043	1,167
Financing Activities					
Issues of shares		52	105	52	105
Repayment of borrowings	20	-	(29)	-	-
Repayment of line of credit	20	-	(325)	-	-
Lease payments	21	(664)	(672)	-	-
Interest paid		(93)	(127)	(3)	(4)
Dividends paid	25	(429)	(430)	(429)	(430)
Net cash used in financing activities		(1,134)	(1,478)	(380)	(329)
Net increase/(decrease) in cash and cash equivalents		1,440	2,387	1,738	(352)
Cash and cash equivalents at the beginning of the year		19,433	17,086	2,636	3,076
Effect of foreign exchange rate changes		845	(40)	173	(88)
Cash and cash equivalents at the end of the year	18	21,718	19,433	4,547	2,636

The notes on pages 41 to 68 form part of these financial statements.

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

Group

	Share Capital $'000	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Profits $'000*	*Total $'000*
At 1 January 2019	3,118	8,277	50	14,149	25,594
Profit for the year	-	-	-	2,048	2,048
Exchange differences on translation of foreign operations	-	-	(41)	-	(41)
Total comprehensive income for the year	-	-	(41)	2,048	2,007
Issues of shares	8	97	-	-	105
Recognition of share-based payments	-	620	-	-	620
Lapse or exercise of share options and warrants	-	(52)	-	52	-
Dividends paid in year	-	-	-	(430)	(430)
At 1 January 2020	3,126	8,942	9	15,819	27,896
Profit for the year	-	-	-	1,496	1,496
Exchange differences on translation of foreign operations	-	-	693	-	693
Total comprehensive income for the year	-	-	693	1,496	2,189
Issues of shares	7	45	-	-	52
Recognition of share-based payments	-	447	-	-	447
Lapse or exercise of share options	-	(36)	-	36	-
Dividends paid in year	-	-	-	(429)	(429)
At 31 December 2020	3,133	9,398	702	16,922	30,155

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 Profits $'000*	*Total $'000*
At 1 January 2019	3,118	8,277	(2,159)	7,025	16,261
Profit and total comprehensive income for the year	-	-	357	8,323	8,680
Issues of shares	8	97	-	-	105
Recognition of share-based payments	-	620	-	-	620
Lapse or exercise of share options	-	(52)	-	52	-
Dividends paid in year	-	-	-	(430)	(430)
At 1 January 2020	3,126	8,942	(1,802)	14,970	25,236
Profit and total comprehensive income for the year	- -		441	3,659	4,100
Issues of shares	7	45	-	-	52
Recognition of share-based payments	-	447	-	-	447
Lapse or exercise of share options	-	(36)	-	36	-
Dividends paid in year	-	-	-	(429)	(429)
At 31 December 2020	3,133	9,398	(1,361)	18,236	29,406

The notes on pages 41 to 68 form part of these financial statements.

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 20. 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 accounting standards in conformity with the requirements of the Companies Act 2006, and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. The principal accounting policies are set out below. The policies have been applied consistently to both years presented.

A number of other new standards, amendments and interpretations to existing standards have been adopted by the group, but have not been listed, since they have no material impact on the financial statements. None of the 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 1.3649 US Dollars to British Pounds Sterling as at 31 December 2020 and 1.2940 US Dollars to British Pounds Sterling as the average rate prevailing during 2020.

Going Concern

The consolidated financial statements have been prepared on a going concern basis. The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The COVID-19 pandemic has so far had limited impact on our business and the board believes that the business is able to navigate through the continued impact of the pandemic due to the strength of its customer proposition and business partnerships, statement of financial position and the net cash position of the group.

The current economic conditions continue to create uncertainty, particularly over (a) the level of customer and potential customer engagement; and (b) the level of new sales to new customers. The pandemic has had a widespread impact economically, with potential for causing delays in contract negotiations and/or cancelling of anticipated sales and an uncertainty over cash collection from certain customers. As a consequence, the group has carried out detailed forecast stress testing in order to consider how much forecasts have to reduce by in order to cause cash constraints, and also to consider the likelihood of this scenario occurring. This assessment has also included the group's actual cash holdings as of the date of the approval of these financial statements and financing alternatives available to the group. Overall, these cash-flow forecasts, which cover a period of at least 12 months from the date of approval of the financial statements, foresee that the group will be able to operate within its existing facilities. Nevertheless, there is a risk that the group will be impacted more than expected by reductions in customer confidence. If sales and settlement of existing debts are not in line with cash flow forecasts, the directors have the ability to identify cost savings if necessary, to help mitigate the impact on cash outflows.

