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SOPHEON PLC

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

AUDITED RESULTS STATEMENT FOR THE YEAR TO 31 DECEMBER 2016

Positive momentum continues

Sopheon plc, the international provider of software and services that help organizations generate more revenues and profits from new products, is pleased to announce its results for the year ended 31 December 2016 together with an outlook for the current year.

HIGHLIGHTS:

- Revenue: $23.2m (2015: $20.9m)
  EBITDA: $5.2m (2015: $4.1m)
  PBT: $2.7m (2015: $1.2m)
- Continued growth in revenue and profitability as the business delivers on its strategy. EBITDA and PBT stated above exclude $0.3m of foreign exchange gains.
- Forty-nine license transactions (42 in the prior year) of which 17 are new customers.
- Full year 2017 revenue visibility of $14.5m, compared to $12m the previous year.
- Market recognition continues from leading industry voices such as Gartner and CGT magazine as Sopheon looks to extend Accolade into new industries and broader enterprise application.
- New staff being recruited in early 2017 in key areas as we continue implementing our strategy.

Barry Mence, Chairman, commented: *"I am delighted to report a truly excellent set of results; the board looks forward to building on these results to deliver continued positive development in the strategic and financial performance of our company in 2017 and beyond… Additional investments in new members of our team are another key piece of our strategy to move our business forward and capture the opportunity that we have long believed was coming. Sopheon has a market-leading solution, global reach, solid financials, a clear corporate structure, an accelerating market, and most importantly great people – a real platform for growth."*

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About Sopheon. Sopheon (LSE: SPE) partners with customers to provide complete enterprise innovation management solutions including software, expertise, and best practices, that enable them 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, including 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 AIM, operated by the London Stock Exchange. For more information, please visit www.sopheon.com.

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CHAIRMAN'S STATEMENT

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

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

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

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

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

Barry Mence
22 March 2017

[1]EBITDA is defined and reconciled in Note 5 to this report.

[2]Revenue visibility comprises revenue expected from (i) closed license orders, including those which are contracted but conditional on acceptance decisions scheduled later in the year; (ii) contracted services business delivered or expected to be delivered in the year; and (iii) recurring maintenance, hosting, SaaS and rental streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of the year.

STRATEGIC REVIEW

Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation. We accomplish this by providing software and services that align and connect organizations, embed best-practice innovation processes, and enable corporate speed, agility and adaptability. Many market-leading corporations are challenged to compete in today's fast-moving environment due to the complex infrastructure they have built up over time; a multitude of stand-alone systems have been put in place to support functional groups, resulting in isolated pockets of information. These silo-based systems prevent organizations from quickly and easily responding to external market changes with sound, fact-based decisions. By delivering an end-to-end decision-making platform that links the strategic ambition of the organization to the execution activities required to realize that strategy, Sopheon's software solutions enable three transformational corporate capabilities:

- The ability to shift from a static annual planning schedule to **dynamic and iterative planning**.
- Improving the historically low success rate of **strategic realization**.
- Transition from siloed knowledge workers to **interconnected, cross-functional work streams** in context of the strategic objectives, leading to increased employee engagement.

At the same time, the digital movement is fundamentally changing the face of corporate innovation, forcing a shift away from the decades-long, narrow focus on research and development management to a broader, interconnected Enterprise Innovation Management (EIM) competency. Sopheon clients benefit from any or all of four distinct and tightly-linked offerings enabled from a single EIM platform, depending on their level of Innovation maturity.

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

Value

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

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

Sopheon's history is rooted in innovation management; our mission has never wavered. This conviction and passion has earned Sopheon a unique position of differentiation in our target markets. 100 percent of our efforts − from product to support to consulting training − have been directed to advancing our experience and competency in innovation management. Sopheon clients enjoy, for the first time, a 'single source of truth', a centralized system of record that connects strategy with execution. Cross-functional teams both contribute information to and extract insight out of the same system, improving the speed and quality of the decision- making cadence. World leaders like PepsiCo, Parker, P&G, BASF, Tetra Pak, Honeywell and many others have put their trust in partnership with Sopheon as they navigate the industry threats of digitization, consumer power and other external market disrupters. Sopheon's success in working with world leaders has provided unique learning and experience to our people, process and technology. In addition, Sopheon's ecosystem of global innovation leaders has grown to be a differentiator from which our clients benefit through collaboration, sharing and learning. Sopheon's unique experience and success was recognized in 2016 not only by our record financial performance but also by third-party industry thought leaders such as Gartner.

