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SOPHEON PLC

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

PRELIMINARY AUDITED RESULTS FOR THE YEAR TO 31 DECEMBER 2013

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 2013 together with an outlook for the current year.

HIGHLIGHTS:

- Revenue for the year was £13.3m (2012: £12.7m). Full year revenue visibility for 2014 already stands at £6.9m, compared to £6.4m at the same time last year.
- EBITDA for the year was £1.9m (2012: £1.8m).
- 47 new and extension license orders secured during the year.
- Recurring revenue base coming into 2014 stood at £4.8m compared to £4.5m the year before.
- Agile development methodology drove two new product releases in the last twelve months, including landmark release of Accolade 9.0 in November, fully integrating our leading roadmapping capabilities into our core platform.

Barry Mence, Chairman, commented: *"Energized by our record fourth quarter, we remain focused on keeping the Sopheon Accolade suite at the forefront of the emerging market for enterprise innovation performance, and are working diligently to drive and position our business for scalable growth."*

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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, portfolio management and resource planning. 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

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

INTRODUCTION

We recorded continued growth in 2013. Revenues rose from £12.7m in 2012 to £13.3m in 2013, alongside another year of improvement in profitability at both the EBITDA and profit after tax level. Towards the end of last year, we noted that meeting our commercial goals would require a strong finish to the year. The final weeks did indeed prove exceptionally busy, and revenues in the fourth quarter exceeded previous historical highs. Our strong customer base accounted for 65% of non-recurring revenues in 2013 compared to 49% the year before. Furthermore, the robust finish to the year has resulted in a high services backlog for 2014. Visibility for the current year stands at £6.9m as compared to £6.4m at this time last year.

Our focus on vertical markets resulted in several new license wins from consumer goods companies. In total, we added 16 new customers in the year. Sopheon's agile development methodology continued to bear fruit, with two milestone software releases in the year. Amongst a host of other improvements, Accolade 8.3 introduced enhancements in portfolio, resource management and collaboration. Accolade 9.0 introduced a new roadmapping platform, improved interactivity of planning and portfolio, social networking capabilities and better readiness for cloud deployment. These releases were driven out of explicit market need and reflect extensive input from our customer panels. Our work with strategic partners also continues to gather pace, with new deals won and several new opportunities being worked with major consulting organizations. In the coming year, we will also continue to add direct sales resources, both to drive expansion in our existing customer base and to drive new customer acquisition.

A number of corporate milestones were advanced in 2013. We secured court approval for a capital reduction, thereby reducing the deficit on the Group's accumulated reserves and completing a further milestone in the corporate changes that started with last year's transfer from Euronext to Alternext. We also implemented a share consolidation which reduced the number of shares in issue by a ratio of 20:1, and decreased the number of very small shareholdings by over 5,000. On a financing front, we extended our equity line facility for an additional two years. In addition, we are delighted to have concluded $3.5m in new debt facilities with Silicon Valley Bank.

MARKETS & PRODUCTS

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

We provide transparency and insight to improve decision making through an enterprise innovation platform which drives performance across the four distinct business capabilities required to achieve sustainable innovation. Many companies use project management tools to try and address these concerns.

We believe that good execution of a bad strategy drives bad results. The Sopheon solution was designed from the start to ensure that business strategy stays front of mind. During 2013, we released a number of advances to address project management challenges but have not departed from our core philosophy of putting business strategy first.

Over the years Sopheon has made significant investments in product development, which has been consistently held above 20% of revenue. In 2011 we completed a multi-year effort to replace our core product platform with Microsoft .NET technology – a contemporary software framework which offers design flexibility while also being an industry standard technology platform that has brought new levels of efficiency to our software development process. Another benefit to our clients is an easier and faster upgrade and installation path. We maintained a rapid pace in 2013 with Accolade 8.3 and 9.0 releases in June and November respectively. Amongst a host of other improvements, Accolade 8.3 introduced enhancements in portfolio, resource management and collaboration. Accolade 9.0 introduced a new roadmapping platform, improved interactivity of planning and portfolio, social networking capabilities and improved cloud deployment. These releases are aligned to market needs and reflect extensive input from our customer panels.

PEOPLE

Sopheon is differentiated in the market by its reputation for deep domain expertise in innovation management. That know-how is instituted in our methodologies, our best practices and our substantial experience developed through many years of helping top businesses achieve innovation success. We are very proud of the commitment that our people have shown to the Company. During 2013, we invested in a formal professional development program for our middle leaders, which was very well received and will be extended in 2014. Beyond this, formal mentoring, training and certification programs are now in place both to integrate new recruits and also to maintain and uplift the skills of existing staff. Our goal is to reduce the ramp-up time for new employees, and in turn, improve our ability to scale our organization while maintaining customer satisfaction. This priority continues to have high visibility inside our Company.