Having assessed the principal risks and the other matters discussed in connection with the going concern statement, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial information.

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. Revenues relating to software subscription, maintenance, and hosting agreements are deferred creating a contract liability at the period end, and recognized evenly over the term of the agreements, due to the customer simultaneously receiving and consuming the benefits of the contractual performance obligation over that term.

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. Based on stage of completion and billing arrangement, either a contract asset or a contract liability is created at the period end. Where the group is acting as a principal, other income includes recoverable costs that have been incurred in the course of business including travel expenses of employees and contractors.

Where a 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 based on experience of standalone sales.

Leases

The group records its lease obligations in accordance with the principles for the recognition, measurement, presentation and disclosure of leases set out in IFRS 16. The group adopted the standard with effect from 1 January 2019.

IFRS 16 requires lessees to recognize a lease liability that reflects the net present value of future lease payments and a corresponding “right-of-use asset” in all lease contracts, although lessees may elect not to recognize lease liabilities and right-of-use assets in respect of short-term leases or leases of assets of low value.

The company has elected not to recognize right-of-use assets and lease liabilities in respect of certain leases of office equipment of low value or of short term. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

At inception of a contract, the group assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The group recognizes a right-of-use asset and a corresponding lease liability at the lease commencement date. The lease liability is initially measured at the present value of the following lease payments:

- fixed payments;
- variable payments that are based on an index or rate;
- the exercise price of any extension or purchase option if reasonably certain to be exercised; and
- penalties for terminating the lease, if relevant.

The lease payments are discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the group’s incremental borrowing rate.

The right-of-use assets are initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs. The right-of-use assets are depreciated over the period of the lease term, or, if earlier, the useful life of the asset, using the straight-line method. The lease term includes periods covered by an option to extend, if the group is reasonably certain to exercise that option. In addition, the right-of-use assets may during the lease term be reduced by impairment losses, if any, or adjusted for certain re-measurements of the lease liability.

On 28 May 2020, the IASB issued final amendments to IFRS 16 related to COVID-19 rent concessions for lessees. The amendments modify the requirements of IFRS 16 to permit lessees to not apply modification accounting to certain leases where the contractual terms have been affected due to COVID-19 (such as rent holidays or other rent concessions). The amendments are effective for periods beginning on or after 1 June 2020, with earlier application permitted. The group did not adopt this standard as no such concessions were applicable.

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 historical 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.

Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker of the group, which has been identified as the board of directors.

Share-based Payments

The group awards share options in the company, being the parent entity, to certain employees. These are treated as equity-settled share-based payments and are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. This fair value is expensed 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. Where an option vests in multiple instalments, each instalment is treated as a separate grant with its own vesting period. In the consolidated financial statements, the entire expense is recognized within administrative expenses. At the individual entity level, the expense is transferred to the employing subsidiary and in the company, the benefit transferred is recognized as an increase in investment in subsidiaries, and this increase is then assessed for impairment in accordance with the company’s accounting policy.

Financial Instruments

1. Financial Assets

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

Amortized Costs

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, contract assets, and cash and cash equivalents in the consolidated statements of financial position.

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, and lease liabilities 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.

Depreciation and amortization: Estimates have been adopted for the depreciation and amortization periods relating to property, plant and equipment, externally acquired intangible assets and internally generated intangible assets. These are dealt with in the accounting policy notes set forth above that relate to these areas.

Discount rates: Judgement has been used to determine the assumed discount rate of 9 percent used for recoverability assessment relating to intangible assets referred to in Note 14, and the discount rate of 3.75 percent used in respect of the application of IFRS 16 further described in Note 21. The difference in rate selected reflects assessment of the differing risk profile of the underlying assets. Judgement has also been used in determining that no provision is required for credit losses on trade receivables and intercompany receivables, based on the quality of the group's customers and historical loss experience as further described in Note 17.

Multiple service obligations: 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.

