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SOPHEON PLC

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

RESULTS FOR THE 6 MONTHS TO 30 JUNE 2018

Sopheon plc, the international provider of software and services for Enterprise Innovation Management solutions, announces its unaudited half-yearly financial report for the six months ended 30 June 2018 together with a business review and outlook statement for the second half of the year.

HIGHLIGHTS:

- Revenue: $15.9m (2017: $12.5m)
  EBITDA[1]: $4.1m (2017: $3.0m)
  Profit before tax: $2.8m (2017: $1.8m)
  Net cash: $15.5m (2017: $6.6m)

- Reporting 27% growth in revenue, and 62% growth in profit before tax, the business maintains its positive strategic and financial trajectory.
- Momentum from 2017 customer wins was boosted by 29 license events in the period (2017: 28). These orders included 9 new customer wins (2017: 6) as both the market, and our reputation and position, continue to advance.
- Revenue visibility[2] for full-year 2018 at $27.2m (2017: $20.3m).
- Further success in extending the use of Accolade beyond our innovation roots. We continue to make advancements in applying our software to link corporate strategy to operational execution, enabling customers to accomplish swift pivots to realize new strategic ambitions with speed.
- Diluted EPS rose to 25 cents (2017: 18 cents) per share. Maiden dividend of 2.5p per share has been paid in July.

Sopheon's Chairman, Barry Mence said: *"Alongside ensuring strategic progress and position, we remain focused on our revenue and profit objectives. This is underlined by our record first half performance for revenue and profit, our record revenue visibility of $27.2m, our record cash balances, and our maiden dividend declaration. The final quarter has always had a strong weighting on the overall results for the year, and as we move through the summer our commercial teams remain highly active. Noting this, the Board in turn remains confident that the Group is trading comfortably in line with market expectations."*

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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 250 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

[1] EBITDA is defined in Note 3. [2] Revenue visibility is defined in Note 5.
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CHAIRMAN'S STATEMENT

TRADING PERFORMANCE AND RESULTS

With 27 percent growth in revenues to $15.9m, the first half of 2018 continues a trend of rising first half performance building on $12.5m in 2017, $11.5m in 2016 and $8.4m in 2015. As previously reported we entered the period with a strong visibility tailwind thanks to a standout performance in the traditionally strong final quarter the year before. Delivery of this business made a substantial contribution to first half revenues, but commercial success also accelerated during the first half, with 29 license transactions including 9 new customers (2017: 28 and 6 respectively).

The geographical footprint of the new customers was widespread, with wins in Japan, Germany, USA, UK and the Benelux, and in several industry sectors including automobile and vehicle manufacturing, food, diversified industrial manufacturing, and aerospace and defense. While the majority of license transactions were perpetual, we did sign a number of Software-as-a-Service (SaaS) deals and extensions including a major new win, overall adding $0.6m in annual SaaS business during the period. In total the recurring revenue base has risen to $13.7m from $10.5m a year ago. In addition to new license business, we were pleased to sign substantial service extensions alongside delivery of a range of implementation and upgrade projects. Overall, revenue mix between license, service and maintenance/hosting was 30:32:38 respectively, compared to 27:34:39 in the first half of last year, a relatively stable spread. Looking at the business holistically, we are encouraged by the more consistent blend of recurring revenue, delivery of previous period signed business and the impact of new signings. This perspective is underlined by the fact we now have revenue visibility of $27.2m for 2018, compared to $23.5m at the time of our annual general meeting, and compared to $20.3m for 2017 at this time last year.

Sourcing quality people is a continuing challenge for Sopheon as it is for many other technology companies, and hiring of new staff has lagged our plans. Nevertheless, we have made some good progress and we had 144 staff at the end of the period, compared to 132 at the end of December, and 123 at the end of the previous June. During the year preceding this report, staff have been added in all areas, but in particular delivery and development as we position the Company to ensure continued market leadership and customer satisfaction. This includes hiring Steve Alexander, a very experienced executive based in the USA to lead our global service delivery team. Maximizing lifetime revenue is a rising theme within the Group that guides many of our strategic decisions and annual initiatives. To support this we have ambitious hiring plans for the remainder of 2018, and recruitment will continue through to the end of the period. Alongside new people, we have steadily been adding to office facilities and other supporting infrastructure.

