Embargoed Release: 07:00hrs Thursday 21st March 2013

SOPHEON PLC

("Sopheon", the "Group" or the "Company")

PRELIMINARY AUDITED RESULTS FOR THE YEAR TO 31 DECEMBER 2012

Sopheon plc, the international provider of software and services that help organizations generate more revenues and profits from new products, announces its results for the year ended 31 December 2012 together with an outlook for the current year.

HIGHLIGHTS:

- Revenue for the year was £12.7m (2011: £10.3m). Full year revenue visibility for 2013 already stands at £6.4m, compared to £6.0m at the same time last year.
- EBITDA for the year was £1.8m (2011: £1.5m).
- 49 new and extension license orders secured during the year.
- New customers contributed over 50% (2011: 21%) of non-recurring sales during the year. The recurring revenue base coming into 2013 stands at £4.5m compared to £4.1m the year before.
- Agile development methodology results in three new product releases in the last twelve months, including landmark release of Accolade 8.2 at the start of 2013.

Barry Mence, Chairman, commented: *"We are pleased to deliver solid growth in an economic climate that remains tough. This achievement is particularly satisfying, validating the board's decision to continue growth in staffing through 2011 and 2012. As we head into 2013, we are approaching our plans with the same mindset and ambition, tempered by a clear understanding of the need to maintain a strong financial footing."*

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About Sopheon

Sopheon (LSE: SPE) partners with customers to provide complete Enterprise Innovation Performance solutions including software, expertise, and best-practices to achieve exceptional long-term revenue growth and profitability. Sopheon's Accolade® solution provides unique, fully-integrated coverage for the entire innovation management and new product development lifecycle. For the first time, businesses can access a single source of the truth across strategic innovation planning, roadmapping, idea and concept development, process and project management, and portfolio and in-market management. Sopheon's solutions have been implemented by over 200 customers with over 60,000 users in over 50 countries. Sopheon is listed on the AIM Market of the London Stock Exchange and on the Alternext Exchange in the Netherlands. For more information, please visit www.sopheon.com

Accolade®, Vision Strategist™, Idea Lab™, and Process Manager™ are trademarks of Sopheon plc.
Revenue visibility is defined in Note 6.

CHAIRMAN'S STATEMENT

INTRODUCTION

Last year represented solid progress on a number of fronts and this is particularly evident in our financial performance. Revenues were up 23 percent, from £10.3m in 2011 to £12.7m in 2012, and we are also pleased to report improvement in profitability. The EBITDA result was a profit of £1.8m compared to £1.5m in 2011. We are also very pleased to report further improvement to profit after tax, which rose to £0.3m (2011: £0.1m). Since 2010, we have steadily extended our resourcing and investment in key operational areas, as part of our ongoing growth strategy, and it is particularly pleasing to see these measures pay off in the context of improving financial performance.

We entered 2012 with plans to improve our acquisition rate of new clients and are glad to report that revenue from new clients generated 51 percent of our 2012 revenue, as compared to 21 percent in 2011.

Total license transactions including extension orders were 49 in 2012 (2011: 54). License revenues grew by 20 percent and reflected a higher average deal size, validating our expectation that smaller initial orders from the previous year would generate larger extensions in 2012. Growth in consulting and implementation services was even more marked and approached 50 percent.

From a geographical standpoint, customers headquartered in new territories such as China and the Middle East made a major contribution to the year. Our core innovation solution, Accolade® Process Manager™, continued to account for the majority of revenues at 91 percent compared to 84 percent in 2011.

At the date of this report, full-year 2013 revenue visibility incorporating booked revenue, contracted services business and the run rate of recurring contracts stands at £6.4m, compared to £6.0m at the same time last year. Revenue visibility is more fully defined in Note 6.

TRADING PERFORMANCE

Sopheon's consolidated turnover in 2012 was £12.7m, compared to £10.3m in 2011, an increase of 23 percent. Both regions showed good growth. Much of the EMEA region growth is attributable to substantial business sold into new territories in Asia and the Middle East. The overall shape of the business continues to be approximately one-third Europe and two-thirds North America. Currency effects had limited impact in 2012.

Total license transactions including extension orders were 49 in 2012 compared to 54 in 2011, a reduction of 9 percent. However, average revenue per transaction rose, which resulted in higher license revenues overall. Historically, our license performance in the fourth quarter has tended to be very strong and to provide a substantial boost to overall annual revenues. In 2012, for the second year running, this fourth quarter spike did not come through and our strongest license quarter in the year was the second quarter.

