



ANNUAL REPORT 2015



Sopheon

Your Partner for Innovation Performance™



Summary Results and Trends	5	Auditors' Report	21
Chairman's Statement	6	Consolidated Income Statements and Consolidated Statements of Comprehensive Income	23
Strategic Report	7	Consolidated and Company Balance Sheets	24
Financial Report	12	Consolidated and Company Cash Flow Statements	25
Directors and Advisors	14	Consolidated and Company Statements of Changes in Equity	26
Report on Directors' Remuneration	15	Notes to the Financial Statements	27
Directors' Report	18		
Statement of Directors' Responsibilities	20		

Sopheon and Accolade are registered trademarks of Sopheon plc.

Accolade Roadmapping, Idea Lab, Process Manager, Portfolio Center and Vision Strategist are trademarks of Sopheon plc.

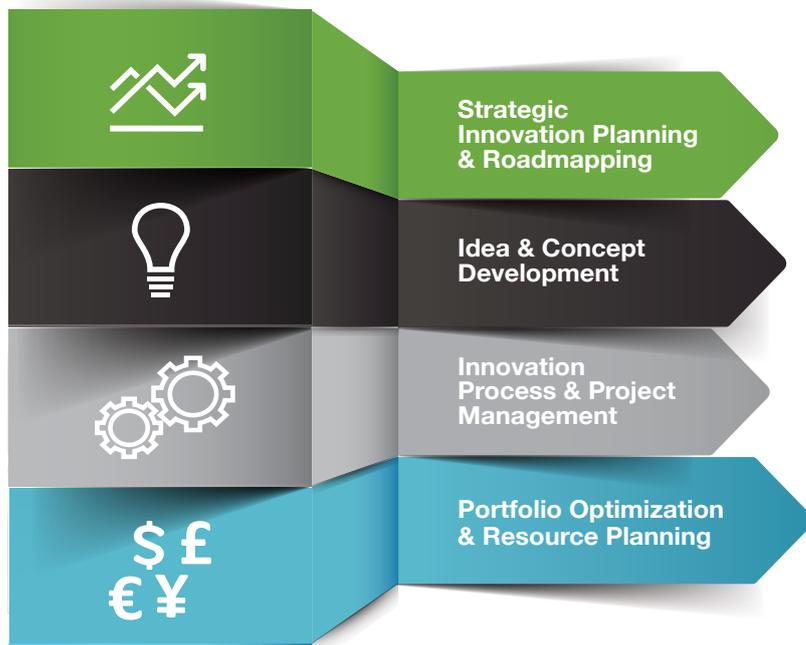
Microsoft, Excel and PowerPoint are registered trademarks of the Microsoft Corporation in the United States and/or in other countries.

Stage-Gate is a registered trademark of the Product Development Institute, Inc.

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

We do this by providing **software, services and best practices** that help complex, global enterprises to increase the return on their R&D and broader innovation investments. We provide transparency and insight to improve decision making through an **integrated innovation** platform which drives performance across four distinct business capabilities required to achieve sustainable innovation.

The Sopheon solution was designed from the start to keep **business strategy** front of mind and continuously aligned with execution throughout the innovation life cycle, ensuring market success.



A selection of products and brands powered by Accolade.



Beiersdorf

benefit



Electrolux



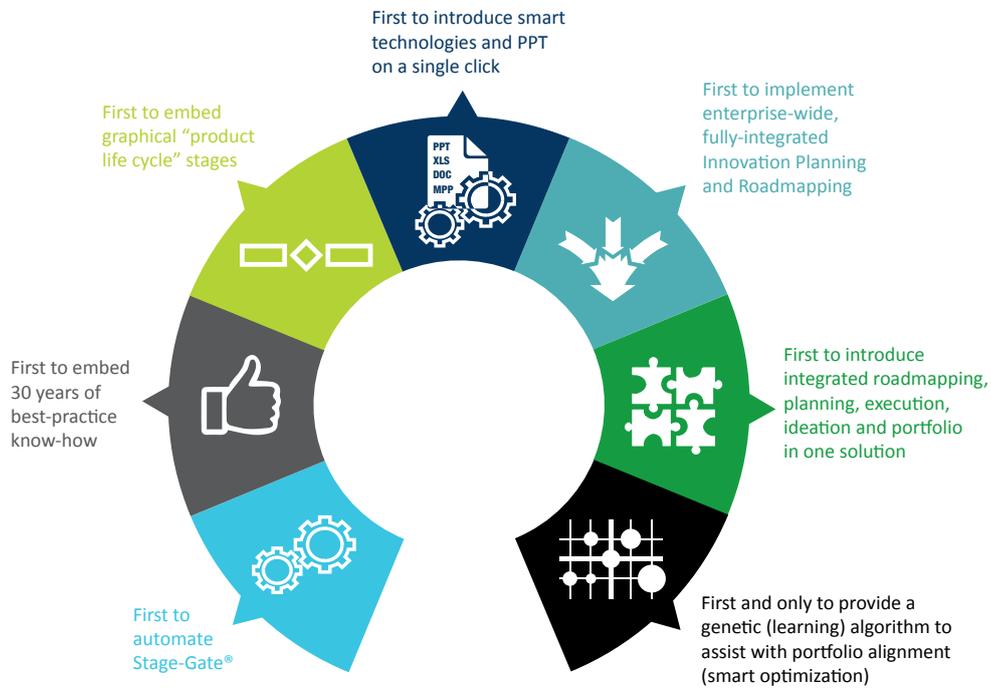
Land O'Lakes, Inc.



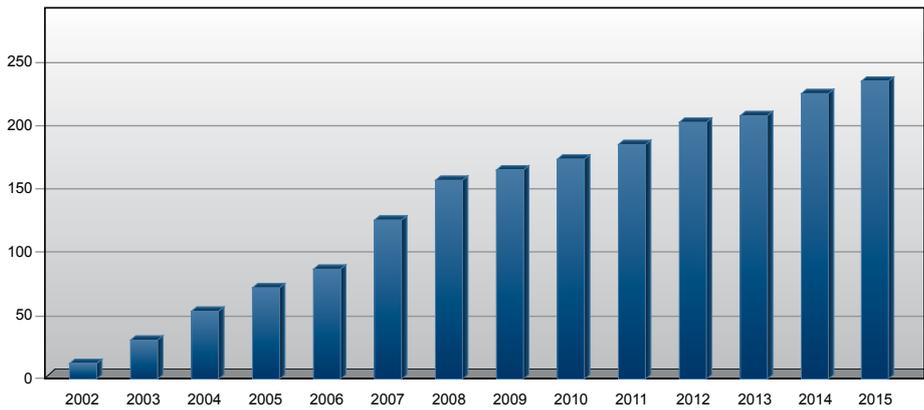
PHILIPS



VESUVIUS



SOPHEON'S MARKET FIRSTS



Since inception Sopheon has built a roster of approaching 250 licensees, including some of the world's best known companies and brands. Market recognition from industry voices such as Gartner, CIMdata and CGT magazine is underpinned by 100% customer satisfaction with recent deployments.



CHAIRMAN'S STATEMENT



My last annual statement to shareholders highlighted the ongoing transition in Sopheon's business model, and its impact on our performance. It is very gratifying, one year later, to be able to report solid strategic progress and results for 2015. Revenues grew from just over \$18m to almost \$21m. This double-digit growth was achieved in spite of headwind in the form of a strengthening dollar. The improvement in profitability was even more marked, with EBITDA more than tripling to \$4.1m, and profit before tax at \$1.2m.

Two years ago we embarked on a strategic growth transition to migrate from delivering process automation tools to delivering enterprise class innovation management solutions. We made substantial progress in 2014, but not without some disruption to business momentum, which continued into the first half of 2015. In spite of these short-term financial consequences, we remained confident in our path during the transition and continued to lead the market in vision, experience and capability that today in our opinion remain unmatched by competitors. Our dual market segmentation focus on both the complex global enterprise and the simpler, "out-of-the-box" Express model for quick time to value, is gaining traction. This view is validated by the naming of Sopheon in Gartner's 2015 Market Guide for Enterprise PPM Software, and recent Enterprise Innovation Management research conducted by CIMdata.

Our 2015 performance was broad based. We signed 14 new customers and closed another 28 transactions with existing customers. New wins included expansion of our Asian presence with a major Chinese chemical business sold through our important partner relationship in that territory, and several Express offerings that are now fully deployed. In addition, we signed a number of major enterprise contracts, including a software-as-a-service (SaaS) deal with a Fortune 100 consumer products corporation with substantial recurring revenue potential. Our largest customer accounted for 11 percent of revenue, and no other customer was above 6 percent. The strengthening recurring base, along with a sizeable proportion of the work resulting from our 2015 successes, have carried over into 2016, giving revenue visibility* above \$12m as compared to just over \$10m a year ago.

As in previous years, we maintained the pace of new product releases consistent with our Agile methodology, releasing Accolade® 9.3 in February 2015, Accolade 10.0 in June and Accolade 10.1 in September. Since the end of the year we released Accolade 10.2 in January. We have been taking action to enable world-class adoption of our solutions for some time and we are now seeing the benefits in our performance metrics in both of the market segments mentioned above. All of our product releases include new and enhanced functionality driven by both customer and market needs and our sales and services organizations have been restructured to be customer value centric. We saw third-party validation of this effort in the recent Sopheon recognition as Customer Service Leader in the new product development and introduction solutions category as voted by the executive readership of Consumer Goods Technology (CGT) magazine, selection by the same readership for the sixth consecutive year as a best-in-class new product development solution, and the Gartner and CIMdata reports mentioned above.

I was deeply saddened to announce in January that Dr. Bernard Al, a non-executive director, passed away during the holiday period. A true professional with vast experience and integrity, Bernard served on the Sopheon board from 2001, making a vital contribution. He will be greatly missed.

On a more positive note, I am delighted to share such positive financial validation of our progress. The board remains confident that Sopheon is on the right path, with strong momentum and pipeline for further advancement in 2016. We continue to expand resources in line with the growth areas of the business to support this strong momentum, and maintain our leading market position. Our success is in no small part due to the commitment and diligence of our people, and I take this opportunity to thank all in Sopheon who made it possible.

Barry Mence
Executive Chairman

16 March 2016

**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.*

STRATEGIC REPORT



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

What We Do

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

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



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

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

We have helped companies **increase the value of their portfolios by 75-100 percent or more** through a combination of:

- connecting innovation strategy with operational execution;
- funding and resourcing only the highest quality initiatives;
- managing processes more effectively;
- optimizing and balancing the product portfolio.