Gross margin for the period was consistent at 71 percent compared to 72 percent in 2017. Direct costs include costs for license and support for certain OEM components of our solution, costs of our hosting operations, and certain indirect taxes; but the main component is the cost of our delivery teams and associated subcontractors. This has of course risen overall with rising delivery demand, but remains broadly consistent as a proportion of services revenue. Sales and marketing costs have also increased to $4.1m from $3.5m last year, reflecting both higher staff levels and stronger commissions on the back of the higher sales productivity. The effect of the new hires offset by capitalization has resulted in higher net R&D expense in the income statement of $2.4m compared to $2.1m last year. The effect of capitalization and amortization of product development costs was negligible, with $1.2m capitalized in the period compared to $1.0m last year, offset by $1.1m of amortization (2017: $1.1m). Finally, administrative expenses (which includes all other overheads, office costs, regulatory and compliance costs, and depreciation) show an overall increase to $1.9m from $1.6m last year.

Profit before tax reported for the half-year period was $2.8m (2017: $1.8m). This result includes interest, depreciation and amortization costs amounting to $1.3m (2017: $1.3m). The EBITDA result for the first half of 2018, which does not include these elements, was $4.1m (2016: $3.0m). No adjustment has been recorded to the deferred tax asset, however provision has been made for approximately $0.2m in current tax for the US and German entities giving a final profit after tax of $2.6m compared to $1.8m the year before. Basic and diluted EPS have both risen to 26.34 and 24.99 cents respectively (2017: 24.10 and 18.01) and this in the context of a higher number of shares in issue.

BALANCE SHEET AND CORPORATE

Net assets at 30 June 2018 have grown to $21.6m (30 June 2017: $12.3m), with net cash after borrowings at the end of the period rising to $15.5m (30 June 2017: $6.6m), further evidence of the solid corporate progress over the past 12 months and underpinning execution of our plans for the business. Much of the increase stems from collection of the traditionally high year-end receivables balances, in turn linked to the very strong fourth quarter performance as well as the high number of recurring revenue renewals at that time of year.

Of the cash balance, approximately $7.1m was held in US Dollars, $6.7m in Euros and the balance of $1.7m in Sterling (30 June 2016: $5.6m $3.2m, and debt of $2.2m respectively). With recent rises in USD deposit interest rates to meaningful levels, with the help of Silicon Valley Bank we have also implemented a cash sweep program to invest our USD balances into overnight treasuries. Intangible assets at 30 June 2018 stood at $5.9m (30 June 2017: $5.4m). This includes (i) $4.9m being the net book value of capitalized research and development (30 June 2016: $4.4m) and (ii) $1.0m (30 June 2016: $1.0m) being the net book value of acquired intangible assets. During the period and as in prior years, capitalization costs were broadly offset by amortization charges.

The Group has longstanding bank facilities with the London branch of Silicon Valley Bank. These comprise a term loan of $0.5m repayable in 36 equal monthly instalments, and a $3m revolving line of credit, only used on demand. At 30 June 2017 the Group's total liability in relation to these loans was $0.4m (2017: $2.4m). The current term of the facilities is through to January 2019 and renewal options are under consideration. Both facilities bear interest at rates of 2.75 percent over Wall Street Prime, resulting in a current effective rate of 7.25 percent. The facilities are subject to covenants and drawdown mechanics based on working capital ratios.

Until its conversion into equity on 22 December 2017, the Group also had a £2m convertible unsecured loan stock instrument outstanding, held by a group of investors including key members of the Board and senior management team and which was reflected in the balance sheet at 30 June 2017.

Following several years of clarifying our debt, equity and listing structure, other corporate activity has been relatively quiet in the first half of the year with the exception of the declaration of the Group's maiden dividend of 2.5p per share ($0.33m in total), approved by the shareholders in the annual general meeting held on 7 June 2018 and paid on 6 July 2018.

