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SOPHEON PLC

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

AUDITED RESULTS STATEMENT FOR THE YEAR TO 31 DECEMBER 2014

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 2014 together with an outlook for the current year.

HIGHLIGHTS:

- Revenue for the year was $18.3m (2013: $20.8m). Full year revenue visibility at start of 2015 of $10.2m, just modestly down from $10.8m the previous year.
- EBITDA for the year was $1.2m (2013: $3.0m).
- 42 new and extension license orders secured during the year. Recurring revenue base coming into 2015 stood at $7.9m compared to $7.5m the year before.
- Second year of strategic transition from delivering process automation, to delivering Enterprise Innovation Management solutions; growth strategy intact.

Barry Mence, Chairman, commented: *"We made substantial progress in 2014 completing the shift in our business model but not without some disruption to momentum. I wish to re-emphasize my belief in our growth strategy. We continue to lead the market for innovation management solutions, with a breadth of vision, experience and capability that is unmatched by competitors that have emerged in recent years."*

FOR FURTHER INFORMATION CONTACT:

Barry Mence, Chairman	Sopheon plc	+ 44 (0) 1276 919 560
Arif Karimjee, CFO	Sopheon plc	+ 44 (0) 1276 919 560
Charlotte Stranner / Victoria Bates	finnCap	+ 44 (0) 20 7600 1658
Edward Treadwell	Newgate	+ 44 (0) 20 7653 9842
Claire Verhagen	Citigate First Financial	+ 31 (0) 205 754 010

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

SUMMARY AND OUTLOOK

We entered 2014 on the back of the strongest quarter in our history, and having taken the business from under $13m revenues in 2009, to almost $21m in 2013. This advance was coupled with steady improvements in profitability. We also entered 2014 in the second year of a strategic transition from delivering process automation, to delivering enterprise class, integrated innovation management solutions. We made substantial progress in 2014 completing this shift in our business model but not without some disruption to momentum, leading to revenues of $18.3m in 2014. The transition has taken longer than we had planned. We continue to lead the market for innovation management solutions, with a breadth of vision, experience and capability that is unmatched by competitors that have emerged in recent years. We believe that the restructuring we have undergone to better address the enterprise market is the right path for the Sopheon business, at a time when we also believe that this market is maturing.

The closing quarter has always been busy and this was true for 2014. As previously announced, a number of our larger opportunities were deferred into 2015. One of our learnings last year was that enterprise solutions, while larger in value, require an even longer sales cycle than our historical business. Delays often reflect the impact of a more intense decision-making process due to its strategic importance; this was not fully anticipated, but underlines the importance and value of our integrated innovation management solution. In spite of this, revenue visibility coming into 2015 was $10.2m, only modestly down on $10.8m from the year before. This reflects the strengthening recurring revenue base coupled with good levels of services backlog from deals that did close at the end of 2014.

We added ten new customers in the year – across a broad range of industries including defense, oil, and high-technology as well as in our traditionally core consumer goods and chemical sectors. The investment and transformation in our sales organization has been completed, with new leadership in the US and Europe as well as several new team members, and dedicated resources bringing focus between new customer acquisition and existing customer account management. Partners and resellers continued to bring us into new opportunities and were instrumental in acquiring new customer wins. Our services organization was also restructured to support our growth strategy, and furthermore, we have brought services, support and development under common leadership.

Ongoing investment in software development delivered a continued rapid pace of releases, with Accolade 9.1 and 9.2 released in April and September respectively, and most recently Accolade 9.3 in February 2015. We continue to bring forward new and unique functionality. Areas of enhanced capability include roadmapping, resource planning and project execution, and deeper security and integration facilities - meeting the needs of new vertical segments as well as enterprise class requirements. As announced in January, we are also introducing Accolade Express, which enables customers to leverage Sopheon software to rapidly improve innovation performance, by adopting out-of-the-box best practices content developed from over a decade of experience with industry leaders.

Early in the year, we were delighted to conclude $3.5m in new debt facilities with Silicon Valley Bank. In December, we successfully completed the share consolidation and capital reduction process initiated the year before, with a cumulative reduction of very small shareholdings by approximately 10,000 across the UK and the Netherlands. Sopheon's board stood behind fractional entitlements that were sold on the market and purchased the equivalent of 471,500 current ordinary shares, underscoring our belief in the business.

We remain confident in our strategic path. We look forward to improved commercial progress in 2015, to match and leverage the major strides made with organizational, product and corporate matters.

