Sopheon

2016 Annual Report

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

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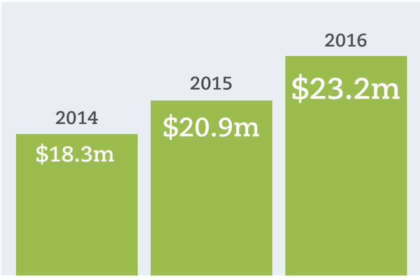
Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation.

We do this by providing **software, services and best practices** that help companies reduce complexity and increase their return on R&D and broader innovation investments. We provide transparency and insight to improve decision making, connect the organization, embed industry-proven innovation processes, and enable corporate speed, agility and adaptability.

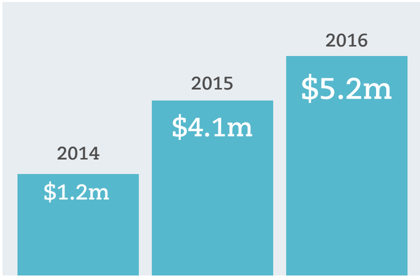
The Sopheon solution was designed from the start to keep **business strategy** front of mind and continuously aligned with execution throughout the innovation life cycle, ensuring market success and relevance in the long term.

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

REVENUE

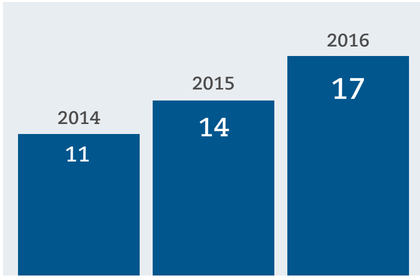


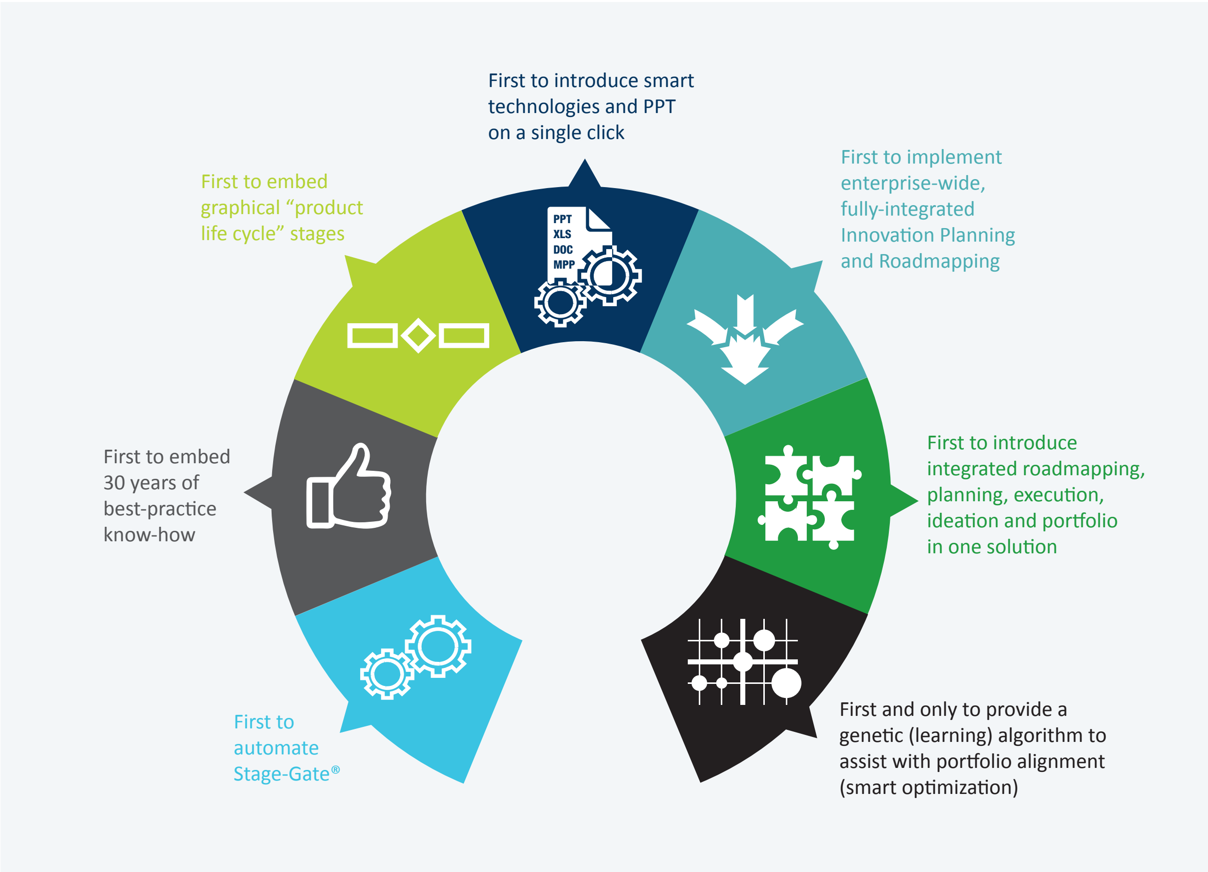
EBITDA



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

NEW CUSTOMERS





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

CHAIRMAN'S STATEMENT

It gives me great pleasure to report another year of excellent financial and operational progress, as we solidify our strategy of being the world's leading solution provider of enterprise-class innovation management software solutions. We grew revenues to $23.2m from $20.9m in 2015 and $18.3m in 2014, and we are reporting another substantial rise in profitability, with EBITDA[1] rising to $5.2m before foreign exchange gains ($5.6m inclusive of exchange gains) from $4.1m the prior year, which was itself more than triple the 2014 performance. Profit before tax has risen to $3.0m from $1.2m in 2015. In 2016 we initiated a degree of recognition of our substantial deferred tax asset, which has resulted in a profit after tax of $4.3m. Net assets have nearly doubled to $10.4m from $5.5m in 2015.

The revenue growth was underpinned by a rise to 49 license transactions from 42 the year before, of which 17 were new customers, up from 14 in 2015. We continued to gain traction with the two elements of our go-to-market strategy – both the global end-to-end enterprise solution, and the "out-of-the-box" Accolade Express solution for quicker time to value. Our market strength in the consumer products industry was again recognized with Sopheon being voted a "top ten software vendor" for the seventh consecutive year by the CGT magazine readership. In addition to this progress, we also saw strong traction in the aerospace and defense and chemicals sectors. The strengthening recurring base, along with a strong Q4 in sales bookings, has carried work over to 2017. Encouragingly, this has resulted in revenue visibility[2] for the company of $14.5m as compared to $12m a year ago.

Sopheon's commercial success is being achieved in parallel with strategic and operational initiatives aimed at underpinning our continued growth for the next three to five years. We maintained our rapid pace of product development, with another three Accolade releases in 2016, strengthening our platform for enterprise utilization and flexibility. This continued investment supports our growth strategy in two areas. One is to capitalize on existing client demand to expand their Accolade investment beyond product innovation to support Enterprise "Initiative Management" tracking and decision making. This market opportunity has been validated by Gartner's 2016 Market Guide for Strategy Execution Software and their recognition of Sopheon as a representative vendor in this emerging space. The second growth area we are actively researching is industry expansion. As an example, we were recently awarded the business to provide a global insurance company with their Enterprise Innovation Management platform. We are partnering with such new customers to understand the value proposition Accolade can bring to vertical markets that are new to Sopheon, and to determine if these represent further new growth opportunities.

Following several years of clarifying our debt, equity and listing structure, 2016 was a relatively quiet year for corporate activity, other than extension of the maturity of our debt facilities to January 2019.

I am delighted to report a truly excellent set of results; the board looks forward to building on these results to deliver continued positive development in the strategic and financial performance of our company in 2017 and beyond. The challenge we face, like any growth business, is to introduce new efficiencies, learnings and capabilities that help us scale on a sustainable basis while delivering both momentum and profitability. In 2017, we are investing in both process and product, and we are also driving recruitment in a number of critical areas for this purpose. I was very pleased to meet a number of our new employees at our annual sales kick-off event in Denver this January. These additional investments in new members of our team are another key piece of our strategy to move our business forward and capture the opportunity that we have long believed was coming. Sopheon has a market-leading solution, global reach, solid financials, a clear corporate structure, an accelerating market, and most importantly great people – a real platform for growth.

Barry Mence
Executive Chairman

22 March 2017

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

[2] *Revenue visibility comprises revenue expected from (i) closed license orders, including those which are contracted but conditional on acceptance decisions scheduled later in the year; (ii) contracted services business delivered or expected to be delivered in the year; and (iii) recurring maintenance, hosting, SaaS 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, differentiation, and principal growth strategies. A summary of the principal risk areas facing the business is set out in the Directors' Report. Further analysis of Sopheon's financial results during the year, including a review of the business, the financial position at the end of the year, key indicators and an overview of key corporate developments are set out in the Financial Report that follows this report.