STRATEGY AND PRODUCT

Sopheon's strategy is progressing, supported by additional momentum and market validation, to help our customers achieve exceptional long-term growth and profitability through sustainable innovation – while helping them navigate ongoing disruption in their markets. Our growing momentum is evidenced by the 50% higher number of new client wins secured over last year at this time, as referenced above.

From the market standpoint, we see increased evidence of corporations suffering from the multitude of stand-alone systems built over time, resulting in isolated pockets of information silos in different functional areas. This operational disconnect prevents organizations from responding with speed to external market changes. Sopheon has created a software solution that connects the disconnected parts of these global enterprises, delivering an end-to-end, cross-functional decision-making platform that links the strategic ambitions of the corporation to the execution activities required to achieve those ambitions.

In the first half of this year, we made further progress in expanding our "lifetime value" opportunities across a number of our blue chip clients, by extending the business application areas addressed by our solution. We continue to advance our vision in partnership with our strategic clients, leveraging sound advice and learnings to pave the way for our ecosystem to increase the value received from our software.

Sopheon is not alone in reporting this growth in the enterprise innovation market. The business analyst community continues to expand coverage of the emerging components that make up the market which Sopheon occupies. Sopheon was mentioned by analysts in 20 individual reports in 2017, and we are on course to exceed that in 2018. The sources of such reports include Gartner, Forrester Research, and others. Sopheon's leadership position was also validated in March by Consumer Goods Technology magazine through a customer-based evaluation that voted Sopheon the number one supplier of new product development and introduction solutions.

Our firm commitment to invest in advancing our product as a cornerstone of our business is unwavering, and we are on track to achieve our aggressive release schedule again in 2018. We released Accolade version 12.0 earlier in the year, and will be releasing version 12.1 shortly.

In our latest software releases we have continued to enhance the user experience with both improved look and feel, a new mobile app, and enhanced usability through simplification and role-focused workflows. In addition, we continue to make advancements in linking the corporate strategy to operational execution, enabling customers to accomplish swift pivots to realize new strategic ambitions with speed. We have also stepped up the pace of capturing and sharing Sopheon best-practice content, and innovation methodology, and expect to continue doing so into 2019, thereby driving further differentiation from alternative solutions.

OUTLOOK

As described above, our growing success can be attributed to both a rapidly evolving market for what we offer, and also to the way we have chosen to address that market. Several years ago we shifted our vision from providing a process automation tool for research and development, to offering an enterprise platform for innovation and strategy responsive to the needs of large corporates. We have also consistently adopted an overtly vertical orientation to the market, and to the configuration and expertise embedded in our solution. In our view these principles continue to position us very well, and the rising momentum and market recognition testify to that view.

Our forward growth strategy remains simple and consistent – to continue to build on our current operational momentum, and execute on our three over-arching initiatives as outlined in our annual report: (i) capitalize on existing blue chip client relationships to extend Accolade as the digital platform of choice to empower enterprise adaptability across a global organization; (ii) increase new client acquisition investment in target verticals through deeper specialization and domain-specific expertise; and (iii) expand commercial reach through distribution partnerships – channel, strategic and geographical – to develop and monetize an Accolade ecosystem. In order to deliver on these growth strategies, we have ambitious investment plans for 2018 involving product, people and processes and we will continue to press forward with these plans on all fronts. As we have stated, we will also consider targeted M&A opportunities where they are aligned with our strategic goals.

Alongside ensuring strategic progress and position, we remain focused on our revenue and profit objectives. This is underlined by our record first half performance for revenue and profit, our record revenue visibility of $27.2m, our record cash balances, and our maiden dividend declaration. The final quarter has always had a strong weighting on the overall results for the year, and as we move through the summer our commercial teams remain highly active. Noting this, the Board in turn remains confident that the Group is trading comfortably in line with market expectations.