We see a continuing convergence of the business, economic and market trends that play directly into Sopheon's market position, solutions and investments. There is a market factor at work representing considerable growth opportunities for Sopheon. We are seeing some of the most successful companies in the world recognizing the need for urgent transformation to continue their relevance in the market. Statistics suggest that 75% of the S&P 500 will no longer be on the list by 2027. We are witnessing increased behavioural change and urgency at the executive and board levels of many companies to do everything possible to ensure their company remains relevant through this time of massive market disruption and change. The primary challenge for these market leaders is to transform their operating model from what once served their success, to a new operating model that leverages the strength of their assets and capabilities while at the same time allowing them to operate with the nimbleness and flexibility of small start-ups.

Growth Strategy

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

- **Expand the application of our software and services to a broader definition of innovation:** Sopheon has been a specialist in new product development for over 15 years. Over the last few years we have seen the maturity of the innovation space expand beyond product development to what we have been calling Enterprise Innovation Management. As the market continues to mature, we see many new applications that could benefit from our best-practice decision support and process platform.
- **Increase industry-specific domain knowledge and solutions:** We have always believed that different vertical markets, while sharing core functionality needs, have differing pain points and best practice needs. In 2016 we continued our objective to dominate in our chosen core verticals of chemicals, aerospace, consumer products, food and beverage, and high technology. Sopheon's long history and experience in these verticals enables us to operate as an industry connector for our clients, introducing them to one another to jointly learn and advance their competency and success. We will continue to invest in industry- specific expertise and solutions.
- **Introduce new offerings to leverage growth from our customer base:** Sopheon's roster of customer names is a Who's Who of the world's leading companies. In 2016 Sopheon continued to expand the range of our innovation solutions, providing the opportunity for us to extend our footprint within our customers across their enterprise, to deliver considerably higher value for their investment in Accolade. Client expansion in 2016 was markedly strong, with revenue from expansion at existing clients continuing to represent the cornerstone of our commercial performance.
- **Expand the partner ecosystem:** Sopheon continues to invest in and develop additional distribution channels, in particular with market-leading management consultancies. In 2016 we continued to deploy Accolade around the world, introducing Accolade to more partners through our clients. We made progress through corporate level introductions and have started to nurture relationships with a handful of partners in the innovation space. These partnership programs take time to mature but we feel they are critical to our ability to scale for future growth. We will continue to evolve and strengthen these relationships as we grow. Our reseller partners in Asia successfully deployed Accolade at Shanghai Huayi, a large chemical company in China. This deployment represents another advancement in our Chinese reseller partnership. We will further test and develop our reseller partnership network during the course of this year.

FINANCIAL REVIEW

Sopheon's consolidated turnover in 2016 was $23.2m, compared to $20.9m in 2015. The proportion of revenues from customers in North America increased slightly at 71 percent (2015: 69 percent) with the remainder primarily generated from customers in Europe, but also from a small but important foothold in Asia, Australia and the Middle East.

Trading

Total license transactions, including extension orders, were up to 49 in 2016, compared to 42 the previous year. Revenue per license transaction did fall back somewhat, but overall remains well above $100,000 in license fees – and overall this combination led to license revenues around 11 percent higher than the prior year. Both services and maintenance were higher as well, with services showing a particularly strong uptick at 16 percent. Overall, revenues grew by 11 percent. The impact of the strong dollar on revenue was relatively muted this year as much of its rise against other global currencies had already happened in 2015; on a constant currency basis, year on year growth would have been 12 percent.