Deferred taxation: In recognizing deferred tax assets and liabilities management makes judgements about likely future taxable profits. The carrying values of current tax and deferred tax assets and liabilities are disclosed separately in the consolidated statement of financial position.

Capitalization of development costs: Development costs are capitalized based on an assessment on whether they meet the criteria specified in IAS 38 for capitalization. During each reporting period, an assessment is performed by management to determine time spent developing the intangible assets as a proportion of total time spent in the year. This represents an area of judgement and impacts the value of intangible costs capitalized.

Percentage completion of revenue: Consultancy service projects can span period ends. The group's accounting policies for these projects require revenue and costs to be allocated to individual accounting periods and the consequent recognition at period end of contract assets or liabilities for projects still in progress. Management apply judgement in estimating the total revenue and total costs expected on each project. Such estimates are revised as a project progresses to reflect the current status of the project and the latest information available to management. The service teams regularly review contract progress to ensure the latest estimates are appropriate. Further detail on Contract assets and liabilities are reflected per Note 4.

3. SEGMENTAL ANALYSIS

All of the group's revenue in respect of the years ended 31 December 2020 and 2019 was derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Strategic Report. The business is seen as one cash-generating unit and operates as a single operating segment. For management purposes, the group is organized geographically across two principal territories, North America and Europe. Information relating to this geographical split is outlined below.

The information in the following table provides analysis by location of operations. Inter-segment revenues are priced on an arm's length basis.

Year ended 31 December 2020	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues	18,938	11,058	29,996
Operating profit before interest and tax	2,259	(484)	1,775
Profit before tax*	2,238	(531)	1,707
Finance income	45	(20)	25
Finance expense	(66)	(27)	(93)
Depreciation and amortization	(3,306)	(399)	(3,705)
Adjusted EBITDA*	5,933	(6)	5,927
Balance Sheet			
Fixed asset additions	277	90	367
Capitalization of internally generated development costs	3,658	-	3,658
Total assets	29,408	18,870	48,278
Total liabilities	(11,672)	(6,451)	(18,123)

Year ended 31 December 2019	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues	20,690	9,564	30,254
Operating profit before interest and tax	3,887	(1,469)	2,418
Profit before tax*	3,962	(1,505)	2,457
Finance income	166	-	166
Finance expense	(91)	(36)	(127)
Depreciation and amortization	(2,991)	(413)	(3,404)
Adjusted EBITDA*	6,879	(437)	6,442
Balance Sheet			
Fixed asset additions	243	102	345
Capitalization of internally generated development costs	3,010	-	3,010
Total assets	29,052	14,998	44,050
Total liabilities	(11,123)	(5,031)	(16,154)

*Reconciliation from profit before tax to adjusted EBITDA is detailed in Note 5.

Revenues attributable to customers in North America in 2020 amounted to $18,332,000 (2019: $20,003,000). Revenue attributable to customers in the rest of the world amounted to $11,664,000 (2019: $10,245,000) of which $9,500,000 (2019: $8,762,000) was attributable to customers in Europe.

No individual customer accounted for more than 10 percent of the group's revenues in 2020 or 2019.

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 IFRS 15 requirement to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2020 $'000	*2019 $'000*
Perpetual software licenses	3,021	5,401
Consulting and implementation services	9,680	9,355
Maintenance, software subscriptions and hosting	17,295	15,498
	29,996	30,254

Perpetual licenses are recognized at a point in time. Consulting and implementation services, and maintenance, subscription and hosting services, are recognized over time. Further details of the revenue recognition approaches are described in Note 2.

Contract Balances

Contract assets and contract liabilities arise because cumulative billings to customers at each balance sheet date do not necessarily equal the amount of revenue recognized on the contracts. Contract assets, historically described as accrued income, represent performance obligations that have been satisfied but not yet billed at the end of the reporting period. Contract liabilities, historically described as deferred revenue, represent transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period. The group does not have any instances where payment is received in advance for multi-year contracts, all invoicing is annual as per contract terms.

