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SOPHEON PLC

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

AUDITED RESULTS STATEMENT FOR THE YEAR TO 31 DECEMBER 2017

Another successful year

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 2017 together with an outlook for the current year.

HIGHLIGHTS:

Revenue:	$28.5m	(2016: $23.2m)
EBITDA:	$8.0m	(2016: $5.6m)
PBT:	$5.1m	(2016: $3.0m)
Net cash:	$9.5m	(2016: $4.2m)
- Continued growth in revenue and profitability as the business delivers on its strategy to be the leader in enterprise-class innovation solutions.
- Fifty-nine license transactions (49 in the prior year) of which 13 are new customers.
- Full year 2018 revenue visibility of $19.3m, compared to $14.5m the previous year.
- Market recognition continues from industry voices such as Gartner and Forrester, underlining Sopheon's market leadership in innovation and the broader portfolio management segments.
- Broadening opportunity and appeal for the Accolade platform beyond new product innovation.
- Maiden dividend proposed of 2.5p per share.

Barry Mence, Chairman, commented: *"As we reflect on a third and unprecedented year of success for Sopheon, we are more determined than ever to make sure that Sopheon strengthens its leadership position in our rapidly evolving market. We have ambitious investment plans for 2018 involving product, people and process. Where appropriate, this will also include consideration of targeted M&A opportunities when consistent with our goals and criteria. Alongside strategic initiatives, we remain highly driven by revenue and profit objectives. To emphasize this, the board has decided to propose a maiden dividend and will put this to members at the next annual general meeting to be held in June this year."*

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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.

CHAIRMAN'S STATEMENT

In conjunction with a truly exceptional financial performance in 2017, we continue to advance our strategy to be the world's leading provider of enterprise-class innovation management solutions. Our vision has consistently led this market, and an increasing number of notable global corporations are choosing to partner with Sopheon to help them execute on their strategy and innovation priorities. Rising momentum and market recognition delivered a very strong finish to the year, resulting in revenues, EBITDA and other profit measures all exceeding market expectations by a significant margin. Revenues rose to $28.5m from $23.2m in 2016. On the back of an already strong increase in profitability in 2016, it is very gratifying to report that EBITDA[1] last year reached $8.0m, up from $5.6m the year before, and that we achieved profit before tax of $5.1m, compared to $3.0m the year before. Alongside a realignment of our debt position, this resulted in net assets rising to $18.6m from an already very solid $10.4m the year before, and net cash rising to $9.5m from $4.2m the year before.

Both volume and average value of license transactions increased compared to 2016. In particular, performance last year included the signing of two very substantial deals in the final quarter in the USA and in Germany, each with a multinational enterprise that is an undisputed leader in its field, which contributed materially to the overall outperformance. Such customers further validate the acceptance of our Accolade® solution as an enterprise platform within the largest and most influential of corporations. We saw more acceptance of our SaaS (Software as a Service) offering, with three new SaaS customers signed last year. The strengthening recurring revenue base, along with the strong sales bookings at the end of 2017, has resulted in 2018 revenue visibility[2] now at $19.3m as compared to $14.5m last year. This is a tremendous start to the new year, which we will build on by executing our growth strategy in three distinct areas, and which gives us the confidence to accelerate our investment program in 2018.

First, we seek to capitalize on existing blue chip client relationships to extend Accolade as the digital platform of choice to empower enterprise adaptability across a global organization. This ambition extends our sights beyond new product innovation to areas such as management of capital expenditure, corporate initiatives, and intellectual property. With this in mind, our three Accolade releases last year focused our platform development on scalability, security, knowledge discovery and transparency; aggressive and innovative product development will remain a key area of investment going forward.

The second growth priority is to continue to target industries through deeper specialization and domain-specific expertise. We continued to win business and customers in our target sectors − consumer products, chemicals, aerospace and defense, and high-tech. Sopheon was recognized as the top software vendor in our solution category by CGT magazine, underlining our strength in consumer products in particular. In addition, we continued to assess new verticals on the back of initial customer wins in insurance, apparel and auto-parts but have yet to make a concerted push in these areas.