BUSINESS MIX

The annualized average growth of the business since the launch of Accolade remains at 25 percent. Within this overall picture, maintenance revenues were broadly flat but license and services delivered increases of 20 percent and 50 percent respectively. It is particularly satisfying to see a return to license growth after a pause in 2011. Over the years we have frequently referred to the sensitivity of our license results to individual sales events. In 2011 this was compounded by an evolution of buying patterns whereby customers preferred extended validation phases, pilot projects and phased license orders as opposed to making substantial up-front orders as in the past. We expected this buying behavior to result in better license performance in 2012 and this came through as customers made extension orders. However, 2012 also saw a welcome improvement in the share of revenues from new customers as compared to existing customers, and this is a large part of the growth achieved. In 2012 just over 50 percent of the value of new business (excluding maintenance and hosting renewals) was derived from new customers, compared to 21 percent in 2011, and 38 percent in 2010. This improvement is due in part to rising market interest in our solutions but also to actions taken to reorganize and improve the focus on winning new customers, without compromising our existing customer relationships. We are very conscious that we need to continue to focus on both add-on business from existing customers as well as signing new clients; each customer represents an extended business opportunity for Sopheon to deliver value and grow revenue.

Similar to prior years certain customers reorganized and rationalized in reaction to the economic conditions, resulting in termination of their maintenance contracts. We did, however, see overall growth in the base of recurring business, which is almost £4.5m coming into 2013 compared to £4.1m coming into 2012, and £3.9m coming into 2011. This is a more substantial rise than in prior years due in part to the additional maintenance revenues brought on with the acquisition of our German business partner in January 2013. The majority of recurring income is represented by maintenance services, but also includes hosting services and license rentals. Overall, in 2012 our business delivered a 28:31:41 ratio of licenses, maintenance, and services respectively compared to 29:38:33 in the previous year.

Overall gross margins have fallen to just over 71 percent (2011: 73 percent), which can be largely attributed to the growth in service compared to license revenues and the associated higher costs. Within this overall picture, we did incur approximately £0.45m of third-party software costs (2011: £0.3m). As we have noted in prior annual reports, we anticipated that license margins will be affected by decisions to embed, rather than build, certain third-party components or methods of working into our software. This is expected to continue going forward. In the services area, the higher revenues resulted in a substantial rise in the overall cost of service resources. While subcontractor costs increased, the majority of this rise was due to actual staffing.

RESEARCH & DEVELOPMENT EXPENDITURE

We have continued our gradual expansion of investment in product development since 2010. This policy has resulted in actual expenditure in research and development being approximately £0.4m higher in 2012 than in 2011. In addition, this increase was boosted by the effect of providing for bonuses. The headline R&D reported in the income statement adjusts this basic expenditure for the effects of capitalization and amortization of development costs. The amount of 2012 research and development expenditure that met the criteria of IAS38 for capitalization was £1.2m (2011: £1.1m) offset by amortization charges of £1m (2011: £0.8m). These capitalized costs are largely attributable to the Group's investment in the Accolade 8.0, 8.1 and 8.2 releases.

As in prior years, the effect of capitalization was not completely offset by amortization, however by only £0.2m in 2012 compared to £0.3m in 2011. Accordingly, headline research and development expenditure reported in the income statement rose to £2.7m, compared to £2.2m in 2011, an overall net increase of £0.5m. A further £0.3m of amortization and impairment charges relating to acquired intangible assets (2011: £0.2m) has been charged to distribution costs. Including these costs, the overall effect of capitalization, amortization and impairment was to increase costs reported in the income statement by £0.1m.

Sopheon remains committed to product leadership, with excellence in research and software development as a critical core competency of the Group. Since 2001 Sopheon's reported research and development costs each year have been at least 20 percent of revenues reported in that year. For 2012, this metric was 21 percent (2011: 21 percent).

OPERATING COSTS

Coming into 2012 Sopheon had 95 staff members. As noted elsewhere, during the year we steadily expanded resources in line with revenue growth, and by the end of the year the total staff count stood at 109. In addition to the impact of expanded staffing, all cost areas were affected by the fact that the improved 2012 performance led to a bonus award being made to all employees of the Company that participate in the corporate bonus scheme. The corporate bonus scheme covers the majority of the Group's executives and employees, with the principal exception of the sales teams for whom incentives are tied to individual or territory results. The costs of the bonus have been allocated to the relevant categories of the income statement. The Group's 2011 performance did not achieve the benchmarks required for bonus payment under the corporate scheme.