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 four distinct business capabilities required to achieve sustainable innovation. 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, focusing on the business value that really matters to corporations. During 2014 a specific focus was on developing tighter integration of long range planning functionality with near term execution capabilities – an increasingly vital requirement in an ever more competitive and unpredictable world.

Our integrated support for the entire lifecycle enables critical decision-making at every step to help companies achieve significant innovation performance improvements across the enterprise. Sopheon's solutions have been implemented by over 200 customers with over 60,000 users in over 50 countries.

As noted above we continued a rapid pace of development in 2014. Amongst a host of other improvements, both versions released stepped up our functionality in roadmapping, resource planning and project execution. In addition, 9.1 introduced a range of security enhancements while 9.2 had greater focus on additional integration capabilities with the latest versions of Microsoft Office. Our releases continue to be aligned to market needs and reflect extensive input from our customer panels. Alongside 9.3 we have also released the first iteration of our new Accolade Express offering, which will enable enterprises to rapidly automate innovation processes, based on implementing out-of-the-box best practices rooted in Sopheon's extensive experiences with industry leading customers.

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

PEOPLE

Sopheon is differentiated in the market by its industry leading reputation for deep domain expertise in the product development business process referred to as "Stage-Gate®". Over recent years the market has pulled Sopheon more holistically into the broader innovation management space. 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. We place great emphasis on the development of our people to institutionalize this deep experience and knowledge of enterprise integrated innovation in our customer facing teams. This priority continues to have high visibility inside our company.

A number of important changes in our sales organization further described below have been led by Sheila Plunkett, who was appointed in the first half of 2014 to lead the North American sales team. In November we also appointed Pieter Leijten to lead our European sales team. Sheila and Pieter have extensive experience with software companies such as IBM, SAP and Infor, as well as start-up environments, and they bring us deep experience in selling enterprise solutions. We also continued to develop our ties with consulting firms, an area we believe will be key to the acceleration of our growth.

We have continued our transformation of the global Customer Success (consulting and implementation services) organization, embedding standardized methodologies and reporting mechanisms to support integrated innovation management. Our services teams are customer-facing in their activities, relationships and service delivery and increasingly, are vertically aligned to our target industries. Similarly, the Customer Support organization is a single global team with people located across time zones to support local customer requests. Our Success and Support organizations now report to Don Sarno, who led the transformation of our product development approach to Agile, and has now taken on a Chief Operating Officer role.

GROWTH STRATEGIES

Sopheon's growth strategy centers on transitioning our business from "automating New Product Development" to "delivering Enterprise Innovation Management solutions". This sharper strategic focus is informed by experiences from some of our early client successes, supplemented by recent validation from industry shifts and trends. It has required us to redirect our selling channels, service delivery model and roadmap priority towards a higher value proposition, interconnected with offering customers a more strategic solution. Our refined focus requires Sopheon to:

- **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 2014 we continued our objective to dominate in our chosen core verticals of chemical, consumer products and high technology. The focus on Enterprise Innovation Management is enabled by our ability to leverage the deep industry knowledge we have developed over the years, to bring more value to our clients across their enterprise. Our progress and success as deploying this strategy in the consumer products market has been recognized by the fact we have been again, five years running, been voted among the top 10 providers of Innovation Solutions by consumer goods executives. Our ambition is to replicate this success, in the years to come, with ongoing initiatives in the other core sectors, chemicals and high-tech.

- **Introduce new offerings to leverage growth in our blue chip customer base:** Sopheon's roster of customer names is a hugely impressive list of the world's leading companies. Our strategy calls for us to continue to expand the range of our innovation solutions, extending our footprint within our customers across their enterprise, to deliver considerably higher value for their investment in Accolade. Examples of this product strategy in recent years include our 2012 release of Accolade Innovation Planner™ and the migration of Vision Strategist to our core Accolade platform, offering a single-database repository for strategic planning, operational execution and portfolio decision-making. We believe this is unique. In 2014 we have invested in dedicated account management resources, and in social marketing programs focused on our customer base, to support our client growth strategy.

- **Transition distribution channels for Enterprise Solution selling:** We recognize selling enterprise class, integrated solutions requires different skills than selling automation tools. This strategy has led to several changes in our distribution model. In the USA, we completed the migration to 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 process took longer than anticipated but we are pleased to have all roles transferred and filled coming into 2015.

TRADING PERFORMANCE

In view of the fact that two-thirds of Sopheon's revenues and staff are based in the USA, the board took the decision to present the group's financial statements in US Dollars as of the 2014 interim report. This is the first annual report reflecting this change. It is intended to reduce the effect of currency movements on reported revenues, and to better reflect the underlying source of the majority of the group's business. Comparatives for the prior period have been restated accordingly.