GROWTH STRATEGIES

As we have stated consistently, Sopheon's growth strategies center on three central objectives:

- **Increase industry-specific alignment of solutions and marketing:** We have always believed that different vertical markets, while sharing core functionality needs, have differing pain-points and best-practice traditions. In 2012 we started to realign 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 have included consumer goods, food and beverage, chemical, high-tech and aerospace & defense. During 2013 we put particular emphasis on the first two by creating a dedicated consumer goods sales team; this allowed us to create real momentum in a market which is a cornerstone of our business. This is exemplified by the fact that we have for four years running been voted among the top 10 providers of New Product Development & Introduction Solutions by consumer goods executives. Our success in this segment is acting as a template for 2014 initiatives in other sectors.

- **Introduce new offerings to leverage growth from our customer base:** Sopheon's roster of customer names is a hugely impressive list of the world's leading companies. We continue to expand the range of our innovation solutions to enable expansion within our customers and to ensure that they continue to see material value from their relationship with us. In 2012 we released Accolade Innovation Planner™ to assist companies in creating strategic enterprise innovation plans. Last year, we took this a major stage further by migrating roadmapping support from our Vision Strategist software to our core Accolade platform, offering a single-database repository for strategic planning, operational execution and portfolio decision-making. We believe this is unique. We are also investing in our client growth strategy by recruiting dedicated account management resources and focusing social marketing programs on our customer base.

- **Expand direct and indirect distribution channels to acquire new accounts:** Over the last two years we have expanded our presence outside our foundation markets, most notably through the acquisition of our German reseller partner, giving us coverage in Europe's most dynamic industrial economy. In the USA, we continue to migrate towards a hunter/farmer sales and marketing model with dual goals and targets for new customer acquisition along with extension and retention of our existing customer base. This will be supported by new target account initiatives, backed by externally-sourced research. We have also outsourced aspects of lead generation to ensure we leverage best practices in an area that is seeing ferocious advances in customer nurturing and lead response times. The reseller and consulting partner footprint continues to expand with new representation added during the year in Latin America and Asia. We continued to develop our ties with consulting firms, an area we believe will be key to the acceleration of our growth. We were delighted to welcome KPMG, Adept and Googol at our recent annual sales kick-off event; these new partners bring deep relationships with key decision makers in our target markets.

TRADING PERFORMANCE

Revenues in 2013 were £13.3m, compared to £12.7m in 2012 and £10.3m in 2011. The overall shape of the business was 60% from North American customers, 32% from European customers and 8% from Asia, the Pacific Rim and the Middle East. Currency effects had limited impact.

Total license transactions including extension orders were 47 in 2013, the same number as 2012. For the second year in a row average revenue per transaction rose, which resulted in higher license revenues overall. License, maintenance and hosting revenues all recorded increases compared to the prior year; services revenue was moderately lower, after jumping almost 50% from 2011 to 2012. Taking the long view, the annualized average growth of our business since the launch of Accolade is 23 percent.

BUSINESS MIX

Over the years we have frequently referred to the sensitivity of our license results to individual sales events. Historically, our license performance in the fourth quarter has tended to be very strong and to provide a substantial boost to overall annual revenues but this did not happen in 2011 and 2012. After these two relatively slow years in this regard, 2013 showed a return to the traditional fourth quarter spike as indicated above. However, the overall performance reflected a greater share of extension business than in the prior year. In 2013 around 35 percent of the value of new business was derived from new customers (excluding maintenance and hosting renewals), compared to just over 50 percent in 2012, and 21 percent in 2011. We believe this bi-annual swing will recede as we continue to scale, but nevertheless we enter 2014 with renewed determination to focus dedicated resources on new customer acquisition especially in our more mature North American market. We are also embedding a more focused account management team, to ensure we maximize the opportunity to deliver value and grow revenue with each of our customers.

Attrition in the recurring revenue base was more than outweighed by the value of new contracts, which means that the overall base of recurring business now stands at approximately £4.8m, compared to £4.5m coming into 2013 and £4.1m coming into 2012. We recognize that this rising trend of recurring revenue is key to our progress and stability, and we are introducing new programs alongside our focus on account management to ensure that it is nurtured. The majority of recurring income is represented by maintenance services, but also includes hosting and cloud services. Overall, in 2013 our business delivered a 29:35:36 ratio of licenses, maintenance, and services respectively compared to 28:31:41 in the previous year.