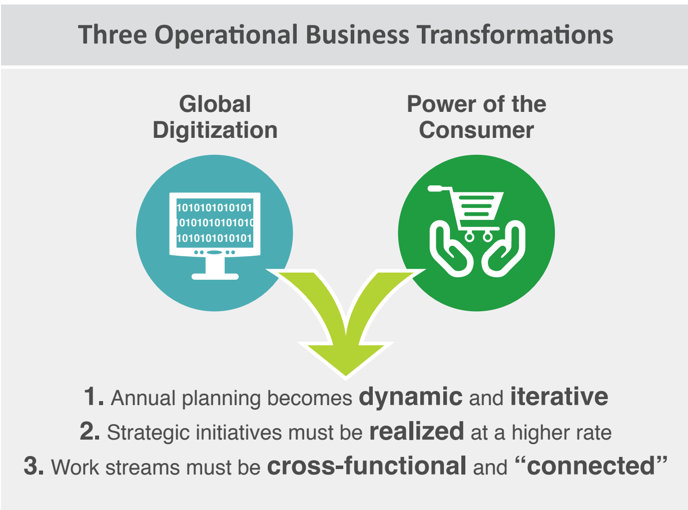
What We Do

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

Many market-leading corporations are challenged to compete in today's fast-moving environment due to the complex infrastructure they have built up over time; a multitude of stand-alone systems have been put in place to support functional groups, resulting in isolated pockets of information. These silo-based systems prevent organizations from quickly and easily responding to external market changes with sound, fact-based decisions.

By delivering an end-to-end decision-making platform that links the strategic ambition of the organization to the execution activities required to realize that strategy, Sopheon's software solutions enable three transformational corporate capabilities:

1. The ability to shift from a static annual planning cadence to dynamic and iterative planning.
2. Improved performance of strategic initiatives compared to the historically low success rate of strategic realization.
3. The transition from siloed knowledge workers to interconnected, cross-functional work streams that are performed and shared in context of the strategic objectives and result in increased employee engagement

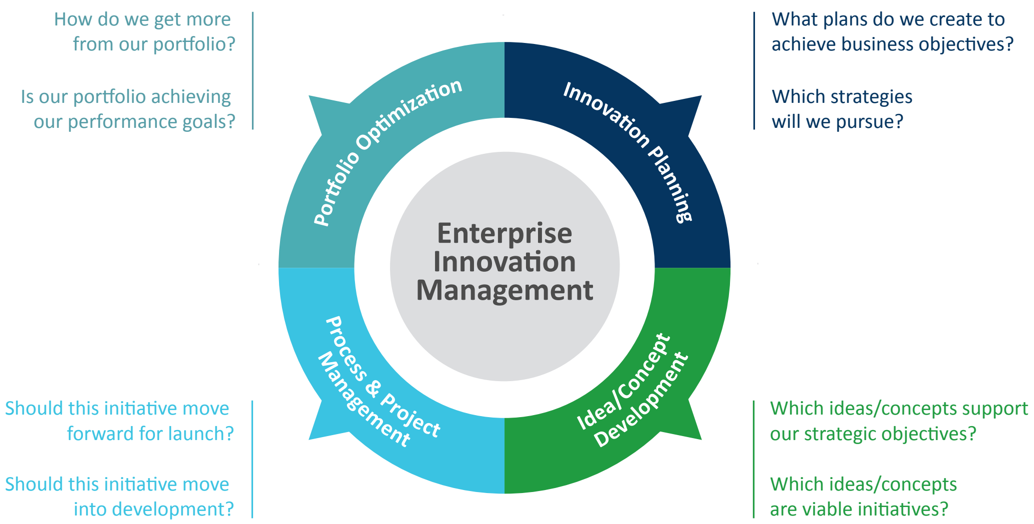


At the same time, the digital movement is fundamentally changing the face of corporate innovation, forcing a shift away from the decades-long, narrow focus on research and development (R&D) management to a broader, interconnected Enterprise Innovation Management (EIM) competency.

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

Sopheon clients benefit from any or all of four distinct and tightly-linked offerings enabled from a single EIM platform, depending on their level of Innovation maturity.

- Strategic planning and alignment of long-term **Innovation Plans**, engaging teams from marketing, research and development, supply chain, sales and manufacturing to all work collaboratively in the common interest of the corporate strategy.
- Generation and development of higher-value **Ideas and Concepts** to fill key gaps relevant to achieving strategic initiatives.
- Improved **Process and Project Management** that enables and tracks key decisions, focused on evaluating projects associated with innovation initiatives, and accelerating productivity and velocity of development efforts through better execution, communication and collaboration.
- Data management, analytics and integrity tools improve **Portfolio Optimization** to ensure the best return on innovation investments.



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

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

What Makes Sopheon Different

Sopheon's history is rooted in innovation management; our Mission has never wavered. This conviction and passion has earned Sopheon a unique position of differentiation in our target markets. 100 percent of our efforts – from product to support to consulting training – have been directed to advancing our experience and competency in innovation management. Sopheon clients enjoy, for the first time, a 'single source of truth', a centralized system of record that connects strategy with execution. Cross-functional teams both contribute information to and extract insight out of the same system, improving the speed and quality of the decision-making cadence. World leaders like PepsiCo, Parker, P&G, BASF, Tetra Pak, Honeywell and many others have put their trust in partnership with Sopheon as they navigate the industry threats of digitization, consumer power and other external market disrupters. Sopheon's success in working with world leaders has provided unique learning and experience to our people, process and technology. In addition, Sopheon's ecosystem of global innovation leaders has grown to be a differentiator from which our clients benefit through collaboration, sharing and learning.

Sopheon's unique experience and success was recognized in 2016 not only by our record financial performance but also by third-party industry thought leaders. Recent market recognition of Sopheon's progress follows:

- Gartner recognized favorable market movement and named Sopheon as a market leading vendor in its 2016 Market Guide for Strategy Execution Software. This research defines the 'must have' feature requirements of any software implemented for execution of corporate strategy, and included a limited list of the vendors they believe offer these capabilities.
- Sopheon was voted a Top 10 technology solution provider for new product development and introduction for the seventh consecutive year by readers of Consumer Goods Technology magazine.
- Sopheon has been invited repeatedly to share its vision and thought leadership through participation in cutting-edge government and industry sponsored research initiatives. These include among others the joint France-Netherlands MEDUSA and EDAFMIS research projects, both led by medical device innovator Philips Healthcare, dealing with market disrupters such as Internet of Things, real-time decision support and advanced analytics embedded into business process. In 2016 Sopheon was invited to participate in a new project called Medolution, the objective of which is to research and develop "Smart Patient Environments." Sopheon's role in the partnership is focused on continuous and real-time decision support contributing to individualized and context-specific patient care.

We are very proud of the recent industry recognition, which is the result of hard work, focus and investment in our people, our product and in delivering client value. 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 continue to develop our consultancy depth and competency to support our continued growth, and expect our enduring focus and investment in our people to continue to separate Sopheon from the competition through 2017 and beyond.

Our ongoing product investment resulted in a larger number of global enterprise deployments in 2016, with more clients expanding their investment to leverage the full Accolade Enterprise Innovation Management 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.

"Dynamic communication and dataflow through divisions into business units and across operations teams is something Entegris views as vital to innovation. Increasing the visibility of plans and decisions is just one of the ways that Accolade is supporting our organization's aspirations."

Dr. Steven Moskowitz, Senior Principal of Strategic Technology, Innovation Management, Entegris Inc.

Sopheon's solutions have been implemented by over 250 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. There is a market factor at work representing considerable growth opportunities for Sopheon. We are seeing some of the most successful companies in the world recognizing the need for urgent transformation to continue their relevance in the market.

Statistics suggest that 75% of the S&P 500 will no longer be on the list by 2027.[3] We are witnessing increased behavioral change and urgency at the executive and board levels of many companies to do everything possible to ensure their company remains relevant through this time of massive market disruption and change.

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

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

Source: Innovation Leader, 2016

- "[P&G is] putting strategies and capabilities into place to transform P&G into a faster-growing, more profitable and far simpler company."[5]
- "[Conagra Brands is] transforming the way we operate to fulfill what consumers and customers want, in a smart, simple way. We're modernizing our iconic food brands, leveraging fresh opportunities and adapting to a changing landscape – all with a culture that's ready to capture growth and drive shareholder value."[6]
- "[PepsiCo is] constantly pushing ourselves to transform, because in a world defined by increased volatility, complexity and speed, it is the only way to succeed."[7]
- "A sizable and growing customer segment is looking for organic and natural products, and as a result, packaged food companies are facing a relevance problem. One company that has done well in this difficult and changing environment is General Mills…General Mills was able to gain relevance in this important growth segment for one reason: They saw a relevance challenge early and responded with acquisitions, investments in products and programs, and a sense of direction powered by their mission and values."[8]
- "[Speed] is everything – including the speed at which we learn, the speed at which we execute, and the speed at which we pivot. To that end, we have prioritized speed and agility in our people, in our processes, and in the tools we use to iterate with our customers and partners.… [We] can't succeed by creating speed and agility in a vacuum – our transformation roadmap must bring the entirety of GE into the digital world."[9]

"Leveraging digital technologies is more than just good business—it's crucial to staying relevant and profitable. Companies lagging in this area risk losing ground to newer entrants and business models that are poised to disrupt markets with innovative products and services."

Boston Consulting Group

We believe that Sopheon's Enterprise Innovation Management platform remains uniquely positioned to leverage this trend. At the core of the urgent need for corporations to stay relevant is the need to digitize strategy execution and innovation management. By digitizing enterprise innovation, market leaders will be able to innovate with the pace of small companies, while leveraging the scale advantages of a larger organization.