Detailed comments regarding professional services and research and development costs are noted above. Headline sales and marketing costs have risen to £4.2m in 2012 compared to £3.5m in 2011. As noted above, £0.1m of this increase represents higher amortization and impairment of acquired intangible assets, leaving an actual spend increase of £0.6m. Increase in staffing is responsible for a third of this increase, reflecting the recruitment of staff in both Europe and America, and the remaining two thirds from higher commission and bonus costs linked to higher sales.

Headline administration costs have risen by £0.1m. This follows a fall of £0.1m from 2010 to 2011. Underlying administration costs and resourcing have remained broadly constant, as they have since 2007. The increase last year can be attributed to a blend of factors including limited expansion in resources, higher bonus costs and an increase in legal and professional fees. This last area was partly due to the Company's move to the Alternext exchange. Although administration costs will continue to be managed tightly as the Group expands operational resources, we do anticipate some increase in this area in 2013 as we start to build out the Group's infrastructure to handle growth.

RESULTS

The combined effect of the revenue and cost performance discussed above has resulted in Sopheon's EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) performance for 2012 rising to £1.8m, compared to £1.5m 2011.

In common with other technology businesses, the board believes EBITDA provides a useful indicator of the underlying performance of our business by removing the effect on earnings of tax, capital spend and financing. EBITDA is further defined and reconciled to profit before tax in Note 4. Our calculation of EBITDA is stated after charging (i) share-based payments of £38,000 (2011: £39,000); (ii) impairment charges of acquired intangible assets of £175,000 (2011: £66,000); and (iii) exchange losses of £36,000 (2011: gains of £55,000) but excludes depreciation and amortization charges for the year of £1.2m (2011: £1.0m) and net finance costs of £0.3m (2011: £0.4m).

Including the effect of interest, depreciation and amortization, the Group reported a profit before tax for the year of £281,000 (2011: £104,000). No tax has been provided. The profit per ordinary share was 0.19p (2011: 0.07p).

FINANCING AND BALANCE SHEET

Consolidated net assets at the end of the year stood at £3.3m (2011: £3.1m). Gross cash resources at 31 December 2012 amounted to £3.9m (2011: £2.9m). Approximately £1.7m was held in US Dollars, £1.6m in Euros and £0.6m in Sterling.

Intangible assets stood at £3.5m (2011: £3.7m) at the end of the year. This includes (i) £2.8m being the net book value of capitalized research and development (2011: £2.7m) and (ii) an additional £0.7m (2009: £1.0m) being the net book value of Alignent intangible assets acquired in 2007. The carrying value of the Alignent intangibles has been impacted by both amortization and impairment charges. Further details are set forth in Note 14.

In June 2007, the Group entered into a $3.5m, 48-month mezzanine term loan with BlueCrest Capital Finance ("BlueCrest"), in connection with its acquisition of Alignent Software Inc. This term loan was repayable in equal monthly installments through to July 2011. In December 2010 the Company signed an agreement with BlueCrest to refresh the mezzanine term loan back up to $3.5m, for a new 39-month term, repayable in equal monthly installments of $90,000 plus interest through March 2014. The loan bears interest at 13 percent per annum. No warrants were issued to BlueCrest in connection with the transaction.

In addition to the term loan, for a number of years the Group has had access to a revolving line of credit with BlueCrest, secured against the trade receivables of Sopheon's North American business and with a maximum draw capacity of $1.25m. The facility is periodically renewable and the next renewal date is 31 May 2013. As announced previously, the Group has been advised that a change in ownership of BlueCrest Capital Finance may lead to uncertainty over future renewals of the facility.

To mitigate this risk, and to underpin the Group's expansion strategy, in October 2009 the Company issued £0.85m of convertible unsecured loan stock (the "Loan Stock") to a group of investors including key members of the board and senior management team. On 15 May 2012, the holders of the existing Loan Stock unanimously agreed to extend the maturity date of the loan stock by two years to 31 January 2015. This amendment was coupled with modification of the conversion price of the Loan Stock to 5p per share. On 23 August 2012, the investors subscribed for a further £1.15m of Loan Stock with the same maturity date of 31 January 2015 and conversion price of 5 pence per share. In accordance with the AIM Rules for Companies, Daniel Metzger, having consulted with the Company's Nominated Adviser, finnCap Limited, acted as independent director with respect to the amendment to the terms of the Loan Stock and further subscription of Loan Stock and considered that these were fair and reasonable insofar as the Company's shareholders are concerned.