Overall our reported gross margins are broadly flat at just under 70 percent (2012: 71 percent). A number of factors have held margins back in spite of the relatively lower proportion of services revenue. At the end of last year we reorganised our services organization, introducing a leadership tier, ancillary resources and service delivery teams to support the growth of the business. This was bedding in during 2013. Subcontractor activity remained high in the first half of the year, in part to support the transition into the new organizational structure. Finally the new releases have led to upgrade demand that has also put some strain on our support and services resources. We have created a dedicated upgrade team to bring focus to this area until the demand becomes less intense. Third-party software costs fell back to £0.4m (2012: £0.45m) reflecting lower OEM-sourced software sales.

RESEARCH & DEVELOPMENT EXPENDITURE

The gradual expansion of investment in product development since 2010 was further extended in the current year. This policy has resulted in actual expenditures in research and development being approximately £0.2m higher in 2013 than in 2012, on the back of a £0.4m rise the year before. The headline research and development reported in the income statement adjusts this basic expenditure for the effects of capitalization and amortization of development costs. The amount of 2013 research and development expenditure that met the criteria of IAS38 for capitalization was £1.1m (2012: £1.2m), offset by amortization charges of £1.1m (2012: £1m). These capitalized costs are largely attributable to the Group’s investment in the Accolade 8.3, 9.0 and forthcoming 9.1 releases. Headline research and development expenditures reported in the income statement rose to £3m from £2.7m in 2012. A further £0.1m of amortization and impairment charges relating to acquired intangible assets (2012: £0.3m) 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 2013, this metric was 23 percent (2012: 21 percent).

OPERATING COSTS

Coming into 2012 Sopheon had 95 staff members, which had grown to 109 by the start of 2013. As noted elsewhere, we have continued to steadily expand resources in line with revenue growth, and the total staff count stood at 116 by the end of 2013. Offsetting the impact of expanded staffing, all cost areas were moderated by the fact that our performance in 2013 resulted in a lower bonus award being made than for 2012, to the members of the Company that participate in the corporate bonus scheme. This 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. Bonus costs are allocated to the relevant categories of the income statement.

Detailed comments regarding professional services and research and development costs are noted above. After allowing for a £0.2m lower amortization and impairment charge noted above, sales and marketing costs were broadly stable at £4.0m in 2013 compared to £4.2m in 2012. This follows a spend increase of £0.6m from 2011 to 2012 reflecting higher staffing in both Europe and America.

Headline administration costs have risen by £0.07m, reflecting some resource expansion in IT and HR areas coupled with a rise in various external overheads including rent, insurance and legal costs. Aside from these changes, much of which reflects the expanding headcount, underlying administration costs and resourcing have remained broadly constant since 2007. These costs will continue to be managed tightly, but we anticipate increasing pressure in this area to accommodate 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 2013 rising to £1.9m, from £1.8m 2012.

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 5. Our calculation of EBITDA is stated after charging (i) share-based payments of £75,000 (2012: £38,000); (ii) impairment charges of acquired intangible assets of £46,000 (2012: £175,000); and (iii) exchange gains of £67,000 (2012: losses of £36,000) but excludes depreciation and amortization charges for the year of £1.3m (2012: £1.2m) and net finance costs of £0.3m (2012: £0.3m).

Including the effect of interest, depreciation and amortization, the Group reported a profit before tax for the year of £341,000 (2012: £281,000). No tax has been provided. The profit per ordinary share was 4.7p (2012: 3.8p as adjusted for the share consolidation).

FINANCING AND BALANCE SHEET

Consolidated net assets at the end of the year stood at £3.5m (2012: £3.3m). Gross cash resources at 31 December 2013 amounted to £2.4m (2012: £3.9m). Approximately £0.7m was held in US Dollars, £1.6m in Euros and £0.1m in Sterling. During the year, the Group paid almost £1m to BlueCrest Capital Finance ("BlueCrest") in debt and interest payments.

Intangible assets stood at £3.4m (2012: £3.5m) at the end of the year. This includes (i) £2.8m being the net book value of capitalized research and development (2012: £2.8m) and (ii) an additional £0.6m (2012: £0.7m) 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 10. A small amount of goodwill was also recognized on the acquisition of Sopheon GmbH. The effective acquisition date was 1 January 2013, on which date Sopheon GmbH (formerly known as Sopheon Vertriebs GmbH) had net assets of £13,000. Total acquisition consideration and costs amounted to £37,000 leading to goodwill of £24,000.