Barry Mence
Chairman

22 August 2018

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 30 JUNE 2017

	Note	*2018 $'000 (unaudited)*	*2017 $'000 (unaudited)*
Revenue	3	**15,930**	**12,505**
Cost of sales		(4,605)	(3,494)
Gross profit		**11,325**	**9,011**
Sales and marketing expense		(4,113)	(3,470)
Research and development expense		(2,423)	(2,073)
Administrative expense		(1,933)	(1,580)
Operating profit		**2,856**	**1,888**
Finance income		37	-
Finance expense		(45)	(135)
Profit for the period before tax	3	**2,848**	**1,753**
Income tax (charge)/credit	7	(203)	27
Profit for the period		**2,645**	**1,780**
Earnings per share - basic in cents	4	26.34c	24.10c
Earnings per share - fully diluted in cents	4	24.99c	18.01c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 30 JUNE 2017

	2018 $'000 (unaudited)	*2017 $'000 (unaudited)*
Profit for the period	**2,645**	**1,780**
Amounts that may be recycled in future periods		
Exchange differences on translation of foreign operations	(42)	(19)
Total comprehensive profit for the period	**2,603**	**1,761**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2018 AND 30 JUNE 2017

	Note	*30 June 2018 $'000 (unaudited)*	*31 Dec 2017 $'000 (audited)*	*30 June 2017 $'000 (unaudited)*
Assets				
Non-current assets				
Property, plant and equipment		526	417	327
Intangible assets	6	5,906	5,821	5,441
Deferred tax asset	7	2,010	2,010	1,366
Other receivable		19	19	19
		8,461	**8,267**	**7,153**
Current assets				
Trade and other receivables		9,664	15,387	7,877
Cash and cash equivalents		15,990	12,729	11,486
		25,654	**28,116**	**19,363**
Total assets		**34,115**	**36,383**	**26,516**
Liabilities				
Current liabilities				
Borrowings		441	3,171	2,271
Contract liabilities		7,536	8,345	5,773
Trade and other payables		4,559	6,239	3,561
		12,536	**17,755**	**11,605**
Non-current liabilities				
Borrowings		-	28	2,634
Total liabilities		**12,536**	**17,783**	**14,239**
Net assets		**21,579**	**18,600**	**12,277**
Equity				
Share capital		3,115	3,079	2,398
Capital reserves		8,060	7,720	5,891
Translation reserve		322	364	314
Retained earnings		10,082	7,437	3,674
Total equity		**21,579**	**18,600**	**12,277**

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 30 JUNE 2017

	2018 *$'000* *(unaudited)*	*2017* *$'000* *(unaudited)*
Operating Activities		
Profit for the period	2,645	1,780
Finance income	(37)	-
Finance expense	45	135
Depreciation of property, plant and equipment	136	83
Amortization of intangible assets	1,129	1,068
Share based payment expense	188	75
Deferred tax credit	-	(27)
Operating cash flows before movement in working capital	4,106	3,114
Decrease in receivables	5,688	1,979
(Decrease) in payables	(2,403)	(1,610)
Net cash from operating activities	7,391	3,483
Investing Activities		
Finance income	37	-
Purchases of property, plant and equipment	(245)	(160)
Capitalization of development costs	(1,213)	(1,040)
Net cash used in investing activities	(1,421)	(1,200)
Financing Activities		
Exercise of share options	188	21
Repayment of borrowings	(85)	(85)
Movement in amounts drawn under lines of credit	(2,674)	(900)
Finance expense	(46)	(135)
Net cash used in financing activities	(2,617)	(1,099)
Net increase in cash and cash equivalents	**3,353**	**1,184**
Cash and cash equivalents at the beginning of the period	**12,729**	**10,061**
Effect of foreign exchange rate changes	(92)	241
Cash and cash equivalents at the end of the period	**15,990**	**11,486**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND 30 JUNE 2017