Sopheon's consolidated turnover in 2014 was $18.3m, compared to $20.8m in 2013. The overall shape of the business continues to be approximately one-third Europe and two-thirds North America, with a material contribution from other territories including Asia, the Pacific Rim and the Middle East.

Total license transactions including extension orders were 42 in 2014, compared to 47 in 2013. A trend in the previous two years of rising average revenue per transaction was interrupted, which in conjunction with the lower transaction count resulted in a lower overall sales performance. Accordingly, while maintenance and hosting revenues remained broadly consistent with the prior year, license and services revenues both fell back. Taking the long view, the annualized average growth of our business since the launch of Accolade remains above 20 percent.

BUSINESS MIX

Over the years we have frequently referred to the sensitivity of our license results to individual sales events. Historically, the second and fourth quarters tend to be strong and the final quarter of 2013 was a particularly marked example, being the strongest revenue quarter in our history. In 2014, while the second and fourth quarters were certainly stronger than the first and third, they did not match the prior year performance. In particular, and as we announced towards the end of 2014, a number of large transactions that we had originally expected to close in the fourth quarter were delayed into 2015. Such delays are often reflective of an opportunity growing in size and scale; potentially a good long-term outcome but of course the impact on the year under review can be unwelcome. This deferral of larger orders also contributed to the average deal size being lower than in the prior year, as referenced above.

Although overall sales were lower, the contribution from new customers improved to 45 percent from 35 percent in 2013, reflecting a number of exciting new customer wins. We entered last year determined to improve new sales performance, and backed this up with a recruitment strategy in North America that was focused on ensuring better segregation between hunter and farmer sales representatives. In addition to the appointment of a new sales leader in April, by the end of 2014 we had ten sales representatives in the US, of which five joined the team during the year. In November we also brought on a new sales leader in Europe, where we ended the year with three experienced representatives and have just added a fourth.

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 stood at approximately $7.9m coming into 2015, compared to $7.5m coming into 2014 and $7.1m coming into 2013. We recognize that this rising trend of recurring revenue is key to our progress and stability, and have introduced 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 2014 our business delivered a 21:42:37 ratio of licenses, maintenance, and services respectively compared to 29:35:36 in the previous year.

Overall our reported gross margins were 66 percent, down from 70 percent in 2013, reflecting the lower level of high-margin license revenue, coupled with the relatively fixed costs in our services business.

RESEARCH & DEVELOPMENT EXPENDITURE

Overall investment in product development decreased by approximately $0.1m in 2014, following a steady annual rise since 2010; this compares to the headline R&D reported in the income statement showing a reduction from $4.8m to $4.3m. The majority of the difference is due to the effects of capitalization and amortization of development costs. The amount of 2014 research and development expenditure that met the criteria of IAS38 for capitalization was $2.4m (2012: $1.8m) offset by amortization charges of $2.1m (2013: $1.8m). These capitalized costs are largely attributable to the group’s investment in the Accolade 9.1, 9.2 and 9.3 releases. In 2013, a further $0.1m of amortization and impairment charges relating to acquired intangible assets were charged to distribution costs; these were fully written down coming into 2014 and accordingly the charge did not recur.

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 2014, this metric was 23 percent (2013: 23 percent).

OPERATING COSTS

Coming into 2012 Sopheon had 95 staff members, which we grew to 116 by the end of 2013. Following expansion of resources in line with revenue growth through 2012 and 2013, we stabilized headcount in light of developments last year and ended 2014 with 113 staff. Although staffing numbers were broadly constant year on year, all cost areas were moderated by the reduced bonus attributable to the lower 2014 performance. The corporate bonus scheme covers the majority of the group’s executives and employees, with the principal exception of the sales teams for whom incentives are tied to individual or territory results. Bonus costs in a given year 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 $0.1m lower amortization and impairment charge noted above, as well as lower commission costs, sales and marketing costs were broadly stable at $6.2m in 2014 compared to $6.3m in 2013.

Headline administration costs have risen by $0.2m, mainly due to a swing from a net exchange gain position on the group’s cash balances to a net exchange loss. As a matter of policy, the group does not hedge currency balances. Underlying administration costs and resourcing have remained broadly constant since 2007.

RESULTS

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.

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 2014 falling to $1.2m, from $3m in 2013.

Including the effect of interest, depreciation and amortization, the group reported a loss before tax for the year of $1.5m (2013: profit of $0.5m). No tax has been provided. The loss per ordinary share was 20.9 cents (2013: profit per share of 7.3 cents).