Third, we are working to multiply our growth rate through distribution partnerships – channel, strategic and geographical – to develop and monetize an Accolade ecosystem.

Sopheon is the only vendor recognized in Gartner's Market Guides for Strategy Execution Management Software, Innovation Management Tools, Strategic & Innovation Roadmapping and Product Roadmapping, and its Magic Quadrant for Project Portfolio Management Worldwide. In addition, Sopheon has now been recognized as a leader in the Forrester Wave™: Strategic Portfolio Management Tools. Collectively, these are major strategic milestones in establishing both our company and our market.

[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.

Outlook

As we reflect on a third and unprecedented year of success for Sopheon, we are more determined than ever to make sure that Sopheon strengthens its leadership position in our rapidly evolving market. In order to deliver on the growth strategies that I have outlined, we have ambitious investment plans for 2018 involving product, people and process. Where appropriate, this will also include consideration of targeted M&A opportunities when consistent with our goals and criteria. Alongside strategic initiatives, we remain highly driven by revenue and profit objectives. To emphasize this, the board has decided to propose a maiden dividend and will put this to members at the next annual general meeting to be held in June this year.

STRATEGY AND MARKET

Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation. We accomplish this by digitalizing corporate innovation with 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 a complex operational infrastructure that has been built up over time. A multitude of stand-alone systems supporting different functional groups have created isolated pockets of information, which today prevent companies from responding quickly to external market changes with sound, fact-based decisions. This is compounded by the fact that many of these traditional industry leaders are operating with outdated and disconnected twentieth-century tools while attempting to compete in the twenty-first century digital era, putting them at risk of finding themselves on the wrong side of what research indicates is a growing digital divide separating today's winners and losers.

What we do

Sopheon believes one cannot win today without digitalizing corporate innovation strategies, initiatives and activities. Through our end-to-end innovation platform that links an organization's strategic ambition with the operational execution activities required to realize that strategy, Sopheon's software solutions enable three critical transformational corporate capabilities:

- The shift from a static annual planning cadence to an ongoing and iterative one.
- An improved rate of performance against funded strategic initiatives.
- The transition from siloed knowledge workers to interconnected, cross-functional work teams performing in context of strategic objectives.

The digital movement has fundamentally changed the role of corporate innovation, forcing a move away from the decades-long, narrow focus on research and development (R&D) management to a broader, more interconnected Enterprise Innovation Management (EIM) competency.

Digitalizing EIM allows companies to cut through the complexity of reacting to ever-changing market needs while improving and increasing the rate of innovation. New technologies, products and services are strategically aligned with long-term growth goals, market requirements, industry regulations, and supplier competencies. In addition, the CEO's strategic direction and strategic pivots can now be driven, propagated, managed, tracked and realized with a velocity that could not be accomplished without an EIM platform in place.

Sopheon clients benefit from any or all of four distinct yet tightly linked solutions offered from a single EIM platform, depending on their area of need and level of innovation maturity.

- Strategic planning and alignment of long-term **Innovation Plans**, engaging teams from marketing, research and development, finance, 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.
- Facilitation of improved **Cross-Functional Team Work** that enables collaboration and tracks progress against key initiatives in context of corporate strategy.
- Data management, analytics and integrity tools to improve **Portfolio Optimization**, which ensures the best return on innovation investments.

Continued Market Momentum and Validation

Sopheon felt a market shift in 2017 in several areas, all of which give us confidence and optimism for the future.

