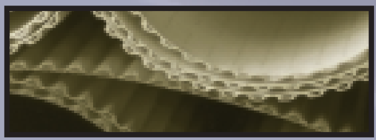
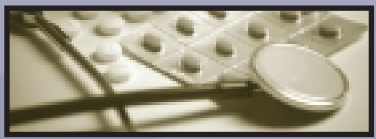
SOPHEON 2005

ANNUAL REPORT





sopheon

The Knowledge To Compete®

Sophеon's ***mission*** *is to give our clients the* ***power***

to more effectively create, capture and share

knowledge *– and use it to* ***compete.***

contents

Sopheon is an international provider of software and services that increase the business impact of innovation. Sopheon's software applications integrate process and strategic decision support to help organizations generate more revenue and profit from new products.

Group Profile

The Sopheon group has operating bases in the United Kingdom, the Netherlands and the United States. Its clients are R&D intensive companies in the high-tech manufacturing, chemicals, consumer packaged goods and healthcare industry sectors.

Statement from the Chairman and Chief Executive Officer

Overview of the year

Sopheon's consolidated turnover for 2005 grew to £4.7m from £4.3m the year before. We closed 29 license orders and extensions, taking the total number of licensed customers to 70. Full-year revenues were 8% higher than 2004, but we fell short of our goal of achieving profitability. Our EBITDA losses were £0.7m, which represents a 40% improvement over 2004 under International Financial Reporting Standards ("IFRS").

During the year we released version 6.0 of our market leading Accolade suite, a landmark release, equipping our solution with extensive integration to Microsoft Office and Microsoft Project Server applications. We also brought tighter focus to our product portfolio during 2005, initiating steps to convert our legacy healthcare solutions onto the Accolade platform. This initiative is scheduled to be completed in June of this year. In the final quarter of 2005 we divested Lessenger, the small-scale lab software business in the Netherlands for net proceeds of approximately £0.07m. Late in the year we received new market affirmation from IDC, a global IT research and advisory firm, which credited Sopheon with first-mover status for our actions to capitalize on the convergence of the product life cycle management and portfolio management markets.

On the corporate front, we completed the full conversion of the group's convertible loan note, and renewed the group's €10m equity line facility with GEM Global Yield Fund through December 2007. We also secured £1m of new equity funds in May, through a placing of 4.4m shares.

In 2005 we announced our decision to adopt IFRS, in part due to the increasing importance of the group's shareholders that trade through Euronext. In Sopheon's case, the key areas of impact are the expensing of share option grants, and the capitalisation and amortization of software development costs. Further details of the principal financial effect of these changes are provided in the Financial Review.

Organization

Sopheon's group management and governance structure is divided between a Sopheon plc board of directors, and an executive management board responsible for business operations. The management team comprises a team of five, which includes three executive directors, being the two of us together with Arif Karimjee our CFO, in addition to Paul Heller our CTO and Huub Rutten our head of research. The Sopheon plc board remains unchanged with the three executive directors, in addition to four non-executive directors who bring a wealth of knowledge and experience to our business. You can find further details about each of us on the inside back cover of this report.

Recent change initiatives

Since its launch five years ago, Accolade has established itself as a market leading solution that has helped Sopheon to grow core dollar revenues at an annual average of 50%. By most measures, we have come a long distance in a short time. And as our financial results show, we continued to grow in 2005. That said, we were dissatisfied with our 2005 performance and, in particular, with our failure to achieve profitability. We have consequently initiated a process of change that is affecting key aspects of our business and is designed to help us increase our growth, gain profitability and create more value for our shareholders.

Much of this change was initiated in 2005, and is described elsewhere in this report. More needs to be done, but we are encouraged by our progress. For instance, we have taken steps to change the way we evolve our product lines, allowing us to further leverage core technology assets and accelerate our expansion into new markets. We have made organizational changes that will enable us to grow and manage our indirect sales channels more effectively. We expect these adjustments to begin paying dividends in 2006 by producing more sales through our partner network. We have further invested in vertical marketing with the recent hiring of a senior sales executive who is focused on selling to the manufacturers of consumer packaged goods. We believe this specialization model has the potential to increase sales-cycle efficiency and accelerate our penetration of select industry segments. We have made key hires to expand the capacity of our implementation services, changes that will not only enable us to more tightly control the speed and quality of service delivery but improve margins on this critical aspect of our business operations.

Outlook

Our internal efforts are intended to ensure continued advances in our business performance. However, we expect that our growth will be further supported by an anticipated step-change in activity within our target markets. This belief is underpinned by such leading indicators as the scale of our recent enterprise deployments, and the increased attention to our market by traditional suppliers of product life cycle management solutions. We anticipate that the movement of these suppliers toward our space will have the additional effect of confusing the market and that we will have to continue to deal with new competitors.

Our approach to evolving the business continues to be one of steady preparation and planning so that we are ready when the market accelerates. We believe that our early success in attracting global industry leaders as clients, our mature best-practice content, and our dedicated focus on strengthening the business process of product innovation as a prerequisite to improving decision-making will continue to differentiate our solution and create barriers to competition.

Maintaining our position of market leadership requires a material level of ongoing investment, while keeping costs under control. Meanwhile, we expect our inconsistent revenue performance to continue until Sopheon grows to a more mature level of business and the influence of individual transactions recedes. This pattern has persisted in the first months of 2006 which have been dominated by a small number of large new license opportunities, combined with continued growth in our services business. That said, at the time of issuing this report, business closed since the year end has increased our revenue visibility for the first half of 2006 to £2.2m, already ahead of the £1.9m reported for the same period in 2005.

We know what we have to do, and we believe we're on the right track. We continue to look to the future with optimism.

Barry Mence
Executive Chairman

Andy Michuda
Chief Executive Officer

13 April 2006

Financial Review

Conversion to IFRS

The following discussion is presented using International Financial Reporting Standards ("IFRS"). As announced last year, although Sopheon's AIM listing provides for an exemption from the adoption of IFRS until the financial statements for 2007, we concluded in consultation with our advisers that adoption of IFRS as of the 2005 financial statements was appropriate. In Sopheon's case, the key areas that are materially affected by this conversion are:

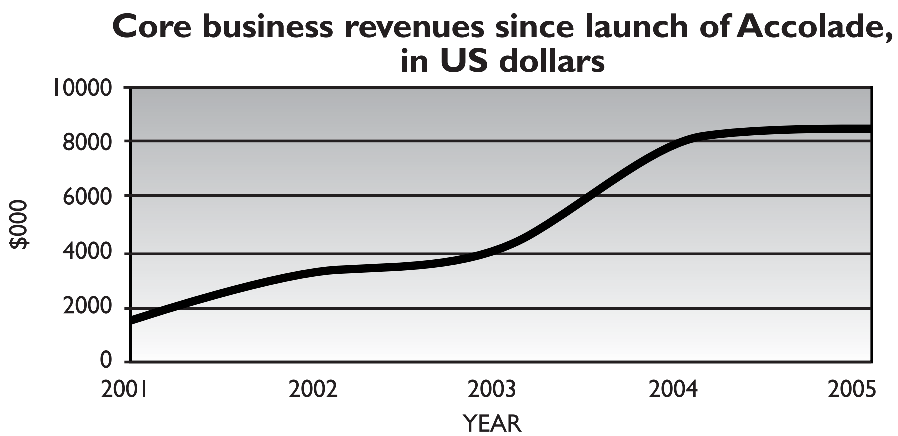
(i) Under IFRS2, an option pricing model has been used to work out the fair value of share options granted since November 2002, with this value being charged to the income statement over the expected vesting period and leading to a charge of £132,000 in 2004 and £143,000 in 2005; and

(ii) Under IAS 38, certain research and development ("R&D") expenditure must be capitalised and amortised based on detailed technical criteria, rather than automatically charging such costs in the income statement as they arise and this has led to the capitalisation of £85,000 in 2004, and £427,000 in 2005, with amortisation of £340,000 and £392,000 respectively being charged in each year. This change also increases Sopheon's net assets in each year by £651,000 and £763,000 respectively.

These and other affected areas are discussed in more detail in the notes to the financial statements. In the treatment and reporting of Sopheon's revenues we have consistently applied the principles of AICPA SOP 97-2, which is considered to be best practice in the software industry. These principles are not affected by the adoption of IFRS.

Trading

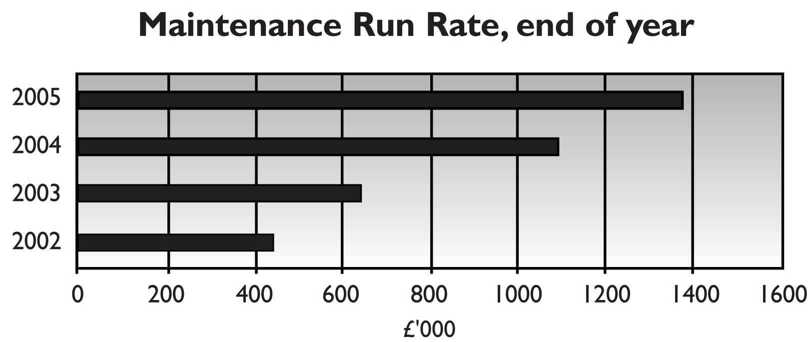
Sopheon's consolidated turnover grew to £4.7m (2004: £4.3m). This overall result included a strong new sales performance by our US territory, which grew revenues by 35% in the year, offset by a weaker outcome in Europe. Almost 60% of our 2005 revenues were from our US operations, up from approximately 45% in 2004. This resulted in 8% annual growth for the business as a whole. This performance was made up of two very different six month periods from a results standpoint. Revenues fell 10% in the first half of the year as the organization focused on delivering on the record sales of the second half of 2004 and refilled the sales pipeline. This effort set the stage for 45% growth in the second half of 2005, as sales momentum returned to the business. To put this in context, since the launch of Accolade five years ago, Sopheon has grown core dollar based revenues at an annual average of 50%.



In our interim statement we noted a growing proportion of larger sales opportunities which have the potential to generate revenue volatility, but also significant growth. Of the seven such opportunities referred to in our 2005 interim statement, one was put on hold, three closed with license orders during the period, and the remaining three engaged us in extensive services activity during 2005.

These factors, together with the large license orders secured at the end of 2004 which pulled through implementation services in 2005, led to a shift in our revenue mix to 40:25:35 license, maintenance and consulting services respectively (2004: 60:20:20). We believe this shift is a result of the timing of contract signatures across fiscal years. We believe that license revenue will make up a larger proportion of 2006 revenues, and that our business mix will return to one in which license is more predominant.

A substantial part of this expectation is linked to customers that purchased services from Sopheon last year, and which are now converting to license. Coming into 2006, this represented of the order of £2m of potential new business. Thanks in part to this conversion activity since the year end, our revenue visibility for the first half of 2006 is now over £2.1m. We define visibility for a period as being the total of (i) license orders including those which are contracted but conditional on acceptance decisions scheduled during the period; (ii) contracted services business expected to be delivered in the period; and (iii) recurring maintenance streams. It does not include potential license sales to customers who have commissioned a proof of concept. Our recurring revenue base has also continued to grow. As a result, we entered 2006 with £1.4m of ongoing maintenance and hosting contracts compared to £1m at the start of 2005.



As we signaled at the interim stage last year, the higher proportion of services in our revenue mix required us to make extensive use of subcontractor partners such as Tata Consulting Services ("TCS"). The cost of this subcontractor activity reduced our gross margins from 77% to 73%. Although we are increasing in-house resources to strengthen our ability to deliver large international implementations, we expect to continue to work with partners as a way of deepening market awareness of Accolade and continuing to ensure our capacity to meet customer service demand throughout the world.