At the same time, they will be able to balance the pull between 'responsible, safe, secure' and 'speed, ease of use, smart' as they compete in today's fast-moving digital market. As a result, they are able to quickly move operationally from Vision to Execution to Performance.

Homegrown systems and siloed tools like Microsoft® Excel®, SharePoint®, and PowerPoint® no longer support the needs of the cross-functional, agile enterprise. To successfully navigate these times of constant market disruption, these market leaders require an Enterprise Innovation Management platform to ensure continued relevancy.

Growth Strategy

Sopheon's growth strategy is to enable corporations to execute on their new operational models that will ensure corporate relevance into the future. Our focus requires Sopheon to:

- **Expand the application of our software and services to a broader definition of innovation:** Sopheon has been a specialist in new product development for over 15 years. Over the last few years we have seen the maturity of the innovation space expand beyond product development to what we have been calling Enterprise Innovation Management. As the market continues to mature, we see many new applications that could benefit from our best-practice decision support and process platform.

- **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 needs. In 2016 we continued our objective to dominate in our chosen core verticals of chemicals, aerospace, consumer products, food and beverage, and high technology. Sopheon's long history and experience in these verticals 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. We will continue to invest in industry-specific expertise and solutions.

- **Introduce new offerings to leverage growth from our customer base:** Sopheon's roster of customer names is a Who's Who of the world's leading companies. In 2016 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 2016 was markedly strong, with revenue from expansion at existing clients continuing to represent the cornerstone of our commercial performance.

- **Expand the partner ecosystem:** Sopheon continues to invest in and develop additional distribution channels, in particular with market-leading management consultancies. In 2016 we continued to deploy Accolade around the world, introducing Accolade to more partners through our clients. We made progress through corporate level introductions and have started to nurture relationships with a handful of partners in the innovation space. These partnership programs take time to mature but we feel they are critical to our ability to scale for future growth. We will continue to evolve and strengthen these relationships as we grow. Our reseller partners in Asia successfully deployed Accolade at Shanghai Huayi, a large chemical company in China. This deployment represents another advancement in our Chinese reseller partnership. We will further test and develop our reseller partnership network during the course of this year.

People, Process & Platform

People & Process

As stated above, 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.

Like our clients, Sopheon must continue to change and iterate to maintain our leadership position. We have made several new hires to support our growth ambitions, and will be diligent in our ongoing search for additional talent to strengthen our corporate culture of respect, integrity and continuous learning. Investment in training and professional development will be expanded as part of our focus on the growth and development of our people. Our aim is to further deepen our domain expertise, client engagement methodology and value based engineering competency, all of which are strategic capabilities for us to achieve our next phase of growth.

We are very proud of the commitment that our people have shown to the company, to our clients and to these changes.

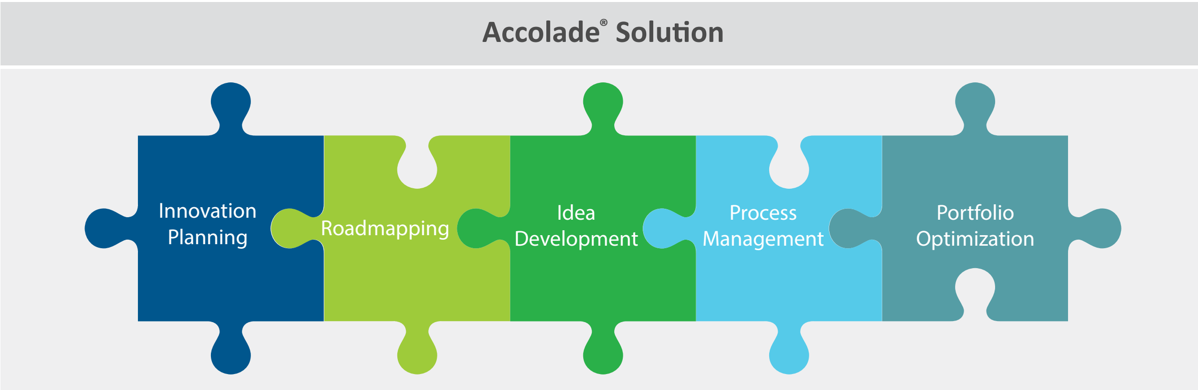
"In many ways, I view the advances of the last few Accolade releases as the best since we teamed up with Sopheon in 2009. New releases have the end user firmly in mind, and there are a number of key features we are excited to use."

Dan Miller, General Manager of Applied Research & Package Development, Hormel Foods Corporation

Platform

Over the years Sopheon has made significant investments in product development as a commitment to maintaining our leadership of a market we helped to create, through our own innovation. 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 schedule for long enough that the majority of our clients expect and plan for our new releases. In 2016 we released Accolade 10.2, 10.3 and 11.0 in January, May and November respectively. Since the end of the year we released Accolade 11.1 in February 2017. The development focus in 2016 has been on enhancing capabilities specific to our enterprise expansion strategy; this strategy has been created in partnership with a number of our strategic clients, for which we are thankful. Such guidance and input is essential to our continued relevance to these strategic customer accounts.



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

Beyond the market and customer inputs, at the strategic level we continue to track five key product roadmap drivers—social, mobile, software-as-a-service (SaaS), information and user engagement. 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.

One example of progress in this area is the increased attention on employee engagement. There is broad recognition globally of the growing percentage of millennials in the work force. It has been a focus of our development team to update our user experience to match the consumer-grade software experience this group has come to expect, and to continue to increase user engagement by communicating the "why" for team members, making it easy for them to see how their work fits into the broader corporate strategy, thereby making their work more meaningful and impactful.

Another example of progress in this area is our continued investment to achieve industry certifications that offer client confidence by reducing client IT risk. Accomplishments in 2016 include ISO 27001 information security certification, and award of the Skyhigh Enterprise-Ready™ certification, which satisfies security requirements developed in conjunction with the Cloud Security Alliance.

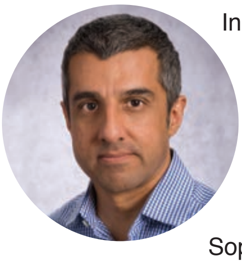
A summary of the principal risks areas facing the business is set out in the Directors' Report.

Approved by the board on 22 March 2017 and signed on its behalf by:

Andy Michuda
CEO

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

FINANCIAL REPORT



In this report, our CFO Arif Karimjee provides further analysis of Sopheon's financial results during 2016, our financial position at the end of the year, and an overview of key corporate developments.

Trading Performance

Sopheon's consolidated turnover in 2016 was $23.2m, compared to $20.9m in 2015. The proportion of revenues from customers in North America increased slightly at 71 percent (2015: 69 percent) with the remainder primarily generated from customers in Europe, but also from a small but important foothold in Asia, Australia and the Middle East. Total license transactions, including extension orders, were up to 49 in 2016, compared to 42 the previous year. Revenue per license transaction did fall back somewhat, but overall remains well above $100,000 in license fees – and overall this combination led to license revenues around 11 percent higher than the prior year. Both services and maintenance were higher as well, with services showing a particularly strong uptick at 16 percent. Overall, revenues grew by 11 percent. The impact of the strong dollar on revenue was relatively muted this year as much of its rise against other global currencies had already happened in 2015; on a constant currency basis, year on year growth would have been 12 percent.

A key difference to the prior year was the flatter revenue profile from a calendar perspective; in 2015 we had a quiet first half offset by a very strong second half. In 2016, the revenue profile reverted to a more even spread with peaks in the second and fourth quarters – though as always, the fourth quarter was particularly strong. Over the years we have frequently referred to the sensitivity of our license results to individual sales events and while this effect is reducing as we grow the business, it does remain a factor to bear in mind. During 2016, we were pleased to book at least one substantial order in each quarter of the year. Services work was in fact more concentrated in the first half of 2016, thanks in part to the strong fourth quarter of 2015 leading to a substantial backlog coming into 2016. This in turn led to busy times for our services team in the first half of the year, with more of a lull in the third quarter then picking up again in the final quarter. Though not quite as marked as last year, when coupled with initial orders this year, we are starting 2017 with a similarly strong backlog of service activity.

The group's base of recurring business rose to approximately $9.9m compared to $8.2m coming into 2016. This comprises maintenance, hosting and cloud services, and some initial Software as a Service (SaaS) contracts. The vast majority of our license revenue remains perpetual in nature, but we are seeing growing interest in SaaS options, in particular from prospects in our less traditional verticals such as high-tech. We are also seeing growing interest in our hosting service from perpetual customers, and this has been underpinned during the year by achievement of ISO 27001 security certification, alongside securing the award of the Skyhigh CloudTrust™ Enterprise-Ready rating, based on criteria developed with the Cloud Security Alliance. Attrition of recurring revenue remained at excellent levels, at 94 percent retention by value for the second year in succession. We continue to focus on this metric as we believe that building recurring revenue is a key goal for Sopheon, and we have invested in customer satisfaction programs alongside regular service and account management processes to maximize value for our customers in this area. Overall, in 2016 our business delivered a 29:37:34 ratio of licenses, maintenance, and services respectively compared to 29:38:33 in the previous year. This marks a further year of solid license revenue as a cornerstone of our business model, driven by both volume and size of deals as noted in the previous paragraph.