What Makes Sopheon Different

The Sopheon solution was designed from the start as a decision support system focusing on **business value** that is critical to enterprise growth. Over recent years Sopheon has expanded its value to our client user community by improving the usability of our software, reducing the number of “clicks” required for the same work result, and introducing more intelligence into the Accolade platform. Recent market recognition of Sopheon’s progress includes:

- Sopheon was voted Customer Satisfaction Leader by CGT Magazine’s executive readership in 2015 and named as a Top 10 solution provider for new product development and introduction for the sixth consecutive year in the public announcement in January of 2016.
- In a recent survey conducted by my office, 100 percent of the new clients who deployed Accolade in 2014 or 2015 reported that Sopheon met or exceeded the expectations they had at the time of contract signature.
- Gartner recognized favorable market movement and named Sopheon as a market leading vendor in its 2015 Market Guide for Enterprise PPM Software. This research defines the Enterprise PPM Software market as an evolving and maturing market. Gartner reports it experienced an increase in client inquiries about Sopheon in 2015.
- CIMdata delivered its first market research on the Enterprise Innovation Management (EIM) market as a growing market segment and named Sopheon as a thought-leader in the space.

We are very proud of the recent industry recognition which is the result of hard work, focus and investment in both our people and our product. Our clients expect Sopheon to provide domain expertise to assist them in improving their innovation performance, a competency that has been uniquely learned and created in the deployment of our solution to market leaders for some 15 years. We have doubled our consultancy depth and competency to support our continued growth, and we continue to invest further in this domain knowledge to support further separation from the competition during 2016.

Our product investment made in 2014 to expand the seamless integration between long-range planning and operational execution capabilities paid dividends in 2015 with more clients investing in the full Enterprise Innovation suite of capabilities.

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

“While we have had significant success in new product development due to pockets of innovation that were very successful, the pain point has always been not having a ‘single source of truth.’ With low adoption of these fragmented systems, there was no way to manage our portfolio and projects effectively. This resulted in longer cycle times and very poor visibility to how financial commitments are met (or not met) at a high level of confidence. Not having a harmonized process was a key challenge initially which we tackled first. Now we are harmonizing our systems by implementing an enterprise innovation management software platform.”

*Lux Chakrapani
Director of Manufacturing & Technology Applications,
Honeywell Performance Materials & Technologies*



Sopheon’s solutions have been implemented by over 200 customers with over 60,000 users in over 50 countries.

Industry Trends

We see a continuing convergence of the business, economic and market trends that play directly into Sopheon's market position, solutions and investments.

- **Business Transformation** – Companies are turning their attention to operationalizing innovation. This is often part of a transformational initiative out of the CEO's office and requires a tool for what some clients refer to as "complexity management" to connect and link all the essential components of their enterprise together. The market driver for this transformation comes from the combination of two primary market disruptors—digitization and consumerization—which are resulting in market shifts and change occurring at an unprecedented pace.
- **Cadence of the Modern Operating Plan** – The traditional annual operating plan (AOP) process is being reengineered in most companies to deal with the rate of change mentioned above. The new AOP process must be iterative, dynamic and responsive to market changes as they occur. The traditional means of managing the AOP process—Microsoft® Excel® and PowerPoint®, in conjunction with a multitude of meetings—no longer meet the needs of the business. To operate with agility and respond to market changes with speed, the modern enterprise must be wired and connected in a way that the traditional tools do not support.
- **Sustainable Innovation** – Moving with speed remains a struggle for large global companies, due to rising complexity inherent in the DNA of corporate infrastructure and traditional business models.

"Vesuvius had introduced a Stage-Gate process previously using an R&D centric effort with limited success. Last year, we took a more cross-functional approach, resulting in momentum that exceeded our project timeline goals. Accolade's out-of-the-box best practices and cross-functional ease of use played an important role in speed of implementation and high adoption of our process."

*George Coulston, PhD
VP and CTO, Vesuvius*

We believe that Sopheon's Enterprise Innovation Management platform remains uniquely positioned to leverage these three major trends. Accolade was designed to provide connectivity, manage complexity, and enable even the largest global corporations to operate rapidly and nimbly as market disrupters occur at warp speed.

Accolade connects the enterprise so that board-level strategy is driven, propagated, managed, tracked and realized through all areas and levels of the organization with speed. It enables visibility across the entire innovation life cycle, which supports the nimble decision-making capabilities companies need.

None of this can be achieved without an Enterprise Innovation Management system in place.

Growth Strategy

Sopheon's growth strategy is to enable corporations to operationalize corporate initiative and innovation management. Our focus requires Sopheon to:

- **Increase industry-specific domain knowledge and solutions:** We have always believed that different vertical markets, while sharing core functionality needs, have differing pain-points and best practice traditions. In 2015 we continued our objective to dominate in our chosen core verticals of chemical, aerospace, consumer products and high technology. Sopheon's long history and experience in these verticals enables us to operate as an industry connector for our clients, introducing them to one another to jointly learn and advance their competency and success.
- **Introduce new offerings to leverage growth from our customer base:** Sopheon's roster of customer names is a hugely impressive list of the world's leading companies. In 2015 Sopheon continued to expand the range of our innovation solutions providing the opportunity for us to extend our footprint within our customers across their enterprise, to deliver considerably higher value for their investment in Accolade. Client expansion in 2015 was markedly strong, with a material increase in revenue from existing clients over previous years as a result.

- **Transform the Sopheon client experience:** Sopheon has, in recent years, invested in extensive customer value based programs. These programs extend across the organization from sales, to service deployment to product development engineering. The focus of these collective programs has been to delight the client with value and their experience with Sopheon across the board. These programs are showing favorable results in client satisfaction ratings, industry ratings and improved client retention rates in each of the past three years with improvement year over year. The market recognition highlighted above points to the positive results of these efforts. With our increased focus on enterprise deployments, we also continued to further strengthen our relationship with top tier consulting firms, an area we believe will be key to the acceleration of our growth.
- **Expand the Partner Ecosystem:** Sopheon continues to invest in and develop additional distribution channels. Our reseller partners in Asia signed Shanghai Huyai, a large chemical company in China. This deployment represents another advancement in our three year Chinese reseller partnership. Furthermore, last year's introduction of Accolade Express and our initial commercial success has provided learnings from which we will continue to evolve the Accolade Express product into our partner platform to make it more suitable for reseller partners. We will further test and develop our reseller partnership network during the course of this year.

"The Accolade deployment exceeded expectations. It was the first software implementation Certis has undertaken that was completed ahead of schedule, and it has been more successful than we could have hoped. Adoption is high; everyone involved understands the value of the Accolade system and is now asking how they can use it more broadly beyond the initial application."

People, Process & Platform

People & Process

As stated, Sopheon is differentiated in the market by its industry-leading reputation for deep domain expertise in the product development and innovation management arena. That know-how is instituted in our methodologies, our best practices and our substantial experience developed through many years of helping top businesses achieve innovation success.

Last year at this time, we reported we brought in new sales leadership in the US and Europe, along with several new team members and heightened focus between new customer acquisition and existing customer account management. Our services organization has also been restructured to align with delivering client value. We are very proud of the commitment that our people have shown to the company, to our clients and to these changes. We place great emphasis on the development of our people to institutionalize this deep experience and knowledge of Enterprise Innovation in our customer-facing teams. We are proud of our 100 percent "Met" or "Exceeded" client rating in 2015 and we continue to prioritize growth and development in this area.

"We support our hardware development processes with Accolade as well as the Agile processes for our Software Development. Accolade is so flexible, it lets you do what you need to do. You can really support any process necessary, and Accolade will facilitate it."

*Bruno Marchand
Vice President R&D,
IBA Dosimetry GmbH*

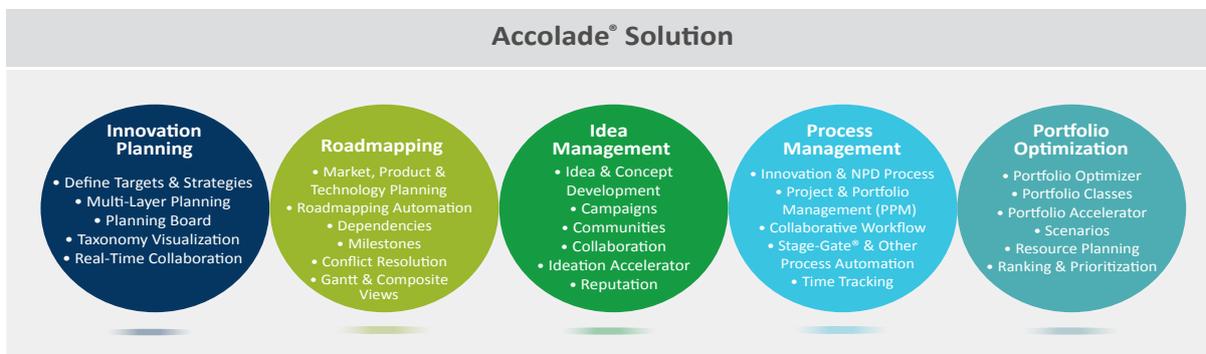
Platform

Consistent with our "Best Client Experience" strategy we continue to invest in revolutionizing the Accolade user experience. Over the years Sopheon has made significant investments in product development as a commitment to maintaining our leadership of a market we helped to create, through our own innovation. These investments have been consistently held above 20 percent of revenue. Our Product Development organization operates using an Agile methodology, which drives greater customer interaction and feedback directly into the development process. It allows maximum flexibility to respond to market needs, while at the same time supporting strategic needs.

It is Sopheon's commitment to deliver three major releases a year. We have now been delivering on this cadence for long enough that the majority of our clients expect and plan for our releases. In 2015 we released Accolade 9.3 in February, Accolade 10.0 in June and Accolade 10.1 in September. Since the end of the year we released Accolade 10.2 in January 2016. Our releases continue to be aligned to market needs and reflect extensive input from our customer panels. The development focus

*Jennifer Lewis
Head of Portfolio, Certis*

in the last twelve months has been on enhancing personal productivity and a user experience that reduces the level of manual intervention in work processes, both of which increase the speed and agility with which organizations operate. In parallel with these developments, we have continued to advance the out-of-the-box best practices that underpin our Accolade Express solution for rapid adoption and time to value, resulting in several wins as noted elsewhere in this report.



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

Beyond the market and customer inputs, at the strategic level we continue to track four key product roadmap drivers—social, mobile, software-as-a-service (SaaS) and information. These drivers mesh with global trends that are facing the majority of software companies today and we are focused on ensuring that new releases keep pace with market expectations in these areas.

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

Approved by the board on 16 March 2016 and signed on its behalf by:

Andy Michuda
CEO

FINANCIAL REPORT



In this report, our CFO Arif Karimjee provides further analysis of Sopheon's financial results during 2015, our financial position at the end of the year, and an overview of key corporate developments.

Trading Performance

Sopheon's consolidated turnover in 2015 was \$20.9m, compared to \$18.3m in 2014. The overall shape of the business continues to be approximately one-third Europe and two-thirds North America, with a contribution from other territories including Asia, the Pacific Rim and the Middle East.