Since 2007 the Company had term-loan and a line of credit facilities provided by BlueCrest. The most recent term loan was established in 2010, for $3.5m with a 39-month term repayable in equal monthly installments through March 2014. This loan bore interest at 13 percent per annum. In addition to the term loan, BlueCrest provided a revolving line of credit secured against trade receivables, with a maximum capacity of $1.25m and an interest rate of 10.95 percent. Both facilities were due to expire in March 2014. BlueCrest decided to move away from debt funding and accordingly, further renewals were not available.

Accordingly, in February 2014 the Group established new replacement facilities with the London branch of Silicon Valley Bank. These facilities comprise a term loan of $0.5m repayable in 36 equal monthly instalments, and, reflecting the Group's expanded receivables capacity, a $3m revolving line of credit. Both facilities bear interest at rates of 2.75 percent over Wall Street Prime, resulting in a current effective rate of 6 percent. The facilities are subject to covenants based on operating results, and in addition the drawdown mechanics and interest rates are subject to certain working capital ratios. These facilities have substantially lower financing costs than the ones they replace, reflecting the growing maturity of the Sopheon business.

To mitigate the exposures associated with BlueCrest withdrawing from debt markets, and to underpin the Group's expansion strategy, in two tranches in 2009 and 2011, the Company issued a total of £2m of convertible unsecured loan stock (the "Loan Stock") to a Group of investors including key members of the board and senior management team. The Loan Stock has a maturity date of 31 January 2015 and a conversion price of £1 per share. The board has entered discussions with major holders of the Loan Stock with a view to extending maturity for a further two years.

As a final component of its financing structure, Sopheon has an equity line of credit facility with GEM Global Yield Fund Limited ("GEM") which was last renewed for a two-year term expiring on 23 December 2015. 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.

OUTLOOK

We believe the market for what we do is maturing. We are seeing more competition, which both provides evidence and validation of the market but also means we must continue to advance and lead the industry with our solutions. We have sustained a controlled expansion of staff levels since 2010 while continuing to drive revenue and profitability improvements. We will continue to link investment with performance. Energized by our record fourth quarter, we remain focused on keeping the Sopheon Accolade suite at the forefront of the emerging market for enterprise innovation performance, and are working diligently to drive and position our business for scalable growth.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 *£'000*	*2012* *£'000*
Revenue	**13,276**	**12,663**
Cost of sales	(4,011)	(3,612)
Gross profit	**9,265**	**9,051**
Sales and marketing expense	(4,032)	(4,238)
Research and development expense	(3,043)	(2,696)
Administrative expense	(1,583)	(1,510)
Operating profit	**607**	**607**
Finance income	17	9
Finance expense	(283)	(335)
Profit before tax	**341**	**281**
Income tax expense	-	-
Profit for the year	**341**	**281**
Earnings per share - basic and diluted	4.68p	3.86p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 *£'000*	*2012* *£'000*
Profit for the period	**341**	**281**
Other comprehensive expense		
Exchange differences on translation of foreign operations	(150)	(187)
Total comprehensive income for the year	**191**	**94**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2013

	2013 *£'000*	*2012* *£'000*
Assets		
Non-current assets		
Property, plant and equipment	197	197
Intangible assets	3,387	3,522
Non-current receivables	12	12
	3,596	**3,731**
Current assets		
Trade and other receivables	5,485	3,959
Cash and cash equivalents	2,436	3,880
	7,921	**7,839**
Total assets	**11,517**	**11,570**
Liabilities		
Current liabilities		
Borrowings	915	1,136
Deferred revenue	2,995	2,662
Trade and other payables	2,119	2,387
	6,029	**6,185**
Non-current liabilities		
Borrowings	1,978	2,121
Total liabilities	**8,007**	**8,306**
Net assets	**3,510**	**3,264**
Equity		
Share capital	1,456	7,279
Other reserves	3,400	55,619
Profit and loss account and translation reserve	(1,346)	(59,634)
Total equity	**3,510**	**3,264**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 *£'000*	*2012* *£'000*
Operating activities		
Profit before and after taxation	341	281
Adjustments for non-cash and financial items	1,710	1,735
Movements in working capital	(1,531)	391
Net cash generated from operating activities	520	2,407
Investing activities		
Finance income	17	9
Purchases of property, plant and equipment	(145)	(136)
Development costs capitalized	(1,139)	(1,210)
Acquisition of subsidiary undertaking	7	-
Net cash used in investing activities	(1,260)	(1,337)
Financing activities		
Proceeds from borrowings	-	1,150
Repayment of borrowings	(688)	(681)
Movement in lines of credit	287	(252)
Finance expense	(283)	(301)
Net cash used in financing activities	(684)	(84)
Net (decrease) / increase in cash and cash equivalents	**(1,424)**	**986**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