Gross margin is just over 70 percent, broadly comparable to the 72 percent achieved last year and reflective of the slightly higher and more front-end loaded services mix. Costs of the professional services organization are included in costs of sales, alongside the costs of our hosting activities and some license royalties for OEM partners. We recruited a number of new consultants coming into the year, and on average we had 12 percent more staff in the services team than the year before. However services revenue was 16 percent higher, and as noted below this led to product development staff contributing to delivery of certain customer projects.

Encouragingly, coming into 2017 and following some early sales bookings at the start of the year, revenue visibility for the year already stands at $14.5m compared to just over $12m a year ago.

Research and Development Expenditure

Overall expenditure in product development resources decreased by approximately $0.2m to $3.8m in 2016; however, this is after recognizing $0.4m of costs to services cost of sales, as we used product development resources to assist with peaks of service demand that arose during the year. Therefore, the actual cost of the development team rose by $0.2m overall. This movement can be compared to the headline R&D reported in the income statement showing a reduction from $4.3m to $3.9m; the difference is due to the effects of capitalization and amortization of development costs. The amount of 2016 research and development expenditure that met the criteria of IAS38 for capitalization was $1.9m (2015: $2.1m) offset by amortization charges of $2.0m (2015: $2.4m). These capitalized costs are largely attributable to the group's investment in the Accolade 10.2, 10.3, 11.0 and 11.1 product releases.

Other Operating Costs

As a knowledge intensive business, almost 80 percent of Sopheon's costs are related to its people. Sopheon has a relatively mature and highly qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. Over the last five years, Sopheon has held staffing between 100-115 depending on requirements and natural movement of people in and out of the business. Our focus is on securing the right mix of people rather than targeting a headcount number, however as revenue growth has progressed over recent years we have sought to match this with a growing level of resources. Consequently, we ended the year with 115 staff compared to 100 a year ago; however, the majority of the staff increase was later in the year and we had in fact targeted a greater number of hires in our plan – a factor which contributed to the outperformance in profitability in 2016. We have continued to add staff in early 2017, and still have a number of incremental staff to add in our forward planning as we seek to support the positive trajectory of the business.

The average headcount during 2016 was 110, compared to 105 the year before, leading to higher overall wage costs as reported in the financial statements. Payroll costs in both 2015 and 2016 were also elevated due to achievement of our ambitious EBITDA goals, leading to full award of the corporate bonus scheme for which all non-sales staff in the company are eligible. This has contributed to a higher payables balance at each year end, since the bonuses are not paid until the following year. Bonus costs in a given year are allocated to the relevant categories of the income statement based on employee department.

Specific comments regarding service operations and research and development costs are noted above. Resources in the sales and marketing area remained relatively constant following a substantial increase in 2014, and accordingly, sales and marketing costs increased relatively modestly by approximately $0.1m year on year. Headline administration costs have fallen by approximately $0.3m, but this is largely due to the impact of exchange gains captured following the UK's referendum decision to leave the European Union. In fact, underlying costs in this area are modestly higher as we ensure that our IT infrastructure in particular keeps pace with our growth demands, for example the security certifications noted above. More generally, our income statement benefits from a natural hedge due to local currency revenues and costs both being recorded within each entity. Although the Group's policy is not to hedge currency cash holdings, we do try to keep currencies local and to time currency purchases so as to minimize negative impacts on the income statement.

Results

In common with other technology businesses, Sopheon reports EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) as a key indicator of the underlying performance of our business. EBITDA is further defined and reconciled to profit before tax in Note 4. The combined effect of the revenue and cost performance discussed above has resulted in Sopheon's EBITDA performance for 2016 rising very strongly to $5.6m, from $4.1m in 2015 and $1.2m in 2014. The 2016 performance does include approximately $0.3m of exceptional foreign exchange gains as described above; stripping these out still gives an EBITDA result of $5.2m, a significant increase on the prior year.

Including the effect of interest, depreciation and amortization, the group reported a profit before tax for the year of $3.0m (2015: $1.2m) or $2.7m if the foreign exchange gains are deducted. Although Sopheon benefits from accumulated tax losses in a number of jurisdictions this is not universal and accordingly a small current tax charge of approximately $0.1m was incurred in each of 2016 and 2015. However, due to the rising profit trend of the group, in consultation with our advisers we have started recognition of the substantial deferred tax asset owned by the business, as further detailed in Note 10. This has led to initial recognition of $1.3m (2015: $Nil) in the current year, of a total potential asset of approximately $16m (2015: $19m). Altogether this leads to a profit after tax of $4.3m (2015: $1.1m). In line with this substantial increase, profit per ordinary share has also risen sharply to 59 cents (2015: 15.5 cents).

Facilities and Assets

In early 2014 the group established new bank facilities with the London branch of Silicon Valley Bank, comprising a term loan of $0.5m, and a $3.0m revolving line of credit. Last year these facilities were renewed and refinanced for a further 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 6.5 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 2009 and 2011, the company issued a total of £2.0m of convertible unsecured loan stock (the “Loan Stock”) to a group of investors including key members of the board and senior management team. The maturity of the Loan Stock has been extended on several occasions, most recently in April 2016, and now extends to January 2019. The conversion price is 76.5 pence per share. During the year, one of the investors exercised £0.01m of loan stock, leading to a net remaining amount due of £1.99m.

Consolidated net assets at the end of the year stood at $10.4m (2015: $5.5m), an increase of $4.9m. Over $3.1m of this increase is attributable to an improvement in the net current asset position excluding taxes, itself arising from the strong operational performance in 2016. A further $1.3m relates to the recognition of the deferred tax asset, leaving $0.4m due to other factors. Within the net current asset position, gross cash resources at 31 December 2016 amounted to $10.0m (2015: $7.0m). Approximately $7.3m was held in US Dollars, $2.4m in Euros and $0.3m in Sterling.

Intangible assets stood at $5.5m (2015: $5.6m) at the end of the year. This includes (i) $4.5m being the net book value of capitalized research and development (2015: $4.6m) and (ii) an additional $1.0m (2015: $1.0m) being goodwill arising on acquisitions completed in previous years.

Approved by the board on 22 March 2017 and signed on its behalf by:

Arif Karimjee
CFO

DIRECTORS AND ADVISORS

Directors	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
Secretary	Arif Karimjee	
Registered Office	Dorna House One 50 Guildford Road West End, Surrey GU24 9PW	
Registered Name and Number	Sopheon plc. Registered in England and Wales No. 3217859	
Auditors	BDO LLP 55 Baker Street London W1U 7EU	
Principal Bankers and Financiers	Silicon Valley Bank 3003 Tasman Drive Santa Clara, CA 95054 United States	Silicon Valley Bank Alphabeta 14-18 Finsbury Square London EC2A 1BR
	Rabobank Amsterdam Van Baerlestraat 102-106 1071 BC Amsterdam The Netherlands	Commerzbank Rheinstrasse 14 64283 Darmstadt Germany
Solicitors and Attorneys	Squire Patton Boggs 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2200 IDS Center, 80 South Eighth Street Minneapolis, MN 55402 United States
	Loyens & Loeff Fred Roeskestraat 100 1076 ED Amsterdam The Netherlands	
AIM Nominated Adviser and Broker	finnCap Limited 60 New Broad Street London EC2M 1JJ	
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA	

REPORT ON DIRECTORS' REMUNERATION

The remuneration committee of Sopheon plc is responsible for oversight of the contract terms, remuneration and other benefits for executive directors, including performance-related bonus schemes. The committee comprises two non-executive directors, D. Metzger and S.A. Silcock, together with B.K. Mence, other than in respect of his own remuneration. The committee makes recommendations to the board, within agreed parameters, on an overall remuneration package for executive directors and other senior executives in order to attract, retain and motivate high quality individuals capable of achieving the group's objectives. The package for each director consists of a basic salary, benefits and pension contributions, together with performance-related bonuses and share options on a case-by-case basis. Consideration is given to pay and employment policies elsewhere in the group, especially when considering annual salary increases. From time to time, the remuneration committee may take advice from appropriate remuneration consultants, or consult benchmarking data.