Total license transactions including extension orders were 42 in 2015, the same volume as 2014. However, the year also featured rising average revenue per license transaction, resulting in substantially higher license revenues overall. Both services and maintenance were higher as well; but the increase was most marked in the license area. Overall, revenues grew 14 percent, however this was in the face of a substantial rise in the US Dollar exchange rate against the Euro and Sterling, depressing the relative contribution from sales denominated in those currencies; on a constant currency basis, we estimate that reported 2015 revenues would have been approximately \$0.8m higher, representing growth of 18 percent. Coming into 2016, revenue visibility for the year stood above \$12m compared to just over \$10m a year ago.

After a relatively slow start in the first half of 2015, the second half of the year recorded substantial increase in volume, sales and revenue. Over the years we have frequently referred to the sensitivity of our license results to individual sales events. Historically, the second and fourth quarters tend to be strong and the final quarter of 2015 was a particularly marked example, being the strongest revenue quarter in our history. This was less true of the second quarter performance. As we announced towards the end of 2014, a number of large transactions that we had originally expected to close that year were deferred to 2015. Such delays are often reflective of an opportunity growing in size and scale; this has potential for a good long-term outcome but of course the impact on the year under review can be unwelcome. A good number of these transactions closed in 2015. However, we continue to work a number of sizeable opportunities that we are confident to close in the current year.

The overall base of recurring business rose to approximately \$8.2m compared to \$7.8m coming into last year – but as noted above, this rise would be greater had exchange rates in 2015 not moved so sharply in favor of the US Dollar. Furthermore, the figures above do not include the impact of signed SaaS business expected to contribute at least \$0.3m annually following completion of implementation. Attrition remained at excellent levels, with 94% retention by value. Although this metric has shown steady improvement over recent years, we believe that building recurring revenue is a key goal for Sopheon, and are deepening retention programs alongside our focus on account management to ensure that the base remains engaged and enjoys increasing value from its investment. The majority of recurring income is represented by maintenance services, but also includes hosting and cloud services. Overall, in 2015 our business delivered a 29:38:33 ratio of licenses, maintenance, and services respectively compared to 21:42:37 in the previous year. This marks a strong return of license revenue as a cornerstone of our business model, driven by the closure of several larger opportunities as noted in the previous paragraph. As the highest margin component of our revenue, the increase in license has in turn driven a positive impact on overall gross margins, which have risen to 72 percent, compared to 66 percent in 2014.

Research and Development Expenditure

Overall expenditure in product development resources decreased by approximately \$0.4m to \$4.0m in 2015, following a steady annual rise since 2010; this compares to the headline R&D reported in the income statement showing broadly flat at \$4.3m. The difference between these two figures is due to the effects of capitalization and amortization of development costs. The amount of 2015 research and development expenditure that met the criteria of IAS38 for capitalization was \$2.1m (2014: \$2.4m) offset by amortization charges of \$2.4m (2014: \$2.1m). These capitalized costs are largely attributable to the group's investment in the Accolade 9.3, 10.0, 10.1 and 10.2 releases. Sopheon remains committed to product leadership, with excellence in research and software development as a critical core competency of the group. Since 2001 Sopheon's reported research and development charges each year have been least 20 percent of revenues reported in that year. For 2015, this metric was 20 percent (2014: 23 percent).

Operating Costs

Over the last four years, Sopheon has held staffing between 100-115 depending on current requirements and natural movement in people in and out of the business. Our focus is on securing the right mix of people rather than targeting a headcount number. Overall, Sopheon has a relatively mature and highly qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. We ended the year with 100 staff; this has already risen

as we have added new resources in a number of key areas as we implement our 2016 plans. The average headcount during 2015 was 105, compared to 114 the year before.

Although staffing numbers were broadly lower year on year, all cost areas were impacted by a higher bonus attributable to the strong 2015 performance. The corporate bonus scheme covers the majority of the group's executives and employees, with the principal exception of the sales teams for whom incentives are tied to individual or territory results. This has also contributed to the higher payables balance at the year end, since the bonuses are not paid until the following year. Bonus costs in a given year are allocated to the relevant categories of the income statement.

Costs of the professional services organization are included in costs of sales. Staffing in this area was lower than in the previous year, which did lead to some stretch in this area particularly towards the back end of the year. We are delighted to have recruited a number of highly qualified new consultants since the end of the year who are already being deployed on projects. Detailed comments regarding research and development costs are noted above. Continued focus on quality as opposed to quantity in the marketing area resulted in lower marketing costs overall, however this was more than offset by the effect of a full year of the expanded sales team recruited in 2014, alongside higher commission and bonus costs linked to the stronger performance. Accordingly, sales and marketing costs rose to \$6.5m in 2015 compared to \$6.2m in 2014. Headline administration costs have risen by approximately \$0.1m, mainly due to the impact of the bonus and a number of other small movements. Exchange movements played a relatively small role in the year's profit performance in spite of the impact on revenues noted above. This is due to a natural hedge between local currency revenues and costs within each entity. Although the group does not hedge currency balances as a matter of policy, we do try to keep currencies local and time currency purchases so as to minimize exposures.

Results

In common with other technology businesses, Sopheon reports EBITDA as a key indicator of the underlying performance of our business. EBITDA is further defined and reconciled to profit before tax in Note 4. The combined effect of the revenue and cost performance discussed above has resulted in Sopheon's EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) performance for 2015 rising very strongly to \$4.1m, from \$1.2m in 2014. Including the effect of interest, depreciation and amortization, the group reported a profit before tax for the year of \$1.2m (2014: loss of \$1.5m). Although Sopheon benefits from accumulated tax losses in a number of jurisdictions this is not universal and accordingly a small tax charge has been provided. The profit per ordinary share was 15.5 cents (2014: loss per share of 20.9 cents).

Facilities and Assets

In February 2014 the group established new bank facilities with the London branch of Silicon Valley Bank. These facilities comprise a term loan of \$0.5m repayable in 36 equal monthly instalments, and a \$3m revolving line of credit. These facilities have just been renewed and refinanced by Silicon Valley Bank for a three year period through January 2019, reflecting the growing maturity of the Sopheon business. Both facilities bear interest at rates of 2.75 percent over Wall Street Prime, resulting in a current effective rate of 6.25 percent. The facilities are subject to covenants based on working capital ratios. The drawdown mechanics and interest rates are also subject to working capital ratios.

To underpin the group's growth strategies, in two tranches in 2009 and 2011, the company issued a total of £2m of convertible unsecured loan stock (the "Loan Stock") to a group of investors including key members of the board and senior management team. In June 2014, the Loan Stock investors agreed to extend the maturity date by two years to 31 January 2017. The conversion price is 76.5 pence per share. The board has entered discussions with holders of the Loan Stock with a view to extending maturity for a further two years.

During its development phase, Sopheon had contracted an equity line of credit facility with GEM Global Yield Fund Limited ("GEM") which was renewed on several occasions. In view of the rising maturity of Sopheon's business, the board allowed the facility to lapse on 23 December 2015.

Consolidated net assets at the end of the year stood at \$5.5m (2014: \$4.2m). Gross cash resources at 31 December 2015 amounted to \$7.0m (2014: \$4.7m). Approximately \$4.5m was held in US Dollars, \$2.4m in Euros and \$0.1m in Sterling.

Intangible assets stood at \$5.6m (2014: \$5.9m) at the end of the year. This includes (i) \$4.6m being the net book value of capitalized research and development (2014: \$4.9m) and (ii) an additional \$1.0m (2014: \$1.0m) being goodwill arising on the acquisitions of Alignent Software Inc., and Sopheon GmbH.

Approved by the board on 16 March 2016 and signed on its behalf by:

Arif Karimjee
CFO

DIRECTORS AND ADVISORS

<i>Directors</i>	Barry K. Mence Andrew L. Michuda Arif Karimjee ACA Stuart A. Silcock FCA Daniel Metzger	Executive Chairman Chief Executive Officer Chief Financial Officer Non-executive Director Non-executive Director
<i>Secretary</i>	Arif Karimjee	
<i>Registered Office</i>	Dorna House One Guildford Road West End, Surrey GU24 9PW	
<i>Registered Name and Number</i>	Sopheon plc. Registered in England and Wales No. 3217859	
<i>Auditors</i>	BDO LLP 55 Baker Street London W1U 7EU	
<i>Principal Bankers and Financiers</i>	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
<i>Solicitors and Attorneys</i>	Squire Patton Boggs 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2200 IDS Center, 80 South Eighth Street Minneapolis, MN 55402 United States
	Loyens & Loeff Fred Roeskestraat 100 1076 ED Amsterdam The Netherlands	
<i>AIM Nominated Adviser and Broker</i>	finnCap Limited 60 New Broad Street London EC2M 1JJ	
<i>Registrars</i>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA	

REPORT ON DIRECTORS' REMUNERATION

The remuneration committee of Sopheon plc is responsible for oversight of the contract terms, remuneration and other benefits for executive directors, including performance-related bonus schemes. The committee comprises two non-executive directors, 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 to consult benchmarking data.

As noted in the Chairman's statement above, Dr. Bernard Al, a non-executive director and formerly chairman of the remuneration committee, sadly passed away at the end of the year. In the interests of completeness, his details are included in the disclosures given below.

Contracts

The service contract between the company and Mr. Michuda is terminable on up to three months' notice, with an additional twelve months' salary in lieu of notice due by the company in the event of termination without cause. Service contracts between the company and the other executive directors are terminable on six to nine months' notice.

Fees for Non-executive Directors

The fees for non-executive directors are determined by the board. The non-executive directors are not involved in any discussions or decisions about their own remuneration.

Directors' Remuneration

Set out below is a summary of the fees and emoluments received by all directors during the year, translated where applicable into US Dollars at the average rate for the period. Mr. Mence's remuneration is largely fee-based and therefore subject to fluctuations from period to period. Benefits primarily comprise healthcare insurance and similar expenses. Details of directors' interests in shares and options are set out in the Directors' Report.

	<i>Pay and Fees</i> 2015 \$	<i>Bonus</i> 2015 \$	<i>Benefits</i> 2015 \$	<i>Total</i> 2015 \$	<i>Total</i> 2014 \$
<i>Executive Directors</i>					
B.K. Mence	207,956	102,443	7,383	317,782	240,716
A.L. Michuda	290,100	139,050	12,596	441,746	296,346
A. Karimjee	183,189	67,404	3,848	254,441	200,172
<i>Non-executive Directors</i>					
S.A. Silcock	30,580	-	-	30,580	32,942
B.P.F. Al	30,580	-	-	30,580	32,942
D. Metzger	30,580	-	-	30,580	32,942
	<u>772,985</u>	<u>308,897</u>	<u>23,827</u>	<u>1,105,709</u>	<u>836,060</u>

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 2014 and 2015 these objectives were set with regard to EBITDA performance. These measures were applied to all members of the executive board and management committee of the group, as well as the majority of the group's employees.

In addition to the amounts disclosed above, pension contributions are made to individual directors' personal pension schemes. During 2015 contributions of \$10,172, \$4,120 and \$8,385 (2014: \$8,030, \$3,943 and \$9,033) were paid respectively to the pension schemes of B.K. Mence, A.L. Michuda and A. Karimjee.