	Contract Assets		*Contract Liabilities*	
	2020 $'000	*2019 $'000*	*2020 $'000*	*2019 $'000*
At 1 January	397	1,109	10,337	9,035
Transfers in the period from contract assets to trade receivables	(397)	(1,109)	-	-
Revenue recognized ahead of cash (or rights to cash)	430	397	-	-
Transfers in the period from contract liabilities to revenue	-	-	(10,337)	(9,035)
Cash (or rights to cash) received in advance of revenue recognition	-	-	11,985	10,337
At 31 December	430	397	11,985	10,337

5. PROFIT FOR THE YEAR

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

	2020 *$'000*	*2019* *$'000*
Net foreign exchange (gains)/losses	(110)	100
Research and development costs (excluding amortization)	3,225	3,340
Amortization of intangible assets	2,669	2,342
Depreciation of property, plant and equipment	365	364
Depreciation of right-of-use assets	671	698
Employee share-based payments	447	620

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.

Adjusted EBITDA, which is a company specific measure, defined as earnings before interest, tax, depreciation, amortization, and employee share-based payment charges, is considered to be an important profit measure, since it is widely used by the investment community. See page 18 for further information on the use of this measure. It is calculated as follows:

	2020 *$'000*	*2019* *$'000*
Profit for the year before tax	1,707	2,457
Interest payable	93	127
Interest receivable	(25)	(166)
Amortization of intangible assets	2,669	2,342
Depreciation of property, plant and equipment	365	364
Depreciation of right-of-use assets	671	698
Employee share-based payments	447	620
Adjusted EBITDA	5,927	6,442

6. AUDITORS' REMUNERATION

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

	2020 *$'000*	*2019* *$'000*
Audit of the financial statements of the group	68	72
Audit of the financial statements of the UK subsidiary	5	5
Review of interim financial information	19	17
Tax compliance services	28	31

7. STAFF COSTS

	2020 $'000	2019 $'000
Wages and salaries	19,208	17,959
Social security costs	1,610	1,529
Pension contributions	483	442
Employee benefits expense	1,060	1,049
	22,361	20,979

Included within the above are staff costs capitalized as development expenditure amounting to $3,658,000 (2019: $3,010,000). Included within wages and salaries are bonus and sales commission costs amounting to $2,203,000 (2019: $2,108,000).

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

	2020 Number	2019 Number
Development and operations	112	107
Sales and management	53	53
	165	160

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

The remuneration of all directors was as follows:

	2020 $'000	2019 $'000
Fees and emoluments	1,025	961
Pension contributions	25	22
	1,050	983

During the year 7,500 share options (2019: Nil) were exercised by directors. Pension contributions are to personal defined contribution schemes and have been made for three directors (2019: three) who served during the year.

Full details of directors' remuneration, including share option exercises, are disclosed in the Board Committee Reports on page 21.

Staff costs in the parent company amounted to $600,000 including bonuses (2019: $513,000). The average monthly number of staff of the parent company during the year included one full time and two part time (2019: one and two).

8. FINANCE INCOME

	2020 $'000	2019 $'000
Income on financial assets measured at amortized cost		
Interest income on bank deposits	45	166
Negative interest income on certain Euro bank balances	(20)	-
	25	166

9. FINANCE EXPENSE

	2020 $'000	2019 $'000
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(34)	(60)
Interest on lease liabilities	(59)	(67)
	(93)	(127)

10. INCOME TAX CREDIT

	2020 $'000	2019 $'000
Income tax charge for the year – current tax	(211)	(409)

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

	2020 $'000	2019 $'000
Profit before tax	1,707	2,457
Tax charge at the UK corporation tax rate of 19% (2019: 19%)	(324)	(467)
Adjustment for differing rates of corporate taxation in overseas jurisdictions	(67)	(139)
Tax effect of expenses that are not deductible in determining taxable profits	(156)	(192)
Temporary differences arising from the capitalization and transfer of development investments	188	127
Utilization of prior year losses	148	262
Total income tax expense for the year	(211)	(409)

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 is refundable over a four-year period to December 2021. Of the $208,000 of refundable AMT credited in 2018, Sopheon's US subsidiaries received $104,000 in 2019 and $104,000 in 2020.