Contracts

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

Fees for Non-executive Directors

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

Directors' Remuneration

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

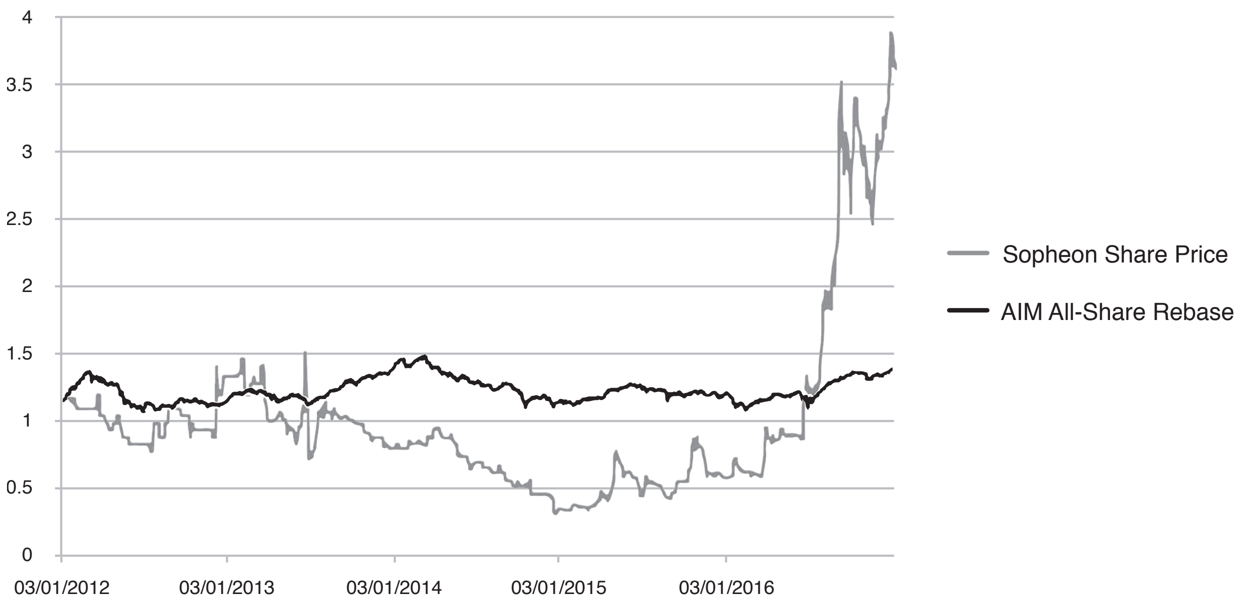
	Pay and Fees 2016 $	*Bonus 2016* $	*Benefits 2016* $	*Total 2016* $	*Total 2015* $
Executive Directors					
B.K. Mence	205,017	90,872	6,914	302,803	317,782
A.L. Michuda	301,683	146,000	9,588	457,271	441,746
A. Karimjee	169,042	62,932	4,077	236,051	254,441
Non-executive Directors					
S.A. Silcock	29,839	-	-	29,839	30,580
D. Metzger	29,839	-	-	29,839	30,580
	735,420	299,804	20,579	1,055,803	1,075,129

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 2015 and 2016 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 2016 contributions of $8,138, $5,935 and $8,436 (2015: $10,172, $4,120 and $8,385) 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:

	Share Options		*Ordinary Shares*		*8% Convertible Loan Stock*	
At 31 December	2016	2015	2016	2015	2016	2015
B.K. Mence	24,250	24,250	1,447,576	1,371,576	£640,000	£640,000
A.L. Michuda	215,000	199,880	30,000	30,000	£45,000	£45,000
A. Karimjee	63,350	57,500	50,000	30,000	£27,000	£27,000
S.A. Silcock	-	-	274,627	250,627	£200,000	£200,000
S.A. Silcock*	-	-	4,000	4,000	-	-
D. Metzger	-	-	5,000	5,000	-	-

Of the 1,447,576 ordinary shares mentioned above, B.K. Mence beneficially owns and is the registered holder of 1,447,076 ordinary shares. His wife, Mrs. M.T. Mence, beneficially owns 500 ordinary shares. The holding of A. Karimjee of £27,000 nominal of convertible loan stock is beneficially owned by his wife, Mrs. F.J. Karimjee.

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

	Date of Grant	*Exercise Price*	*At 31 December 2015*	*Granted During Year*	*Expired During Year*	*At 31 December 2016*
B.K. Mence	29 September 2012	105p	6,125	-	-	6,125
B.K. Mence	5 December 2013	85p	18,125	-	-	18,125
A.L. Michuda	27 August 2010	150p	12,500	-	-	12,500
A.L. Michuda	29 September 2012	105p	138,380	-	-	138,380
A.L. Michuda	5 December 2013	85p	49,000	-	-	49,000
A.L. Michuda	8 April 2016	87.5p	-	15,120	-	15,120
A. Karimjee	27 August 2010	150p	7,500	-	-	7,500
A. Karimjee	29 September 2012	105p	23,125	-	-	23,125
A. Karimjee	5 December 2013	85p	26,875	-	-	26,875
A. Karimjee	8 April 2016	87.5p	-	5,850	-	5,850

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 2016 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 2016 was 350p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 61.5p to 375p. 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 22 March 2017 and signed on its behalf by:

Arif Karimjee
Director

DIRECTORS' REPORT

The group's principal activities during the year continued to focus on the provision of software and services for complete Enterprise Innovation Management solutions. A review of the development of the business during the year is given in the Chairman's Statement on page 6. 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 2016 is a profit after tax of $4.3m (2015: profit $1.1m). 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.

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 2016, all directors attended all quarterly meetings either in person or by conference call. The audit committee, which comprises all of the non-executive directors and is chaired by Stuart Silcock, considers and determines actions in respect of any control or financial reporting issues they have identified or that are raised by the auditors. The board has a formal schedule of matters specifically reserved to it for decision. Details of the constitution of the remuneration committee are provided in the Report on Directors' Remuneration on page 17.

Post Balance Sheet Events

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

Research and Development

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

Principal Risk Areas

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

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

Sopheon's 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 22 March 2017 were interested directly or indirectly in 3 percent or more of the company's issued ordinary shares:

Name	*No. of Ordinary Shares*	*% Issued Ordinary Shares*
S.A. Silcock (director)	278,627	3.8
B.K. Mence (director)	1,447,576	19.7
Rivomore Limited and Myrtledare Corp.	1,608,500	21.9

S.A. Silcock also holds £200,000 nominal of 8% convertible loan stock. 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.

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

Approved by the board on 22 March 2017 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 2016 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 Financial Reporting Council's (FRC'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 FRC's website at **www.frc.org.uk/auditscopeukprivate**

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 2016 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.

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 and the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements. Based on our knowledge and understanding of the company and its environment obtained during the course of the audit we have identified no material misstatements in the Strategic Report or the Director's Report.

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

22 March 2017

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 2016

	Notes	2016 $'000	2015 $'000
Revenue	3	23,203	20,886
Cost of sales		(6,872)	(5,748)
Gross profit		16,331	15,138
Sales and marketing expense		(6,565)	(6,481)
Research and development expense		(3,881)	(4,261)
Administrative expense		(2,562)	(2,850)
Operating profit		3,323	1,546
Finance income	8	1	4
Finance expense	9	(290)	(354)
Profit before tax		3,034	1,196
Income tax credit/(expense)	10	1,275	(65)
Profit for the year	5	4,309	1,131
Earnings per share			
Basic (US cents)	12	59.05c	15.54c
Fully diluted (US cents)	12	44.35c	13.90c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 $'000	2015 $'000
Profit for the year	4,309	1,131
Other comprehensive expense		
Exchange differences on translation of foreign operations	336	43
Total comprehensive income for the year	4,645	1,174

CONSOLIDATED AND COMPANY BALANCE SHEETS AT 31 DECEMBER 2016

		Group		Company	
	Notes	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Assets					
Non-current Assets					
Property, plant and equipment	13	241	181	-	-
Intangible assets	14	5,469	5,579	-	-
Investments in subsidiaries	15	-	-	7,528	9,069
Deferred tax asset	10	1,338	-	-	-
Other receivable	16	19	19	-	-
Total non-current assets		7,067	5,779	7,528	9,069
Current Assets					
Trade and other receivables	17	9,696	7,609	45	23
Cash and cash equivalents	18	10,061	7,046	1,197	1,627
Total current assets		19,757	14,655	1,242	1,650
Total assets		26,824	20,434	8,770	10,719
Liabilities					
Current Liabilities					
Trade and other payables	19	4,428	4,142	516	536
Borrowings	20	3,167	3,147	-	-
Deferred revenue		6,224	4,628	-	-
Total current liabilities		13,819	11,917	516	536
Non-current Liabilities					
Borrowings	20	2,648	2,986	2,448	2,963
Total non-current liabilities		2,648	2,986	2,448	2,963
Total liabilities		16,467	14,903	2,964	3,499
Net assets		10,357	5,531	5,806	7,220
Equity					
Share capital	23	2,375	2,354	2,375	2,354
Capital reserves	24	5,843	5,751	5,843	5,751
Translation reserve		333	(3)	(2,199)	(994)
Retained losses		1,806	(2,571)	(213)	109
Total equity		10,357	5,531	5,806	7,220

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The loss dealt with in the financial statements of the parent company for the year ended 31 December 2016 was $390,000 (2015: profit of $760,000).

Approved by the board and authorized for issue on 22 March 2017.