- **Highest value new client orders in the history of the Company:** The 2017 revenue contribution from first-time clients was higher than ever before at $6.9m compared to $3.9m in 2016. We believe this accomplishment was validation of the increasing enterprise transformation and urgency for growth initiative realization described above. Another factor is the market recognition that our software platform meets the expanding enterprise innovation needs beyond "product innovation" to include new areas such as, but not limited to, corporate initiative management, intellectual property management, cost improvement, and IT project and portfolio management; all of which contributed to this increase in order value.
- **Increased interest and coverage by software business analysts:** We saw a record number of referrals from respected industry analysts Gartner and Forrester year over year, as well as an increase in requests for briefings to learn more about our company, software and services, which resulted in coverage in nine new industry research initiatives. Highlights of 2017 coverage:
    - Forrester named Sopheon a "Leader" in Strategic Portfolio Management in their Q3 2017 report on vendors providing agile tools to drive digital transformation.
    - Gartner named Sopheon in research across all four primary Enterprise Innovation Management solution areas, including Market Guides or Magic Quadrants on Strategy Execution Management Software, Strategic & Innovation Roadmapping, Product Roadmapping, Project Portfolio Management and Innovation Management.
    - Sopheon was the only vendor that was common across all of the above stated areas.
- **Named "Best in Category":** We are very proud to be voted a Top 10 technology solution provider for new product development and introduction (NPDI) by executive readers of Consumer Goods Technology magazine for the eighth consecutive year. As part of the publication's annual Readers' Choice Survey, executives from consumer goods organizations are asked to identify the NPDI solutions that best support their efforts to deliver new products to market, as well as their satisfaction levels with each provider. In the last such survey, industry executives rated Sopheon and our Accolade® Enterprise Innovation Management software as the top solution in this category.
- **Highest client retention in Company history:** We continued an upward trend of increase client retention, reaching 95 percent (up from 94 percent). This is an indicator of higher adoption and perceived value by our clients.
- **Met or exceeded client expectations:** As in the year before, we were thrilled to have met or exceeded client expectation in 100 percent of cases during check-in reviews with client executive sponsors conducted six months after software "go live".
- **Record fourth quarter results:** Exceeding $10m in revenue (2016: $6.9m).

Growth Strategy

Sopheon's growth strategy is to enable corporations to execute on their new operational models for sustainable innovation success in the digital era. This focus requires Sopheon to:

- **Leverage blue chip references to extend Accolade as the digital platform of choice and to empower enterprise adaptability across a global organization.** Sopheon's roster of customer names is a Who's Who of the world's leading companies. We will continue to partner tightly with our clients to gain insights and learnings to drive further advancement and development in the Enterprise Innovation Management market. Sopheon has been a specialist in new product development for some 17 years. Over the last few years, we have seen the expanded use of Accolade beyond product development. Indeed, an important aspect of 2017 growth was the increased adoption of Accolade as an enterprise platform for areas outside our traditional product innovation arena. Licenses sold last year included applications for Accolade as diverse as capital expenditure management, intellectual property (IP) management, IT project and portfolio management, and enterprise initiative management. Each of these represents extension business beyond the core product innovation process. We believe our Accolade platform extension strategy represents a significant growth opportunity. In addition, the pace of technology disruption in today's market requires companies to be able to make strategic and often transformational pivots with speed. We call this capability "enterprise adaptability." Our clients are increasingly using Accolade as the platform to enable these shifts and we believe this trend will continue. We therefore anticipate further enterprise adaptability expansion in 2018.

- **Generate faster growth in target industries through deeper specialization and domain-specific expertise.** We have always believed that different vertical markets, while sharing core functionality needs, have specific pain points and best-practice needs. In 2017 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 allows 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. Last year we indicated that we were beginning to explore the insurance and auto verticals. We continue to assess the opportunities in the broader financial services, auto and also the apparel markets. We have not yet put solid investment behind these areas and they remain under consideration.

- **Multiply our growth through developing and monetizing an Accolade ecosystem of distribution partnerships – channel, strategic and geographical.** We feel Accolade and our ecosystem have now matured to where it makes sense to invest time in the development of a network of partner relationships to expand the growth rate of the business. Partner development will come in several shapes, including expanded distribution beyond our geographic reach with our own direct team; consulting partners operating in the Enterprise Innovation Management space that can both introduce and leverage our solution; and strategic partners who have created great innovation intellectual property (IP) and are looking for a platform to take it to the broader markets.