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:

	2020 *$'000*	*2019* *$'000*
Deferred tax asset at 1 January	2,557	2,557
Amount recognized during the year	-	-
Deferred tax asset at 31 December	2,557	2,557

The unrecognized deferred tax asset is made up as follows:

	2020 *$'000*	*2019* *$'000*
Shortfall of tax depreciation compared to book depreciation	156	156
Effect of timing differences arising from capitalization of internally generated development costs	(1,420)	(1,212)
Unrelieved trading losses	8,539	8,027
Unrecognized deferred tax asset at 31 December	7,275	6,971

At 31 December 2020, tax losses estimated at $54m (2019: $52m) were available to carry forward by the Sopheon group, arising from historical losses incurred. These losses have given rise to a deferred tax asset of $2.6m (2019: $2.6m) and a further potential deferred tax asset of $8.5m (2019: $8.0m), based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of $8.8m, representing $1.8m of the potential deferred tax asset (2019: $8.8m 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 2020 was $3,659,000 (2019: profit of $8,323,000). The parent company's result includes a partial release of provisions against long-term loans due to the parent company from subsidiaries of $4,344,000 (2019: $9,359,000). Further details of parent company loans to subsidiaries appear in Note 16.

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

	2020 $'000	2019 $'000
Basic earnings per share		
Profit after tax	1,496	2,048
	'000s	'000s
Weighted average number of ordinary shares for the purpose of basic earnings per share	10,193	10,156
Earnings per share	14.68c	20.16c
	'000s	'000s
Diluted earnings per share		
Profit after tax	1,496	2,048
Diluted profit after tax	1,396	2,048
	'000s	'000s
Weighted average number of ordinary shares for the purpose of basic earnings per share	10,637	10,667
Diluted earnings per share	14.06c	19.20c

For the purpose of calculating the diluted earnings per ordinary share in 2020 and 2019, in respect of the outstanding 942,294 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.

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment $'000*	*Furniture & Fittings $'000*	*Total $'000*
Cost			
At 1 January 2019	2,706	577	3,283
Additions	333	12	345
Exchange differences	(4)	(3)	(7)
At 1 January 2020	3,035	586	3,621
Additions	356	11	367
Exchange differences	30	10	40
At 31 December 2020	3,421	607	4,028
Accumulated Depreciation			
At 1 January 2019	2,335	416	2,751
Depreciation charge for the year	304	60	364
Exchange differences	(2)	(2)	(4)
At 1 January 2020	2,637	474	3,111
Depreciation charge for the year	309	56	365
Exchange differences	13	11	24
At 31 December 2020	2,959	541	3,500
Carrying Amount			
At 31 December 2020	462	66	528
At 31 December 2019	398	112	510

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 2019	26,780	1,022	27,802
Additions (internally generated)	3,010	-	3,010
At 1 January 2020	29,790	1,022	30,812
Additions (internally generated)	3,658	-	3,658
At 31 December 2020	33,448	1,022	34,470
Amortization			
At 1 January 2019	21,596	-	21,596
Charge for the year	2,342	-	2,342
At 1 January 2020	23,938	-	23,938
Charge for the year	2,669	-	2,669
At 31 December 2020	26,607	-	26,607
Carrying Amount			
At 31 December 2020	6,841	1,022	7,863
At 31 December 2019	5,852	1,022	6,874

The amortization period for the internally generated development costs relating to the group's software products is four years. Goodwill that arose in prior periods is not amortized. The residual goodwill arising on the acquisition of Alignent is attributable to the enhanced market position of the group, 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, which is seen 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 (2019: 3 percent). The discount rate used was 9 percent (2019: 9 percent). Sensitivity analysis has been performed on these projections, specifically changes in assumed annual revenue growth, profit margin growth and terminal growth rate. This 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 2019	8,084
Exchange difference	269
At 31 December 2020	8,353

Details of the company's subsidiaries at 31 December 2020 are set out below. Companies marked with an asterisk (*) are held via Sopheon UK Ltd. 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
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*	
	2020 *$'000*	*2019* *$'000*	*2020* *$'000*	*2019* *$'000*
Other receivables	19	19	-	-
Tax refundable in future years	-	104	-	-
Amounts due from subsidiary undertakings (net of provisions)	-	-	16,793	14,793
	19	123	16,793	14,793

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

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

A partial credit loss provision of $19,491,000 (2019: $33,622,000) has been made against amounts totaling $36,284,000 (2019: $48,415,000) 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.