In 2005, we implemented an expansion in R&D resources at our Denver development center and, with assistance from Microsoft and TCS, were able to devote specific resources to the landmark release of Accolade 6.0. Accordingly, £0.4m (2004: £0.1m) of our 2005 R&D expenditure met the criteria of IAS38 for capitalization.

The consolidated EBITDA loss was £0.7m (2004: £1.2m). This total reflects a deduction of share based payments of £0.1m (2004: £0.1m). It excludes amortization charges of £0.4m (2004: £0.8m, of which £0.5m relates to acquired intangible assets which are now fully amortized, and £0.3m relates to R&D) for the year, and net interest costs of £0.01m (2004: £0.3m). Including these items, the resultant retained loss for the year was £1.2m (2004: £2.3m) reducing the loss per ordinary share to 0.9p (2004: 2.0p).

Financing and balance sheet

Net assets have remained steady at £2m (2004: £2m) and include £0.8m (2004: £0.7m) being the net book value of capitalized research and development arising from the application of IAS38. Cash resources at 31 December 2005 amounted to £2m (2004 - £1.2m). Approximately £0.2m of the increase over 2004 was due to an increase in Sopheon's short-term facilities.

During 2005 Sopheon renegotiated its convertible loan instrument. This led to full conversion into equity by the end of the year, eliminating all non-current debt.

At the end of the year Sopheon also renewed its €10 million equity line of credit facility with GEM Global Yield Fund Limited until December 2007, securing access to a source of equity-based funding over which the company retains a substantial degree of control. Over 90% of the equity line facility remains untapped.

In May 2005 Sopheon concluded a placing of 4.4m shares for £1m in cash, to bring greater strength to the balance sheet, and to position the business to take timely advantage of possible new opportunities for business expansion.

Market and Product Overview

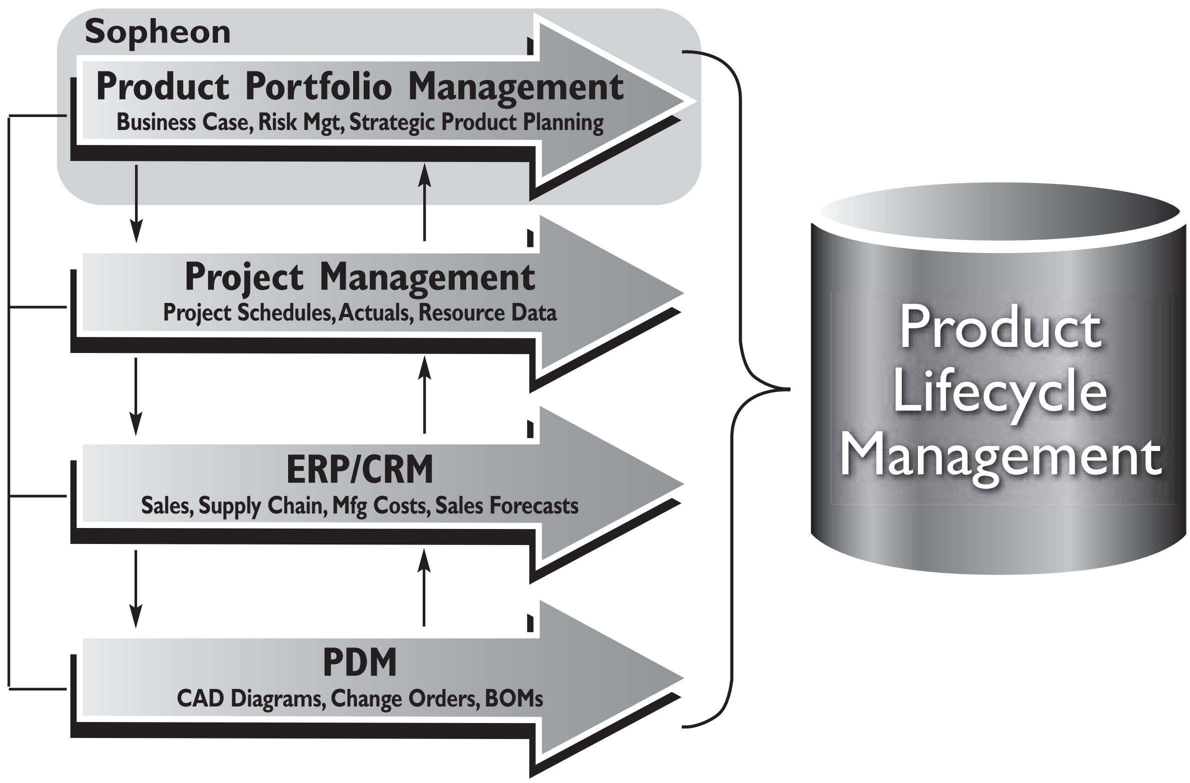
Sopheon's Core Solution

Most of today's companies have identified organic growth as their top priority. The key to such growth is innovation. Sopheon believes that the sustained creation of viable new products is essential to innovation and business success. Our purpose is to help organizations conceive, develop and commercialize products that make high levels of organic growth both predictable and reliable.

Sopheon provides software and services that enable companies to increase revenues and profits from new products. Our clients consistently report new-product revenue gains of 20% to 40%. They often attribute these advances to the software's ability to help them separate winning and losing products early in the innovation process, before they make substantial investments in development. Sopheon's solution platform is called Accolade.

The Market

Sopheon's Accolade belongs to a major class of software applications called product life cycle management (PLM). The purpose of this applications group is to help companies create and execute their product strategies. The PLM market is made up of multiple subclasses. Some of these subclasses, such as product data management (PDM), are very mature. Others are new and emerging.



Business analysts have placed Accolade in a sub-class of product life cycle management referred to as product portfolio management solutions.

Innovation is a business process. Because its implementation depends upon effective interaction and collaboration across the functions of an organization, it is quite complex. The process typically is modeled after a particular methodology. The most commonly used methodologies are Stage-Gate, Waterfall and Pace. Historically, implementation of these methodologies has been manual, requiring users to follow printed references in their execution of process steps. This approach was slow and difficult. The administrative burden imposed on users was excessive. Information supporting the process was almost always out of date, so portfolio decision-making was slow and poorly supported. In the absence of good information, decisions were often based upon gut-feel rather than sound business rationale.

Accolade automates the innovation process, enabling companies to strengthen the alignment between their innovation strategies and product development activity, gain a clear view of the commercial potential of projects in their portfolios, and have real-time visibility of the status and other details of product innovation initiatives in progress. This visibility and the resulting insight improve product-development decision making and increase the revenue and profit returns generated by high-risk R&D investments.

PORTFOLIO MANAGEMENT SOLUTIONS WILL SEE THE STONGEST GROWTH THROUGH 2008. PORTFOLIO MANAGEMENT IS STILL IN THE EARLY ADOPTER PHASE WITH TIER ONE ENTERPRISES LEADING THE ADOPTION OF SUCH SOLUTIONS. DRIVING GROWTH IS THE INCREASING NEED OF ORGANIZATIONS TO BETTER TRACK THEIR R&D INVESTMENTS AS WELL AS CURRENT PRODUCTS IN THE MARKET TO OPTIMIZE THE ALLOCATION OF PRECIOUS INTERNAL RESOURCES.

– ARC Advisory Group

"Product Lifecycle Management Solutions Worldwide Outlook Market Analysis and Forecast through 2008," March 2005

Business analysts have placed Sopheon's Accolade in a sub-class within PLM called product portfolio management (PPM) solutions. The focus of these applications is to help companies make better decisions in the management of their portfolios of products. This is one aspect of what the Accolade system does. The analysts have labeled Accolade as best-of-breed among solutions in this class. They view PPM as an emerging, strategically critical applications area. They are predicting that, during the next few years, product portfolio management will be the fastest growing market within PLM.

"Automation clearly plays a significant role in helping companies achieve product innovation and product development success."

Aberdeen Group

"New Product Developmemt: Profiting from Innovation," December 2005

In 2005, Sopheon noted the start of an important shift in PLM. Major suppliers who had entered the market with a focus on mature applications such as product data management and design software began to shift their attention toward promising, emerging submarkets. A number of these traditional PLM suppliers have stated recently that they intend to reposition themselves and invest to take advantage of the market opportunity in product portfolio management. Their movement will change the competitive landscape for Sopheon, and is likely to confuse the market. However, we also believe that the emergence of additional providers of product portfolio management solutions will create increased demand for innovation process automation. We expect this to result in more sales opportunities for Sopheon and an accelerated transition in the overall maturity of our market from the early adopter stage it is currently in to wider market acceptance. We had anticipated seeing early advances in this transition during 2005. It didn't happen. We continue to anticipate a market shift.

Important third-party affirmation of our view of market convergence trends came late in 2005 in the form of a report from the global IT market research firm, IDC. IDC analysts cited Sopheon as one of the first suppliers to recognize the convergence taking place between product life cycle management and portfolio management, and credited the company with being a first-mover in taking business advantage of the trend. IDC specifically highlighted the strategic value of Sopheon's 2005 decision to integrate its Accolade solution with Microsoft technology to provide a unique, highly beneficial answer for companies needing both innovation process automation and traditional project management capabilities in one application.

We believe our early success in attracting global industry leaders as clients, our mature best-practice content, and our dedicated focus on strengthening the business process of product innovation as a prerequisite to improving PPM decision-making will continue to differentiate our solution and create barriers to competition.

"A principal reason The Solae Company chose to adopt the Sopheon system is that it brings consistent rigor to our examination of the business risks and opportunities associated with each project entering our product development pipeline. Sopheon's Accolade is a tool that fits into our larger process for risk management, reducing the chance of investing in products that the market won't value."

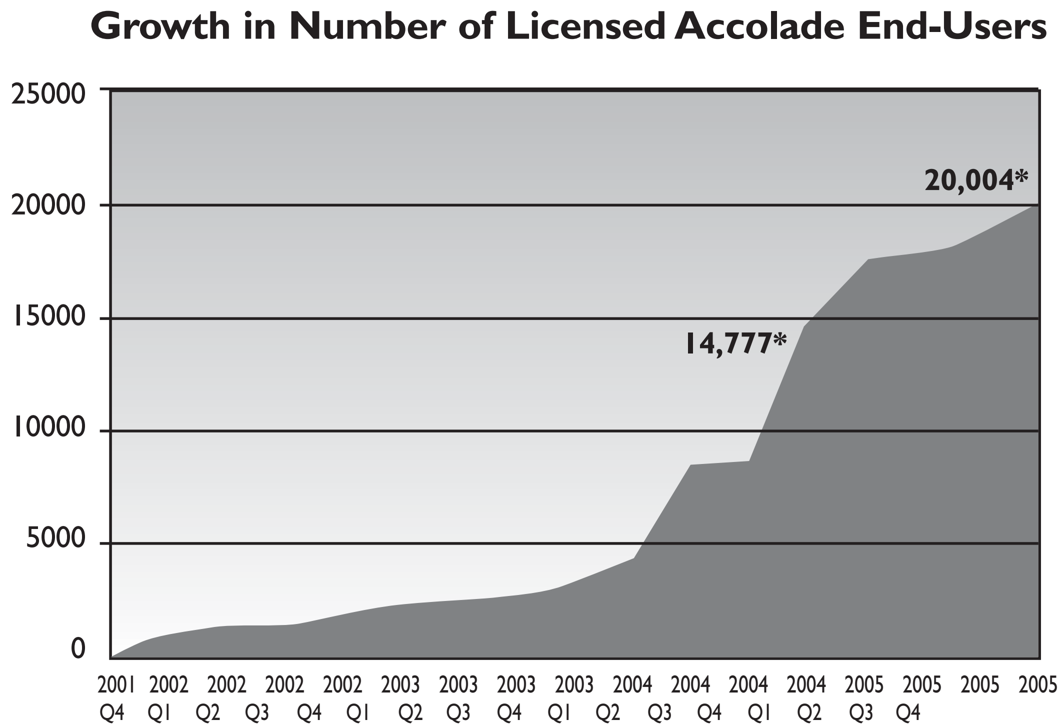
Jonathan McIntyre, Vice President of Research and Development, The Solae Company