	Share Capital $'000	*Capital Reserves $'000*	*Trans-lation Reserve $'000*	*Retained Earnings $'000*	*Total $'000*
At 1 January 2017 (audited)	**2,375**	**5,843**	**333**	**1,806**	**10,357**
Issues of shares	23	61	-	-	84
Share based payments	-	75	-	-	75
Lapsing or expiry of share options	-	(88)	-	88	-
Profit for the period before tax	-	-	-	1,753	1,753
Deferred tax credit	-	-	-	27	27
Other comprehensive income	-	-	(19)	-	(19)
At 30 June 2017 (unaudited)	**2,398**	**5,891**	**314**	**3,674**	**12,277**
Issues of shares	681	1,925	-	-	2,606
Share based payments	-	98	-	-	98
Lapsing or expiry of share options	-	(2)	-	2	
Purchase of shares by Esot	-	(29)	-	-	(29)
Transfer of equity conversion reserve	-	(163)	-	163	-
Profit for the period before tax	-	-	-	2,953	2,953
Deferred tax credit	-	-	-	645	645
Other comprehensive income	-	-	50	-	50
At 31 December 2017 (audited)	**3,079**	**7,720**	**364**	**7,437**	**18,600**
Issues of shares	36	152	-	-	188
Share based payments	-	188	-	-	188
Profit for the period before tax	-	-	-	2,848	2,848
Tax charge	-	-	-	(203)	(203)
Other comprehensive income	-	-	(42)	-	(42)
At 30 June 2018 (unaudited)	**3,115**	**8,060**	**322**	**10,082**	**21,579**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Sopheon plc is a company domiciled in England. The interim financial information of the Company for the six months ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The Board of Directors approved this interim report on 22 August 2018.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation and accounting policies

These interim consolidated financial statements have been prepared using accounting policies based on International Financial Reporting Standards (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board ("IASB") as adopted for use in the EU. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 31 December 2017 Annual Report. The financial information for the half years ended 30 June 2018 and 30 June 2017 does not constitute statutory accounts within the meaning of Section 434 (3) of the Companies Act 2006 and both periods are unaudited.

The annual financial statements of Sopheon Plc ('the Group') are prepared in accordance with IFRS as adopted by the European Union. The comparative financial information for the year ended 31 December 2017 included within this report does not constitute the full statutory Annual Report for that period. The statutory Annual Report and Financial Statements for 2017 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 31 December 2017 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) - (3) of the Companies Act 2006.

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2017 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2018, and will be adopted in the 2018 financial statements. New standards impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2018 are IFRS 9 *Financial Instruments* which has given rise to a change in the Group's accounting policies, and IFRS 15 *Revenue from Contracts with Customers* which has not impacted the Group's accounting policies. Details of the impact of these two standards are given below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to have a material impact on the Group.

IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement, and has had an effect on the Group as follows. The impairment provision on financial assets measured at amortized cost (such as trade and other receivables) have been calculated in accordance with IFRs 9's expected credit loss model, which differs from the incurred loss model previously required by IAS 39. This has not resulted in a material change to the impairment provision at 1 January 2018 or prior periods.

IFRS 15 Revenue from Contract with Customers

IFRS 15 has replaced IAS 18 Revenue and IAS 11 Construction Contracts as well as various Interpretations previously issued by the IFRS Interpretations Committee. The Company has adopted the modified retrospective approach, and there is no material impact on any revenue stream for the Group, noting the following as it relates to the Group's revenue streams.

Basis of preparation and accounting policies (continued)

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange. Under IFRS 15, the entity recognizes revenue when (or as) a performance obligation is satisfied, which occurs when control of the goods or services underlying the relevant performance obligation is transferred to the customer.

Revenue from sales of perpetual software licenses is recognized once no significant obligations remain owing to the customer in connection with such license sale and are therefore recognized at a point in time. Sales of software subscription contracts, sometimes known as software-as-a-service contracts, are deferred and recognized over the period of the agreements. The foregoing approaches are consistent with the licensing application guidance in IFRS 15, which is to determine whether the license grants customers a right to use the underlying intellectual property (which would result in transfer of control at a point in time) or a right to access the intellectual property (which would result in transfer of control over time). Revenues relating to maintenance, hosting and post-contract support agreements are deferred and recognized over the period of the agreements. Revenues from implementation and consultancy services are recognized as the services are performed, or in the case of fixed price or milestone-based projects, on a percentage basis as the work is completed and any relevant milestones are met, using latest estimates to determine the expected duration and cost of the project. The foregoing approaches are consistent with the requirement in IFRS 15 that the revenue is recognized as the performance obligation is satisfied. Finally, in addition to the principles relating to revenue recognition described above, the adoption of IFRS 15 also requires certain contract liabilities (previously described as deferred revenue) to be offset from receivables.