Barry K. Mence
Director

Arif Karimjee
Director

CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

		Group		*Company*	
	Notes	*2016*	*2015*	*2016*	*2015*
		$'000	*$'000*	*$'000*	*$'000*
Operating Activities					
Profit/(loss) for the year		4,309	1,131	(390)	760
Adjustments for:					
Finance income		(1)	(4)	-	-
Finance costs		290	354	221	250
Depreciation of property, plant and equipment		189	200	-	-
Amortization and impairment of intangible assets		2,043	2,368	-	-
Share-based payment expense		62	114	62	114
Deferred tax credit		(1,338)	-	-	-
Operating cash flows before movements in working capital		5,554	4,163	(107)	1,124
Intra-group credits and charges		-	-	(529)	(498)
Decrease/(increase) in provisions against intra-group loans		-	-	83	(1,341)
(Increase)/decrease in receivables		(2,208)	(991)	(22)	29
Increase/(decrease) in payables		2,070	1,028	(20)	44
Net cash generated from/(used in) operating activities		5,416	4,200	(595)	(642)
Investing Activities					
Finance income		1	4	-	-
Purchases of property, plant and equipment		(250)	(124)	-	-
Development costs capitalized		(1,933)	(2,058)	-	-
Advance of loans to group companies		-	-	(919)	(1,194)
Repayment of loans by group companies		-	-	955	2,961
Net cash (used in)/generated from investing activities		(2,182)	(2,178)	36	1,767
Financing Activities					
Issues of shares		107	-	107	-
Drawdown/(repayment) of borrowings		177	(167)	-	-
Increase in line of credit		-	1,021	-	-
Interest paid		(290)	(354)	(221)	(248)
Net cash (used in)/generated from financing activities		(6)	500	(114)	(248)
Net increase/(decrease) in cash and cash equivalents		3,228	2,522	(673)	877
Cash and cash equivalents at the beginning of the year		7,046	4,735	1,627	789
Effect of foreign exchange rate changes		(213)	(211)	243	(39)
Cash and cash equivalents at the end of the year	18	10,061	7,046	1,197	1,627

CONSOLIDATED AND COMPANY STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

Group

	Share Capital $'000	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Profits/ (Losses) $'000*	*Total $'000*
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 1 January 2016	2,354	5,751	(3)	(2,571)	5,531
Profit for the year	-	-	-	4,309	4,309
Exchange differences on translation of foreign operations	-	-	336	-	336
Total comprehensive income for the year	-	-	336	4,309	4,645
Issues of shares	21	98	-	-	119
Recognition of share-based payments	-	62	-	-	62
Lapsing or expiry of share options	-	(68)	-	68	-
At 31 December 2016	2,375	5,843	333	1,806	10,357

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

Company

	Share Capital $'000	*Capital Reserve $'000*	*Translation Reserve $'000*	*Retained Losses $'000*	*Total $'000*
At 1 January 2015	2,354	5,654	(560)	(668)	6,780
Profit and total comprehensive income for the year	-	-	(434)	760	326
Recognition of share-based payments	-	114	-	-	114
Lapsing or expiry of share options	-	(17)	-	17	-
At 1 January 2016	2,354	5,751	(994)	109	7,220
Profit and total comprehensive income for the year	-	-	(1,205)	(390)	(1,595)
Issues of shares	21	98	-	-	119
Recognition of share-based payments	-	62	-	-	62
Lapsing or expiry of share options	-	(68)	-	68	-
At 31 December 2016	2,375	5,843	(2,199)	(213)	5,806

1. GENERAL INFORMATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

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 2018, is still being assessed. The directors note that IFRS 15 contains detailed guidance in relation to, among other things, sales contracts that involve multiple elements and the contract assets/receivables with any associated deferred revenues which should be presented net until the earlier of the contractual due date of any invoice raised or the delivery of the service. The areas noted may impact on how the group recognises revenue and presents items in its balance sheet. IFRS 16, which will apply from reporting periods beginning on or after 1 January 2019, will result in the majority of the group’s operating leases being brought onto the balance sheet through recognition of right of use asset and any associated liability. Under IFRS 9, the expected loss impairment model may lead to accelerated recognition of impairment losses. The directors are intending to undertake a detailed assessment in good time to identify if there is any need to update procedures or policies. None of the other new standards, amendments and interpretations in issue but not yet effective are expected to have a material effect on the financial statements.

While the functional currency of the parent company is Sterling, the group’s financial statements have been presented in US Dollars. The directors believe this better reflects the underlying nature of the business. Approximately 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 1.2303 US Dollars to British Pounds Sterling as at 31 December 2016, and 1.3563 US Dollars to British Pounds Sterling as the average rate prevailing during 2016.

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 2019.

During 2016, the group achieved revenues of $23.2m and a profit before tax of $3.0m. This follows a strong performance in 2015, itself a dramatically improved performance compared to the previous year. The directors believed the 2014 performance was a temporary pause in the development of the business and this view continues to be supported by ongoing performance. Coming into 2017, the group’s sales pipeline remains active, and accordingly, the directors remain positive about the prospects for the business.

In addition to growing cash resources, the group has bank facilities with the London branch of Silicon Valley Bank comprising a term loan of $0.5m repayable in 36 equal monthly instalments, and a $3m revolving line of credit, currently for a three year period through January 2019. 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 $1.99m 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 2019.

Notwithstanding the group’s strong funding position, the time-to-close and the order value of individual sales continues to be subject to variation. 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. However the directors 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 Preparation

The consolidated financial statements incorporate the financial statements of the parent company Sopheon plc and the financial statements of the subsidiaries controlled by the group as defined by IFRS 10 Consolidated Financial Statements, as shown in Note 15. Where the company has control over an investee, it is classified as a subsidiary. The company controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. The financial statements of all the group companies are prepared using uniform accounting policies. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business Combinations

The acquisition of subsidiaries is accounted for within the consolidated financial statements using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the entity being acquired, together with any costs directly attributable to the business combination. The results of the acquired entities are included in the consolidated income statement from the date on which effective control is obtained, with there being no business combinations since 1 January 2013. The identifiable assets, liabilities and contingent liabilities of the entity being acquired that meet the conditions for recognition are recognized at their fair values on the date of acquisition.

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

Goodwill

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

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

Revenue Recognition

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

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

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

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

Leases

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

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

Deferred Tax

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

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

Property, Plant and Equipment

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

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

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

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

Investments

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

Internally Generated Intangible Assets (Research and Development Expenditure)

Development expenditure on internally developed software products is capitalized if it can be demonstrated that:
- it is technically feasible to develop the product;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the group is able to sell the product;
- sales of the product will generate future economic benefits; and
- expenditure on the product can be measured reliably.

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

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

Impairment of Tangible and Intangible Assets (excluding Goodwill)

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

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

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

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

Share-based Payments

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

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

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

Financial Instruments

1. Financial Assets

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

Loans and Receivables

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

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

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.

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

3. SEGMENTAL ANALYSIS

All of the group's revenue in respect of the years ended 31 December 2016 and 2015 was derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Strategic and Financial Reports. For management purposes, the group is organized geographically across two principal operating segments. The first segment is North America, and the second Europe. Information relating to these two segments is given below.

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

Year ended 31 December 2016	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	17,172	6,031	23,203
Operating profit/(loss) before interest and tax	4,136	(813)	3,323
Profit/(loss) before tax	4,072	(1,188)	3,034
Finance income	-	1	1
Finance expense	(64)	(226)	(290)
Depreciation and amortization	(2,191)	(41)	(2,232)
EBITDA	6,327	772	5,555
Balance Sheet			
Fixed asset additions	214	36	250
Capitalization of internally generated development costs	1,933	-	1,933
Total assets	22,211	4,613	26,824
Total liabilities	(11,046)	(5,421)	(16,467)

Year ended 31 December 2015	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
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
Balance Sheet			
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

One customer, located in North America, accounted for approximately 20 percent of the group's revenues in 2016. The same customer accounted for approximately 11 percent of the group's revenues in 2015.

External revenues in 2016 exclude inter-segmental revenues which amounted to $1,715,000 (2015: $1,633,000) for North America and $378,000 (2015: $627,000) for Europe.

Revenues attributable to customers in North America in 2016 amounted to $16,458,000 (2015: $14,407,000). Revenue attributable to customers in the rest of the world amounted to $6,745,000 (2015: $6,478,000) of which $6,109,000 (2015: $5,219,000) 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:

	2016	*2015*
	$'000	*$'000*
Profit for the year before tax	3,034	1,196
Interest payable	290	354
Interest receivable	(1)	(4)
Amortization of intangible assets	2,043	2,368
Depreciation of property, plant and equipment	189	200
EBITDA	5,555	4,114

5. PROFIT FOR THE YEAR

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

	2016	*2015*
	$'000	*$'000*
Net foreign exchange (gains)/losses	(312)	22
Research and development costs (excluding amortization)	1,838	1,893
Amortization of intangible assets	2,043	2,368
Depreciation of property, plant and equipment	189	200
Operating lease rentals – land and buildings	551	555
Operating lease rentals – other	96	106

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.

	2016	*2015*
	$'000	*$'000*
Audit of the financial statements of the group	66	80
Audit of the financial statements of the UK subsidiary	5	6
Review of interim financial information	16	15
Tax compliance services	20	15

7. STAFF COSTS

	2016 $'000	2015 $'000
Wages and salaries	12,590	11,847
Social security costs	991	919
Pension contributions	269	239
Employee benefits expense	850	989
	14,700	13,994

Included within the above are staff costs capitalized as development expenditure amounting to $1,933,000 (2015: $2,058,000). Included within wages and salaries are bonus and sales commission costs amounting to $2,094,000 (2015: $1,878,000).

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

	2016 Number	2015 Number
Development and operations	71	67
Sales and management	39	38
	110	105

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

The remuneration of all directors was as follows:

	2016 $'000	2015 $'000
Fees and emoluments	1,056	1,106
Pension contributions	23	22
	1,079	1,128

No director exercised share options during the year (2015: None). Pension contributions are to personal defined contribution schemes and have been made for three directors (2015: three) who served during the year.

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

Staff costs in the parent company amounted to $453,090 including bonuses (2015: $372,342). The average monthly number of staff during the year included 1 full time and 2 part time (2015: 1 and 2).