	2020 $'000	2019 $'000
At 1 January	33,622	41,315
Net repayments	(3,043)	(1,167)
Net management charges	699	634
Partial release of provision	(2,000)	(9,000)
Previously provided loans to dormant subsidiary undertakings written off	(11,209)	-
Exchange adjustments	1,422	1,840
At 31 December	19,491	33,622

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade receivables	13,163	11,722	-	-
Other receivables	13	55	82	79
Total receivables	13,176	11,777	82	79
Prepayments	960	826	27	26
Contract assets	430	397	-	-
	14,566	13,000	109	105

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

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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cash at bank	9,708	9,163	4,547	2,636
Short-term bank deposits	12,010	10,270	-	-
	21,718	19,433	4,547	2,636

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 $69,000 (2019: $66,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade payables	1,013	821	43	44
Other payables	104	124	134	132
Tax and social security costs	1,089	597	-	-
Accruals	2,871	2,696	219	206
	5,077	4,238	396	382

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

The group had no borrowings at 31 December 2020 or at 31 December 2019. The group's line of credit facility and all loan notes due to Silicon Valley Bank were fully repaid during 2019.

21. LEASES

Lease liabilities represent rental payments by the group for leased office properties and leased vehicles.

Right-of-Use Assets

	Leased Buildings $'000	Leased Vehicles $'000	Total $'000
At 1 January 2019	1,911	187	2,098
Additions in year	-	170	170
Amortization	(590)	(108)	(698)
Exchange differences	(13)	(4)	(17)
At 1 January 2020	1,308	245	1,553
Additions and lease extensions in year	79	68	147
Amortization	(571)	(100)	(671)
Lease reassessments	(58)	4	(54)
Exchange differences	36	16	52
At 31 December 2020	794	233	1,027

Lease Liabilities

	Leased Buildings $'000	Leased Vehicles $'000	Total $'000
At 1 January 2019	1,911	187	2,098
Additions in year	-	170	170
Interest expense	61	6	67
Lease payments	(627)	(112)	(739)
Exchange differences	(13)	(4)	(17)
At 1 January 2020	1,332	247	1,579
Additions in year	79	68	147
Interest expense	53	6	59
Lease payments	(618)	(105)	(723)
Lease reassessments	(57)	4	(53)
Exchange differences	36	16	52
At 31 December 2020	825	236	1,061

The maturity of the lease liabilities is as follows:

At 31 December 2020	Carrying Amount $'000	Contractual Cash-Flow $'000	Less than One Year $'000	One to Two Years $'000	Two to Five Years $'000
Leased buildings	825	862	474	271	117
Leased vehicles	236	251	75	57	119
Total	1,061	1,113	549	328	236

At 31 December 2019	Carrying Amount $'000	Contractual Cash-Flow $'000	Less than One Year $'000	One to Two Years $'000	Two to Five Years $'000
Leased buildings	1,332	1,406	487	426	393
Leased vehicles	247	264	103	54	107
Total	1,579	1,670	690	480	500

Leased Buildings

Buildings are leased for office space under leases which typically run for a period of 1-5 years and lease payments are at fixed amounts. Some leases for office buildings include extension options exercisable up to one year before the end of the cancellable lease term.

Leased Vehicles

The group leases vehicles for qualifying employees with a standard lease term of 4 years with fixed lease payments. The group does not purchase or guarantee the future value of leased vehicles.

Leased Equipment

The group has a small number of leases of office equipment. The group considers these leases to be of low value or short term in nature and therefore no right-of-use assets or lease liabilities are recognized for these 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 financial assets measured at amortized cost, and all of its financial liabilities are in the category of financial liabilities measured at amortized cost.

1. Financial Assets

		Group		Company	
	Notes	*2020 $'000*	*2019 $'000*	*2020 $'000*	*2019 $'000*
Current Financial Assets					
Trade receivables	17	13,163	11,722	-	-
Other receivables	17	13	55	82	79
Amounts due from subsidiary companies	16	-	-	14,793	14,793
Contract assets	17	430	397	-	-
Cash and cash equivalents	18	21,718	19,433	4,547	2,636
		35,324	31,607	19,422	17,508
Non-current Financial Assets					
Other receivables	16	19	123	-	-