Sopheon has an equity line of credit facility with GEM Global Yield Fund Limited ("GEM") was last renewed for a two-year term expiring on 23 December 2013. The facility, which has been renewed on a number of previous occasions, has been used to raise working capital once, in March 2004. This leaves approximately 90 percent of the original €10m facility available under the extended agreement. Drawings under the GEM equity line of credit are subject to conditions relating *inter alia* to trading volumes in Sopheon shares.

MARKETS & PRODUCTS

We have previously stated that Sopheon's growth strategies center on three key objectives:

- **Increase our rate of growth by deploying industry-specific vertical marketing strategies.** Coming into 2012 we realigned sales, product and marketing initiatives around target growth industries. We revised our marketing approach to be a more vertical-specific, integrated mix of tactics including digital, web-based and social media methods as well as more traditional approaches such as conferences and direct mail. Target sectors included consumer goods, food and beverage, chemical, high-tech and aerospace & defense. Although we have seen significant success in the majority of these sectors, aerospace & defense has been held back by well publicized uncertainties around government procurement.

- **Broaden the use of our solutions within existing accounts.** We continue to expand the range of our innovation solutions to enable expansion within our customers. An example is our recent release of Accolade 8.2, which introduces a new module Accolade Innovation Planner™ to assist companies in creating strategic enterprise innovation plans. As reported last year, we also invested in our client growth strategy by focusing account management resources and marketing programs on growing within our customer base.

- **Expand direct and indirect distribution channels to acquire new accounts.** During 2011 we hired new sales people to expand our direct distribution channel. At the start of 2013, we underpinned our position in Germany through the acquisition of our reseller partner. We also continued to build our relationships with consulting partners. Evidence of progress during 2012 included our first sale into China, through a partner, and the announcement of a joint product and service offering with Kalypso, a major consulting firm in the innovation market. In addition we won our second Saudi Arabia based customer and expect to expand into this region going forward.

Our investment in these strategic objectives started in 2011 and as we predicted, commercial results have started to come through in 2012. On the product front, in 2011 we completed a full refresh of the technology platform upon which our core software offerings are built to make them Microsoft® .net based. We also introduced a new Agile development methodology designed to build products faster and do a better job of ensuring that they are in step with real customer needs. In 2012, these changes resulted in a number of customer-focused releases, culminating in the landmark release of Accolade 8.2 at the start of 2013. With this release, Sopheon continues to extend the market leadership of the Accolade solution with expanded functionality for innovation users and business processes.

As Sopheon grows, our solutions and market position also continue to evolve. With the recent expansion of our solution footprint we have also evolved our market position. Sopheon partners with customers to provide complete Enterprise Innovation Performance solutions including software, expertise, and best practices to achieve exceptional long-term revenue growth and profitability. Sopheon's Accolade solution provides unique, fully-integrated coverage for the entire innovation management and new product development lifecycle. For the first time, businesses can access a single source of the truth across strategic innovation planning, roadmapping, idea and concept development, process and project management, and portfolio and in-market management.

Our decision to sustain internal product development investment despite the ongoing economic uncertainty is serving us well in the present and will continue to fortify our business performance and potential in the days ahead.

PEOPLE

Sopheon is differentiated in the market by its reputation for deep domain expertise in innovation management. This know-how is embodied in our people, whose best-practice understanding and experience have been developed through many years of helping top businesses achieve innovation success. We are very proud of the commitment that our people have shown in lifting Sopheon to a position of leadership in this area.

Sopheon continues to recruit, grow and develop its people. In 2011, as previously communicated, we identified that a key barrier to our ability to scale for growth was a lack of formal onboarding and certification training. During 2012, we recruited a dedicated training specialist to close this gap. We held our first formal training events during the year, which enjoyed excellent feedback. Our goal is to reduce the ramp-up time for new employees, and in turn, improve our ability to scale our organization with growth while maintaining customer satisfaction. This priority continues to have high visibility inside our company. In addition, as part of our Accolade version 8 roll out programs we offered customers packaged training classes at Sopheon facilities for the first time. The feedback and value received from our clients was overwhelmingly positive. We will expand this program in 2013.