FINANCING AND BALANCE SHEET

Consolidated net assets at the end of the year stood at $4.2m (2013: $5.8m). Gross cash resources at 31 December 2014 amounted to $4.7m (2013: $4.0m). Approximately $2.4m was held in US Dollars, $2.0m in Euros and $0.3m in Sterling.

Intangible assets stood at $5.9m (2013: $5.6m) at the end of the year. This includes (i) $4.9m being the net book value of capitalized research and development (2013: $4.6m) and (ii) an additional $1.0m (2013: $1.0m) being goodwill arising on the acquisitions of Alignent Software Inc., and Sopheon GmbH.

Since 2007 the company had term-loan and line of credit facilities provided by BlueCrest Capital Finance ("BlueCrest"). 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 underpin the group's growth strategies, in two tranches in 2009 and 2011, the company issued a total of £2m of convertible unsecured loan stock (the "Loan Stock") to a group of investors including key members of the board and senior management team. In June 2014, the Loan Stock investors agreed to extend the maturity date by two years to 31 January 2017. The conversion price is 76.5 pence per share.

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.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 *$'000*	*2013* *$'000*
Revenue	**18,296**	**20,841**
Cost of sales	(6,209)	(6,296)
Gross profit	**12,087**	**14,545**
Sales and marketing expense	(6,173)	(6,331)
Research and development expense	(4,298)	(4,776)
Administrative expense	(2,718)	(2,486)
Operating loss/(profit)	**(1,102)**	**952**
Finance income	12	27
Finance expense	(429)	(445)
(Loss)/profit before tax	**(1,519)**	**534**
Income tax expense	-	-
(Loss)/profit for the year	**(1,519)**	**534**
Earnings per share - basic and diluted	(20.87c)	7.34c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 *$'000*	*2013* *$'000*
(Loss)/profit for the period	**(1,519)**	**534**
Other comprehensive expense		
Exchange differences on translation of foreign operations	(197)	(99)
Total comprehensive (expense)/income for the year	**(1,716)**	**435**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2014

	2014 *$'000*	*2013* *$'000*
Assets		
Non-current assets		
Property, plant and equipment	265	326
Intangible assets	5,889	5,598
Non-current receivables	19	19
	6,173	**5,943**
Current assets		
Trade and other receivables	6,755	9,066
Cash and cash equivalents	4,735	4,027
	11,490	**13,093**
Total assets	**17,663**	**19,036**
Liabilities		
Current liabilities		
Trade and other payables	2,842	3,503
Borrowings	2,124	1,513
Deferred revenue	5,166	4,949
	10,132	**9,965**
Non-current liabilities		
Borrowings	3,288	3,270
Total liabilities	**13,420**	**13,253**
Net assets	**4,243**	**5,801**
Equity		
Share capital	2,354	2,354
Capital reserves	5,654	5,498
Profit and loss account and translation reserve	(3,765)	(2,051)
Total equity	**4,243**	**5,801**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 *$'000*	*2013* *$'000*
Operating activities		
Profit before and after taxation	(1,519)	534
Adjustments for non-cash and financing items	2,878	2,688
Movements in working capital	1,689	(2,469)
Net cash generated from operating activities	3,048	753
Investing activities		
Finance income	12	27
Purchases of property, plant and equipment	(176)	(227)
Development costs capitalized	(2,367)	(1,788)
Acquisition of subsidiary undertaking net of cash acquired	-	11
Net cash used in investing activities	(2,531)	(1,977)
Financing activities		
Repayment of borrowings	-	(1,080)
Proceeds from borrowings	92	-
Movement in lines of credit	729	450
Finance expense	(395)	(444)
Net cash used in financing activities	426	(1,074)
Effect of foreign exchange rate changes	(235)	52
Net increase/(decrease) in cash and cash equivalents	**708**	**(2,246)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital $'000	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Losses $'000*	*Total $'000*
At 1 January 2013	**11,769**	**89,926**	**250**	**(96,669)**	**5,276**
Total comprehensive income for the year	-	-	(99)	534	435
Share based payments	-	(608)	-	729	121
Capital reorganization	(9,415)	(83,820)	-	93,204	(31)
At 1 January 2014	**2,354**	**5,498**	**151**	**(2,202)**	**5,801**
Total comprehensive income for the year	-	-	(197)	(1,519)	(1,716)
Share based payments	-	156	-	2	158
At 31 December 2014	**2,354**	**5,654**	**(46)**	**(3,719)**	**4,243**

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 2013 or 2014. Statutory accounts for the years ended 31 December 2013 and 31 December 2014 have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2013 and 2014 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 2013 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2014 will be delivered to the Registrar in due course, and will be available from the Company's registered office at Dorna House One, Guildford Road, West End, Surrey GU24 9PW and from the Company's website www.sopheon.com.