Our Client Base

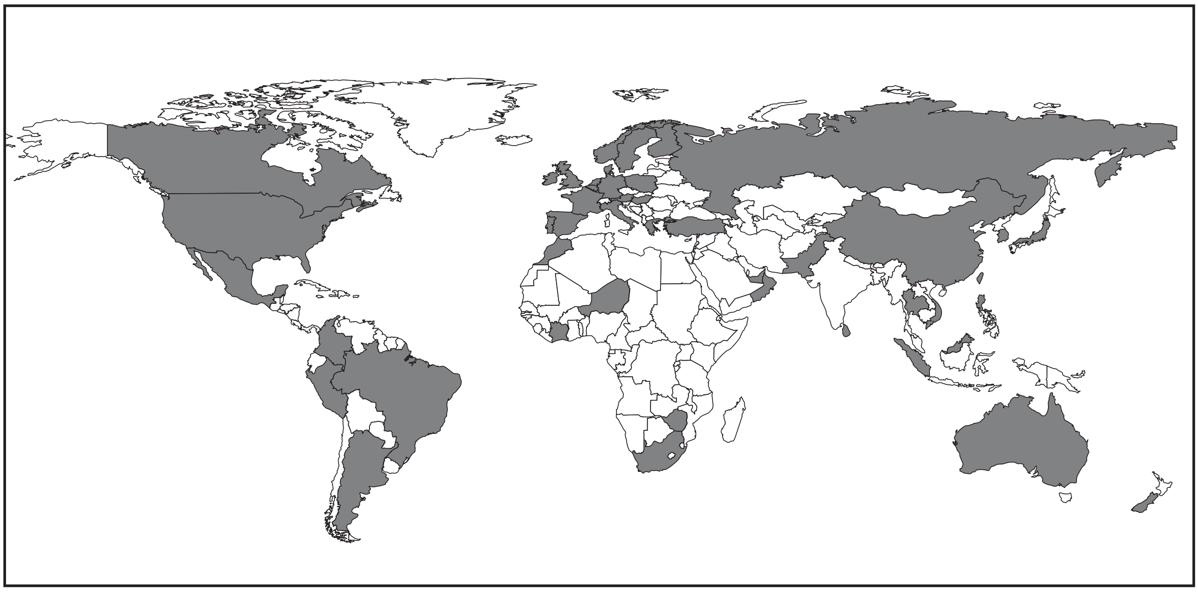
In 2005, Sopheon strengthened its market-share position in targeted vertical industries. We continued to focus on manufacturers of chemicals, papers and consumer packaged goods, where the emphasis is on producers of foods and beverages. Sixteen new customers were added, and we received 13 extension orders from existing customers. There are now 70 companies throughout the world licensing our Accolade software. The total number of individual users from within those organizations has now surpassed 20,000, an increase of 35% compared to the end of 2004. A principal reason for the recent rapid rise in user counts is that in the past year Accolade has transitioned from a departmental-level solution to an enterprise application.

One of the key strengths of the Accolade product is its simplicity. Our users have picked up the technology easily and so are able to concentrate on the benefits it brings – principally our ability to share the content of our innovation pipeline across the Cadbury Schweppes world. This assists our corporate objective to innovate quickly drawing on success from other parts of the company.

Christine Connelly, Chief Information Officer, Cadbury Schweppes plc



The number of Accolade users grew by 35% in 2005, to more than 20,000.



A number of our customers have deployed our system throughout their global operations. Accolade is now being used in 48 countries worldwide.

Sopheon expects to grow revenues from its client base by expanding the use of Accolade to other knowledge-intensive business processes and functions within adopting organizations. Forty-one percent of our revenue in 2005 came from existing clients. We see additional potential for growth from within our client base in 2006. We will leverage current Accolade users as part of our strategies for signing new clients.

In 2005 Sopheon surveyed its customer base to determine the level of impact Accolade was having on business performance. While the specific value of the software varied from client to client, we now have a clear understanding of the business benefit metrics Accolade consistently affects.

ACCOLADE BENEFITS

Examples of benefits clients have reported from their use of Accolade in conjunction with enhanced innovation processes.

Glatfelter – *global manufacturer of specialty papers and engineered materials*
- **132% increase in revenue from new products in three years**
- **Cut average time-to-market by 25%**
- **Reduced new product failures by 55%**
- **Increased number of truly innovative new products by 500%**

Cytec Surface Specialties – *global manufacturer of specialty chemicals and resins*
- **35% increase in research and development productivity**

J.M. Huber – *global manufacturer of food ingredients and specialty chemicals*
- **Increased net present value (NPV) of product portfolio of one business unit by 400%**
- **Increased number of truly innovative new products by 40%**

Pall – *global manufacturer of fluid purification and filtration systems*
- **Projected increase of $26M in net present value of product portfolio**
- **Accolade paid for itself in 1.2 years**

Our Product

In 2005 Sopheon introduced a new version of its Accolade solution. Version 6.0 features such enhancements as support for multiple languages, expanded reporting capabilities and advanced integration with Microsoft technology. It also includes a mix of features that automate and facilitate the reuse of information throughout the product innovation process. Accolade 6.0 embodies our strategy of integrating converging PLM subclasses: product portfolio management, including automation of the product development process, and project management. The creation of 6.0 was made possible by our strategic relationship with Microsoft and was accomplished through the integration of Microsoft Project Server with Accolade.

"What excites us about our partnership with Sopheon is that it has resulted in an application that uniquely and effectively focuses Microsoft technology on the critical front-end of the product development process and the challenge of product innovation. Accolade gives product development teams and executives the ability to access and share project-related information from enterprise-wide systems and use that data to make faster, better portfolio management decisions."

Tim Low, Senior Product Manager, Microsoft

LANGUAGES SUPPORTED BY ACCOLADE:

- Danish
- Dutch
- English
- French
- German
- Japanese
- Korean
- Portuguese
- Spanish
- Swedish

The latest Accolade release, Version 6.0, supports ten languages. This will be a key enabler in our strategies for supporting enterprise-wide adoption of Accolade by global clients, and for entering new international markets.

Most of Sopheon's clients have already upgraded to 6.0. This was accomplished with minimal disruption or delay for the adopting organizations. The efficiency of this transition was a direct result of the high quality of our development and commercial software code, a core competitive advantage.

Accolade was designed to automate and improve the business process of product innovation. However it was conceived with the strategic vision of also establishing a strong technology platform that would allow us to support additional knowledge-intensive, high- risk business processes as we gain traction in the marketplace. This strategy has begun to play out with some of our current customers.

"We are committed to a structured new product development methodology. Accolade has made that methodology part of the core operating fabric of our company, and provided a solid foundation for our innovation efforts. The flexibility of that foundation has allowed us to build on it, fine tuning information views and process deliverables while implementing other enhancements that continue to expand the value of the system. Accolade will serve as our platform for innovation."

Michael Glessner, VP and General Manager, Greene, Tweed

Sopheon's technology platform design capabilities place us in a unique position to take advantage of opportunities in new markets. In 2005 we created an internal organization called RAD (Research & Application Development) chartered to create new applications that leverage the strength of the Accolade platform but don't require investment in the creation of product code. We have already implemented initial prototypes of this concept. We expect RAD to generate new sources of revenue for the first time in 2006, with momentum building into 2007.

NEW MARKETS

Throughout its history, Sopheon has made ongoing, nominal investments in select new markets as a way of evaluating opportunities to leverage existing technologies and drive additional business growth.

Healthcare

Protocol Management

Sopheon continues to support its historic position as a supplier to the healthcare protocol market. Our Qualiflow technology is used by healthcare institutions to provide doctors, nurses and other medical practitioners with procedural guidelines at the point of care. We launched a project in 2005 to convert the current Qualiflow code base to the Accolade platform. This effort is scheduled to be completed in 2006. Expansion of our protocol management market activity is on hold until this platform transition has been proven successful. Sopheon will then readdress its strategies for growing this aspect of our business.

Clinical Trials

Sopheon has successfully used the Accolade platform to automate the process for conducting clinical trials of pharmaceutical products. With our initial commercial clients under contract, we are limiting further investment while we evaluate the potential for additional growth.

"Over the next few years, we plan to double our level of clinical trial activity. To achieve that goal, we will not only have to continue to meet demanding regulatory deadlines for trial turn around, we will have to deliver consistently high-quality trial data to our pharmaceutical clients with greater efficiency than ever before. A home-grown system could never have handled the complete range of requirements that we face. And none of the alternative, externally produced solutions we looked at came close to matching Accolade's mix of essential out-of-the-box functionality. It was clear to us that the Sopheon offering was the right solution for our needs."

Paul van Es, Manager, Research and Science Bureau, MCRZ Hospital

Capital Expenditure Project Management

Sopheon has collaborated with one of the largest general hospitals in the Netherlands to develop an Accolade configuration called Innovation Projects. This configuration enables hospitals to apply the industrial methodologies of new product development and portfolio management to their capital expenditure projects to improve prioritization, quality management and time-to-market. We are currently working with launching customers to test the market for this new Accolade configuration.

High Tech

Compliance Management

Boeing and Airbus have endorsed a Sopheon application that supports regulatory compliance in the implementation of radio frequency identification (RFID) technology in commercial airplanes. The application uses a Sopheon-developed linguistic text-comparison engine to provide aircraft engineering and procurement teams with relevant RFID standards, operating procedures and best practices. This project, while still active, has been slow to move commercially. Our 2006 plans call for minimal business growth from this initiative.

PARTNERSHIP STRATEGY

Sopheon is committed to growing its business through partnerships. We also know that it takes time and investment to develop a strong network of partners that can add value to the company. In 2005 Sopheon hired a director of business development to focus on advancing our global partner network.

2005 was spent working with existing partners to deepen their knowledge and understanding of our value proposition, the dynamics of our markets and the capabilities of our product offerings. We were particularly active with our *via*Consulting partners (see description below) such as Tata Consulting Services ("TCS") whom we engaged in a number of Accolade implementations throughout the year.

While we had hoped for more Accolade sales in 2005 through our partner network than were achieved, several resellers have now experienced their first sales and all network participants continue to demonstrate a strong commitment to representing Accolade.

Following are the partner categories that comprise our *via* program:

- *via*Technology – partners who offer hardware, software, knowledge or content-products and services supporting the development and use of Accolade.
- *via*Consulting – partners who are experts in implementing Accolade, and may also bring expertise in new product development (NPD), process design, training, industry-specific solutions and management consulting.
- *via*Reseller – partners who are responsible for independently selling Accolade into a defined market, e.g. mid-market or financial services. *via*Resellers conduct their own marketing, sales and services programs to generate Accolade sales.
- *via*Referral – partners with NPD or industry-specific knowledge and contacts who earn a fee for identifying possible Accolade sales opportunities and introducing members of the Sopheon sales team into prospective accounts. Additional support during the sales process can lead to higher referral fees.

***via*Technology:**
Sopheon continues to build on its active strategic partnership with Microsoft with a strong focus on technology development and integration. Sopheon has been selected as a member of the Partner Advisory Council (PAC) for Microsoft's EPM project server product line. Through our participation, we receive advance looks at Microsoft technology developments and have the opportunity to influence product direction and strategy. At the moment there is significant planning activity around the much anticipated release of Microsoft Office 2007, expected in late 2006.