FINANCIAL REVIEW

Sopheon's consolidated turnover in 2017 was $28.5m, a 23 percent increase over $23.2m in 2016. Almost half of the rise can be attributed to a strong license performance, with both volume and value factors playing a role.

Trading

Total license transactions including extension orders were 59 in 2017, compared to 49 the year before – but just as importantly, the average revenue recognized per license transaction increased to $158,000 (2016: $138,000) helped by two very substantial orders signed in the final weeks of the year. One of these was signed in the United States, and the other in Germany. Overall, the increase in license revenues was 37 percent. Maintenance and hosting revenues were up almost 21 percent, and services by almost 13 percent. As in 2016, the impact of the currency changes on revenue was relatively muted in 2017 and if the prior year exchange rates had been in effect, 2017 revenues would have been just $0.2m lower. Overall, in 2017 our business delivered a 33:36:31 ratio of licenses, maintenance and hosting, and services respectively compared to 29:37:34 in the previous year. This marks a further year of advancing license revenue as a cornerstone of our business model, driven by both volume and size of deals as noted above.

As noted elsewhere in this report, the strong finish to the year contributed to an encouragingly high revenue visibility for 2018. Moreover, the large German order referred to above topped off a strong year for our European business, resulting in the overall proportion of revenues from customers in Europe increasing sharply to almost 39 percent (2016: 29 percent) of total. The majority of the remainder is from customers in North America, with a small but important foothold in Asia, Australia and the Middle East.

A regular feature of our business is a very strong fourth quarter and 2017 was no exception, with over a third of the year's revenue recognized in that quarter. This is sometimes accompanied by a strong second quarter and a quiet third quarter. Overall, in 2017 the second half of the year accounted for 55 percent of revenues (2016: 51 percent and 2015:60 percent). Over the years, we have frequently referred to the sensitivity of our results to individual license sales and while this effect is reducing as we grow the business, it does remain a feature. Although it does not show the same level of fluctuation, our services business does also show seasonality and last year the second and final quarters were particularly busy, in line with the demands of the volume and individual scale of implementation projects. Other revenue elements are more evenly spread as would be expected from their accounting treatment.

The Group's base of recurring business rose above $12m coming into 2018, compared to $9.9m at the start of last year. This comprises maintenance, hosting and cloud services, and some Software as a Service (SaaS) contracts. The vast majority of our license revenue continues to remain perpetual in nature, but we are seeing growing interest in SaaS options. During 2017 we signed three SaaS deals, still representing a relatively modest part of our business but showing more traction. We are also seeing further take-up of our hosting service from new and existing perpetual customers, and we continue to extend the scope of our security certifications to ensure this service remains an attractive proposition. Approximately 25 percent of our active perpetual customers are hosted by Sopheon. Retention of recurring revenue increased to 95 percent by value following two years at 94 percent. This is a key metric for Sopheon, as we believe that building recurring revenue is fundamental to our long-term growth. In this regard we continue to invest in customer satisfaction programs alongside regular service and account management processes to maximize value for our customers.

Reflecting the greater license proportion, gross margin is over 73 percent, ahead of the 70 percent achieved last year, which had greater services intensity. 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 in 2016 who contributed to our performance last year, and avoided the need to use product development resources on projects as we had the year before. We believe that a strong services capability is also key to long-term success and win-rate, and we have continued to recruit in this area through 2017 and will continue to do so.

Coming into 2018 and following some early sales bookings at the start of the year, revenue visibility for the year already stands at $19.3m compared to $14.5m a year ago, giving reason for confidence and optimism for the year ahead.

Operations

As a knowledge intensive business, three quarters of Sopheon's costs are payroll and related. Sopheon has a relatively mature and highly qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. For several years through 2016, Sopheon held staffing between 100-115 depending on requirements and natural movement of people in and out of the business. Our focus remains on securing the right mix of people rather than targeting a headcount number; however, as revenue growth has progressed in the last 18 months we have sought to accelerate the acquisition of additional resources. Consequently we ended 2017 with 132 staff compared to 100 two years before. Our insistence on quality though means that we remain somewhat behind plan in this area and continue to target a large number of recruits into 2018 to support the growth trajectory of the business. Although not as visible as the impact of revenue outperformance, slower than expected hiring also contributed to the exceptional profitability in 2017.