Building on steps taken in 2011 to restructure and strengthen Sopheon's executive management team, we were pleased to round out our executive team with the recruitment of Mike Frichol to spearhead global marketing. Mike has a great deal of experience with emerging high-growth software companies, and has held a number of senior positions in the industry at companies such as Great Plains Software, Infor, and Microsoft.

OUTLOOK

We are delighted that revenues and profits for 2012 exceeded market expectations. In parallel with this positive financial performance, Sopheon continued to make strategic advances during the year. We announced major new product releases that further embed our leadership in enterprise innovation management. We started 2013 with the acquisition of a long-standing business partner in Germany, a key regional market. Through 2012 and also coming into 2013, we have continued our steady expansion of resources to keep pace with our growth plans. Nevertheless, market conditions remain hard to predict, and we continue to watch the cost base closely.

On the corporate front, we secured an additional £1.1m of convertible debt finance, giving us the confidence to continue execution of our expansion strategy. We moved our Amsterdam listing to Alternext exchange, better suited to a company of our size. Separately, we shared our intent to undertake a corporate restructuring to reduce the accumulated deficit on the profit and loss account, and to consolidate shares. Precise details remain under review and we expect to request authorities for these changes at our 2013 annual general meeting.

Sopheon enters 2013 having made substantial progress on financial, operational and corporate fronts. We will continue our efforts in all areas and are excited by the opportunities ahead.

Barry Mence **21 March 2013**
CHAIRMAN

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 *£'000*	*2011* *£'000*
Revenue	**12,663**	**10,276**
Cost of sales	(3,612)	(2,731)
Gross profit	**9,051**	**7,545**
Sales and marketing expense	(4,238)	(3,533)
Research and development expense	(2,696)	(2,173)
Administrative expense	(1,510)	(1,377)
Operating profit	**607**	**462**
Finance income	9	8
Finance expense	(335)	(366)
Profit before tax	**281**	**104**
Income tax expense	-	-
Profit for the year	**281**	**104**
Earnings per share - basic and diluted	0.19p	0.07p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 *£'000*	*2011* *£'000*
Profit for the period	**281**	**104**
Other comprehensive income		
Exchange differences on translation of foreign operations	(187)	(58)
Total comprehensive income for the year	**94**	**46**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2012

	2012	*2011*
	£'000	*£'000*
Assets		
Non-current assets		
Property, plant and equipment	197	166
Intangible assets	3,522	3,748
Non-current receivables	12	12
	3,731	**3,926**
Current assets		
Trade and other receivables	3,959	3,265
Cash and cash equivalents	3,880	2,941
	7,838	**6,206**
Total assets	**11,570**	**10,132**
Liabilities		
Current liabilities		
Short-term borrowings	1,136	1,448
Deferred revenue	2,662	2,470
Trade and other payables	2,387	1,469
	6,185	**5,387**
Non-current liabilities		
Borrowings	2,121	1,663
Total liabilities	**8,306**	**7,050**
Net assets	**3,264**	**3,082**
Equity		
Share capital	7,279	7,279
Other reserves	55,619	55,803
Profit and loss account and translation reserve	(59,634)	(60,000)
Total equity	**3,264**	**3,082**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 *£'000*	*2011* *£'000*
Operating activities		
Profit before and after taxation	281	104
Adjustments for non-cash and financial items	1,735	1,492
Movements in working capital	391	(268)
Net cash generated from operating activities	2,407	1,328
Investing activities		
Finance income	9	8
Purchases of property, plant and equipment	(136)	(125)
Development costs capitalized	(1,210)	(1,060)
Net cash used in investing activities	(1,337)	(1,177)
Financing activities		
Proceeds from borrowings	1,150	-
Repayment of borrowings	(681)	(673)
Movement in lines of credit	(252)	442
Finance expense	(301)	(342)
Net cash generated (used in) / from financing activities	(84)	(573)
Net increase / (decrease) in cash and cash equivalents	**986**	**(422)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012

	Share Capital £'000	*Capital Reserves £'000*	*Translation Reserve £'000*	*Retained Losses £'000*	*Total £'000*
At 1 January 2011	**7,279**	**73,719**	**420**	**(78,410)**	**3,008**
Total comprehensive income for the year	-	-	(58)	104	46
Share based payments	-	28	-	-	28
Transfer merger reserve	-	(17,944)		17,944	
At 1 January 2012	**7,279**	**55,803**	**362**	**(60,362)**	**3,082**
Total comprehensive income for the year	-	-	(187)	281	94
Share based payments	-	(184)	-	272	88
At 31 December 2012	**7,279**	**55,619**	**175**	**(59,801)**	**3,264**

The translation reserve represents accumulated differences on the translation of assets and liabilities of foreign operations. Retained losses represent accumulated trading losses, including amortisation and impairment charges in respect of goodwill and intangible assets arising from past acquisitions. Capital reserves represent share premium, merger reserve, capital redemption reserve and share options reserve.