***via*Consulting**
Sopheon has signed a small number of specialized partners to assist in the delivery and implementations of Accolade. This past year was a time of learning both for Sopheon and the organizations in this category as we developed a practical understanding of what is required to develop a qualified implementation partner. While a number of these partners have now trained specialized teams within their companies on Accolade, we have a need to further refine our processes and training in this area during 2006.

Sopheon continues its established relationship with renowned new product management expert Robert Cooper and his PDI/SGI organization. Most of this activity is in North America. In addition, we have stepped up our efforts with a select number of other business-management consulting partners with whom we are working to develop the market for innovation-process automation globally. These relationships are in their early stages and we plan to spend more time and energy on building them in 2006 as a prerequisite to generating meaningful business results. A handful of sales opportunities were brought forward by these partners in 2005 and continue to be active in our sales funnels. We expect an increase in lead activity and sales contracts from this segment in 2006.

***via*Reseller**
Our resellers were responsible for a few sales in 2005. But these partners continue to concentrate primarily on supporting the emergence of a market in the geographical areas where they are located. It takes time and investment for resellers to achieve the traction required to generate new contracts.

We now have reseller partners signed up in France, Germany, Portugal, Australasia, Korea and South Africa. Our preferred reseller model is one in which Sopheon has an ownership stake in the enterprise and the reseller partner is 100% focused on reselling Accolade. We believe when our resellers show this level of commitment to Sopheon the likelihood that the partnership will succeed is high. We now have two such entities in our network: Sopheon Pty in Australasia and the recently announced Sopheon France SARL.

Sopheon held a global kickoff meeting with our resellers in February of 2006 and was pleased with the continued commitment and growing knowledge of our market and product exhibited by those in attendance. Further developing and supporting the capabilities of this network will be a strategic priority in 2006.

***via*Referral**
Most of our referral activity has originated from other types of partners. While the *via*Referral network encompasses the highest number of partners, these organizations do not have the same level of commitment to Sopheon as partners in other categories. The investment of our company in this program area is low, and the number of referrals coming from these organizations is small. Sopheon will continue to strengthen our referral program by enhancing relationships with our other partner segments.

"Demand is growing for technology solutions that will enable French manufacturers to automate, control and rationally execute their innovation processes, and help them make good decisions in the earliest stages of product development. The Sopheon system has proven over and over that it can connect with a company's innovation strategies and provide process automation and decision support that will lead to higher levels of growth and profits from new products. We believe that Sopheon's Accolade is the right solution at the right time for the French market."

Patrice Duponchel, Chief Executive Officer, Sopheon France SARL

Directors and Advisers

Directors	Barry K. Mence	Executive Chairman
	Andrew L. Michuda	Chief Executive Officer
	Arif Karimjee ACA	Finance Director
	Stuart A. Silcock FCA	Non-executive Director
	Bernard P. F. Al	Non-executive Director
	Andrew M. Davis	Non-executive Director
	Daniel Metzger	Non-executive Director
Secretary	Arif Karimjee	
Registered office	Surrey Technology Centre 40 Occam Road, Surrey Research Park Guildford, Surrey GU2 7YG	
Registered name and number	Sopheon plc Registered in England and Wales No. 3217859	
Auditors	BDO Stoy Hayward LLP 8 Baker Street London W1U 3LL	
Principal bankers	Silicon Valley Bank 3003 Tasman Drive Santa Clara California CA 95054 United States	Lloyds TSB Bank Plc 77 High Street Southend-on-Sea Essex SS1 1HT
Solicitors	Hammonds 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2400 IDS Center, 80 South Eighth Street Minneapolis Minnesota 55402 United States
	Loyens & Loeff Fred Roeskestraat 100 1076 ED Amsterdam The Netherlands	
AIM Nominated Adviser and Broker	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC3N 8EL	
Euronext Paying Agent	Kempen & Co. Beethovenstraat 300 1077 WZ Amsterdam The Netherlands	
Registrars	Capita IRG Plc The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TV	
Financial PR Consultants	Hansard Communications Limited 14 Kinnerton Place South London SWIX 8EH	Citigate First Financial BV Assumburg 152A 1081 GC Amsterdam The Netherlands

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, B.P.F. Al, as chairman, 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 for certain directors 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.

Contracts

Service contracts between the company and the executive directors are terminable on 6 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 sterling at the average exchange rate for the period. Details of directors' interests in shares and options are set out in the Directors' Report.

	Pay and fees 2005 £	*Benefits 2005 £*	*Total 2005 £*	*Total 2004 £*	*Contributions to Pension 2005 £*	*Contributions to Pension 2004 £*
Executive directors						
B. K. Mence	118,813	5,879	124,692	118,198	4,875	4,875
A. L. Michuda	109,813	9,027	118,840	104,017	1,665	1,921
A. Karimjee	87,183	943	88,126	80,088	3,945	3,655
Non-executive directors						
S. A. Silcock	18,000	-	18,000	18,000	-	-
B. P. F. Al	18,000	-	18,000	18,000	-	-
A. M. Davis	18,000	-	18,000	18,000	-	-
D. Metzger	18,000	-	18,000	18,000	-	-
	387,809	15,849	403,658	374,303	10,485	10,451

Pension contributions are made to individual directors' personal pension schemes.

The emoluments of S. A. Silcock are paid to Lawfords Limited, of which Mr. Silcock is a director.

Directors' Report

The directors present their report together with the audited financial statements for the year ended 31 December 2005.

Financial Results

The loss for the year is £1,236,000 (2004 - £2,251,000). The directors do not propose to declare a dividend.

Principal Activities, review of the business and future developments

The Group's principal activities during the year continued to focus on the provision of software and services that improve the return on investment of product development, within the rapidly emerging product lifecycle management (PLM) market. A review of the development of the business during the year is given in the Statement from the Chairman and Chief Executive Officer on page 5 and the subsequent Financial Review. This also includes reference to the Group's future prospects. An overview of the Group's products and markets incorporating advances in research and development is provided on page 9.

Directors and their 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*	
Director	*2005*	*2004*	*2005*	*2004*
B. K. Mence	185,000	122,500	14,423,847	11,173,847
A. L. Michuda	3,148,607	2,998,607	155,188	41,855
A. Karimjee	625,000	562,500	87,667	-
S. A. Silcock	-	-	918,716	181,383
S. A. Silcock*	-	-	98,077	98,077
B. P. F. Al	25,000	25,000	650,000	650,000
A. B. Davis	-	-	494,520	494,520
D. Metzger	-	-	-	-

Of the 14,423,847 ordinary shares mentioned above B. K. Mence beneficially owns and is the registered holder of 8,275,227 ordinary shares. A further 2,300,820 ordinary shares are held by Inkberrow Limited, a company in which his family trust is the major shareholder. In addition he is, or his wife or children are, potential beneficiaries under trusts holding an aggregate of 3,847,800 ordinary shares, of which trusts directors of Lawfords Ltd., in the Isle of Man, are trustees and are registered as the holders of such shares. S.A. Silcock is a shareholder in Lawfords Ltd and is a minority shareholder in Inkberrow Limited.

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

	Date of Grant	*Exercise price*	*At 31 December 2004*	*Granted during year*	*Exercised during year*	*At 31 December 2005*
B. K. Mence (1)	2 May 2001	77.5p	22,500	-	-	22,500
B. K. Mence (1)	30 April 2002	14.75p	100,000	-	-	100,000
B.K. Mence (7)	15 April 2005	25.25p	-	62,500	-	62,500
A. L. Michuda (2)	15 September 2000	184p	187,600	-	-	187,600
A. L. Michuda (2)	15 September 2000	230p	7,846	-	-	7,846
A. L. Michuda (2)	15 September 2000	322p	12,501	-	-	12,501
A. L. Michuda (2)	15 September 2000	368p	1,756	-	-	1,756
A. L. Michuda (3)	2 October 2000	427.5p	16,280	-	-	16,280
A. L. Michuda (3)	1 January 2001	160p	5,030	-	-	5,030
A. L. Michuda (3)	2 May 2001	77.5p	54,662	-	-	54,662
A. L. Michuda (4)	30 April 2002	14.75p	487,932	-	-	487,932
A. L. Michuda (4)(5)	5 November 2003	16.25p	2,225,000	-	-	2,225,000
A.L. Michuda (7)	15 April 2005	25.25p	-	150,000	-	150,000
A. Karimjee (1)	22 November 1999	150p	100,000	-	-	100,000
A. Karimjee (1)	2 May 2001	77.5p	12,500	-	-	12,500
A. Karimjee (1)	30 April 2002	14.75p	150,000	-	-	150,000
A. Karimjee (5)(6)	5 November 2003	16.25p	300,000	-	-	300,000
A. Karimjee (7)	15 April 2005	25.25p	-	62,500	-	62,500
B. P. F. Al (1)	2 May 2001	77.5p	25,000	-	-	25,000

(1) Exercisable between the third and tenth anniversary of the date of grant.
(2) Fully vested options, which were granted as part of the acquisition of Teltech Resource Network Corporation.
(3) One fourth of these options becomes exercisable on each of the first four anniversaries of the date of grant and they expire on the tenth anniversary of the date of grant.
(4) One third of these options are exercisable from the date of grant, one third from the first anniversary of the date of grant and one third from the second anniversary.
(5) Vesting of a proportion of these options is subject to performance conditions relating to the achievement of positive EBITDA in two successive quarters.
(6) 93,846 of these options are exercisable between the third and tenth anniversary of the date of grant and 206,154 options are exercisable as to one third immediately and one third on each of the first and second anniversaries of the date of grant.
(7) One third of these options are exercisable from the first anniversary of the date of grant, one third from the second anniversary, and the remainder from the third anniversary.

The mid-market price of Sopheon ordinary shares at 31 December 2005 was 19.5p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 19.25p to 32.75p.

Save as disclosed above, no director (or member of his family) or connected persons within the meaning of Section 346 of the Companies Act 1985 has any interest, beneficial or non-beneficial, in the share capital of the company.

Substantial Shareholdings

The Directors are aware of the following persons who as at 10 April 2006 were interested directly or indirectly in three per cent or more of the company's issued ordinary shares:

Name	*No. of ordinary Shares*	*% issued ordinary Shares*
B. K. Mence (director)	14,423,847	10.8
Norman Nominees Limited	9,891,260	7.4
P.J. Korpershoek	5,500,000	4.1

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

Share Option Schemes

Details of options granted are shown in Note 30 to the financial statements.

Supplier payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2005 the company had approximately 34 days' purchases outstanding.

Financial instruments

Details of the group's financial instruments and its policies with regard to financial risk management are given in Note 25 to the financial statements.

Corporate Governance

The Sopheon board is committed to high standards of corporate governance and aims to follow appropriate governance practice, although as a company incorporated in the UK and listed on AIM and Euronext, the Company is not subject to the requirements of the new UK Combined Code or the Netherlands Tabaksblat Committee. The board currently comprises three executive directors and four independent non-executive directors. Their biographies appear on the inside back cover of this annual report, and demonstrate a range of experience and calibre to bring the right level of independent judgement to the board.

The board as a whole is 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. 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.

Auditors

BDO Stoy Hayward LLP were appointed as auditors of the company as from 23 December 2005, in replacement of Ernst & Young LLP. A resolution to confirm the appointment of BDO Stoy Hayward LLP as auditors will be put to the members at the Annual General Meeting.

Approved by the Board on 13 April 2006 and signed on its behalf by:

A. Karimjee
Director

Statement of Directors' Responsibilities in Respect of the Financial Statements

Group financial statements
Company law requires the directors to prepare such financial statements in accordance with International Financial Reporting Standards, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. A fair presentation also requires the Directors to:

- properly select and apply appropriate accounting policies;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and of the group and enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation. 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.