The average headcount during 2017 was 125, compared to 110 the year before, leading to higher overall wage costs as reported in the financial statements. Payroll costs in the last three years have also included the cost of our corporate bonus scheme, for which all non-sales staff in the Company are eligible. The bonus is linked to the achievement of our annual EBITDA goals. 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 2017 rising very strongly, for the third year in succession, to $8.0m, from $5.6m in 2016. As stated elsewhere in this report, we view the 2017 profit performance as exceptional as it combines an unprecedented revenue outperformance with lower than planned costs.

As further described below, during the year the Group had facilities with Silicon Valley Bank and also benefited from convertible unsecured loan stock, which was converted into equity in December 2017. This transaction included a compensatory payment of interest resulting in a higher than usual total interest charge of $0.5m (2016: $0.3m). Including the effect of interest, depreciation and amortization, the Group reported a profit before tax for the year of $5.1m (2016: $3.0m).

Although Sopheon benefits from accumulated tax losses in a number of jurisdictions this is not universal and accordingly a current tax charge of approximately $0.4m was incurred in 2017 (2016: $0.1m) of which roughly $0.3m arose in Germany and the balance in the United States. In 2016, due to the rising profit trend of the Group, we started recognition of the substantial deferred tax asset owned by the business as further detailed in Note 7, and we have extended the scope of that recognition in 2017. Although US corporate tax rates have fallen following the reforms adopted by the US Congress, the overall effect of our policy has resulted in recognition of a further $0.7m (2016: $1.3m) in the current year, of a total potential asset of $13m. Altogether this leads to a profit after tax of $5.4m (2015: $4.3m). Profit per ordinary share has also risen to 72 cents (2016: 59 cents).

Dividend

Following the success of the last several years the board has decided to adopt a progressive dividend policy, and proposes a maiden dividend of 2.5 pence per share for the year ended 31 December 2017. Subject to approval by the Company's shareholders at the annual general meeting scheduled for 7 June 2018, the dividend will be paid on 6 July 2018 with a record date of 8 June 2018.

Facilities and assets

Several years ago the Group established bank facilities with the London branch of Silicon Valley Bank, comprising a term loan of $0.5m and a $3m revolving line of credit, and these currently extend through January 2019. Both facilities bear interest at rates of 2.75 percent over the Wall Street Prime rate, resulting in a current effective rate of 7.25 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. Although there is no immediate requirement for these facilities, we view our developing relationship with Silicon Valley Bank as an important one for the future.

In 2009 and 2011, the Company issued a total of £2m of convertible unsecured loan stock ("Loan Stock") to a group of investors including members of the board and senior management team. The Loan Stock had been due to mature on 31 January 2019, carried an interest coupon at a rate of 8 percent per annum, and had a conversion price of 76.5p per ordinary share. At the end of 2017 the remaining holders of the Loan Stock agreed to reconstitute the instrument such that it would automatically convert to equity on 22 December 2017, at the conversion price stated above, resulting in the issue of approximately 2.5m new Ordinary Shares. This change improved the profile of the Group's year-end balance sheet and simplified the capital structure, as well as eliminating the interest charge going forward. In conjunction with this amendment, a one-off interest payment of approximately $0.2m was made to holders of the Loan Stock in recognition of the loss of their interest and repayment rights as a result of the early conversion.

Intangible assets stood at $5.8m (2016: $5.5m) at the end of the year. This includes (i) $4.8m being the net book value of capitalized research and development (2016: $4.5m) and (ii) an additional $1.0m (2016: $1.0m) being goodwill arising on acquisitions completed in previous years. As shown above in our discussion of research and development costs, capitalization and amortization have been broadly in balance for a number of years. Our spend on tangible fixed assets is increasing in line with staffing and revenues, and this resulted in net book value rising to $0.4m at the end of the year (2016: $0.2m).