8. FINANCE INCOME

	2016 $'000	2015 $'000
Income on financial assets measured at amortized cost		
Interest income on bank deposits	1	4

9. FINANCE EXPENSE

	2016 $'000	2015 $'000
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(290)	(354)

10. INCOME TAX EXPENSE

	2016 $'000	2015 $'000
Income tax credit/(expense) for the year – current tax	1,275	(65)

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

	2016 $'000	2015 $'000
Profit before tax	3,034	1,196
Tax charge at the UK corporation tax rate of 20% (2015: 20.25%)	(607)	(242)
Adjustment for differing rates of corporate taxation in overseas jurisdictions	(428)	(239)
Tax effect of expenses that are not deductible in determining taxable losses	(50)	(64)
Temporary differences arising from the capitalization and transfer of development investments	224	142
Utilization of prior year losses	798	338
Current tax expense for the year	(63)	(65)
Recognition of deferred tax asset	1,338	-
Deferred tax income for the year	1,338	-
Total income tax credit/(expense) for the year	1,275	(65)

The current tax expense represents US Alternative Minimum Tax ("AMT"), which is payable by the group's US subsidiaries notwithstanding the availability of tax losses from prior years, and (in 2015 only) German corporation tax payable by Sopheon GmbH.

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

There is no tax arising on other comprehensive income.

Deferred Tax Asset

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

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

	2016 $'000	2015 $'000
Amount recognized during the year	1,338	-
Deferred tax asset at 31 December 2016	1,338	-

The unrecognized deferred tax asset is made up as follows:

	2016 $'000	2015 $'000
Shortfall of tax depreciation compared to book depreciation	146	176
Effect of timing differences arising from capitalization of internally generated development costs	(1,560)	(1,599)
Unrelieved trading losses	17,448	20,734
Unrecognized deferred tax asset at 31 December 2016	16,034	19,311

At 31 December 2016, tax losses estimated at $64m (2015: $70m) were available to carry forward by the Sopheon group, arising from historic losses incurred. These losses have given rise to a deferred tax asset of $1.3m (2015: Nil) and a further potential deferred tax asset of $17.4m (2015: $20.7m), based on the tax rates currently applicable in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of $9.4m, representing $3.3m of the potential deferred tax asset, (2015: $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. (LOSS)/PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent company for the year ended 31 December 2016 was $390,000 (2015: profit of $760,000). Advantage has been taken of Section 408 of the Companies Act 2006 not to present an income statement for the parent company.

12. EARNINGS PER SHARE

	2016	*2015*
	$'000	*$'000*
Basic earnings per share		
Profit after tax	4,309	1,131
	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,297	7,279
	$'000	*$'000*
Diluted earnings per share		
Profit after tax	4,309	1,131
Reduction in interest expense in respect of convertible loan stock	217	245
Diluted profit after tax	4,526	1,376
	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	10,205	9,897

For the purpose of calculating the diluted earnings per ordinary share in 2016 and 2015, 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 into ordinary shares at 1st January in the relevant year, and that options to subscribe for Sopheon shares at prices below the average share price prevailing during the year were exercised at that date (or, if later, on the date of grant).

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

In respect of outstanding 628,912 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.

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment $'000*	*Furniture & Fittings $'000*	*Total $'000*
Cost			
At 1 January 2015	1,776	366	2,142
Additions	121	3	124
Exchange differences	(17)	(9)	(26)
At 1 January 2016	1,880	360	2,240
Additions	245	5	250
Exchange differences	(17)	(2)	(19)
At 31 December 2016	2,108	363	2,471
Accumulated Depreciation			
At 1 January 2015	1,564	313	1,877
Depreciation charge for the year	171	29	200
Exchange differences	(13)	(5)	(18)
At 1 January 2016	1,722	337	2,059
Depreciation charge for the year	170	19	189
Exchange differences	(15)	(3)	(18)
At 31 December 2016	1,877	353	2,230
Carrying Amount			
At 31 December 2016	231	10	241
At 31 December 2015	158	23	181

Company
The company has no property, plant and equipment.

14. INTANGIBLE ASSETS

	Development Costs (Internally Generated) $'000	Goodwill $'000	Total $'000
Cost			
At 1 January 2015	17,655	1,022	18,677
Additions (internally generated)	2,058	-	2,058
At 1 January 2016	19,713	1,022	20,735
Additions (internally generated)	1,933	-	1,933
At 31 December 2016	21,646	1,022	22,668
Amortization			
At 1 January 2015	12,788	-	12,788
Charge for the year	2,368	-	2,368
At 1 January 2016	15,156	-	15,156
Charge for the year	2,043	-	2,043
At 31 December 2016	17,199	-	17,199
Carrying Amount			
At 31 December 2016	4,447	1,022	5,469
At 31 December 2015	4,557	1,022	5,579

The amortization period for the internally generated development costs relating to the group's software products is four years. Goodwill is not amortized. The residual goodwill arising on the acquisition of Alignent is attributable to the enhanced market position of each of the group's operating segments, due to the completeness of the solution that Sopheon can offer the market. The recoverable amount of the goodwill can be underpinned on a value in use basis by the expected performance of the group'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 2015.

Company
The company has no intangible assets.

15. INVESTMENT IN SUBSIDIARIES

	Company $'000
At cost less amounts provided	
At 31 December 2015	9,069
Exchange difference	(1,541)
At 31 December 2016	7,528

Details of the company's subsidiaries at 31 December 2016 are set out below. Companies marked with an asterisk (*) are held via Sopheon UK Ltd and those with an obelus (†) are held via Orbital Software Holdings plc. The common stock of Alignent Software, Inc. and Sopheon Corporation, Minnesota, USA are held by Sopheon Corporation, Delaware, USA. The share capital of Sopheon Corporation, Delaware, USA and Sopheon GmbH are held by Sopheon NV.

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

16. OTHER RECEIVABLE

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Other receivable	19	19	-	-

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

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade receivables	8,655	6,656	-	-
Other receivables	50	26	42	15
Total receivables	8,705	6,682	42	15
Prepayments	648	500	3	8
Accrued income	343	427	-	-
	9,696	7,609	45	23

Trade and other receivables are stated net of allowances totaling $Nil (2015: $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 $48,386,000 (2015: $58,285,000) 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

	Group		Company	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cash at bank	9,253	6,660	1,197	1,627
Short-term bank deposits	808	386	-	-
	10,061	7,046	1,197	1,627

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 $30,000 (2015: $36,000) held by the group's employee share ownership trust.

19. TRADE AND OTHER PAYABLES

	Group		Company	
	2016	*2015*	*2016*	*2015*
	$'000	*$'000*	*$'000*	*$'000*
Trade payables	967	853	28	29
Other payables	294	254	128	156
Tax and social security costs	230	300	-	-
Accruals	2,937	2,735	360	351
	4,428	4,142	516	536

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amounts of trade and other payables represent a reasonable approximation to their fair values.

20. BORROWINGS

	Group		Company	
	2016	*2015*	*2016*	*2015*
	$'000	*$'000*	*$'000*	*$'000*
Current Loans and Borrowings				
Line of credit	3,000	3,000	-	-
Loan notes (current portion)	167	147	-	-
Total current loans and borrowings	3,167	3,147	-	-
Non-current Loans and Borrowings				
Loan notes (non-current portion)	200	23	-	-
8% convertible loan stock 2019	2,448	2,963	2,448	2,963
Total non-current loans and borrowings	2,648	2,986	2,448	2,963
Total loans and borrowings	5,815	6,133	2,448	2,963

a) Line of Credit and Loan Notes

In February 2014 the group established new credit facilities with Silicon Valley Bank, which were renewed and extended in March 2016. The facilities comprise a $3m revolving line of credit and a term loan of $0.5m repayable in equal installments until maturity at the end of January 2019. Both facilities bear interest at rates of 2.75 percent above the WSJ Prime Rate, resulting in a current effective rate of 6.50 percent. The facilities are subject to covenants based on operating results, and in addition the drawdown mechanics and interest rates are subject to certain working capital ratios.

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

b) 8 Percent Convertible Loan Stock 2019

The convertible loan stock 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 holders of the loan stock agreed 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. On 21 March 2016 the holders of the loan stock agreed a further extension of the maturity date of the loan stock to 31 January 2019. The conversion price and interest rate of the loan stock remained unchanged.

Holders may convert the loan stock into Sopheon ordinary shares at any time up to the extended maturity date of 31 January 2019, and any loan stock not converted is to be repaid at par on that date. On 15 September 2016 a holder of £10,000 loan stock converted their loan stock resulting in the issue of 13,071 ordinary shares, leading to a net remaining amount due of $1.99m.

21. OPERATING LEASE ARRANGEMENTS

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

	Land & Buildings 2016 $'000	*Other 2016 $'000*	*Land & Buildings 2015 $'000*	*Other 2015 $'000*
Due within one year	429	77	508	90
Due after one year and within five years	422	168	471	133
	851	245	979	223

The group leases its office accommodation in the US, UK and the Netherlands and has operating leases for office equipment and vehicles. Since the year end, an office lease agreement for one of the group's US locations has been renewed, which would add $768,000 to total commitments for land and buildings disclosed above and relates to the period to June 2020.

Company
The company has no operating leases.