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

2. Financial Liabilities

		Group		Company	
	Notes	*2020 $'000*	*2019 $'000*	*2020 $'000*	*2019 $'000*
Current Financial Liabilities					
Trade payables	19	1,013	821	43	44
Other payables	19	104	124	134	132
Accruals	19	2,871	2,696	219	206
Loans and borrowings	20	-	-	-	-
Lease liabilities	21	515	643	-	-
		4,503	4,284	396	382
Non-current Financial Liabilities					
Loans and borrowings	20	-	-	-	-
Lease liabilities	21	546	936	-	-
		546	936	-	-
		5,049	5,220	396	382

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
- Loans and borrowings
- Lease liabilities

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 contract assets. 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 2020 no individual customer accounted for more than 10 percent of group revenues (2019: None).

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 2020	13,163	11,110	479	1,574
At 31 December 2019	11,722	10,653	195	874

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:

	2020			2019		
	$'000 Gross Value	$'000 Provision	$'000 Carrying Value	$'000 Gross Value	$'000 Provision	$'000 Carrying Value
Trade receivables						
North America	8,735	-	8,735	8,918	-	8,918
Europe	4,428	-	4,428	2,809	-	2,809
	13,163	-	13,163	11,727	-	11,727

The group records impairment losses on its trade receivables separately from the gross amounts receivable. No impairment losses were recorded during 2020 or 2019. 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 2020	*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	1,117	-	-	-	1,117
Lease liabilities – contractual cash-flow	306	243	328	236	1,113
Total financial liabilities	1,423	243	328	236	2,230

At 31 December 2019	*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	945	-	-	-	945
Lease liabilities – contractual cash flow	370	320	480	500	1,670
Total financial liabilities	1,315	320	480	500	2,615

Company

At 31 December 2020	*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	177	-	-	-	177
Total financial liabilities	177	-	-	-	177

At 31 December 2019	*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	176	-	-	-	176
Total financial liabilities	176	-	-	-	176

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 has no borrowings, other than lease liabilities, in respect of which lease payments are fixed and do not carry interest rate risk.

The group invests its surplus cash in bank deposits denominated in US Dollars, Euros or Sterling, which bear interest based on short-term money market rates, and in doing so exposes itself to fluctuations in money market interest rates. The group's surplus cash held in the form of bank deposits at 31 December 2020 was $12,010,000. During 2020 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 or decrease of 0.5 percent in the average interest rate received on the group's bank deposits at the balance sheet date would result in an increase or reduction in the group's interest income of $60,000.

The group's cash balances held in bank current accounts do not attract interest, with the exception of certain Euro bank balances on which negative interest rates currently apply. An increase of 0.5 percent in the negative interest rate applicable to these balances at the balance sheet date would result in an increase in negative interest income of $26,000.

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.

	2020	*2019*	*2020*	*2019*
	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	25	(75)	365	258
Weakening of Sterling in US Dollar terms by 10c	(24)	75	(366)	(260)
Strengthening of Euro in US Dollar terms by 10c	149	170	466	493
Weakening of Euro in US Dollar terms by 10c	(148)	(170)	(467)	(495)

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.

	2020	*2019*
	Increase/(Decrease) in Profit After Tax	
	$'000	*$'000*
Strengthening of Sterling in US Dollar terms by 10c	159	86
Weakening of Sterling in US Dollar terms by 10c	(159)	(86)
Strengthening of Euro in US Dollar terms by 10c	161	95
Weakening of Euro in US Dollar terms by 10c	(161)	(95)

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	*2020 Number*	*2020 $'000*	*2019 Number*	*2019 $'000*
Ordinary shares of 20 pence each	10,202,888	3,133	10,174,038	3,126

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, 28,850 ordinary shares were issued in connection with the exercise of options at exercise prices ranging from 55p to 150p.