Consolidated net assets at the end of the year stood at $18.6m (2016: $10.4m), an increase of $8.2m. Over half of this increase is attributable to an improvement in the net current asset position, on the back of another year of strong operational performance. A further $2.6m relates to the conversion of the Loan Stock, and $0.7m to the increased recognition of the deferred tax asset, with the remaining $0.5m due to the increase in tangible and intangible fixed assets. Within the net current asset position, gross cash resources at 31 December 2017 amounted to $12.7m (2016: $10m). Approximately $8.2m was held in US Dollars, $4.0m in Euros and $0.5m in Sterling. Net cash, stated after subtracting debt, rose from $4.2m the previous year to $9.5m at the end of 2017.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 *$'000*	*2016* *$'000*
Revenue	**28,534**	**23,203**
Cost of sales	(7,591)	(6,872)
Gross profit	**20,943**	**16,331**
Sales and marketing expense	(7,730)	(6,565)
Research and development expense	(4,266)	(3,881)
Administrative expense	(3,350)	(2,562)
Operating profit	**5,597**	**3,323**
Finance income	6	1
Finance expense	(468)	(290)
Profit before tax	**5,135**	**3,034**
Income tax credit/(expense)	243	1,275
Profit for the year	**5,378**	**4,309**
Earnings per share - basic	71.92c	59.05c
Earnings per share - diluted	55.92c	44.35c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 *$'000*	*2016* *$'000*
Profit for the year	**5,378**	**4,309**
Other comprehensive expense		
Exchange differences on translation of foreign operations	31	336
Total comprehensive income for the year	**5,409**	**4,645**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2017

	2017 *$'000*	*2016* *$'000*
Assets		
Non-current assets		
Property, plant and equipment	417	241
Intangible assets	5,821	5,469
Deferred tax asset	2,010	1,338
Other receivables	19	19
	8,267	**7,067**
Current assets		
Trade and other receivables	15,387	9,696
Cash and cash equivalents	12,729	10,061
	28,116	**19,757**
Total assets	**36,383**	**26,824**
Liabilities		
Current liabilities		
Trade and other payables	6,239	4,428
Borrowings	3,171	3,167
Deferred revenue	8,345	6,224
	17,755	**13,819**
Non-current liabilities		
Borrowings	28	2,648
Total liabilities	**17,783**	**16,467**
Net assets	**18,600**	**10,357**
Equity		
Share capital	3,079	2,375
Capital reserves	7,720	5,843
Profit and loss account and translation reserve	7,801	2,139
Total equity	**18,600**	**10,357**

CONSOLIDATED CONDENSED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 *$'000*	*2016* *$'000*
Operating activities		
Profit for the year	5,378	4,309
Adjustments for non-cash and financing items	2,336	1,245
Movements in working capital	(2,048)	(138)
Net cash generated from operating activities	5,666	5,416
Investing activities		
Finance income	6	1
Purchases of property, plant and equipment	(367)	(250)
Development costs capitalized	(2,519)	(1,933)
Net cash used in investing activities	(2,880)	(2,182)
Financing activities		
Issue of shares	34	107
(Repayment)/drawdown of borrowings	(168)	177
Movement in lines of credit	-	-
Finance expense	(261)	(290)
Net cash (used in)/generated from financing activities	(395)	(6)
Effect of foreign exchange rate changes	277	(213)
Net increase in cash and cash equivalents	**2,668**	**3,015**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

	Share Capital *$'000*	*Capital Reserves* *$'000*	*Translation Reserve* *$'000*	*Retained Profits* *$'000*	*Total* *$'000*
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 1 January 2017	**2,375**	**5,843**	**333**	**1,806**	**10,357**
Total comprehensive income for the year	-	-	31	5,378	5,409
Issue of shares	704	1,986	-	-	2,690
Share-based payments / Esot share acquisition	-	(109)	-	253	144
At 31 December 2017	**3,079**	**7,720**	**364**	**7,437**	**18,600**