NOTES

1. Basis of Preparation

The financial information set out in this document does not constitute the Company's statutory accounts for 2011 or 2012. Statutory accounts for the years ended 31 December 2011 and 31 December 2012 have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2011 and 2012 were unmodified and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006 but in the 2011 report, consistent with prior years, drew attention to an emphasis of matter due to the uncertainty over going concern.

Statutory accounts for the year ended 31 December 2011 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2012 will be delivered to the Registrar in due course, and will be available from the Company's registered office at 40 Occam Road, Surrey Research Park, Guildford, Surrey, GU2 7YG and from the Company's website www.sopheon.com.

The financial information set out in these preliminary results has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in these preliminary results have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the period ended 31 December 2011. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the period ended 31 December 2011. New standards, amendments and interpretations to existing standards, which have been adopted by the Group have not been listed, since they have no material impact on the financial statements.

2. Going Concern

The financial statements have been prepared on a going concern basis. In reaching their assessment, the directors have considered a period extending at least 12 months from the date of approval of these financial statements. This assessment has included consideration of the forecast performance of the business for the foreseeable future, the cash and financing facilities available to the Group, and the repayment terms in respect of the Group's borrowings, including the potential of having to repay convertible loan stock in January 2015.

During 2012, the Group achieved revenues of £12.7m and a profit before tax of £281,000. This represents an improvement compared to the previous year. The performance in 2011 was flat over 2010. Coming into 2013, the Group's sales pipeline remains very active, and accordingly, the directors remain positive about the prospects for the business.

In December 2010 the Group renegotiated its loan note from BlueCrest Capital Finance ("BlueCrest") for a new principal value of $3.5m, which brought in new working capital of approximately $2.7m. The principal is repayable in equal monthly installments of $90,000, plus interest, through March 2014. The Group also has access to a revolving line of credit with BlueCrest which is secured against the trade receivables of Sopheon's North American business. This facility is periodically renewable, and the current term is to 31 May 2013. The facility limit is $1,250,000. At 31 December 2012, $800,000 (£495,000) was drawn against this revolving facility. In addition, during 2012 the Group extended a convertible loan to key investors from £850,000 to £2,000,000. The loan is repayable or convertible by 31 January 2015.

NOTES

2. Going Concern (continued)

Notwithstanding the Group's stable funding and trading position, the time-to-close and the order value of individual sales continues to vary considerably. When combined with the relatively low-volume and high-value nature of the Group's business, these are factors which constrain the ability to accurately predict revenue performance. In addition, to meet its strategic objectives, the Group has expanded its staff levels. If sales fall short of expectations, there is a risk that the Group's facilities may prove insufficient to cover both operating activities and the repayment of its debt facilities, which latter point could be due to the regular repayment of the BlueCrest term loan, the possibility of non-renewal of the BlueCrest revolving line of credit, or the possibility of having to repay in cash £2,000,000 of convertible loan stock on 31 January 2015. In such circumstances, the Group would be obliged to seek additional funding.

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

3. Segmental Analysis

All of the Group's revenue in respect of the years ended 31 December 2012 and 2011 derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Directors' Report. For management purposes, the Group is organized geographically across two principal operating segments, which can be expressed geographically. The first segment is North America, and the second Europe, Middle East and Africa. Information relating to these two segments is given below.