Performance Graph

The following graph shows the company's share price performance on AIM since January 2012, in UK pence, compared with the performance of the FTSE AIM All Share index, which has been selected for this comparison as it is a broad-based index which the directors believe most closely reflects the performance of companies with similar characteristics as the group's. Historical share prices have been adjusted to reflect the net 20:1 share consolidation performed by the group during 2013.



Directors' Interests

The interests of the directors, who held office at the end of the year, in the share capital of the company (all beneficially held except those marked with an asterisk (*), which are held as trustee), were as follows:

At 31 December	Share Options		Ordinary Shares		8% Convertible Loan Stock	
	2015	2014	2015	2014	2015	2014
B.K. Mence	24,250	24,250	1,371,576	1,033,000	£640,000	£640,000
A.L. Michuda	199,880	199,880	30,000	30,000	£45,000	£45,000
A. Karimjee	57,500	57,500	30,000	17,500	£27,000	£27,000
S.A. Silcock	-	-	250,727	145,500	£200,000	£200,000
S.A. Silcock*	-	-	4,000	4,000	-	-
B.P.F. Al	1,250	1,250	100,000	61,500	£60,000	£60,000
D. Metzger	-	-	5,000	5,000	-	-

Of the 1,371,576 ordinary shares mentioned above, B.K. Mence beneficially owns 935,000 ordinary shares. His wife, Mrs. M.T. Mence, beneficially owns 500 ordinary shares. A further 436,076 ordinary shares are held by Inkberrow Limited, a company which is owned by B.K. Mence.

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

	<i>Date of Grant</i>	<i>Exercise Price</i>	<i>At 31 December 2014</i>	<i>Granted During Year</i>	<i>Expired During Year</i>	<i>At 31 December 2015</i>
B.K. Mence	29 September 2012	105p	6,125	-	-	6,125
B.K. Mence	5 December 2013	85p	18,125	-	-	18,125
A.L. Michuda	27 August 2010	150p	12,500	-	-	12,500
A.L. Michuda	29 September 2012	105p	138,380	-	-	138,380
A.L. Michuda	5 December 2013	85p	49,000	-	-	49,000
A. Karimjee	27 August 2010	150p	7,500	-	-	7,500
A. Karimjee	29 September 2012	105p	23,125	-	-	23,125
A. Karimjee	5 December 2013	85p	26,875	-	-	26,875
B.P.F. Al	29 September 2012	105p	1,250	-	-	1,250

None of the directors exercised any share options during the year. Vesting of all of the above share options which were outstanding at 31 December 2015 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 2015 was 61.5p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 39p to 90.5p. Save as disclosed above, no director (or member of his family) or connected persons has any interest, beneficial or non-beneficial, in the share capital of the company.

Approved by the board on 16 March 2016 and signed on its behalf by:

Arif Karimjee
Director

DIRECTORS' REPORT

The group's principal activities during the year continued to focus on the provision of software and services that improve the return on investment of product development, within the rapidly emerging product lifecycle management (PLM) market. A review of the development of the business during the year is given in the Chairman's Statement on page 6 and the subsequent Strategic and Financial Reports. These also include reference to the group's future prospects. In view of the fact that two-thirds of the group's revenues and staff are based in the USA, the group's financial statements are presented in US Dollars. The group's result for the year ended 31 December 2015 is a profit after tax of \$1,131,000 (2014: loss \$1,519,000). As for the prior year, the directors do not intend to declare a dividend.

Directors

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

Corporate Governance

The Sopheon board is committed to high standards of corporate governance and aims to follow appropriate governance practice, although as a company listed on AIM the company is not subject to the requirements of the UK Corporate Governance Code. The board currently comprises three executive directors and two independent non-executive directors. Their biographies appear at the back of this annual report, and demonstrate a range of experience and caliber to bring the right level of independent judgment to the board. As noted above, Bernard Al our third independent non-executive director sadly passed away during the year. The directors will consider our strategy for Bernard's replacement during the current year.

The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The board believes that the group has internal control systems in place appropriate to the size and nature of its business. The board is satisfied that the scale of the group's activities do not warrant the establishment of an internal audit function. The board is also responsible for identifying the major business risks faced by the group and for determining the appropriate course of action to manage those risks. Formal meetings are held quarterly to review strategy, management and performance of the group, with additional meetings between those dates convened as necessary. During 2015, all directors attended all quarterly meetings either in person or by conference call. The audit committee, which comprises all of the non-executive directors and is chaired by Stuart Silcock, considers and determines actions in respect of any control or financial reporting issues they have identified or that are raised by the auditors. The board has a formal schedule of matters specifically reserved to it for decision. Details of the constitution of the remuneration committee are provided in the Report on Directors' Remuneration on page 15.

Post Balance Sheet Events

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

Principal Risk Areas

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

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

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

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

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

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

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

Auditors

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

Financial Instruments

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

Substantial Shareholdings

The directors are aware of the following persons who as at 16 March 2016 were interested directly or indirectly in 3 percent or more of the company's issued ordinary shares:

<i>Name</i>	<i>No. of Ordinary Shares</i>	<i>% Issued Ordinary Shares</i>
B.K. Mence (director)	1,371,576	18.8
Rivomore Limited and Myrtledare Corp.	1,408,500	19.4
DevFactory FZ-LLC	380,000	5.2

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

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

Approved by the board on 16 March 2016 and signed on its behalf by:

A. Karimjee
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the requirements of the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website Publication

The directors are responsible for ensuring the annual report is made available on a website. Annual reports are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the annual reports contained therein.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOPHEON PLC

We have audited the financial statements of Sopheon plc for the year ended 31 December 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2015 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on Which We are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

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

16 March 2016

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 2015

	<i>Notes</i>	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>
Revenue	3	20,886	18,296
Cost of sales		(5,748)	(6,209)
		<hr/>	<hr/>
Gross profit		15,138	12,087
Sales and marketing expense		(6,481)	(6,173)
Research and development expense		(4,261)	(4,298)
Administrative expense		(2,850)	(2,718)
		<hr/>	<hr/>
Operating profit/(loss)		1,546	(1,102)
Finance income	8	4	12
Finance expense	9	(354)	(429)
		<hr/>	<hr/>
Profit/(loss) before tax		1,196	(1,519)
Income tax expense	10	(65)	-
		<hr/>	<hr/>
Profit/(loss) for the year	5	1,131	(1,519)
		<hr/>	<hr/>
Earnings/(loss) per share			
Basic (US cents)	12	15.54c	(20.87c)
		<hr/>	<hr/>
Fully diluted (US cents)	12	13.90c	(20.87c)
		<hr/>	<hr/>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>
Profit/(loss) for the year	1,131	(1,519)
Other comprehensive expense		
Exchange differences on translation of foreign operations	43	(197)
	<hr/>	<hr/>
Total comprehensive income/(expense) for the year	1,174	(1,716)
	<hr/>	<hr/>

CONSOLIDATED AND COMPANY BALANCE SHEETS AT
31 DECEMBER 2015

	Notes	Group		Company	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Assets					
<i>Non-current Assets</i>					
Property, plant and equipment	13	181	265	-	-
Intangible assets	14	5,579	5,889	-	-
Investments in subsidiaries	15	-	-	9,069	9,551
Other receivable	16	19	19	-	-
Total non-current assets		5,779	6,173	9,069	9,551
<i>Current Assets</i>					
Trade and other receivables	17	7,609	6,755	23	52
Cash and cash equivalents	18	7,046	4,735	1,627	789
Total current assets		14,655	11,490	1,650	841
Total assets		20,434	17,663	10,719	10,392
Liabilities					
<i>Current Liabilities</i>					
Trade and other payables	19	4,142	2,842	536	492
Borrowings	20	3,147	2,124	-	-
Deferred revenue		4,628	5,166	-	-
Total current liabilities		11,917	10,132	536	492
<i>Non-current Liabilities</i>					
Borrowings	20	2,986	3,288	2,963	3,120
Total non-current liabilities		2,986	3,288	2,963	3,120
Total liabilities		14,903	13,420	3,499	3,612
Net assets		5,531	4,243	7,220	6,780
Equity					
Share capital	23	2,354	2,354	2,354	2,354
Capital reserves	24	5,751	5,654	5,751	5,654
Translation reserve		(3)	(46)	-	-
Retained losses		(2,571)	(3,719)	(885)	(1,228)
Total equity		5,531	4,243	7,220	6,780

Approved by the board and authorized for issue on 16 March 2016.

Barry K. Mence
Director

Arif Karimjee
Director

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	Group		Company	
		2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Operating Activities					
Profit/(loss) for the year		1,131	(1,519)	760	488
<i>Adjustments for:</i>					
Finance income		(4)	(12)	-	-
Finance costs		354	429	250	330
Depreciation of property, plant and equipment		200	227	-	-
Amortization and impairment of intangible assets		2,368	2,076	-	-
Share-based payment expense		114	158	114	158
		4,163	1,359	1,124	976
Operating cash flows before movements in working capital		4,163	1,359	1,124	976
Intra-group credits and charges		-	-	(498)	(448)
Provisions against intra-group loans		-	-	(1,341)	(1,043)
(Increase)/decrease in receivables		(991)	2,003	29	(50)
Increase/(decrease) in payables		1,028	(314)	44	(137)
		4,200	3,048	(642)	(702)
Net cash generated from/(used in) operating activities		4,200	3,048	(642)	(702)
Investing Activities					
Finance income		4	12	-	-
Purchases of property, plant and equipment		(124)	(176)	-	-
Development costs capitalized		(2,058)	(2,367)	-	-
Advance of loans to group companies		-	-	(1,194)	(1,486)
Repayment of loans by group companies		-	-	2,961	2,974
		(2,178)	(2,531)	1,767	1,488
Net cash (used in)/generated from investing activities		(2,178)	(2,531)	1,767	1,488
Financing Activities					
(Repayment)/drawdown of loan notes		(167)	92	-	-
Increase in line of credit		1,021	729	-	-
Interest paid		(354)	(395)	(248)	(295)
		500	426	(248)	(295)
Net cash from financing activities		500	426	(248)	(295)
Net increase in cash and cash equivalents		2,522	943	877	491
Cash and cash equivalents at the beginning of the year		4,735	4,027	789	479
Effect of foreign exchange rate changes		(211)	(235)	(39)	(181)
		7,046	4,735	1,627	789
Cash and cash equivalents at the end of the year	18	7,046	4,735	1,627	789

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

Group

	<i>Share Capital \$'000</i>	<i>Capital Reserves \$'000</i>	<i>Translation Reserve \$'000</i>	<i>Retained Losses \$'000</i>	<i>Total \$'000</i>
At 1 January 2014	2,354	5,498	151	(2,202)	5,801
Loss for the year	-	-	-	(1,519)	(1,519)
Exchange differences on translation of foreign operations	-	-	(197)	-	(197)
Total comprehensive income for the year	-	-	(197)	(1,519)	(1,716)
Recognition of share-based payments	-	158	-	-	158
Lapsing or expiry of share options	-	(2)	-	2	-
At 1 January 2015	2,354	5,654	(46)	(3,719)	4,243
Profit for the year	-	-	-	1,131	1,131
Exchange differences on translation of foreign operations	-	-	43	-	43
Total comprehensive income for the year	-	-	43	1,131	1,174
Recognition of share-based payments	-	114	-	-	114
Lapsing or expiry of share options	-	(17)	-	17	-
At 31 December 2015	2,354	5,751	(3)	(2,571)	5,531