Independent Auditors' Report to the Members of Sopheon plc

We have audited the Group and Parent Company financial statements (the "financial statements") of Sopheon Plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Change in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Report on Director's Remuneration, the Statement from the Chairman and Chief Executive Officer, the Financial Review and the Market and Product Overview. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2005 and of its loss for the year then ended;

- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2005; and

- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in Note 3 to the financial statements regarding the Company and Group's ability to continue as a going concern, including the directors' assessment of the ability of the Group to achieve its forecasts.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London

13 April 2006

Consolidated Income Statement for the Year Ended 31 December 2005

	Notes	2005 £'000	2004 as restated £'000
Continuing operations			
Revenue	5	4,664	4,323
Cost of sales		(1,264)	(993)
Gross profit		3,400	3,330
Distribution costs		(2,473)	(2,591)
Research and development expenses		(974)	(1,145)
Administrative expenses		(1,175)	(1,723)
Operating loss		(1,222)	(2,129)
Finance revenue	10	53	83
Finance costs	11	(67)	(348)
Loss before tax		(1,236)	(2,394)
Income tax (expense)/credit			
Research & development tax credits	12	-	143
Loss for the year (all from continuing operations)		(1,236)	(2,251)
Loss per share			
From continuing operations –			
basic and diluted (pence)	14	(0.9p)	(2.0p)
LBITDA		(746)	(1,189)

Balance Sheets at 31 December 2005

	Notes	Group 2005 £'000	Group 2004 as restated £'000	Company 2005 £'000	Company 2004 as restated £'000
Assets					
Non-current assets					
Property, plant and equipment	15	101	110	-	-
Intangible assets	16	764	651	-	-
Investments in subsidiaries	17	-	-	6,119	6,119
Non-current receivables	18	10	9	-	-
		875	770	6,119	6,119
Current assets					
Trade and other receivables	19	1,741	1,892	38	73
Cash and cash equivalents	20	1,970	1,211	1,209	934
		3,711	3,103	1,247	1,007
Total assets		4,586	3,873	7,366	7,126
Liabilities					
Current liabilities					
Short-term borrowings	21	370	129	1	2
Trade and other payables	22	2,253	1,855	347	403
Obligations under finance leases	23	3	-	-	-
Toal current liabilities		2,626	1,984	348	405
Non-current liabilities					
Obligations under finance leases	23	9	-	-	-
Total liabilities		2,635	1,984	348	405
Net assets		1,951	1,889	7,018	6,721
Equity and reserves					
Capital and reserves					
Share capital	26	6,665	5,794	6,665	5,794
Shares to be issued	26	-	1,509	-	1,509
Other reserves	27	72,931	71,182	65,166	63,417
Translation reserve	28	(31)	(117)	-	-
Retained losses	29	(77,614)	(76,479)	(64,813)	(63,999)
Total equity (all attributable to equity holders of the parent company)		1,951	1,889	7,018	6,721

Approved by the Board and authorised for issue on 13 April 2006

Barry K. Mence
Director

Arif Karimjee
Director

Consolidated Statement of Recognised Income and Expense for the Year Ended 31 December 2005

	2005 £'000	2004 £'000
Exchange differences on translation of foreign operations	86	(117)
Net income/(expense) recognised directly in equity	86	(117)
Loss for the year	(1,236)	(2,251)
Total recognised income and expense for the year (all attributable to equity holders of the parent company)	(1,150)	(2,368)

Cash Flow Statements for the Year Ended 31 December 2005

	Notes	Group 2005 £'000	Group 2004 as restated £'000	Company 2005 £'000	Company 2004 as restated £'000
Operating activities					
Loss for the year		(1,236)	(2,251)	(915)	(2,325)
Adjustments for:					
Investment revenues		(53)	(83)	(51)	(43)
Finance costs		67	348	33	299
Income tax – research and development tax credits		-	(143)	-	-
Depreciation of property, plant and equipment		74	119	-	-
Amortisation of intangible assets		392	820	-	-
Share-based payment expense		143	132	143	132
Intra-group credits and charges		-	-	(226)	(297)
Provisions against intra-group loans		-	-	557	1,789
Operating cash flows before movements in working capital		(613)	(1,058)	(459)	(445)
Decrease/(increase) in receivables		158	(659)	69	43
Increase/(decrease) in payables		307	(11)	(56)	(36)
Cash outflow from operations		(148)	(1,728)	(446)	(438)
Research and development tax credits received		81	62	-	-
Interest paid		(67)	(348)	(33)	(299)
Net cash from operating activities		(134)	(2,014)	(479)	(737)
Investing activities					
Interest received		53	83	51	43
Purchases of property, plant and equipment		(42)	(42)	-	-
Recognition of development costs		(427)	(85)	-	-
Intra-group loans		-	-	(364)	(1,479)
Net cash used in investing activities		(416)	(44)	(313)	(1,436)
Financing activities					
Proceeds of issues of shares		1,068	2,437	1,068	2,437
Repayment of borrowings		(29)	(11)	-	-
Increase/(decrease) in bank overdrafts and lines of credit		259	(45)	(1)	-
Net cash from financing activities		1,298	2,381	1,067	2,437
Net increase in cash and cash equivalents		748	323	275	264
Cash and cash equivalents at the beginning of the year		1,211	878	934	670
Effect of foreign exchange rate changes		11	10	-	-
Cash and cash equivalents at the end of the year					
Bank balances and cash	20	1,970	1,211	1,209	934

1. GENERAL INFORMATION

Sopheon plc ("the company") is a public limited company incorporated in England and Wales. The addresses of its registered office and principal places of business are set out on page 16. The principal activities of the company and its subsidiaries are described in Note 5.

2. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In the current year the company has adopted all the EU endorsed Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and are effective for periods beginning on 1 January 2005. The adoption of IFRS has resulted in changes to the group's accounting policies in the following areas that have materially affected the amounts reported in the current and prior year:

- share-based payment (IFRS 2)

- accounting for research and development costs IAS 38

The impact of these changes is discussed in detail below.

At the date of authorisation of these financial statements, there are no Standards and Interpretations which are in issue but not yet effective which, in the opinion of the directors, would In future periods have a material impact on the financial statements of the group.

IFRS 2 Share-based Payment

IFRS 2 *Share-based Payment* requires the recognition of equity-settled share-based payments at fair value at the date of grant. Prior to the adoption of IFRS 2, the group did not recognise the financial effect of share-based payments until such payments were settled.

In accordance with the transitional provisions of IFRS 2, the Standard has been applied retrospectively to all grants of equity instruments after 7 November 2002 that were unvested as at 1 January 2005. The Standard therefore applies to share options granted since that date which in the case of the Company relates to all options granted during each of 2003, 2004 and 2005.

For 2004 the change in accounting policy has resulted in an increase in the loss for the year of £132,000 representing the fair value of share options granted. The balance sheet at 31 December 2004 has been restated to reflect an increase in the share options reserve of £132,000.

For 2005 the change in accounting policy has resulted in an increase in the loss for the year of £143,000 representing the fair value of share options granted. At 31 December 2005, and also including amounts reserved for share options issued in connection with past acquisitions, the total share options reserve amounted to £1,447,000.

IAS 38 Accounting for Research and Development Costs

IAS 38 requires certain expenditure on product development which meets specified criteria to be capitalised and amortised over the period during which the product is expected to generate revenue.

The application of IAS 38 to Sopheon's research and development expenditure has resulted in the recognition of an intangible asset representing internally generated software development costs with a carrying value of £961,000 at 1 January 2004.

The application of IAS 38 in 2004 has resulted in the capitalization of an additional £85,000, and amortisation of £340,000, resulting in an adjustment to the carrying value of the intangible asset to £651,000 at 31 December 2004. The balance sheet at that date has been restated to reflect the recognition of the asset. For 2005, the effect is to capitalize £427,000, with amortisation of £392,000, resulting in an adjustment to the carrying value of the intangible asset to £764,000.

This is the first time the company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with UK accounting standards. Details of how the transition from UK accounting standards to IFRS has affected the group's reported financial position, financial performance and cash flows are given in Note 4.

First-time adoption

In preparing these financial statements, the group has elected to apply the following transitional arrangements permitted by IFRS 1 'First-time adoption of International Financial Reporting Standards':

- Business combinations effected before 1 January 2004 have not been restated.
- Only those exchange differences arising on the retranslation of foreign operations since 1 January 2004 have been recognised as a separate component of equity.
- IFRS 2 'Share-based compensation' has been applied to employee share options granted after 7 November 2002 that had not vested by 1 January 2005.
- The provisions of IAS 32 'Financial Instruments: Presentation and Disclosure' and IAS 39 'Financial Instruments: Recognition and Measurement' have not been applied to compound financial instruments outstanding at 1 January 2004, and the entire amount has been presented as a liability at that date in accordance with the original UK GAAP treatment.

3. 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 and those parts of the Companies Act 1985 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, and on the going concern basis.

Going Concern

In 2005 the group's revenues from continuing operations were £4.7 million and its total losses on an EBITDA (earnings before interest, tax, depreciation and amortisation) basis were £0.7 million. At the year end the group reported consolidated net assets of £2 million including gross cash resources of £2 million. The group has access to a $1 million (£583,000) bank line of credit with Silicon Valley Bank, which is secured against the trade debtors of Sopheon Corporation Minnesota. At 31 December 2004, $622,000 (£362,000) was drawn against this facility. The facilities with Silicon Valley Bank have been in place since 1999, and are renewable annually in October.

The directors remain positive about the direction, focus and momentum of the business and believe that this, together with the group's existing resources provide it with adequate funding to support its activities through to the point at which they anticipate that trading will become cash generative on a sustained basis. This is in turn dependent on the group achieving its forecasts.

Should this not be the case, Sopheon continues to have access to its equity line of credit facility from GEM Global Yield Fund Limited ("GEM") for an aggregate of €10 million. The facility has just been renewed for a further two year term expiring in December 2007. GEM's obligation to subscribe for shares is subject to certain conditions linked to the prevailing trading volumes and prices of Sopheon shares on the Euronext stock exchange. To date Sopheon has made one call on the equity line of credit facility, raising just under €1 million in March 2004, leaving €9 million (£6 million) available.

While uncertainties remain as to the achievement of the expected sales growth and the continued availability of facilities, the directors believe that together, these factors 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 consolidation

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company ("subsidiaries"). Control is achieved where the company has the power to govern the financial and operating policies of an entity and to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the entity being acquired, together with any costs directly attributable to the business combination. The results of the acquired entities are included in the consolidated income statement from the date on which effective control is obtained. The identifiable assets, liabilities and contingent liabilities of the entity being acquired that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values of the date of acquisition.

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. If, after reassessment, the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity being acquired exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. Goodwill is initially recognised 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 asserts of the unit pro rata to the carrying value of each asset of the unit. An impairment loss recognised 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 products are recognised on delivery, and when no significant vendor obligations remain. Revenues from implementation and consultancy services are recognised as the services are performed. Revenues relating to maintenance and post contract support agreements are deferred and recognised over the period of the agreements.

Revenues and associated costs under long term contracts are recognised 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 recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the net present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 benefit 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). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in sterling, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the average rate for the month. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences on the retranslation of non-monetary items in respect of which gains or losses are recognised directly in equity. For such non-monetary items any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements the assets and liabilities of the group's foreign operations (including comparatives) are expressed in sterling 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) are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On disposal of a foreign operation the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Deferred tax

Deferred tax is recognised 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 recognised for all taxable temporary differences, but deferred tax assets are recognised only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. 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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, when shorter, over the term of the relevant lease.

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 recognised in profit or loss.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included in administration costs in the income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual or legal rights. The amounts ascribed to such intangible assets are arrived at using appropriate valuation techniques.