	Share Capital £'000	*Capital Reserves £'000*	*Translation Reserve £'000*	*Retained Losses £'000*	*Total £'000*
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 1 January 2013	**7,279**	**55,619**	**175**	**(59,809)**	**3,264**
Total comprehensive income for the year	-	-	(150)	341	191
Share based payments	-	(376)	-	451	75
Capital reorganization	(5,823)	(51,843)	-	57,646	(20)
At 31 December 2013	**1,456**	**3,400**	**25**	**(1,371)**	**3,510**

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 2012 or 2013. Statutory accounts for the years ended 31 December 2012 and 31 December 2013 have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2012 and 2013 were unmodified and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2012 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2013 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 2012. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the period ended 31 December 2012. 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 2013, the Group achieved revenues of £13.3m and a profit before tax of £341,000. These represents an improvement compared to the previous year, which itself showed growth over 2011. Coming into 2013, the Group’s sales pipeline remains active, and accordingly, the directors remain positive about the prospects for the business.

Since 2007 the Company had facilities provided by BlueCrest Capital Finance. These facilities were due to expire in March 2014. Accordingly, in February 2014 the Group established new facilities with Silicon Valley Bank (“SVB”). These facilities comprise a term loan of $0.5m repayable in 36 equal monthly instalments, and a $3m revolving line of credit. The facilities are subject to covenants based on operating results, and in addition the drawdown mechanics and interest rates are subject to certain working capital ratios. In addition, the Group has a £2m convertible loan from key investors including members of the board and management. The current terms of the convertible loan call for repayment or conversion by 31 January 2015.

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. Furthermore, to meet its strategic objectives, the Group has continued to expand 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 SVB term loan, the possibility of not meeting SVB covenants or working capital ratios, or the possibility of having to repay the convertible loan stock in cash on 31 January 2015. In such circumstances, the Group may be obliged to seek additional funding.

NOTES

2. Going Concern (continued)

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 2013 and 2012 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. 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 2013

	North America £'000	*Europe £'000*	*Total £'000*
Income Statement			
External revenues – by location of operations	8,908	4,368	13,276
Operating profit/(loss) before interest and tax	724	(117)	607
Finance income	-	17	17
Finance expense	(116)	(167)	(283)
Profit/(loss) before tax	608	(267)	341
Depreciation, amortization and impairment charges	(1,332)	(37)	(1,369)
EBITDA	2,010	(80)	1,930
Balance Sheet			
Fixed asset additions	84	61	145
Capitalization of internally generated development costs	1,139	-	1,139
Total assets	8,040	3,477	11,517
Total liabilities	(4,324)	(3,683)	(8,007)

Year ended 31 December 2012

	North America £'000	*Europe £'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	(201)	(134)	(335)
Profit before tax	(64)	345	281
Depreciation, amortization and impairment charges	(1,191)	(5)	(1,196)
EBITDA	1,330	473	1,803

NOTES

4. Segmental Analysis (continued)

Balance Sheet			
Fixed asset additions	117	19	136
Capitalization of internally generated development costs	1,210	-	1,210
Total assets	7,718	3,852	11,570
Total liabilities	(4,857)	(3,449)	(8,306)

One customer accounted for approximately 8 percent of the Group’s revenues in 2013. A different customer accounted for approximately 16 percent of the Group’s sales in 2012. In each case, the customer fell within the Europe segment based on location of operations.

External revenues in 2013 exclude inter-segmental revenues which amounted to £1,368,000 (2012: £1,245,000) for North America and £222,000 (2012: £215,000) for Europe. Revenues attributable to customers in North America in 2013 amounted to £7,967,000 (2012: £7,084,000). Revenue attributable to customers in the rest of the world amounted to £5,309,000 (2012: £5,579,000) of which £4,302,000 (2012: £2,920,000) was attributable to customers in Europe.

4. Revenue
All of the Group’s revenue in respect of the years ended 31 December 2013 and 2012 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 £1,323,000 (2012: £1,196,000) to the operating profit of £607,000 (2012: £607,000).

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 £75,000 (2012: £38,000).

8. Income Tax
At 31 December 2013, tax losses estimated at £43m were available to carry forward by the Sopheon Group, arising from historic losses incurred. An aggregate £7m 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 £341,000 (2012: £281,000), and on 7,279,000 (2012: 7,279,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year as adjusted for the capital reorganization which became effective on 12 June 2013. 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 £1,139,000 (2012: £1,210,000), and amortisation of £1,149,000 (2012: £998,000) during the year. A further £30,000 (2012: £100,000) of amortisation was incurred during the year relating to intangible assets acquired with Alignent. In addition, during 2012 and 2013 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 £46,000 (2012: £175,000).

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.