Standards effective for periods beginning subsequent to 31 December 2018

There are a number of standards and interpretations which have been issued by the International Accounting Standards Board that are effective for periods beginning subsequent to 31 December 2018 (the date on which the company’s next annual financial statements will be prepared up to) that the Group has decided not to adopt early. The most significant of these is IFRS 16 Leases (mandatorily effective for periods beginning on or after 1 January 2019).

Adoption of IFRS 16 will result in the Group recognizing right of use assets and lease liabilities for all contracts that are, or contain, a lease. For leases currently classified as operating leases, under current accounting requirements the Group does not recognize related assets or liabilities, disclosing instead the total commitment in its annual financial statements. At 31 December 2017 the commitment disclosed was $2,159,000, which is not materially different to the position at 30 June 2018 or the amount which is expected to be disclosed at 31 December 2018. Assuming the Group’s lease commitments remain at this level, the effect of discounting those commitments might be expected to result in right-of-use assets and lease liabilities of approximately $2.2m being recognized on 1 January 2019. Instead of recognizing an operating expense for its operating lease payments, the Group would instead recognize interest on its lease liabilities and amortization on its right of use assets. This would increase the reported EBITDA by the amount of its current operating lease cost (which for 6 months ended 30 June 2018 was approximately $340,000).

Since the Group last reported, the Board has decided to apply the modified retrospective method when the standard is first adopted in its financial statements for the year ended 31 December 2019. Therefore, there will be no impact on any comparative accounting period (interim or annual) up to and including 31 December 2018, with any leases recognized on balance sheet on the date of initial application of IFRS 16 (1 January 2019). In applying the modified retrospective approach the Board has further decided to measure right of use assets by reference to the amount at which lease liabilities are measured on 1 January 2019. Therefore there will be no immediate impact on net assets as a result of adopting the standard on that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Going Concern

The consolidated 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 this half-yearly financial report. 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.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales-related taxes.

Sales of software licenses are recognized once no significant obligations remain owing to the customer in connection with such license sale. Such significant obligations could include giving a customer a right to return the software product without any preconditions, or if the Group is unable to deliver a material element of the software product by the balance sheet date.

Revenues relating to maintenance, hosting and post-contract support agreements, and software subscription contracts, are deferred and recognized over the period of the agreements.

Revenues from implementation and consultancy services are recognized as the services are performed, or in the case of fixed price or milestone-based projects, on a percentage basis as the work is completed and any relevant milestones are met, using latest estimates to determine the expected duration and cost of the project.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized only to the extent that the level and timing of taxable profits can be measured and it is probable that these will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at tax rates that have been enacted or substantively enacted at the balance sheet date, and that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Internally Generated Intangible Assets (Research and Development Expenditure)

Development expenditure on internally developed software products is capitalized if it can be demonstrated that:

- it is technically feasible to develop the product;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sales of the product will generate future economic benefits; and
- expenditure on the product can be measured reliably.

Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred. Capitalization of a particular activity commences after proof of concept, requirements and functional concept stages are complete.

Capitalized development costs are amortized over the period over which the Group expects to benefit from selling the product developed. This has been estimated to be four years from the date of code-finalization of the applicable software release. The amortization expense in respect of internally generated intangible assets is included in research and development costs.

3. SEGMENTAL ANALYSIS AND EBITDA

All of the Group's revenues in respect of the six month periods ended 30 June 2018 and 2017 derived from the design, development and marketing of software products with associated implementation and consultancy services. For management purposes, the Group is organized across two principal geographic operating segments, as used in the Group's last annual financial statements. The first segment is North America, and the second Europe. Information relating to these two segments is given below. All information provides analysis by location of operations and is stated before intra-group charges.