NOTES

1. Basis of Preparation

The financial information set out in this document does not constitute the Company's statutory accounts for the years ended 31 December 2016 or 2017. Statutory accounts for the years ended 31 December 2016 and 31 December 2017, which were approved by the directors on 21 March 2018, have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2016 and 2017 were unqualified, did not draw attention to any matters by way of emphasis, 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 2016 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2017 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 2016. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the period ended 31 December 2016. 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 two-thirds of the Group’s revenue and 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.

3. Segmental Analysis

All of the Group’s revenue in respect of the years ended 31 December 2017 and 2016 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.

NOTES

3. Segmental Analysis (continued)

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 2017	*North America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
Income Statement			
External revenues – by location of operations	17,274	11,260	28,534
Operating profit before interest and tax	5,133	464	5,597
Profit before tax	5,077	58	5,135
Finance income	6	-	6
Finance expense	(62)	(406)	(468)
Depreciation and amortization	(2,326)	(47)	(2,373)
EBITDA	7,459	511	7,970
Balance Sheet			
Fixed asset additions	254	112	366
Capitalization of internally generated development costs	2,519	-	2,519
Total assets	25,902	10,481	36,383
Total liabilities	(12,217)	(5,566)	(17,783)

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	(1,038)	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)

External revenues in 2017 exclude inter-segmental revenues which amounted to $4,007,000 (2016: $1,715,000) for North America and $479,000 (2016: $378,000) for Europe.

Revenues attributable to customers in North America in 2017 amounted to $16,697,000 (2016: $16,458,000). Revenue attributable to customers in the rest of the world amounted to $11,837,000 (2016: $6,745,000) of which $11,038,000 (2016: $6,109,000) was attributable to customers in Europe.

4. Revenue

All of the Group's revenue in respect of the years ended 31 December 2017 and 2016 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 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 interest payable and receivable of $462,000 (2016: $289,000), and depreciation and amortization charges amounting to $2,373,000 (2016: $2,232,000) to the profit before tax of $5,135,000 (2016: $3,034,000).

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 $173,000 (2016: $62,000).

7. Income Tax

At 31 December 2017, tax losses estimated at $63m (2016: $64m) 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 $2.0m (2016: $1.3m) and a further potential deferred tax asset of $10.9m (2016: $17.4m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $9.0m (2016: $9.4m) of these losses are subject to restriction under section 382 of the US Internal Revenue Code due to historical changes of ownership.

NOTES

8. Earnings per Share

The calculation of basic earnings per ordinary share is based on a profit of $5,378,000 (2016: $4,309,000), and on 7,478,000 (2016: 7,297,000) 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 $5,777,000 (2016: $4,526,000), and to increase the number of ordinary shares to 10,331,000 (2016: 10,205,000).

9. Convertible Loan Stock

At 1 January 2017 the Company had outstanding £1,990,000 nominal value of 8% convertible loan stock with a maturity date of 31 January 2019 and convertible into Sopheon shares at a rate of 76.5p per share. On 26 May 2017 £50,000 nominal of loan stock was converted into 65,359 Sopheon shares.

On 22 December 2017, pursuant to a resolution passed at a meeting of loan stockholders held on 7 December 2017, the remaining £1,940,000 aggregate nominal amount outstanding was converted into Sopheon shares, resulting in the issue of 2,535,947 Sopheon shares. In consideration for the early conversion of the loan stock, loan stockholders received a one-off payment of 8 percent of the nominal value of the loan stock then outstanding.

10. Intangible Assets

In accordance with *IAS 38 Intangible Assets*, certain development expenditure must be capitalized and amortized based on detailed technical criteria, rather than automatically charging such costs in the income statement as they arise. This has led to the capitalization of $2,519,000 (2016: $1,933,000), and amortization of $2,167,000 (2016: $2,043,000) during the year.

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.

12. 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.