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

	<i>Share Capital \$'000</i>	<i>Capital Reserves \$'000</i>	<i>Retained Losses \$'000</i>	<i>Total \$'000</i>
At 1 January 2014	2,354	5,498	(1,156)	6,696
Loss and total comprehensive loss for the year	-	-	(74)	(74)
Recognition of share-based payments	-	158	-	158
Lapsing or expiry of share options	-	(2)	2	-
At 1 January 2015	2,354	5,654	(1,228)	6,780
Profit and total comprehensive income for the year	-	-	326	326
Recognition of share-based payments	-	114	-	114
Lapsing or expiry of share options	-	(17)	17	-
At 31 December 2015	2,354	5,751	(885)	7,220

1. GENERAL INFORMATION

Sopheon plc ("the company") is a public limited company incorporated in England and Wales. The address of its registered office and principal place of business is set out on page 14. The principal activities of the company and its subsidiaries are described in Note 3. The financial statements have been prepared in US Dollars and rounded to the nearest thousand.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board as adopted by the European Union and those parts of the Companies Act 2006 which apply to companies preparing their financial statements under IFRS. The principal accounting policies are set out below. The policies have been applied consistently to all the years presented.

A number of new standards, amendments and interpretations to existing standards have been adopted by the group, but have not been listed, since they have no material impact on the financial statements. The impact of IFRS 15 Revenues from Contracts with Customers, which will apply from reporting periods beginning on or after 1 January 2017, is still being assessed. None of the other new standards, amendments and interpretations in issue but not yet effective are expected to have a material effect on the financial statements.

The group's financial statements have been presented in US Dollars. The directors believe this better reflects the underlying nature of the business. Approximately three-quarters of the group's revenue and over two-thirds of the group's operating costs are denominated in US Dollars. The exchange rates used for translation of Sterling amounts are 1.4819 US Dollars to British Pounds Sterling as at 31 December 2015, and 1.5290 US Dollars to British Pounds Sterling as the average rate prevailing during 2015.

Going Concern

The financial statements have been prepared on a going concern basis. In reaching their assessment, the directors have considered a period extending at least 12 months from the date of approval of these financial statements. This assessment has included consideration of the forecast performance of the business for the foreseeable future, the cash and financing facilities available to the group, and the repayment terms in respect of the group's borrowings, including the potential of having to repay convertible loan stock in January 2017.

During 2015, the group achieved revenues of \$20.9m and a profit before tax of \$1.2m. This represents a dramatically improved performance compared to the previous year, which itself was an interruption to 5 years of growth. The directors believed the 2014 performance was a temporary pause in the development of the business and this view has been vindicated by the 2015 results. Coming into 2016, the group's sales pipeline remains active, and accordingly, the directors remain positive about the prospects for the business.

In 2014 the group established new bank facilities with the London branch of Silicon Valley Bank. These facilities comprise a term loan of \$0.5m repayable in 36 equal monthly instalments, and a \$3m revolving line of credit. These facilities have just been renewed and refinanced by Silicon Valley Bank for a three year period through January 2019, reflecting the growing maturity of the Sopheon business. Both facilities bear interest at rates of 2.75 percent over Wall Street Prime, resulting in a current effective rate of 6.25 percent. The facilities are subject to covenants based on working capital ratios. The drawdown mechanics and interest rates are also subject to working capital ratios.

In addition, the group has a £2,000,000 convertible loan outstanding to key investors including members of the board and management. The current terms of the loan call for repayment or conversion by 31 January 2017. The board has entered discussions with holders of the Loan Stock with a view to extending maturity for a further two years.

Notwithstanding the group's funding position, the time-to-close and the order value of individual sales continues to vary considerably as exemplified by 2014's results. When combined with the relatively low-volume and high-value nature of the group's business, these are factors which constrain the ability to accurately predict revenue performance. If sales fall short of expectations, there is a risk that the group may be obliged to seek additional funding.

The directors have concluded that the circumstances set forth above represent uncertainties. However they believe that taken as a whole, the factors described above enable the group to continue as a going concern for the foreseeable future. The financial statements do not include the adjustments that would be required if the company or group were unable to continue as a going concern.

Basis of Consideration

The consolidated financial statements incorporate the financial statements of the parent company Sopheon plc and the financial statements of the subsidiaries 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 of the date of acquisition.

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

Goodwill

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

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

Revenue Recognition

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

Sales of software licenses are recognized once no significant obligations remain owing to the customer in connection with such license sale. Such significant obligations could include giving a customer a right to return the software product without any preconditions, or if the group is unable to deliver a material element of the software product by the balance sheet date.

Revenues relating to software-as-a-service, maintenance, hosting and post-contract support agreements are deferred and recognized over the period of the agreements.

Revenues from implementation and consultancy services are recognized as the services are performed, or in the case of fixed price or milestone-based projects, on a percentage basis as the work is completed and any relevant milestones are met, using latest estimates to determine the expected duration and cost of the project.

Leases

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

Interest on Borrowings

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

Retirement Benefit Costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. The group does not operate any defined benefit retirement plans.

Foreign Currencies

The individual financial statements of each group entity are prepared in the currency of the primary economic environment in which the entity operates (its functional currency). In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at rates approximating to the transaction rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the income statement for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations are expressed in US Dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period. Exchange differences arising (including exchange differences on intra-group loans where there is no intention that these should be settled) are classified as equity and transferred to the group's translation reserve. The same approach is used to translate the financial statements of the company on a stand-alone basis from Sterling to US Dollars. The equity of the company and group is retranslated into the presentational currency at its historic rate.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized only to the extent that the level and timing of taxable profits can be measured and it is probable that these will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at tax rates that have been enacted or substantively enacted at the balance sheet date, and that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, Plant and Equipment

Computer equipment and fixtures and fittings are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognized in the income statement.

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

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

Investments

Investments in subsidiaries within the company balance sheet are stated at cost less impairment. Impairment tests are undertaken whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an investment exceeds its recoverable amount, the investment is written down accordingly.

Internally Generated Intangible Assets (Research and Development Expenditure)

Development expenditure on internally developed software products is capitalized if it can be demonstrated that:

- it is technically feasible to develop the product;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sales of the product will generate future economic benefits; and
- expenditure on the product can be measured reliably.

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

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

Impairment of Tangible and Intangible Assets (excluding Goodwill)

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the administrative expenses line item in the income statement.

Where an impairment loss subsequently reverses, the carrying value of the asset or cash-generating unit is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Share-based Payments

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured by the binomial option-pricing model. The expected life used in the model had been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

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

Significant Accounting Estimates and Judgments

Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Estimates and judgments adopted for property plant and equipment, externally acquired intangible assets and internally generated intangible assets are dealt with in the accounting policy notes set forth above that relate to these areas. Actual results may differ from these estimates, and accordingly they are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in

which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The impact of changes in estimates on carrying values of intangible assets is discussed in more detail in Note 14.

Financial Instruments

1. Financial Assets

The group's financial assets fall into the category of loans and receivables. The group does not have any financial assets in the categories of fair value through profit and loss or available for sale. The group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying values of the group's financial assets are a reasonable approximation of their fair values.

Loans and Receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services (e.g. trade receivables) but also include cash and cash equivalents and other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. The effect of discounting on these financial instruments is not considered material.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties, default or significant delay in payment on the part of the counter-party) that the group will be unable to collect all the amounts due under the terms of the receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognized within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. Financial Liabilities

The group classifies its financial liabilities in the category of financial liabilities at amortized cost.

Financial liabilities measured at amortized cost include:

- Trade payables and other short-dated monetary liabilities, which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.
- Bank and other borrowings (including the host debt element of the convertible loan noted above), which are initially recognized at fair value net of any transaction costs directly attributable to the acquisition of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that the interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.

Unless otherwise indicated, the carrying values of the group's financial liabilities measured at amortized cost represent a reasonable approximation of their fair values.

3. Convertible Loan Stock

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

4. Share Capital

Financial instruments issued by the group are treated as equity only to the extent that they do not meet the definition of a financial liability. The group's ordinary shares are classified as equity. For the purpose of the disclosures given in Note 23 the group considers its capital to comprise its ordinary share capital, special reserve and equity reserve less its accumulated retained loss.

3. SEGMENTAL ANALYSIS

All of the group's revenue in respect of the years ended 31 December 2015 and 2014 was derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Strategic and Financial Reports. For management purposes, the group is organized geographically across two principal operating segments. The first segment is North America, and the second Europe. Information relating to these two segments is given below.

The information in the following table relating to external revenues includes analysis both by location of customer and by location of operations. The information relating to other items provides analysis by location of operations only. Inter-segment revenues are priced on an arm's length basis.

<i>Year ended 31 December 2015</i>	<i>North America \$'000</i>	<i>Europe \$'000</i>	<i>Total \$'000</i>
<i>Income Statement</i>			
External revenues – by location of operations	15,676	5,210	20,886
Operating profit/(loss) before interest and tax	2,804	(1,258)	1,546
Profit/(loss) before tax	2,703	(1,507)	1,196
Finance income	-	4	4
Finance expense	(101)	(253)	(354)
Depreciation and amortization	(2,524)	(44)	(2,568)
EBITDA	5,328	(1,214)	4,114
<i>Balance Sheet</i>			
Fixed asset additions	114	10	124
Capitalization of internally generated development costs	2,058	-	2,058
Total assets	16,540	3,894	20,434
Total liabilities	9,198	5,705	14,903
<i>Year ended 31 December 2014</i>			
	<i>North America \$'000</i>	<i>Europe \$'000</i>	<i>Total \$'000</i>
<i>Income Statement</i>			
External revenues – by location of operations	12,544	5,752	18,296
Operating profit/(loss) before interest and tax	424	1,526	(1,102)
Profit/(loss) before tax	329	(1,848)	(1,519)
Finance income	-	12	12
Finance expense	(95)	(334)	(429)
Depreciation and amortization	(2,239)	(64)	(2,303)
EBITDA	2,663	(1,462)	1,201
<i>Balance Sheet</i>			
Fixed asset additions	132	44	176
Capitalization of internally generated development costs	2,367	-	2,367
Total assets	13,766	3,897	17,663
Total liabilities	(8,088)	(5,332)	(13,420)

One customer accounted for approximately 11 percent of the group's revenues in 2015. A different customer accounted for approximately 10 percent or more of the group's revenues in 2014. In both years the customer was within the North America segment based on location of operations.