The financial information set out in these 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 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 2013. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the period ended 31 December 2013. 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.

The group’s financial statements have been presented in US Dollars. In prior periods, the financial statements were presented in British Pounds Sterling. This change is intended to reduce the effect of currency movements on reported revenues, and to better reflect the underlying nature of the business. Approximately two-thirds of the group’s revenue and operating costs are denominated in US Dollars.

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 2017.

During 2014, the group achieved revenues of $18.3m and a loss before tax of $1.5m. This represents a reduced performance compared to the previous year, which culminated 5 years of growth. The directors believe this was a temporary pause in the development of the business. Coming into 2015, the group’s sales pipeline remains active, and accordingly, the directors remain positive about the prospects for the business.

On 25 February 2014 the group established facilities with Silicon Valley Bank (“SVB”) to replace expiring facilities from BlueCrest Capital Finance. The new facilities comprised a term loan of $0.5m repayable in 36 equal monthly instalments, and a $3m revolving line of credit, which will come up for renewal in February 2016. The facilities are subject to covenants based on operating results and working capital ratios.

In addition, the group has a £2,000,000 convertible loan outstanding to key investors including members of the board and management. The current terms of the loan call for repayment or conversion by 31 January 2017.

NOTES

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

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

3. Segmental Analysis

All of the Group's revenue in respect of the years ended 31 December 2014 and 2013 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 2014	*North America* *$'000*	*Europe* *$'000*	*Total* *$'000*
Income Statement			
External revenues – by location of operations	12,544	5,752	18,296
Operating profit/(loss) before interest and tax	424	(1,526)	(1,102)
Finance income	-	12	12
Finance expense	(95)	(334)	(429)
Profit/(loss) before tax	329	(1,848)	(1,519)
Depreciation and amortization	(2,239)	(64)	(2,303)
EBITDA	2,664	(1,463)	1,201
Balance Sheet			
Fixed asset additions	132	44	176
Capitalization of internally generated development costs	2,367	-	2,367
Total assets	13,766	3,897	17,663
Total liabilities	(8,088)	(5,332)	(13,420)

NOTES

Year ended 31 December 2013	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	13,984	6,857	20,841
Operating profit/(loss) before interest and tax	1,137	(184)	953
Finance income	-	27	27
Finance expense	(182)	(263)	(445)
Profit/(loss) before tax	953	(419)	534
Depreciation, amortization and impairment charges	(2,091)	(58)	(2,149)
EBITDA	3,155	(126)	3,029
Balance Sheet			
Fixed asset additions	131	96	227
Capitalization of internally generated development costs	1,788	-	1,788
Total assets	13,289	5,747	19,036
Total liabilities	(7,148)	(6,087)	(13,235)

One customer accounted for approximately 10 percent of the group's revenues in 2014. A different customer accounted for approximately 8 percent or more of the group's revenue in 2013. In 2014 the customer was within the North America segment based on location of operations (2013: Europe segment).

External revenues in 2014 exclude inter-segmental revenues which amounted to $1,696,000 (2013: $2,148,000) for North America and $370,000 (2013: $349,000) for Europe.

Revenues attributable to customers in North America in 2014 amounted to $11,433,000 (2013: $12,507,000). Revenue attributable to customers in the rest of the world amounted to $6,863,000 (2013: $8,335,000) of which $5,775,000 (2013:$6,754,000) was attributable to customers in Europe.

4. Revenue

All of the Group's revenue in respect of the years ended 31 December 2014 and 2013 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 $2,303,000 (2013: $2,077,000) to the operating loss of $1,102,000 (2013: profit of $953,000).

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.

NOTES

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 $158,000 (2013: $121,000).

8. Income Tax

At 31 December 2014, tax losses estimated at $73m were available to carry forward by the Sopheon Group, arising from historic losses incurred. An aggregate $11.7m of these losses are subject to restriction under section 392 of the US Internal Revenue Code due to historical changes of ownership.

9. Loss per Share

The calculation of basic loss per ordinary share is based on a loss of $1,519,000 (2013: profit of $534,000), and on 7,279,000 (2013: 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 $2,367,000 (2013: $1,788,000), and amortisation of $2,076,000 (2013: $1,804,000) during the year. A further $47,000 of amortisation was incurred in 2013 relating to acquired intangible assets. In addition, in 2013 there were impairments in the carrying value of the acquired Alignent intangible assets of $72,000, reducing the carrying value to zero.

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.