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

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

Gross margin is just over 70 percent, broadly comparable to the 72 percent achieved last year and reflective of the slightly higher and more front-end loaded services mix. Costs of the professional services organization are included in costs of sales, alongside the costs of our hosting activities and some license royalties for OEM partners. We recruited a number of new consultants coming into the year, and on average we had 12 percent more staff in the services team than the year before. However services revenue was 16 percent higher, and as noted below this led to product development staff contributing to delivery of certain customer projects. Encouragingly, coming into 2017 and following some early sales bookings at the start of the year, revenue visibility for the year already stands at $14.5m compared to just over $12m a year ago.

Operations

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

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

Results

The combined effect of the revenue and cost performance discussed above has resulted in Sopheon's EBITDA performance for 2016 rising very strongly to $5.6m, from $4.1m in 2015 and $1.2m in 2014. The 2016 performance does include approximately $0.3m of exceptional foreign exchange gains as described above; stripping these out still gives an EBITDA result of $5.2m, a significant increase on the prior year.

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

Financing

In early 2014 the group established new bank facilities with the London branch of Silicon Valley Bank, comprising a term loan of $0.5m, and a $3.0m revolving line of credit. Last year these facilities were renewed and refinanced for a further three year period through January 2019, reflecting the growing maturity of the Sopheon business. Both facilities bear interest at rates of 2.75 percent over Wall Street Prime, resulting in a current effective rate of 6.5 percent. The facilities are subject to covenants based on working capital ratios. The drawdown mechanics and interest rates are also subject to working capital ratios.

In 2009 and 2011, the Company issued a total of £2.0m of convertible unsecured loan stock (the "Loan Stock") to a group of investors including key members of the board and senior management team. The maturity of the Loan Stock has been extended on several occasions, most recently in April 2016, and now extends to January 2019. The conversion price is 76.5 pence per share. During the year, one of the investors exercised £0.01m of loan stock, leading to a net remaining amount due of £1.99m.

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

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2016

	2016 *$'000*	*2015* *$'000*
Assets		
Non-current assets		
Property, plant and equipment	241	181
Intangible assets	5,469	5,579
Deferred tax asset	1,338	-
Non-current receivables	19	19
	7,067	**5,779**
Current assets		
Trade and other receivables	9,696	7,609
Cash and cash equivalents	10,061	7,046
	19,757	**14,655**
Total assets	**26,824**	**20,434**
Liabilities		
Current liabilities		
Trade and other payables	4,428	4,142
Borrowings	3,167	3,147
Deferred revenue	6,224	4,628
	13,819	**11,917**
Non-current liabilities		
Borrowings	2,648	2,986
Total liabilities	**16,467**	**14,903**
Net assets	**10,357**	**5,531**
Equity		
Share capital	2,375	2,354
Capital reserves	5,843	5,751
Profit and loss account and translation reserve	2,139	(2,574)
Total equity	**10,357**	**5,531**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 *$'000*	*2015* *$'000*
Operating activities		
Profit for the year	4,309	1,131
Adjustments for non-cash and financing items	1,245	3,032
Movements in working capital	(138)	37
Net cash generated from operating activities	5,416	4,200
Investing activities		
Finance income	1	4
Purchases of property, plant and equipment	(250)	(124)
Development costs capitalized	(1,933)	(2,058)
Net cash used in investing activities	(2,182)	(2,178)
Financing activities		
Issue of shares	107	-
Drawdown/(repayment) of borrowings	177	(167)
Movement in lines of credit	-	1,021
Finance expense	(290)	(354)
Net cash (used in)/generated from financing activities	(6)	500
Effect of foreign exchange rate changes	(213)	(211)
Net increase in cash and cash equivalents	**3,015**	**2,311**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

	Share Capital *$'000*	*Capital Reserves* *$'000*	*Translation Reserve* *$'000*	*Retained Profits* *$'000*	*Total* *$'000*
At 1 January 2015	**2,354**	**5,654**	**(46)**	**(3,719)**	**4,243**
Total comprehensive income for the year	-	-	43	1,131	1,174
Share based payments	-	97	-	17	114
At 1 January 2016	**2,354**	**5,751**	**(3)**	**(2,571)**	**5,531**
Total comprehensive income for the year	-	-	336	4,309	4,645
Issue of shares	21	98	-	-	119
Share based payments	-	(6)	-	68	62
At 31 December 2016	**2,375**	**5,843**	**333**	**1,806**	**10,357**

The translation reserve represents accumulated differences on the translation of assets and liabilities of foreign operations. 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 2015 or 2016. Statutory accounts for the years ended 31 December 2015 and 31 December 2016 have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2015 and 2016 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 2015 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2016 will be delivered to the Registrar in due course, and are available from the Company's registered office at Dorna House One, Guildford Road, West End, Surrey GU24 9PW and are available today 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 2015. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the period ended 31 December 2015. 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.