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

Year ended 31 December 2012

	North America £'000	*EMEA £'000*	*Total £'000*
Income Statement			
External revenues – by location of operations	7,792	4,871	12,663
Operating profit before interest and tax	139	469	607
Finance income	-	9	9
Finance expense	(202)	(134)	(336)
Profit before tax	(64)	345	281
Depreciation, amortization and impairment charges	(1,191)	(5)	(1,196)
EBITDA	1,330	473	1,803
Balance Sheet			
Fixed asset additions	117	19	136
Capitalization of internally generated development costs	1,211	-	1,211
Total assets	7,665	3,799	11,464
Total liabilities	(4,804)	(3,437)	(8,241)

NOTES

4. Segmental Analysis (continued)

Year ended 31 December 2011

	North America £'000	*EMEA £'000*	*Total £'000*
Income Statement			
External revenues – by location of operations	7,189	3,087	10,276
Operating profit before interest and tax	(139)	601	462
Finance income	-	8	8
Finance expense	(281)	(85)	(366)
Profit before tax	(420)	524	104
Depreciation, amortization and impairment charges	(1,090)	(5)	(1,095)
EBITDA	884	607	1,491
Balance Sheet			
Fixed asset additions	100	25	125
Capitalization of internally generated development costs	1,060	-	1,060
Total assets	7,701	2,431	10,132
Total liabilities	(4,924)	(2,126)	(7,050)

One customer accounted for approximately 16 percent of the Group's revenues in 2012. A different customer accounted for approximately 10 percent or more of the Group's sales in 2011. External revenues in 2012 exclude inter-segmental revenues which amounted to £1,245,000 (2011: £793,000) for North America and £215,000 (2011: £192,000) for EMEA. Revenues attributable to customers in North America in 2012 amounted to £7,084,000 (2011: £6,565,000). Revenue attributable to customers in the Rest of the World amounted to £5,579,000 (2011: £3,711,000) of which £2,920,000 (2011: £3,546,000) was attributable to customers in the EU. The segmental analysis above has been presented using information that is readily available to management.

4. Revenue

All of the Group's revenue in respect of the years ended 31 December 2012 and 2011 derived from continuing operations and from the design, development and marketing of software products with associated implementation and consultancy services.

5. EBITDA

The directors consider that EBITDA, which is defined as earnings/(loss) before interest, tax, depreciation and amortization, is an important measure, since it is widely used by the investment community. It is calculated by adding back depreciation and amortization charges amounting to £1,196,000 (2011: £1,029,000) to the operating profit of £607,000 (2011: £462,000).

NOTES

6. Revenue Visibility.
Another performance indicator used by the Group and referred to in narrative descriptions of the Group's performance is revenue visibility. At any point in time it comprises revenue expected from (i) closed license orders, including those which are contracted but conditional on acceptance decisions scheduled later in the year; (ii) contracted services business delivered or expected to be delivered in the year; and (iii) recurring maintenance, hosting and rental streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of the year.

7. Share-Based Payments
In accordance with *IFRS2 Share based Payments*, an option pricing model has been used to work out the fair value of share options granted since November 2002, with this being charged to the income statement over the expected vesting period and leading to a charge of £38,000 (2011: £39,000).

8. Income Tax
At 31 December 2012, tax losses estimated at £43m were available to carry forward by the Sopheon Group, arising from historic losses incurred. An aggregate £8.5m of these losses are subject to restriction under section 392 of the US Internal Revenue Code due to historical changes of ownership.

9. Earnings per Share
The calculation of basic loss per ordinary share is based on a profit of £281,000 (2011: £104,000), and on 145,579,000 (2011: 145,579,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year. The effect of all potential ordinary shares is anti-dilutive or immaterial.

10. Intangible Assets
In accordance with *IAS 38 Intangible Assets*, certain development expenditure must be capitalised and amortised based on detailed technical criteria, rather than automatically charging such costs in the income statement as they arise. This has led to the capitalisation of £1,210,000 (2011: £1,060,000), and amortisation of £998,000 (2011: £764,000) during the year. A further £100,000 (2011: £164,000) of amortisation was incurred during the year relating to intangible assets acquired with Alignent. In addition, during 2011 and 2012 the recurring income from the acquired Alignent customer base reduced, due to a mix of factors including the conversion of certain rental licenses to perpetual, changes in rental levels, and cancellations. The overall reduction exceeded the rate of attrition of such recurring income estimated in the original valuation exercise, leading to impairments in the carrying value of the acquired Alignent intangible assets of £175,000 (2011: £66,000).

11. Cautionary Statement
Sopheon has made forward-looking statements in this press release, including statements about the market for and benefits of its products and services; financial results; product development plans; the potential benefits of business relationships with third parties and business strategies. These statements about future events are subject to risks and uncertainties that could cause Sopheon's actual results to differ materially from those that might be inferred from the forward-looking statements. Sopheon can make no assurance that any forward-looking statements will prove correct.