24. CAPITAL RESERVES

Group

	Share Premium $'000	*Equity Reserve $'000*	*Special Reserve $'000*	*Total $'000*
At 1 January 2019	2,258	946	5,073	8,277
Issues of shares	97	-	-	97
Recognition of share-based payments	-	620	-	620
Lapsing or exercise of share options	-	(52)	-	(52)
At 1 January 2020	2,355	1,514	5,073	8,942
Issues of shares	45	-	-	45
Recognition of share-based payments	-	447	-	447
Lapsing or exercise of share options	-	(36)	-	(36)
At 31 December 2020	2,400	1,925	5,073	9,398

Company

	Share Premium $'000	*Equity Reserve $'000*	*Special Reserve $'000*	*Total $'000*
At 1 January 2019	2,258	946	5,073	8,277
Issues of shares	97	-	-	97
Recognition of share-based payments	-	620	-	620
Lapsing or exercise of share options	-	(52)	-	(52)
At 1 January 2020	2,355	1,514	5,073	8,942
Issues of shares	45	-	-	45
Recognition of share-based payments	-	447	-	447
Lapsing or exercise of share options	-	(36)	-	(36)
At 31 December 2020	2,400	1,925	5,073	9,398

The equity reserve comprises the fair value of share-based payments made to employees pursuant to the group's share option schemes, offset by credits from the expiry, lapsing or exercise options.

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 2020, the Esot held 36,472 ordinary shares of 20p each in the company (2019: 36,472) which represents 0.4 percent (2019: 0.4 percent) of the company's ordinary share capital. The equity reserve includes a deduction of $46,000 (2019: $46,000) which represents the cost of the shares held by the Esot at 31 December 2020.

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 2020 and at 31 December 2019, 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

	2020 $'000	*2019 $'000*
Dividends paid in year		
Final dividend for 2019 of 3.25p per share paid in July 2020	429	430

The directors are proposing a final dividend of 3.25 pence per share in respect of the year ended 31 December 2020 amounting to £332,000 ($453,000).

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 $483,000 (2019: $442,000) 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:

	2020 $'000	*2019 $'000*
Emoluments and benefits	2,792	2,541
Pension contributions	73	67
Share-based payments	382	478
	3,247	3,086

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:

	2020 *$'000*	*2019* *$'000*
Net amounts repaid by subsidiaries	(3,043)	(1,167)
Net management charges to subsidiaries	699	634

The amounts owed by subsidiary companies to the parent company at 31 December 2020 totaled $36,284,000 (2019: $48,415,000). An amount of $16,793,000 (2019: $14,793,000), due from the group's US and Dutch 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 2020 and 2019, 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 2020 and 2019 are as follows:

	Number of Share Options	*Weighted Average Exercise Price* *£*
Outstanding at 1 January 2019	875,821	3.57
Options granted in 2019	30,000	7.20
Options exercised in 2019	(30,272)	2.68
Options lapsed in 2019	(7,155)	5.07
Outstanding at 1 January 2020	868,394	3.72
Options granted in 2020	105,000	7.77
Options exercised in 2020	(28,850)	1.42
Options lapsed in 2020	(2,250)	8.17
Outstanding at 31 December 2020	942,294	4.23
Exercisable at 31 December 2020	812,531	3.66
Exercisable at 31 December 2019	712,583	2.97

During 2020, share options were exercised over 28,850 ordinary shares at exercise prices ranging from 55p to 150p. During 2019, share options were exercised over 30,272 ordinary shares at exercise prices ranging from 85p to 900p. The options outstanding at the end of the year have a weighted average contractual life of 5.6 years (2019: 5.9 years).

During the year share options were granted on 13 July 2020 when the exercise price of options granted was 775p and the estimated fair value was 459p and on 19 October 2020, when the exercise price of options granted was 785p and the estimated fair value was 465p. During the preceding year share options were granted on 14 October 2019, when the exercise price of options granted was 720p and the estimated fair value was 426p.

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

Date of Grant	*July 2020*	*October 2020*	*October 2019*
Share price at time of grant	775p	785p	720p
Exercise price	775p	785p	720p
Expected volatility	40%	40%	40%
Risk-free rate	5%	5%	5%
Expected dividend yield	0.4%	0.4%	0.5%

The expected contractual life of the options used was five to ten years. Expected volatility was determined by reference to the historical 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.

Greg Coticchia, President. Greg Coticchia joined Sopheon as President in 2020, and will be appointed a director shortly following publication of this report. He is a recognized entrepreneur, business leader and author with over thirty years' experience in software products and services. Most recently Greg established the Master's Program in Product Management at Carnegie Mellon University. He has held executive roles in a number of organizations ranging from startups to $1bn revenue where he has been responsible for driving both organic and acquisition-led growth.

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