Approximately three-quarters of the Group’s revenue and two-thirds of its operating costs are denominated in US Dollars and accordingly the Group’s financial statements have been presented 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 2019.

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

In addition to growing cash resources, the Group has bank facilities with the London branch of Silicon Valley Bank comprising a term loan of $0.5m repayable in 36 equal monthly instalments, and a $3m revolving line of credit, currently for a three year period through January 2019. The facilities are subject to covenants based on working capital ratios. The drawdown mechanics and interest rates are also subject to working capital ratios. In addition, the Group has £1,990,000 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 2019.

NOTES

Notwithstanding the Group's strong funding position, the time-to-close and the order value of individual sales continues to be subject to variation. When combined with the relatively low-volume and high-value nature of the Group's business, these are factors which constrain the ability to accurately predict revenue performance. However the directors believe that taken as a whole, the factors described above enable the Group to continue as a going concern for the foreseeable future. The financial statements do not include the adjustments that would be required if the Company or Group were unable to continue as a going concern.

3. Segmental Analysis

All of the Group's revenue in respect of the years ended 31 December 2016 and 2015 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. The first segment is North America, and the second Europe. Information relating to these two segments is given below.

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

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

NOTES

3. Segmental Analysis (continued)

Year ended 31 December 2015	*North America* *$'000*	*Europe* *$'000*	*Total* *$'000*
Income Statement			
External revenues – by location of operations	15,676	5,210	20,886
Operating profit/(loss) before interest and tax	2,804	(1,258)	1,546
Profit/(loss) before tax	2,703	(1,507)	1,196
Finance income	-	4	4
Finance expense	(101)	(253)	(354)
Depreciation and amortization	(2,524)	(44)	(2,568)
EBITDA	5,328	(1,214)	4,114
Balance Sheet			
Fixed asset additions	114	10	124
Capitalization of internally generated development costs	2,058	-	2,058
Total assets	16,540	3,894	20,434
Total liabilities	(9,198)	(5,705)	(14,903)

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

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

4. Revenue

All of the Group's revenue in respect of the years ended 31 December 2016 and 2015 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 $2,232,000 (2015: $2,568,000) to the operating profit of $3,323,000 (2015: $1,546,000).

NOTES

6. 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 $62,000 (2015: $114,000).

7. Income Tax

At 31 December 2016, tax losses estimated at $64m (2015: $70m) were available to carry forward by the Sopheon Group, arising from historic losses incurred. These losses have given rise to a deferred tax asset of $1.3m (2015: Nil) and a further potential deferred tax asset of $17.4m (2015: $20.7m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $9.4m (2015: $11.7m) of these losses are subject to restriction under section 392 of the US Internal Revenue Code due to historical changes of ownership.

8. Earnings per Share

The calculation of basic earnings per ordinary share is based on a profit of $4,309,000 (2015: $1,131,000), and on 7,297,000 (2015: 7,279,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year. For the purpose of calculating diluted earnings per ordinary share, adjustments are made to both the profit and the number of ordinary shares to reflect the impact of options, warrants and convertible loan stock to the extent conversion or exercise prices are below the average market price for Sopheon shares during the year. The effect of these adjustments is to increase profit for the purposes of calculating diluted earnings per ordinary share to $4,526,000 (2015: $1,376,000), and to increase the number of ordinary shares to 10,205,000 (2015: 9,897,000).

9. 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 $1,933,000 (2015: $2,058,000), and amortisation of $2,043,000 (2015: $2,368,000) during the year.

10. 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.

11. Annual Report

The annual report and financial statements are available on the Company's website www.sopheon.com.

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014.