Internally generated intangible assets (research and development expenditure)

Development expenditure on internally developed software products is capitalised 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.

Capitalised development costs are amortised over the period over which the group expects to benefit from selling the product developed.

Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

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 recognised immediately in the administrative expenses line item in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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 recognised in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Financial assets and liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the administrative expenses line item in the income statement when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Bank borrowings

Interest-bearing bank loans, overdrafts and lines of credit are initially measured at the proceeds (net of transaction costs). Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs.

Convertible loans

Convertible loans are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan and the amount assigned to the liability component, representing the embedded option for the holder to convert the loan into equity, is included in equity capital.

Issue costs are apportioned between the liability and equity components of the convertible loan based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan.

The preceding paragraphs describe the group's policies under IFRS. As set out in Notes 2 and 26 to the financial statements, the group took advantage of the transitional provisions of IFRS 1 with respect to convertible loan stock outstanding as at 1 January 2004 and continued to apply the original UK GAAP treatment, which attributed the entire outstanding amount as a liability at that date. Subsequent adjustments to the terms of the convertible loan stock resulted in the entire outstanding amount being attributed to equity as at 31 December 2004, using the group's policies under both UK GAAP and IFRS.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

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 behavioural considerations.

LBITDA

LBITDA represents the loss before charging or crediting interest, tax, depreciation and amortisation.

4. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Reconciliations and explanatory notes on how the transition to IFRS has affected profit and net assets previously reported under UK Generally Accepted Accounting Principles (UK GAAP) are given below:

a) The group

Income statement reconciliation for the year ended 31 December 2004

	Sub-note	*UK GAAP £'000*	*Adjustments £'000*	*IFRS £'000*
Turnover		4,323		4,323
Cost of sales		(993)		(993)
Gross profit		3,330		3,330
Distribution costs		(2,588)		(2,588)
Research and development expenditure		(890)	(255)	(1,145)
Amortisation of goodwill	1	(440)	(40)	(480)
Other administrative costs	2	(1,111)	(3)	(1,114)
Equity-settled share-based payments	3	-	(132)	(132)
Group operating loss		(1,699)	(430)	(2,129)
Finance costs		(348)		(348)
Finance income		83		83
Loss before tax		(1,964)	(430)	(2,394)
Income tax credit				
Research and development tax credits		143		143
Loss for the year (all from continuing operations)		(1,821)	(430)	(2,251)

Balance sheet reconciliation at 1 January 2004

	Sub-note	UK GAAP £'000	Adjustments £'000	IFRS £'000
Non-current assets				
Property, plant and equipment		195		195
Goodwill	1	440	(440)	-
Other intangible assets	1&4	-	1,442	1,442
Non-current receivable		-	10	10
Total non-current assets		635	1,012	1,647
Current assets				
Trade and other receivables		1,159	(10)	1,149
Cash and cash equivalents		878		878
Total current assets		2,037	(10)	2,027
Total assets		2,672	1,002	3,674
Current liabilities				
Bank overdrafts and loans		(185)		(185)
Trade and other payables	2	(1,811)	(3)	(1,814)
Total current liabilities		(1,996)	(3)	(1,999)
Non-current liabilities				
Convertible Loan Stock 2005		(2,561)		(2,561)
Total liabilities		(4,557)	(3)	(4,560)
Total net assets and equity		(1,885)	999	(886)

Balance sheet reconciliation at 31 December 2004

	Sub-note	UK GAAP £'000	Adjustments £'000	IFRS £'000
Non-current assets				
Property, plant and equipment		110		110
Other intangible assets	4	-	651	651
Non-current receivable		-	9	9
Total non-current assets		110	660	770
Current assets				
Trade and other receivables		1,901	(9)	1,892
Cash and cash equivalents		1,211		1,211
Total current assets		3,112	(9)	3,103
Total assets		3,222	651	3,873
Current liabilities				
Bank overdrafts and loans		(129)		(129)
Trade and other payables	2	(1,849)	(6)	(1,855)
Total current liabilities		(1,978)	(6)	(1,984)
Total liabilities		(1,978)	(6)	(1,984)
Total net assets and equity		1,244	645	1,889

Adjustments

Explanations of the adjustments made to the UK GAAP income statement and balance sheets are as follows:

Sub-note	Explanation
1	The carrying value of capitalised goodwill at 1 January 2004 has been adjusted to reflect the intangible assets that would have been required to be recognised in accordance with IAS 38 'Intangible Assets'. Such intangible assets were fully amortised during 2004.
2	In accordance with IAS 19 administrative expenses have been adjusted to reflect accrued entitlement to holiday pay.
3	IFRS 2 has been applied in respect of employee share options granted after 7 November 2002 that had not vested by 1 January 2005.
4	Software development costs that meet the criteria of IAS 38 have been recognised as an internally generated intangible asset and are being amortised over four years from date of release.

Cash flow statement for the year ended 31 December 2004

The only changes to the cash flow statement are presentational. The changes include

- Presenting a cash flow statement showing movements in cash and cash equivalents, rather than just cash. Cash under UK GAAP comprised only amounts accessible within 24 hours without penalty less overdrafts repayable on demand. Cash and cash equivalents includes the bank deposits but excludes overdrafts. The components of cash and cash equivalents are set out in Note 20.

- Classifying tax cash flows as relating to operating activities

Financial instruments (comparative information)

The group has taken advantage of the transitional provisions of IFRS 1 not to present comparative information in accordance with IAS 32 'Financial Instruments: Presentation and Disclosure' and IAS 39 'Financial Instruments: Recognition and Measurement', but to retain the accounting treatment applied in the historic financial statements prepared in accordance with UK GAAP. Had IAS 32 and IAS 39 been applied, convertible loan stock outstanding at 1 January 2004 would have been allocated into its debt and equity components. Under UK GAAP, the entire amount outstanding is presented as a liability at that date.

b) The company

The adoption of IFRS by the company did not result in any changes to the carrying amounts of assets and liabilities of Sopheon plc at either 1 January 2004 or 31 December 2004, and accordingly no reconciliations of the balance sheets of the company at those dates are presented.

The following is a reconciliation of the profit and loss account of Sopheon plc for the year ended 31 December 2004:

	Sub-note	*UK GAAP £'000*	*Adjustments £'000*	*IFRS £'000*
Loss for the year	1	2,193	132	2,325

Adjustment

The explanations of the adjustment made to the UK GAAP income statement is as follows:

Sub-note	Explanation
1	IFRS 2 has been applied in respect of employee share options granted after 7 November 2002 that had not vested by 1 January 2005.

5. REVENUE

All of the group's revenue in respect of the years ended 31 December 2005 and 2004 derived from continuing operations and from the group's single business segment, the design, development and marketing of software products with associated implementation and consultancy services.

	2005	*2004*
	£'000	*£'000*
Continuing operations		
Software and associated consultancy services	4,664	4,323

6. GEOGRAPHICAL SEGMENTS

The group's primary reporting format for segment information is geographical segments. Information relating to the group's geographical segments, which are the United States, the United Kingdom and the Netherlands, where the group's operations are located, is given below.

For management purposes, the group is organised as a single business segment, namely the design, development and marketing of software products with associated implementation and consultancy services. Therefore, no analysis of the group's trading result and balance sheet in terms of a secondary reporting format for business segments is presented in this note.

The following table provides an analysis of the group's sales revenue by the location of customer, irrespective of the origins of the goods and services.

Year ended 31 December 2005	*North America*	*United Kingdom*	*Rest of Europe*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Income Statement				
External revenues	2,693	586	1,385	4,664
Inter-segment revenues	321	10	242	573
Net loss before tax	(865)	(340)	(17)	(1,222)
Depreciation and amortisation	454	5	7	466
Balance Sheet				
Capital expenditures	473	-	8	481
Total assets	2,342	1,666	578	4,586
Total liabilities	(1,444)	(746)	(445)	(2,635)

Year ended 31 December 2004	*North America*	*United Kingdom*	*Rest of Europe*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Income Statement				
External revenues	1,977	811	1,535	4,323
Inter-segment revenues	548	30	245	823
Net loss before tax	(1,012)	(1,053)	(64)	(2,129)
Depreciation and amortisation	419	500	20	939
Balance Sheet				
Capital expenditures	125	-	2	127
Total assets	1,748	1,773	352	3,873
Total liabilities	(832)	(860)	(292)	(1,984)

7. LOSS FOR THE YEAR

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

	2005 £'000	2004 £'000 as restated
Continuing operations		
Net foreign exchange gains	(1)	(24)
Research and development costs including amortisation	974	1,145
Depreciation of property, plant and equipment	74	119
Amortisation of other intangible assets	-	480
Operating lease rentals – land and buildings	302	292
Operating lease rentals – equipment and vehicles	80	96

8. AUDITORS' REMUNERATION

	2005 £'000	2004 £'000
Audit of the financial statements of the group	47	85
Other fees to auditors		
– advisory services relating to first-time adoption of IFRS	30	-
– taxation services to the company and its UK subsidiaries	13	26
– taxation services to non-UK subsidiaries	13	10
	103	121

The amounts charged in respect of audit of the group's financial statements for 2005 and the first-time adoption of IFRS are payable to BDO Stoy Hayward LLP, with the exception of £7,000 payable to the group's former auditors, Ernst & Young LLP for its review of the group's interim statement for six months to 30 June 2005. Amounts charged in respect of taxation services in 2005 and all amounts charged in 2004 were payable to the group's former auditors, Ernst & Young LLP.

9. STAFF COSTS

	2005 £'000	2004 £'000 as restated
Wages and salaries	3,236	2,907
Social security costs	246	221
Pension contributions	65	66
Employee benefits expense	171	179
	3,718	3,373

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

	2005 Number	2004 Number
Development and operations	31	28
Sales and management	32	30
	63	58

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

The fees and emoluments of all directors were as follows:

	2005 £'000	2004 £'000
Fees and emoluments	403	374
Pension contributions	10	10
	413	384

No director exercised share options during the year (2004: None).

Pension contributions are to personal defined contribution schemes and have been made for three directors (2004: three) who served during the year.

The emoluments of the highest paid director were as follows:

	2005 £'000	2004 £'000
Emoluments	110	99
Benefits	9	5
Pension contributions to defined contribution schemes	2	2
	121	106

10. FINANCE REVENUE

	2005 £'000	2004 £'000
Interest on bank deposits	53	83

11. FINANCE COSTS

	2005 £000	2004 £000
Interest on bank loans, overdrafts and finance lease	67	54
Interest and compensation payment on convertible loan stock	-	294
	67	348

£2.6 million nominal of 6% Convertible Unsecured Loan Stock ("the Stock"), with 557,143 detachable warrants to subscribe for Sopheon shares, was issued at par on 20 June 2001. The detachable warrants expired unexercised on 19 June 2003. On 14 July 2004 the holders of the Stock approved a resolution to reconstitute the Stock such that the Stock would no longer bear interest and would automatically convert into Sopheon ordinary shares at the conversion rate of 12p nominal of the Stock per Sopheon share upon maturity. This took place on 23 December 2005. As consideration for the forgoing of interest and repayment rights, stockholders received a compensation payment of 7% of the nominal value of the Stock on 2 August 2004.

12. INCOME TAX EXPENSE

	2005 £000	2004 £000
Current tax	-	-
Research and development tax credits	-	(143)
Income tax expense/(credit) for the year	-	(143)

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

	2005 £'000	2005 %	2004 £'000	2004 %
Loss before tax	(1,236)		(2,394)	
Tax credit at the UK corporation tax rate of 30%	371	30%	718	30%
Tax effect of expenses that are not deductible in determining taxable losses	(65)	(5%)	(219)	(9%)
Timing differences arising from the capitalisation and amortisation of interally generated development costs	11	1%	(77)	(3%)
Losses for the year not relievable against current tax	(316)	(26%)	(422)	(18%)
Research and development tax credits	-	-	143	6%
	-	-	143	6%

The group has an unrecognised deferred tax asset arising from its unrelieved trading losses, which has not been recognised owing to uncertainty as to the level and timing of taxable profits in the future.