External revenues in 2015 exclude inter-segmental revenues which amounted to \$1,633,000 (2014: \$1,696,000) for North America and \$627,000 (2014: \$370,000) for Europe.

Revenues attributable to customers in North America in 2015 amounted to \$14,407,000 (2014: \$11,433,000). Revenue attributable to customers in the rest of the world amounted to \$6,478,000 (2014: \$6,863,000) of which \$5,219,000 (2014: \$5,775,000) was attributable to customers in Europe.

4. EBITDA

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

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Profit/(loss) for the year before tax	1,196	(1,519)
Interest payable	354	429
Interest receivable	(4)	(12)
Amortization of intangible assets	2,368	2,076
Depreciation of property, plant and equipment	200	227
	<u>4,114</u>	<u>1,201</u>
EBITDA	<u><u>4,114</u></u>	<u><u>1,201</u></u>

5. PROFIT FOR THE YEAR

The profit for the year has been arrived at after charging:

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Net foreign exchange losses	22	42
Research and development costs (excluding amortization)	1,893	2,367
Amortization of intangible assets	2,368	2,076
Depreciation of property, plant and equipment	200	227
Operating lease rentals – land and buildings	555	587
Operating lease rentals – other	106	120
	<u>106</u>	<u>120</u>

Net foreign exchange gains or losses arise on the translation of cash and trade balances held in currencies other than the functional currency of the entity concerned and are accordingly included in administration expense.

6. AUDITORS' REMUNERATION

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

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Audit of the financial statements of the group	80	84
Audit of the financial statements of the UK subsidiary	6	7
Review of interim financial information	15	16
Tax compliance services	15	15
	<u>15</u>	<u>15</u>

7. STAFF COSTS

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Wages and salaries	11,847	11,390
Social security costs	919	1,019
Pension contributions	239	234
Other employee benefits	989	951
	<u>13,994</u>	<u>13,594</u>

Included within the above are staff costs capitalized as development expenditure amounting to \$2,058,000 (2014: \$2,367,000). Included within wages and salaries are bonus and sales commission costs amounting to \$1,878,000 (2014: \$945,000).

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

	<i>2015</i>	<i>2014</i>
	<i>Number</i>	<i>Number</i>
Development and operations	67	79
Sales and management	38	35
	<u>105</u>	<u>114</u>

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

The remuneration of all directors was as follows:

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Fees and emoluments	1,106	836
Pension contributions	22	21
	<u>1,128</u>	<u>857</u>

No director exercised share options during the year (2014: None). Pension contributions are to personal defined contribution schemes and have been made for three directors (2014: three) who served during the year.

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

8. FINANCE INCOME

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Income on financial assets measured at amortized cost		
Interest income on bank deposits	4	12
	<u>4</u>	<u>12</u>

9. FINANCE EXPENSE

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(354)	(429)
	<u>(354)</u>	<u>(429)</u>

10. INCOME TAX EXPENSE

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Income tax expense for the year – current tax	(65)	-
	<u> </u>	<u> </u>
The charge for the year can be reconciled to the accounting profit/(loss) as follows:		
	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Profit/(loss) before tax	1,196	(1,519)
	<u> </u>	<u> </u>
Tax (charge)/credit at the UK corporation tax rate of 20.25% (2014: 21.5%)	(242)	327
Adjustment for differing rates of corporate taxation in overseas jurisdictions	(239)	143
Tax effect of expenses that are not deductible in determining taxable losses	(64)	(91)
Temporary differences arising from the capitalization and transfer of development investments	142	280
Losses for the year not relievable against current tax	-	(659)
Utilization of prior year losses	338	-
	<u> </u>	<u> </u>
Income tax expense for the year	(65)	-
	<u> </u>	<u> </u>

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

There is no tax arising on other comprehensive income.

The group has an unrecognized deferred tax asset arising from its unrelieved trading losses, which has not been recognized owing to uncertainty as to the level and timing of taxable profits in the future. The unrecognized deferred tax asset is made up as follows:

	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>
Shortfall of tax depreciation compared to book depreciation	176	194
Effect of timing differences arising from capitalization of internally generated development costs	(1,599)	(1,704)
Unrelieved trading losses	20,734	21,307
	<u> </u>	<u> </u>
Unrecognized deferred tax asset	19,311	19,797
	<u> </u>	<u> </u>

At 31 December 2015, tax losses estimated at \$70m (2014: \$73m) were available to carry forward by the Sopheon group, arising from historic losses incurred. These losses represent a potential deferred tax asset of \$20.7m (2014: \$21.3m), based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of \$11.7m, representing \$4.1m of the potential deferred tax asset (2014: \$11.7m and \$4.1m respectively) represents pre-acquisition tax losses of Sopheon Corporation (Minnesota) and Alignent Software, Inc. The future utilization of these losses may be restricted under Section 382 of the US Internal Revenue Code, whereby the ability to utilize net operating losses arising prior to a change of ownership is limited to a percentage of the entity value of the corporation at the date of change of ownership.

11. PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

The profit dealt with in the financial statements of the parent company for the year ended 31 December 2015 was \$760,000 (2014: profit of \$488,000). Advantage has been taken of Section 408 of the Companies Act 2006 not to present an income statement for the parent company.

12. EARNINGS/(LOSS) PER SHARE

	2015 \$'000	2014 \$'000
Basic earnings/(loss) per share		
Profit/(loss) after tax	1,131	(1,519)
	<u>1,131</u>	<u>(1,519)</u>
	'000s	'000s
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,279	7,279
	<u>7,279</u>	<u>7,279</u>
	\$'000	\$'000
Diluted earnings/(loss) per share		
Profit/(loss) after tax	1,131	(1,519)
Reduction in interest expense in respect of convertible loan stock	245	-
	<u>1,376</u>	<u>(1,519)</u>
Diluted profit/(loss) after tax	1,376	(1,519)
	<u>1,376</u>	<u>(1,519)</u>
	'000s	'000s
Weighted average number of ordinary shares for the purpose of basic earnings per share	9,897	7,279
	<u>9,897</u>	<u>7,279</u>

For the purpose of calculating the diluted earnings per ordinary share, the profit attributable to ordinary shareholders is adjusted on the assumption that the group's convertible loan stock (details of which are set out in Note 20) was converted at 1st January 2015, and that options to subscribe for Sopheon shares at prices below the average share price prevailing during the year were exercised at that date (or, if later, on the date of grant).

Diluted earnings per share are calculated in respect of the convertible loan stock, by adjusting earnings for the amount of interest which would cease to be payable following conversion and by adjusting the number of shares in issue by the number of shares which would fall to be issued on conversion.

In respect of outstanding 622,170 share options and 25,138 warrants to subscribe for Sopheon shares (details of which are set out in Notes 23 and 27), the treasury stock method is used, assuming that the proceeds from exercise of options at strike prices below the average market price for Sopheon shares during the year are reinvested in treasury shares at the average price prevailing during the year.

In 2014 the profit attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share were the same as those used for calculating the basic earnings per ordinary share. This was (i) because the exercise of conversion rights attaching to the convertible loan stock would have had the effect of reducing the loss per share and were therefore not dilutive; and (ii) because the warrants to subscribe for 25,138 ordinary shares and the 635,940 share options and 25,238 warrants to subscribe for ordinary shares, had strike prices above the average market price for Sopheon shares during the year.

13. PROPERTY, PLANT AND EQUIPMENT

<i>Group</i>	<i>Computer Equipment \$'000</i>	<i>Furniture & Fittings \$'000</i>	<i>Total \$'000</i>
Cost			
At 1 January 2014	1,628	368	1,996
Additions	168	8	176
Exchange differences	(20)	(10)	(30)
	<hr/>	<hr/>	<hr/>
At 1 January 2015	1,776	366	2,142
Additions	121	3	124
Exchange differences	(17)	(9)	(26)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	1,880	360	2,240
	<hr/>	<hr/>	<hr/>
Accumulated Depreciation			
At 1 January 2014	1,384	286	1,670
Depreciation charge for the year	195	32	227
Exchange differences	(15)	(5)	(20)
	<hr/>	<hr/>	<hr/>
At 1 January 2015	1,564	313	1,877
Depreciation charge for the year	171	29	200
Exchange differences	(13)	(5)	(18)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	1,722	337	2,059
	<hr/>	<hr/>	<hr/>
Carrying Amount			
At 31 December 2015	158	23	181
	<hr/>	<hr/>	<hr/>
At 31 December 2014	212	53	265
	<hr/>	<hr/>	<hr/>

Company

The company has no property, plant and equipment.

14. INTANGIBLE ASSETS

	<i>Development Costs (Internally Generated) \$'000</i>	<i>Goodwill \$'000</i>	<i>Total \$'000</i>
Cost			
At 1 January 2014	15,288	1,022	16,310
Additions (internally generated)	2,367	-	2,367
At 1 January 2015	17,655	1,022	18,677
Additions (internally generated)	2,058	-	2,058
At 31 December 2015	19,713	1,022	20,735
Amortization			
At 1 January 2014	10,712	-	10,712
Charge for the year	2,076	-	2,076
At 1 January 2015	12,788	-	12,788
Charge for the year	2,368	-	2,368
At 31 December 2015	15,156	-	15,156
Carrying Amount			
At 31 December 2015	4,557	1,022	5,579
At 31 December 2014	4,867	1,022	5,889

The amortization period for the internally generated development costs relating to the group's software products is four years. Goodwill is not amortized. The residual goodwill arising on the acquisition of Alignment is attributable to the enhanced market position of each of the group's operating segments, due to the completeness of the solution that Sopheon can offer the market. The recoverable amount of the goodwill can be underpinned on a value in use basis by the expected performance of the group's operating segments, each of which is treated as a cash generating unit. Goodwill primarily relates to the North American operating segment.

The valuation used for this purpose is based on cash flow projections for the next five years, and thereafter for an indefinite period at a growth assumption of 3 percent. The discount rate used was 14.6 percent. Sensitivity analysis performed on these projections demonstrates significant valuation headroom above the carrying value of goodwill. The same discount and growth rates were used for the valuation conducted in respect of 2014.

Company

The company has no intangible assets.

15. INVESTMENT IN SUBSIDIARIES

	<i>Company \$'000</i>
At cost less amounts provided	
At 31 December 2014	9,551
Exchange difference	(482)
	<hr/>
At 31 December 2015	9,069
	<hr/> <hr/>

Details of the company's subsidiaries at 31 December 2015 are set out below. Companies marked with an asterisk (*) are held via Sopheon UK Ltd and those with an obelus (†) are held via Orbital Software Holdings plc. The common stock of Aligned 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.