22. FINANCIAL INSTRUMENTS

Categories of Financial Assets and Liabilities

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

1. Financial Assets

		Group		*Company*	
	Notes	*2016 $'000*	*2015 $'000*	*2016 $'000*	*2015 $'000*
Current Financial Assets					
Trade receivables	17	8,655	6,656	-	-
Other receivables	17	50	26	42	23
Accrued income	17	343	427	-	-
Cash and cash equivalents	18	10,061	7,046	1,107	1,627
		19,109	14,155	1,149	1,650
Non-current Financial Assets					
Other receivable	16	19	19	-	-

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

2. Financial Liabilities

		Group		*Company*	
	Notes	*2016 $'000*	*2015 $'000*	*2016 $'000*	*2015 $'000*
Current Financial Liabilities					
Trade payables	19	967	853	28	29
Other payables	19	294	254	128	156
Accruals	19	2,937	2,735	360	351
Loans and borrowings	20	3,167	3,147	-	-
		7,365	6,989	516	536
Non-current Financial Liabilities					
Loans and borrowings	20	200	23	-	-
8% convertible loan stock 2019	20	2,448	2,963	2,448	2,963
		2,648	2,986	2,448	2,963
		10,013	9,975	2,964	3,499

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 2016, the largest single customer accounted for 20 percent of group revenues (2015: 11 percent of group revenues in respect of the same customer).

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

The group's customers are major international corporations of high credit standing and therefore the group does not typically obtain credit ratings for individual customers. Nevertheless, current economic conditions have resulted in such major corporations slowing down payments and this is reflected in the ageing profile of the group's receivables. However, impairment of trade receivables is very rare, and in the two years ending 31 December 2016 provisions or write offs against customer receivables amounted in total to less than 0.5 percent of revenues. Such impairments do not arise from credit defaults, but principally from disagreements with a very small number of former customers over their responsibility for renewal fees for maintenance or hosting contracts. Sopheon's policy is to pursue collection of such fees where invoiced, and to make provision against the applicable receivable if collection is uncertain.

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

	Total	*Current*	*Past Due +30 Days*	*Past Due +60 Days*
	$'000	*$'000*	*$'000*	*$'000*
At 31 December 2016	8,655	6,021	1,851	783
At 31 December 2015	6,656	3,871	1,765	1,020

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:

	2016			*2015*		
	$'000 Gross Value	*$'000 Provision*	*$'000 Carrying Value*	*$'000 Gross Value*	*$'000 Provision*	*$'000 Carrying Value*
Trade receivables						
North America	7,355	-	7,355	5,551	-	5,551
Europe	1,300	-	1,300	1,105	-	1,105
	8,655	-	8,655	6,656	-	6,656

The group records impairment losses on its trade receivables separately from the gross amounts receivable. No impairment losses were recorded during 2016 or 2015. The main factors used in assessing the impairment of the group's trade receivables are the age of the balances and the circumstances of the individual customer.

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

b) Liquidity Risk

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

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

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

Group

At 31 December 2016	*On Demand or Within Six Months $'000*	*Within One Year $'000*	*Within Two Years $'000*	*Within Five Years $'000*	*Total $'000*
Trade and other payables	1,261	-	-	-	1,261
Line of credit	3,000	-	-	-	3,000
Loan notes	86	86	171	28	371
Future interest – loan notes	11	8	8	-	27
Convertible loan stock	-	-	-	2,448	2,448
Future interest – convertible loan stock	98	98	196	16	408
Total financial liabilities	4,456	192	375	2,492	7,515

At 31 December 2015	*On Demand or Within Six Months $'000*	*Within One Year $'000*	*Within Two Years $'000*	*Within Five Years $'000*	*Total $'000*
Trade and other payables	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

Company

At 31 December 2016	*On Demand or Within Six Months $'000*	*Within One Year $'000*	*Within Two Years $'000*	*Within Five Years $'000*	*Total $'000*
Trade and other payables	490	-	-	- 4	90
Convertible loan stock	-	-	-	2,448	2,448
Future interest – convertible loan stock	98	98	196	16	408
Total financial liabilities	588	98	196	2,464	3,346

At 31 December 2015	*On Demand or Within Six Months $'000*	*Within One Year $'000*	*Within Two Years $'000*	*Within Five Years $'000*	*Total $'000*
Trade and other payables	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

c) Market Risk

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

d) Interest Rate Risk

The group's fixed rate interest bearing liabilities consist of the convertible loan stock with a nominal value of £1,990,000, which bears a fixed interest rate of 8 percent, and the US Dollar fixed interest term loan notes amounting to $371,000 at 31 December 2016. 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 2016, and which bears interest at a margin of 2.75 percent above the WSJ Prime Rate, currently representing an effective rate of 6.50 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 2016 was $808,000. During 2016 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 $4,000.

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.

	2016	*2015*	*2016*	*2015*
			Effect on	
	Increase/ (Decrease) in Profit After Tax	*Increase/ (Decrease) in Profit After Tax*	*Exchange Differences on Translation of Assets and Liabilities of Foreign Operations*	
	$'000	*$'000*	*$'000*	*$'000*
Strengthening of Sterling in US Dollar terms by 10c	33	17	(172)	(118)
Weakening of Sterling in US Dollar terms by 10c	(33)	(16)	166	117
Strengthening of Euro in US Dollar terms by 10c	(10)	(80)	79	43
Weakening of Euro in US Dollar terms by 10c	11	81	(85)	(44)

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.

	2016	*2015*
	Increase/(Decrease) in Profit After Tax	
	$'000	*$'000*
Strengthening of Sterling in US Dollar terms by 10c	(172)	(198)
Weakening of Sterling in US Dollar terms by 10c	172	
Strengthening of Euro in US Dollar terms by 10c	53	
Weakening of Euro in US Dollar terms by 10c	(53)	

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	*2016 Number*	*2016 $'000*	*2015 Number*	*2015 $'000*
Ordinary shares of 20 pence each	7,361,365	2,375	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. During the year, 13,071 ordinary shares were issued in connection with the conversion of loan stock at 76.5p per share, and 69,294 in connection with the exercise of options at exercise prices ranging from 55p to 175p.

At 31 December 2016 the company had outstanding 25,138 warrants to subscribe for ordinary shares of 20p each at a price of 400p per share, which were issued in June 2007 to BlueCrest Capital Finance LLC in connection with the financing of the acquisition of Alignent Software, Inc. The warrants have a 10 year life.

24. CAPITAL RESERVES

Group

	Share Premium $'000	Equity Reserve $'000	Special Reserve $'000	Total $'000
At 1 January 2015	-	581	5,073	5,654
Recognition of share-based payments	-	114	-	114
Lapsing or expiry of share options	-	(17)	-	(17)
At 1 January 2016	-	678	5,073	5,751
Issues of shares	98	-	-	98
Recognition of share-based payments	-	62	-	62
Lapsing or expiry of share options	-	(68)	-	(68)
At 31 December 2016	98	672	5,073	5,843

Company

	Share Premium $'000	Equity Reserve $'000	Special Reserve $'000	Total $'000
At 1 January 2015	-	581	5,073	5,654
Recognition of share-based payments	-	114	-	114
Lapsing or expiry of share options	-	(17)	-	(17)
At 1 January 2016	-	678	5,073	5,751
Issues of shares	98	-	-	98
Recognition of share-based payments	-	62	-	62
Lapsing or expiry of share options	-	(68)	-	(68)
At 31 December 2016	98	672	5,073	5,843

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 2019.

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 2016 and at 31 December 2015, 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 (2015: $17,000) which represents the cost of the shares held by the Esot at 31 December 2016.

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 2016 and at 31 December 2015, 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 $269,000 (2015: $239,000) 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:

	2016	*2015*
	$'000	*$'000*
Emoluments and benefits	2,561	2,616
Pension contributions	51	52
Share-based payments	47	87
	2,659	2,755

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:

	2016	*2015*
	$'000	*$'000*
Net amounts repaid by subsidiaries in respect of interest-free loans	(36)	(1,767)
Net management charges to subsidiaries	556	498

The amounts owed by subsidiary companies to the parent company at 31 December 2016 totaled $48,386,000 (2015: $58,285,000). A full provision has been made against these amounts, which are unsecured and are subordinated to the claims of all other creditors.

During 2016 and 2015 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 2015 and 2016 are as follows:

	Number of Share Options	*Weighted Average Exercise Price* £
Outstanding at 1 January 2015	635,940	1.01
Options granted in 2015	26,250	0.48
Options lapsed in 2015	(40,020)	1.00
Outstanding at 31 December 2015	622,170	0.99
Options granted in 2016	91,189	0.88
Options exercised in 2016	(69,294)	1.19
Options lapsed in 2016	(19,919)	0.97
Outstanding at 31 December 2016	624,146	0.95
Exercisable at 31 December 2016	520,114	0.99
Exercisable at 31 December 2015	490,210	1.06

During the 2016, options were exercised over 69,294 ordinary shares at exercise prices ranging from 55p to 175p. No share options were exercised during 2015. The options outstanding at the end of the year have a weighted average contractual life of 6.2 years (2015: 7.1 years).

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

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

Date of Grant	*April 2016*	*April 2015*
Share price at time of grant	87.5p	47.5p
Exercise price	87.5p	47.5p
Expected volatility	40%	40%
Risk-free rate	5%	5%
Expected dividend yield	Nil	Nil

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

DIRECTORS

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

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

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

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

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

Sopheon

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