The unrecognised deferred tax asset is made up as follows:

	2005	2004
		as restated
	£'000	£'000
Shortfall of tax depreciation compared to book depreciation	164	162
Effect of timing differences arising from capitalisation of internally generated development costs	(336)	(286)
Unrelieved trading losses	20,483	20,073
Unrecognised deferred tax asset	20,311	19,949

At 31 December 2005, tax losses estimated at £54 million were available to carry forward by the Sopheon plc group, arising from historic losses incurred. These losses represent a potential deferred tax asset of £20.5million. £13.8 million of the tax losses, and £6.1 million of the potential deferred tax asset, relate to pre-acquisition tax losses of Sopheon Corporation (Minnesota) and of Orbital Software Inc. The future utilisation of these losses may be restricted under section 382 of the US Internal Revenue Code, whereby the ability to utilise 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.

13. LOSS 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 2005 was £915,000 (2004: £2,325,000). The loss in 2005 included a net provision of £557,000 (2004: £1,789,000 against the company's investment in and loans to subsidiary companies, as well as the charge for equity-settled share based payments arising under IFRS 2 and as described in Note 30. Advantage has been taken of Section 230 of the Companies Act 1985 not to present a profit and loss account for the parent company.

14. LOSS PER SHARE

From continuing operations

	2005	2004
	£'000	£'000
		as restated
Loss for the purpose of basic earnings per share	(1,236)	(2,251)
	'000s	'000s
Weighted average number of ordinary shares for the purpose of basic earnings per share	131,059	114,883

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted loss per ordinary share are identical to those used for calculating the basic loss per ordinary share in both 2005 and 2004. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive.

15. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment £'000*	*Furniture & fittings £'000*	*Total £'000*
Cost			
At 1 January 2004	1,557	333	1,890
Additions	39	3	42
Exchange differences	(27)	(6)	(33)
At 1 January 2005	1,569	330	1,899
Additions	41	13	54
Exchange differences	34	9	43
At 31 December 2005	1,644	352	1,996
Accumulated depreciation			
At 1 January 2004	1,401	294	1,695
Depreciation charge for the year	113	6	119
Exchange differences	(19)	(6)	(25)
At 1 January 2005	1,495	294	1,789
Depreciation charge for the year	43	31	74
Exchange differences	26	6	32
At 31 December 2005	1,564	331	1,895
Carrying amount			
At 31 December 2005	80	21	101
At 31 December 2004	74	36	110

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

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

Company

The company has no property plant and equipment.

16. INTANGIBLE ASSETS

Group	*Development costs (internally generated) £'000 as restated*	*IPR & customer relationships £'000 as restated*	*Total £'000*
Cost			
At 1 January 2004	1,399	1,509	2,908
Additions (internally generated)	85	-	85
Exchange differences	(99)	-	(99)
At 1 January 2005	1,385	1,509	2,894
Additions (internally generated)	427	-	427
Exchange differences	186	-	186
At 31 December 2005	1,998	1,509	3,507
Amortisation			
At 1 January 2004	438	1,029	1,467
Charge for the year	340	480	820
Exchange differences	(44)	-	(44)
At 1 January 2005	734	1,509	2,243
Charge for the year	392	-	392
Exchange differences	108	-	108
At 31 December 2005	1,234	1,509	2,743
Carrying amount			
At 31 December 2005	764	-	764
At 31 December 2004	651	-	651

The amortisation period for the internally generated development costs relating to the group's software products is 4 years.

Company

The company has no intangible assets.

17. INVESTMENTS IN SUBSIDIARIES

Company

	£'000
Cost	
At 31 December 2004 and 31 December 2005	52,519
Amounts provided	
At 31 December 2004 and 31 December 2005	35,441
Carrying amount	
At 31 December 2005	17,078
Amounts due to subsidiary undertakings	(10,959)
	6,119
At 31 December 2004	17,078
Amounts due to subsidiary undertakings	(10,959)
	6,119

Details of the company's subsidiaries at 31 December 2005 are set out below. Companies marked with an asterisk* are held via Sopheon UK Limited and those marked with an obelus† are held via Orbital Software Holdings plc.

Name of Company *Place of incorporation*	*Proportion of ownership Interest*	*Proportion of voting rights held*	*Nature of Business*
Sopheon Corporation Minnesota, USA	Common Stock	100%	Software sales and services
Sopheon Corporation Delaware, USA	Common Stock	100%	Software development
Sopheon NV The Netherlands	Ordinary Shares	100%	Software sales and services
Sopheon UK Ltd United Kingdom	Ordinary Shares	100%	Software sales and services
Orbital Software Holdings plc United Kingdom	Ordinary Shares	100%	Holding company
Orbital Software Inc.† Delaware, USA	Common Stock	100%	Dormant
Sopheon Edinburgh Ltd† United Kingdom	Ordinary Shares	100%	Dormant
Orbital Software Europe Ltd† United Kingdom	Ordinary Shares	100%	Dormant
Network Managers (UK) Ltd* United Kingdom	Ordinary Shares	100%	Dormant
Lessenger BV The Netherlands	Ordinary Shares	100%	Dormant
AppliedNet Ltd* (formerly Future Tense UK Ltd) United Kingdom	Ordinary Shares	100%	Dormant
Future Tense Ltd* United Kingdom	Ordinary Shares	100%	Dormant
Polydoc Ltd United Kingdom	Ordinary Shares	100%	Dormant
Applied Network Technology Ltd* United Kingdom	Ordinary Shares	100%	Employee Share Ownership Trust

18. NON-CURRENT RECEIVABLE

	Group 2005 £'000	2004 £'000 as restated	Company 2005 £'000	2004 £'000
Non-current receivable	10	9	-	-

The non-current receivable represents a deposit paid in respect of a property leased by the group.

19. TRADE AND OTHER RECEIVABLES

	Group 2005 £'000	2004 £'000 as restated	Company 2005 £'000	2004 £'000
Amounts receivable from the sale of software and services	1,621	1,594	-	-
Other receivables	22	144	20	20
Prepayments and accrued income	98	154	18	53
	1,741	1,892	38	73

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Of the trade receivables £868,000 (2004: £564,000), being the trade receivables of Sopheon Corporation Minnesota, are charged to the Silicon Valley Bank as security for the bank line of credit disclosed in Note 21.

A full provision has been made against amounts totalling £38,001,000 (2004: £37,444,000) owed to the company by subsidiaries, which are due after more than one year and are subordinated to the claims of all other creditors.

20. CASH AND SHORT-TERM BANK DEPOSITS

	Group 2005 £'000	2004 £'000	Company 2005 £'000	2004 £'000
Cash at bank	980	277	218	-
Short-term bank deposits	990	934	991	934
	1,970	1,211	1,209	934

Cash and short-term bank deposits comprise cash held by the group, bank current accounts and short-term bank deposit accounts with maturities of three months or less. The carrying amount of these assets approximates to their fair value.

Included in cash at bank is an amount of £27,000 held by the company's employee share ownership trust.

21. BANK OVERDRAFTS AND LOANS

	Group		Company	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank overdrafts	8	4	1	2
Bank lines of credit	362	108	-	-
Loans	-	17	-	-
	370	129	1	2

The borrowings are all repayable on demand or within one year.

The group's borrowings are denominated in the following currencies:

At 31 December 2005	*Sterling*	*US dollars*	*Total*
	£'000	£'000	£'000
Bank overdrafts	8	-	8
Bank line of credit	-	362	362
	8	362	370

At 31 December 2004	*Sterling*	*US dollars*	*Total*
	£'000	£'000	£'000
Bank overdrafts	4	-	4
Bank line of credit	-	108	108
Bank loan	17	-	17
	21	108	129

The average interest rates paid were as follows:

	2005	2004
	£000	£000
Bank line of credit	8%	8%
Bank loan	7.5%	7.5%

All the bank borrowings carry interest at floating rates, thus exposing the group to cash flow interest rate risk.

The directors consider that the carrying amounts of bank overdrafts and loans approximate to their fair values.

The bank line of credit is secured against the trade receivables of Sopheon Corporation Minnesota and bears interest at a rate of 2% above the bank's prime rate. At 31 December 2005 the group had £220,000 (2004 £414,000) notionally undrawn under the line of credit subject to the availability of qualifying trade receivables.

The bank loan comprised a sterling loan made under the Small Companies Loan Guarantee Scheme, bearing interest at 3% over bank base rate, in respect of which the lender held a guarantee for 85% of the loan facility from the Department of Trade and Industry.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2005 £'000	2004 £'000 as restated	2005 £'000	2004 £'000
Trade payables	419	234	-	-
Other payables	256	290	105	123
Accruals	731	940	242	280
Deferred income	847	391	-	-
	2,253	1,855	347	403

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

The directors consider that the carrying amounts of trade and other payables approximate to their fair values.

23. OBLIGATIONS UNDER FINANCE LEASES

The present value of future lease payments is analysed as:

	Group		Company	
	2005 £'000	2004 £'000 as restated	2005 £'000	2004 £'000
Current liabilities	3	-	-	-
Non-current liabilities	9	-	-	-
	12	-	-	-

The group leases a telephone system with a net carrying value at 31 December 2005 of £12,000.

Future lease payments are due as follows:

At 31 December 2005	*Minimum lease payments £'000*	*Interest £'000*	*Present value £'000*
Within one year	3	-	3
Due in one to five years	10	1	9
	13	1	12

The group had no obligations under finance leases at 31 December 2004.

24. OPERATING LEASE ARRANGEMENTS

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

	Land & buildings 2005 £'000	*Other 2005 £'000*	*Land & buildings 2004 £'000*	*Other 2004 £'000*
Due within one year	232	86	201	86
Due after one year and within five years	281	158	239	215
	513	244	440	301

Company
The company has no operating leases.

25. FINANCIAL INSTRUMENTS

Risk management

The group is exposed through its operations to the following financial risks:

- Liquidity risk
- Foreign currency risk
- Credit risk

Liquidity risk

The liquidity risk of each group entity is managed centrally by the parent company. Budgets are established annually for each group entity and approved by the parent company, enabling the group's cash requirements to be anticipated. Certain group entities have committed overdraft facilities or bank lines of credit. All surplus cash is held centrally to maximise the returns on deposits.

Foreign currency risk

The group has operations in the United States, Holland and the United Kingdom. Assets and liabilities of group entities located in the United States and Holland are denominated respectively in US Dollars and Euros and are therefore exposed to fluctuations in exchange rates giving rise to gains or losses on retranslation into sterling. It is not the group's policy to hedge its net investments in foreign operations, because it judges that the necessary hedging techniques would involve risks to cash flow.

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.

Credit risk

The group's principal financial assets are bank balances and cash and trade and other receivables. The credit risk on liquid funds is limited because the counter-parties are banks with high credit ratings assigned by international credit-rating agencies.

The group's credit risk is primarily attributable to its trade receivables. An allowance for impairment is made where there is an identified loss event, which is evidence of a reduction in the recoverability of the amount receivable. The group has no significant concentration of credit risk, with exposure spread over a number of customers.