<i>Name of Company Place of Incorporation</i>	<i>Nature of Ownership</i>	<i>Proportion of Voting Rights Held</i>	<i>Nature of Business</i>
Sopheon Corporation Minnesota, USA	Common Stock	100%	Software sales and services
Sopheon Corporation Delaware, USA	Common Stock	100%	Software development and sales
Aligned Software, Inc. California, USA	Common Stock	100%	Software sales and services
Sopheon NV The Netherlands	Ordinary Shares	100%	Software sales and services
Sopheon UK Ltd United Kingdom	Ordinary Shares	100%	Software sales and services
Sopheon GmbH Germany	Ordinary Shares	100%	Software sales and services
Orbital Software Holdings plc United Kingdom	Ordinary Shares	100%	Holding company
Orbital Software Inc.† Delaware, USA	Common Stock	100%	Dormant
Sopheon Edinburgh Ltd† United Kingdom	Ordinary Shares	100%	Dormant
Orbital Software Europe Ltd† United Kingdom	Ordinary Shares	100%	Dormant
Network Managers (UK) Ltd* United Kingdom	Ordinary Shares	100%	Dormant
AppliedNet Ltd* United Kingdom	Ordinary Shares	100%	Dormant
Future Tense Ltd* United Kingdom	Ordinary Shares	100%	Dormant
Polydoc Ltd United Kingdom	Ordinary Shares	100%	Dormant
Applied Network Technology Ltd* United Kingdom	Ordinary Shares	100%	Employee Share Ownership Trust

16. OTHER RECEIVABLE

	<i>Group</i>		<i>Company</i>	
	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>
Other receivable	19	19	-	-

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

17. TRADE AND OTHER RECEIVABLES

	<i>Group</i>		<i>Company</i>	
	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>
Trade receivables	6,656	6,072	-	-
Other receivables	26	9	15	-
Total receivables	6,682	6,081	15	-
Prepayments	500	545	8	52
Accrued income	427	129	-	-
	7,609	6,755	23	52

Trade and other receivables are stated net of allowances totaling \$Nil (2014: \$Nil) for estimated irrecoverable amounts. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

A full provision has been made against amounts totaling \$58,285,000 (2014: \$62,870,000) owed to the company by subsidiary undertakings, which are due after more than one year and are subordinated to the claims of all other creditors.

18. CASH AND CASH EQUIVALENTS

	<i>Group</i>		<i>Company</i>	
	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>	<i>2015</i> <i>\$'000</i>	<i>2014</i> <i>\$'000</i>
Cash at bank	6,660	3,944	1,627	789
Short-term bank deposits	386	791	-	-
	7,046	4,735	1,627	789

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 \$36,000 (2014: \$38,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	<i>Group</i>		<i>Company</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Trade payables	853	833	29	74
Other payables	254	246	156	160
Tax and social security costs	300	336	-	-
Accruals	2,735	1,427	351	258
	<u>4,142</u>	<u>2,842</u>	<u>536</u>	<u>492</u>

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

	<i>Group</i>		<i>Company</i>	
	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<i>Current Loans and Borrowings</i>				
Line of credit	3,000	1,979	-	-
Loan notes (current portion)	147	145	-	-
Total current loans and borrowings	<u>3,147</u>	<u>2,124</u>	<u>-</u>	<u>-</u>
<i>Non-current Loans and Borrowings</i>				
Loan notes (non-current portion)	23	168	-	-
8% convertible loan stock 2017	2,963	3,120	2,963	3,120
Total non-current loans and borrowings	<u>2,986</u>	<u>3,288</u>	<u>2,963</u>	<u>3,120</u>
Total loans and borrowings	<u>6,133</u>	<u>5,412</u>	<u>2,963</u>	<u>3,120</u>

a) Line of Credit and Loan Notes

In February 2014 the group established new credit facilities with Silicon Valley Bank, which have just been renewed and extended. The facilities comprise a \$3m revolving line of credit and a term loan of \$0.5m repayable in equal installments until maturity at the end of January 2019. Both facilities bear interest at rates of 2.75 percent above the Bank's Prime Rate, resulting in a current effective rate of 6.25 percent. The facilities are subject to covenants based on operating results, and in addition the drawdown mechanics and interest rates are subject to certain working capital ratios.

The directors consider that the carrying amounts for loan notes, and the line of credit, represent a reasonable approximation of the financial instruments' fair values.

b) 8 Percent Convertible Loan Stock 2017

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

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

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

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

21. OPERATING LEASE ARRANGEMENTS

At the balance sheet date the group had outstanding commitments under operating leases in respect of which the total future minimum lease payments were due as follows:

	<i>Land & Buildings</i>	<i>Other</i>	<i>Land & Buildings</i>	<i>Other</i>
	<i>2015</i>	<i>2015</i>	<i>2014</i>	<i>2014</i>
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Due within one year	508	90	583	113
Due after one year and within five years	471	133	1,116	159
	<u>979</u>	<u>223</u>	<u>1,699</u>	<u>272</u>

The group leases its office accommodation in the US, UK and the Netherlands and has operating leases for office equipment and vehicles.

Company

The company has no operating leases.

22. FINANCIAL INSTRUMENTS

Categories of Financial Assets and Liabilities

The following table sets out the categories of financial instruments held by the group. All of the group's financial assets are in the category of loans and receivables, and all of its financial liabilities are in the category of financial liabilities measured at amortized cost.

1. Financial Assets

		<i>Group</i>		<i>Company</i>	
	<i>Notes</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<i>Current Financial Assets</i>					
Trade receivables	17	6,656	6,072	-	-
Other receivables	17	26	9	23	52
Accrued income	17	427	129	-	-
Cash and cash equivalents	18	7,046	4,735	1,627	789
		<u>14,155</u>	<u>10,945</u>	<u>1,650</u>	<u>841</u>
<i>Non-current Financial Assets</i>					
Other receivable	16	19	19	-	-

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

2. Financial Liabilities

		<i>Group</i>		<i>Company</i>	
	<i>Notes</i>	<i>2015</i>	<i>2014</i>	<i>2015</i>	<i>2014</i>
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<i>Current Financial Liabilities</i>					
Trade payables	19	853	833	29	74
Other payables	19	254	246	156	160
Accruals	19	2,735	1,427	351	258
Loans and borrowings	20	3,147	2,124	-	-
		<u>6,989</u>	<u>4,630</u>	<u>536</u>	<u>492</u>
<i>Non-current Financial Liabilities</i>					
Loans and borrowings	20	23	168	-	-
8% convertible loan stock 2015	20	2,963	3,120	2,963	3,120
		<u>2,986</u>	<u>3,288</u>	<u>2,963</u>	<u>3,120</u>
		<u>9,975</u>	<u>7,918</u>	<u>3,499</u>	<u>3,612</u>

Financial Instrument Risk Exposure and Management

The group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods, unless otherwise disclosed in this note.

Principal Financial Instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- Trade and other receivables
- Cash and cash equivalents
- Trade and other payables
- Loan notes
- Bank line of credit
- Convertible loan stock

General Objectives, Policies and Processes

The board has overall responsibility for the determination of the group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The board receives quarterly reports from the group finance director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The group's risk management procedures are also reviewed periodically by the audit committee.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

a) Credit Risk

Credit risk arises principally from the group's trade receivables, other receivables and accrued income. It is the risk that the counterparty fails to discharge its obligations in respect of the instrument.

The group's software is principally marketed at major international corporations of good credit standing, and the group's historical bad debt experience is very low. Due to the potentially large size of certain individual sales, in a particular year one customer can account for a substantial proportion of revenues recorded. However, such concentrations rarely persist for multiple years and therefore the directors do not believe that the group is systematically exposed to credit risk concentration in respect of particular customers. In 2015, the largest single customer accounted for 11 percent of group revenues (2014: 10 percent of group revenues in respect of a different customer).

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

The group's customers are major international corporations of high credit standing and therefore the group does not typically obtain credit ratings for individual customers. Nevertheless, current economic conditions have resulted in such major corporations slowing down payments and this is reflected in the ageing profile of the group's receivables. However, impairment of trade receivables is very rare, and in the two years ending 31 December 2015 provisions or write offs against customer receivables amounted in total to less than 0.5 percent of revenues. Such impairments do not arise from credit defaults, but principally from disagreements with a very small number of former customers over their responsibility for renewal fees for maintenance or hosting contracts. Sopheon's policy is to pursue collection of such fees where invoiced, and to make provision against the applicable receivable if collection is uncertain.

The following is an analysis of the group's trade receivables identifying the totals of trade receivables which are current and those which are past due but not impaired:

	<i>Total</i> \$'000	<i>Current</i> \$'000	<i>Past Due</i> <i>+30 Days</i> \$'000	<i>Past Due</i> <i>+60 Days</i> \$'000
At 31 December 2015	6,656	3,871	1,765	1,020
At 31 December 2014	6,072	5,030	642	400

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:

	<i>2015</i>			<i>2014</i>		
	<i>\$'000</i> <i>Gross</i> <i>Value</i>	<i>\$'000</i> <i>Provision</i>	<i>\$'000</i> <i>Carrying</i> <i>Value</i>	<i>\$'000</i> <i>Gross</i> <i>Value</i>	<i>\$'000</i> <i>Provision</i>	<i>\$'000</i> <i>Carrying</i> <i>Value</i>
Trade receivables						
North America	5,551	-	5,551	4,792	-	4,792
Europe	1,105	-	1,105	1,280	-	1,280
	6,656	-	6,656	6,072	-	6,072

The group records impairment losses on its trade receivables separately from the gross amounts receivable. No impairment losses were recorded during 2015 or 2014. The main factors used in assessing the impairment of the group's trade receivables are the age of the balances and the circumstances of the individual customer.

The company provides in full for amounts due from subsidiaries. The company is exposed to credit risk in respect of its cash and cash equivalents, which are held in the form of current and deposit accounts with leading UK, US and European banking institutions.

b) *Liquidity Risk*

Liquidity risk arises from the group's management of working capital, and more particularly its ability to be consistently cash generative after finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulties in meeting its financial obligations as they fall due.

The group's policy is to maintain significant cash balances, short-term bank deposits and facilities with a view to having sufficient cash to meet its liabilities when they become due. The board annually approves budgets including cash flow projections for each of the operating companies within the group and receives regular information as to cash balances held and progress against budget. Attention is particularly drawn to the detailed discussion of the factors which enable the group to continue as a going concern for the foreseeable future in the section headed "Going Concern" in Note 2 to the financial statements.

The following table sets out an analysis of the contractual maturity of the group's and the company's financial liabilities that must be settled gross, based on exchange rates prevailing at the relevant balance sheet date.