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the group as at 31 December is as follows:

At 31 December 2005	*Within 1 year*	*1 to 2 years*	*2 to 5 years*	*Total*
Floating rate				
Cash	980	-	-	980
Short-term deposits	991	-	-	991
Bank overdrafts and lines of credit	(370)	-	-	(370)
Fixed rate				
Obligations under finance leases	(3)	(3)	(6)	(12)

At 31 December 2004	*Within 1 year*	*1 to 2 years*	*2 to 3 years*	*Total*
Floating rate				
Cash	277	-	-	277
Short-term deposits	934	-	-	934
Bank overdrafts and lines of credit	(112)	-	-	(112)
Bank loans	(17)	-	-	(17)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the group's financial instruments that are carried in the financial statements.

	Book values		*Fair values*	
	2005 £'000	*2004 £'000*	*2005 £'000*	*2004 £'000*
Financial assets				
Cash	980	277	980	277
Short-term deposits	991	934	991	934
Financial liabilities				
Bank overdrafts and lines of credit	(370)	(112)	(370)	(112)
Bank loans	-	(17)	-	(17)
Obligations under finance leases	(3)	-	(3)	-

Currency and interest profile of financial assets and liabilities

At 31 December 2005	*Sterling*	*US$*	*Euro*	*Total*
Amounts under floating rates				
Cash	264	420	296	980
Short-term deposits	991	-	-	991
Bank overdrafts and lines of credit	(8)	(362)	-	(370)
Amounts under fixed rates				
Obligations under finance leases	-	(12)	-	(12)

At 31 December 2004	*Sterling*	*US$*	*Euro*	*Total*
Amounts under floating rates				
Cash	46	187	44	277
Short-term deposits	934			934
Bank overdrafts and lines of credit	(4)	(108)		(112)
Bank loans	(17)			(17)

Interest rate profile

The rates of interest payable on floating rate financial liabilities are disclosed in Note 21. The group has no fixed rate financial liabilities other than its obligations under the finance lease disclosed in Note 23 , where the implied interest rate is 3.5% and instalments are due until June 2010.

Interest on the group's short-term bank deposits fluctuates in line with sterling money market rates.

26. SHARE CAPITAL

Authorised	*2005 Number*	*2005 £000*	*2004 Number*	*2004 £000*
Ordinary shares of 5p each	175,000,000	8,750	175,000,000	8,750

Issued and fully paid	*2005 Number*	*2005 £000*	*2004 Number*	*2004 £000*
At 1 January	115,871,082	5,793	96,410,019	4,820
Issued for cash	4,747,826	237	10,251,163	512
Issued on conversion of Convertible Loan Stock	12,572,326	629	8,877,673	444
Issued on exercise of share options	113,905	6	332,227	18
At 31 December	133,305,139	6,665	115,871,082	5,794

The company has one class of ordinary shares, which carry no right to fixed income.

During 2005 the company issued 12,572,326 new ordinary shares in connection with the conversion of the whole of the outstanding £1,508,679 nominal value of Convertible Loan Stock.

During 2005 113,905 new ordinary shares were issued pursuant to the exercise of share options for an aggregate subscription price of £17,000.

On 31 May 2005 the company issued 4,347,826 new ordinary shares for cash at 23p per share pursuant to a placing of shares to raise £1 million before expenses for working capital purposes.

On 23 December 2005 400,000 new ordinary shares were issued to GEM Global Yield Fund Limited ("GEM") at a price of 18p per share in satisfaction of commitment fees due in respect of the €10m equity line of credit facility provided by GEM and the costs of extending this facility for a further two year period to 23 December 2007.

Shares to be issued

'Shares to be issued' at 31 December 2004 consisted of the outstanding amount of the group's Interest Free Mandatory Convertible Loan Stock (the "Stock"). The terms of the Stock were modified during 2004 such that it was only repayable in cash upon the occurrence of certain events relating to the group's ability to continue in business. During 2005 the whole of the remaining Stock was converted into Sopheon ordinary shares, either pursuant to the exercised of conversion rights or automatically upon maturity on 23 December 2005.

27. CAPITAL RESERVES

Group

	Share premium £'000	*Merger reserve £'000*	*Capital redemption reserve £'000*	*Share options reserve £'000*	*Total £'000*
At 1 January 2004 *(as restated)*	46,420	17,944	2,884	1,280	68,528
Shares issued at a premium	2,529	-	-	-	2,529
Recognition of share-based payments	-	-	-	132	132
Lapsing of share options	-	-	-	(7)	(7)
At 1 January 2005 *(as restated)*	48,949	17,944	2,884	1,405	71,182
Shares issued at a premium	1,707	-	-	-	1,707
Recognition of share-based payments	-	-	-	143	143
Lapsing of share options	-	-	-	(101)	(101)
At 31 December 2005	50,656	17,944	2,884	1,447	72,931

Company

	Share premium £'000	*Merger reserve £'000*	*Capital redemption reserve £'000*	*Share options reserve £'000*	*Total £'000*
At 1 January 2004 *(as restated)*	46,420	10,179	2,884	1,280	60,763
Shares issued at a premium	2,529	-	-	-	2,529
Recognition of share-based payments	-	-	-	132	132
Lapsing of share options	-	-	-	(7)	(7)
At 1 January 2005 *(as restated)*	48,949	10,179	2,884	1,405	63,417
Shares issued at a premium	1,707	-	-	-	1,707
Recognition of share-based payments	-	-	-	143	143
Lapsing of share options	-	-	-	(101)	(101)
At 31 December 2005	50,656	10,179	2,884	1,447	65,166

Share premium represents the premium arising on the issue of shares and its use is governed by the provisions of the Companies Act 1985 .

Merger reserve is a non-statutory reserve representing the premium on the issue of shares pursuant to certain past business combinations which meet specified criteria.

The capital redemption reserve is a non-distributable reserve arising from the cancellation in 2001 of deferred shares.

The share options reserve comprises the deemed value of outstanding share options granted in connection with the acquisitions of Teltech Resource Network Corporation in 2000 and of Orbital Software Holdings plc in 2001, together with the fair value of share-based payments to employees pursuant to the group's share option schemes.

28. TRANSLATION RESERVE

	£'000
Balance at 1 January 2004	-
Exchange differences on translation of foreign operations	(117)
Balance at 1 January 2005	(117)
Exchange differences on translation of foreign operations	86
At 31 December 2005	(31)

29. RETAINED EARNINGS

Group

	£'000
Balance at 1 January 2004 *(as restated)*	(74,235)
Loss for the year attributable to equity holders of the parent company (as restated)	(2,251)
Lapsing of share options	7
Balance at 1 January 2005 *(as restated)*	(76,479)
Loss for the year attributable to equity holders of the parent company	(1,236)
Lapsing of share options	101
Balance at 31 December 2005	(77,614)

Company

	£'000
Balance at 1 January 2004	(61,681)
Loss for the year *(as restated)*	(2,325)
Lapsing of share options	7
Balance at 1 January 2005 *(as restated)*	(63,999)
Loss for the year	(915)
Lapsing of share options	101
Balance at 31 December 2005	(64,813)

30. SHARE-BASED PAYMENTS

Equity settled share option schemes

The group has a number of share option schemes for all employees. Options are exerciseable 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 the year are as follows:

	Number of share options 2005	*Weighted average exercise price 2005 £*	*Number of share options 2004*	*Weighted average exercise price 2004 £*
Outstanding at the beginning of the year	7,527,302	0.38	8,494,875	0.39
Granted during the year	1,382,500	0.25	355,000	0.22
Exercised during the year	(113,905)	0.15	(332,227)	0.15
Lapsed during the year	(265,181)	0.49	(990,346)	0.44
Outstanding at the end of the year	8,530,716	0.36	7,527,302	0.38
Exerciseable at the end of the year	6,650,153	0.41	5,587,484	0.46

The weighted average share price at the date of exercise for share options exercised during the year was 25p (2004 26p). The options outstanding at the end of the year have a weighted average remaining life of 7.3 years (7.6 years).

In 2005, share options were granted on 15 April 2005 and 13 October 2005. The exercise prices of the options granted on those dates were 25.25p and 21.75p respectively, and their estimated fair values were 14.95p and 12.88p respectively. In 2004 share options were granted on 16 September 2004. The exercise price of the options granted on that date was 21.50p and the estimated fair value was 12.73p.

The fair values were calculated using the binomial option pricing model. The principal assumptions used were:

	15 April 2005	*13 October 2005*	*16 September 2004*
Share price at time of grant	25.25p	21.75p	16.25p
Exercise price	25.25p	21.75p	16.25p
Expected volatility	40%	40%	40%
Risk-free rate	5%	5%	5%
Expected dividend yield	Nil	Nil	Nil

The expected life of the options used was either 5 or 10 years depending on the particular scheme rules.

Expected volatility was determined by reference to the historic volatility of the company's share price in the period before the date of grant.

The group recognised total expenses of £143,000 (2004: £132,000) relating to equity-settled share based payments during the year.

31. RETIREMENT BENEFIT PLANS

The group operates defined contribution retirement benefit plans which employees are entitled to join. The total expense recognised in the income statement of £65,000 (2004: £66,000) represents contributions paid to such plans at rates specified in the rules of the plans.

32. 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 9. The total remuneration of executive directors and members of the group's management committee during the year was as follows:

	2005	*2004*
	£'000	*£'000*
Emoluments and benefits	521	489
Pension contributions	16	16
	537	505

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:

	2005	*2004*
	£'000	*£'000*
Amounts advanced to subsidiaries by way of interest-free loans	364	1,479
Net management charges to subsidiaries	226	297

Other related party transactions

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

33. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorised for issue on 13 April 2006.

Directors and Senior Management

Barry Mence, Executive 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, Mr. Mence 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, Executive Director. Andrew Michuda was appointed chief executive officer of Sopheon in September 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. He earlier held senior leadership positions at Control Data, including general manager of the business that evolved into Decision Data, the world's largest independent computer services provider.

Arif Karimjee, ACA, Executive Director. Arif Karimjee has served as chief financial officer of Sopheon since February 2000. Mr. Karimjee was previously an auditor and consultant with Ernst & Young in London, Brussels and Reading, from August 1988 until joining Sopheon.

Stuart Silcock, FCA, Non-executive Director. Stuart Silcock has served as a director of Sopheon from its inception in 1993. Since 1982, Mr. Silcock has been a principal partner of Lawfords & Co. and a director of Lawfords Ltd., chartered accountants. Mr. Silcock was a non-executive Director of Brown & Jackson Plc for 4 years from June 2001 to July 2005 and also holds a number of other UK Directorships.

Bernard Al, Non-executive Director. Bernard Al was appointed as director of Sopheon in January 2001. He is a former chief executive officer of Wolters Kluwer in the Netherlands and has a background in science and linguistics.

Andrew Davis, Non-executive Director. Andrew Davis was a founder of Spider Systems Limited in 1983 and held the post of chief technology officer for 12 years. He left Spider Systems Limited in 1995 when it was sold to Shiva Corporation. Since then he has been an investor and director in a number of companies, including Orbital Software Holdings plc.

Daniel Metzger, Non-executive Director. Daniel Metzger was until 1998 an executive vice president of Lawson Software, a leading ERP provider, where he was responsible for corporate strategy and marketing. Since then he has held similar roles at Parametric Technologies, where he led the business strategy and marketing around collaborative product development technologies and at nQuire Software, which was subsequently sold to Siebel.

Ronald Helgeson, Vice President of Corporate Communications. Ronald Helgeson has served as vice president of corporate communications for Sopheon since 2000. He previously held senior marketing-management roles with Teltech Resource Network Corporation and 3M Company.

Paul Heller, Chief Technology Officer. Paul Heller was appointed chief technology officer in June 1999. He was previously vice president of product management for Baan Company.

Huub Rutten, Vice President of Product Research and Design. Huub Rutten is responsible for Sopheon's healthcare business in the Netherlands and also has responsibility for product research. A founder of Sopheon, he was a director until September 2000 when he assumed a more operational role.

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