Group

<i>At 31 December 2015</i>	<i>On Demand or Within Six Months \$'000</i>	<i>Within One Year \$'000</i>	<i>Within Two Years \$'000</i>	<i>Within Five Years \$'000</i>	<i>Total \$'000</i>
Trade and other payables	4,142	-	-	-	4,142
Line of credit	3,000	-	-	-	3,000
Loan notes	83	83	28	-	194
Future interest – loan notes	5	2	-	-	7
Convertible loan stock	-	-	2,963	-	2,963
Future interest – convertible loan stock	119	119	20	-	258
Total financial liabilities	7,349	204	3,011	-	10,564

<i>At 31 December 2014</i>	<i>On Demand or Within Six Months \$'000</i>	<i>Within One Year \$'000</i>	<i>Within Two Years \$'000</i>	<i>Within Five Years \$'000</i>	<i>Total \$'000</i>
Trade and other payables	2,842	-	-	-	2,842
Line of credit	1,979	-	-	-	1,979
Loan notes	83	83	167	28	361
Future interest – loan notes	10	7	7	-	24
Convertible loan stock	-	-	3,120	-	3,120
Future interest – convertible loan stock	125	125	250	21	521
Total financial liabilities	5,039	215	3,544	49	8,847

Company

<i>At 31 December 2015</i>	<i>On Demand or Within Six Months \$'000</i>	<i>Within One Year \$'000</i>	<i>Within Two Years \$'000</i>	<i>Within Five Years \$'000</i>	<i>Total \$'000</i>
Trade and other payables	536	-	-	-	536
Convertible loan stock	-	-	2,963	-	2,963
Future interest – convertible loan stock	119	119	20	-	258
Total financial liabilities	655	119	2,983	-	3,757

<i>At 31 December 2014</i>	<i>On Demand or Within Six Months \$'000</i>	<i>Within One Year \$'000</i>	<i>Within Two Years \$'000</i>	<i>Within Five Years \$'000</i>	<i>Total \$'000</i>
Trade and other payables	492	-	-	-	492
Convertible loan stock	-	-	3,120	-	3,120
Future interest – convertible loan stock	125	125	250	21	521
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	617	125	3,370	21	4,133
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

c) Market Risk

Market risk arises from the group's use of interest-bearing and foreign currency financial instruments. It is the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk). The group does not have any financial instruments that are publicly traded securities and is not exposed to other price risk associated with changes in the market prices of such securities.

d) Interest Rate Risk

The group's fixed rate interest bearing liabilities consisted of the convertible loan stock with a nominal value of £2,000,000, which bears a fixed interest rate of 8 percent, and the US Dollar fixed interest term loan notes amounting to \$194,000 at 31 December 2015. These liabilities do not give rise to interest rate risk. The group also has a revolving US Dollar line of credit, on which \$3,000,000 in aggregate was outstanding at 31 December 2015, and which bore interest at a margin of 2.75 percent above the Bank's Prime Rate, currently representing an effective rate of 6.25 percent. Should this rate have increased by 1 percent the annualized effect would have been to increase finance costs by \$30,000.

The group invests its surplus cash in bank deposits denominated in US Dollars, Euros or Sterling, which bear interest based on short-term money market rates, and in doing so exposes itself to fluctuations in money market interest rates. The group's surplus cash held in the form of bank deposits at 31 December 2015 was \$386,000. During 2015 interest rates on money market deposits averaged at or below to 0.5 percent in respect of US Dollar, Euro and Sterling deposits. The annualized effect of an increase of 0.5 percent in the average interest rate received on the group's bank deposits at the balance sheet date would result in an increase in the group's and the company's interest income of \$2,000.

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 which are the functional currencies of its operating entities, which are the US Dollar, the Euro and Sterling.

The group is exposed to currency risk in respect of foreign currency denominated bank deposits and bank loans. Taking into account the fact that a large proportion of the group's income and expenditure arise in US Dollars and, to a lesser extent, in Euros, the group's policy is not to seek to hedge such currency risk.

Foreign currency risk also arises where individual group entities enter into transactions denominated in currencies other than their functional currency, with fluctuations in exchange rates giving rise to gains or losses in the income statement. Where the foreign currency risk to the group is significant, consideration is given to hedging the risk through the forward currency market and, while this would be an economic hedge of the cash-flow risk, the group does not employ hedge accounting.

The following table shows the effects, all other things being equal, of changes to exchange rates on the group's profit after tax and on the exchange differences on retranslation of the assets and liabilities of foreign operations which is recognized directly in equity. It illustrates the effects if the exchange rates for Sterling and the Euro against the US Dollar had been higher or lower than those which actually applied during the year and at the year end.

	2015	2014	2015	2014
	Increase/ (Decrease) in Profit After Tax \$'000	Increase/ (Decrease) in Profit After Tax \$'000	Effect on Exchange Differences on Translation of Assets and Liabilities of Foreign Operations \$'000	
Strengthening of Sterling in US Dollar terms by 10c	17	(58)	(118)	(115)
Weakening of Sterling in US Dollar terms by 10c	(16)	55	117	122
Strengthening of Euro in US Dollar terms by 10c	(80)	31	43	77
Weakening of Euro in US Dollar terms by 10c	81	(35)	(44)	(63)

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.

	2015	2014
	Increase/(Decrease) in Profit After Tax \$'000	Increase/(Decrease) in Profit After Tax \$'000
Strengthening of Sterling in US Dollar terms by 10c	(198)	(187)
Weakening of Sterling in US Dollar terms by 10c	199	190
Strengthening of Euro in US Dollar terms by 10c	145	48
Weakening of Euro in US Dollar terms by 10c	(144)	(48)

f) Capital

The group considers its capital to comprise its share capital and its special reserve and equity reserve less the accumulated retained losses. The group is not subject to any externally imposed capital requirements. In managing its capital, the group's primary objective is to support the development of the group's activities through to the point where they are cash generative on a sustained basis.

The group's share capital is all equity capital and is summarized in Note 23.

23. SHARE CAPITAL

Issued and Fully Paid	2015 Number	2015 \$'000	2014 Number	2014 \$'000
Ordinary shares of 20 pence each	7,279,000	2,354	7,279,000	2,354

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.

At 31 December 2015 the company had outstanding 25,138 warrants to subscribe for ordinary shares of 20p each at a price of 400p per share, which were issued in June 2007 to BlueCrest Capital Finance LLC in connection with the financing of the acquisition of Aligent Software, Inc. The warrants have a 10 year life.

24. CAPITAL RESERVES

Group

	<i>Equity Reserve \$'000</i>	<i>Special Reserve \$'000</i>	<i>Total \$'000</i>
At 1 January 2014	425	5,073	5,498
Recognition of share-based payments	158	-	158
Lapsing or expiry of share options	(2)	-	(2)
	<hr/>	<hr/>	<hr/>
At 1 January 2015	581	5,073	5,654
Recognition of share-based payments	114	-	114
Lapsing or expiry of share options	(17)	-	(17)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	<u>678</u>	<u>5,073</u>	<u>5,751</u>

Company

	<i>Equity Reserve \$'000</i>	<i>Special Reserve \$'000</i>	<i>Total \$'000</i>
At 1 January 2014	425	5,073	5,498
Recognition of share-based payments	158	-	158
Lapsing or expiry of share options	(2)	-	(2)
	<hr/>	<hr/>	<hr/>
At 1 January 2015	581	5,073	5,654
Recognition of share-based payments	114	-	114
Lapsing or expiry of share options	(17)	-	(17)
	<hr/>	<hr/>	<hr/>
At 31 December 2015	<u>678</u>	<u>5,073</u>	<u>5,751</u>

The equity reserve comprises the fair value of share-based payments to employees pursuant to the group's share option schemes, the fair value of warrants to subscribe for Sopheon shares issued to BlueCrest Capital Finance LLC, and the equity component of the group's 8 percent convertible loan stock 2017.

In addition, investment by the group's employee share ownership trust (the "Esot") in the company's shares is deducted from equity in the consolidated balance sheet as if they were treasury shares, by way of deduction from the equity reserve. At 31 December 2015 and at 31 December 2014, the Esot held 7,000 ordinary shares of 20p each in the company, which represents 0.1 percent of the company's ordinary share capital. The equity reserve includes a deduction of \$17,000 (2014: \$17,000) which represents the cost of the shares held by the Esot at 31 December 2015.

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 2015 and at 31 December 2014, 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. 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 \$239,000 (2013: \$234,000) represents contributions paid to such plans at rates specified in the rules of the plans.

26. RELATED PARTY TRANSACTIONS

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

Compensation of Key Management Personnel

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

	2015 \$'000	2014 \$'000
Emoluments and benefits	2,616	1,898
Pension contributions	52	47
Share-based payments	87	119
	<u>2,755</u>	<u>2,064</u>

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:

	2015 \$'000	2014 \$'000
Net amounts borrowed/(repaid) by subsidiaries by way of interest-free loans	(1,767)	(1,025)
Net management charges to subsidiaries	498	448
	<u> </u>	<u> </u>

The amounts owed by subsidiary companies to the parent company at 31 December 2015 totaled \$58,285,000 (2014: \$62,870,000). A full provision has been made against these amounts, which are unsecured and are subordinated to the claims of all other creditors.

During 2015 and 2014 the company granted share options to employees of subsidiary companies. Details of grants of share options are disclosed in Note 27.

Other Related Party Transactions

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

27. SHARE-BASED PAYMENTS

Equity-settled Share Option Schemes

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

Vesting

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

Details of the share options outstanding during 2014 and 2015 are as follows:

	<i>Number of Share Options</i>	<i>Weighted Average Exercise Price £</i>
Outstanding at 1 January 2014	610,940	1.04
Options granted in 2014	38,500	0.55
Options lapsed in 2014	(13,500)	0.96
	<hr/>	<hr/>
Outstanding at 31 December 2014	635,940	1.01
Options granted in 2015	26,250	0.48
Options lapsed in 2015	(40,020)	1.00
	<hr/>	<hr/>
Outstanding at 31 December 2015	622,170	0.99
	<hr/>	<hr/>
Exercisable at 31 December 2015	490,210	1.06
	<hr/>	<hr/>
Exercisable at 31 December 2014	335,492	1.12
	<hr/>	<hr/>

No share options were exercised during the year (2014: Nil). The options outstanding at the end of the year have a weighted average contractual life of 7.1 years (2014: 8.1 years).

During the year share options were granted on 10 April 2015, when the exercise price of options granted was 47.5p and the estimated fair value was 28.1p. During the preceding year share options were granted on 19 September 2014, when the exercise price of options granted was 55p and the estimated fair value was 32.6p.

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

<i>Date of Grant</i>	<i>March 2015</i>	<i>September 2014</i>
Share price at time of grant	47.5p	55p
Exercise price	47.5p	55p
Expected volatility	40%	40%
Risk-free rate	5%	5%
Expected dividend yield	Nil	Nil

The expected contractual life of the options used was ten years. Expected volatility was determined by reference to the historic volatility of the company's share price in the period before the date of grant.

DIRECTORS



Barry Mence, Chairman. Barry Mence has served as executive chairman and as a director and substantial shareholder of Sopheon since its inception in 1993 when he was one of the founding members. From 1976 to 1990, Barry was the major shareholder and group managing director of the Rendeck Group of Companies, a software and services group based in the Netherlands.



Andrew Michuda, Chief Executive Officer. Andrew (Andy) Michuda was appointed chief executive officer of Sopheon in 2000. From 1997 to 2000, he served as chief executive officer and an executive director of Teltech Resource Network Corporation, which was acquired by Sopheon. Prior to joining Sopheon, Andy held senior leadership positions at Control Data.



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



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



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



Your Partner for Innovation Performance™