Six months to 30 June 2018	*N America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
External revenues	10,850	5,080	15,930
Profit before tax	1,706	1,142	2,848
EBITDA	2,954	1,168	4,122
Total assets	23,043	11,072	34,115

Six months to 30 June 2017	*N America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
External revenues	7,644	4,861	12,505
Profit before tax	330	1,423	1,753
EBITDA	1,495	1,544	3,039
Total assets	19,432	7,084	26,516

EBITDA is arrived at after adding back net finance costs, depreciation and amortization amounting to $1,274,000 (2017: $1,286,000) to the profit before tax. Details of these amounts are set out in the consolidated cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on earnings of $2,645,000 (2017: $1,780,000) and on 10,041,292 ordinary shares (2017: 7,386,373) being the effective weighted average number of ordinary shares in issue during the year.

For the purpose of calculating the diluted earnings per ordinary share, any options and warrants to subscribe for Sopheon shares at prices below the average share price prevailing during the period are treated as exercised at the later of 1 January 2018 or the grant date. The treasury stock method is then used, assuming that the proceeds from such exercise are reinvested in treasury shares at the average market price prevailing during the period. The diluted number of shares used at 30 June 2018 is 10,586,497 (2017: 9,888,290)

In respect of the period to 30 June 2017 the Group's convertible loan stock was treated as converted at 1 January 2017, with earnings adjusted for the amount of interest that would have been saved, and the number of shares adjusted by the number issued on such conversion. All of the Company's Convertible Loan Stock was converted into share capital on 22 December 2017.

5. REVENUE VISIBILITY

Revenue visibility at any point in time 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 license subscription streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of 2018.

6. INTANGIBLE ASSETS

Certain development expenditure is required to 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 $1,213,000 (2017: $1,040,000), and amortization of $1,129,000 (2017: $1,068,000) during the period.

7. TAXATION

At 30 June 2018, income tax losses estimated at $63m (2017: $65m) were available to carry forward by the Group, arising from historic losses incurred. These losses have given rise to a recognized deferred tax asset of $2.0m (2017: $1.4m) and a further, but currently unrecognized, potential deferred tax asset of $10.9m (2017: $16.2m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $9.0m (2017: $9.4m) of these losses are subject to restriction under section 392 of the US Internal Revenue Code, whereby the ability to utilize net operating losses arising prior to a change of ownership is limited to a percentage of the entity value of the corporation at the date of change of ownership.

In addition to income taxes, the Group is also subject to sales and value added tax in the various jurisdictions in which it operates. Recent developments US case law, as well as audits by authorities have highlighted the complex sales tax compliance requirements associated with individual US states. The Group is undertaking an exercise to review its procedures in this regard. Contractually, the Group's policy is to ensure that liability for sales tax is a customer liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. RELATED PARTY TRANSACTIONS

Prior to 22 December 2017 £1 million nominal (equivalent to $1.3m) of the Company's Convertible Loan Stock was held by directors and management. All of the Company's Convertible Loan Stock was converted into Sopheon shares on that date. Except for the foregoing, there were no related party transactions required to be disclosed in any period. Transactions between the Company and its subsidiary undertakings, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

9. PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2017, which contains a detailed explanation of the risks relevant to the Group on page 20, and is available at www.sopheon.com. Other principal risks and uncertainties of the Group for the remaining six months of the current financial year are disclosed in the Chairman's Statement and the notes to the interim financial information included in this half-yearly financial report.

10. CAUTIONARY STATEMENT

This report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Sopheon plc. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Nothing in this announcement should be construed as a profit forecast.

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

Introduction

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the consolidated income statement; consolidated statement of comprehensive income; consolidated statement of financial position; consolidated cash flow statement; consolidated statement of changes in equity; and associated notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial information.

Directors' Responsibilities

The interim report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM, which require that the interim report be presented and prepared in a form consistent with that which will be adopted in the company's annual accounts having regard to the accounting standards applicable to such annual accounts.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the Company in meeting the requirements of the rules of the London Stock Exchange for companies trading securities on AIM and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorized to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity', issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies whose shares are admitted to trading on AIM.

BDO LLP
Chartered Accountants & Registered Auditors, London, United Kingdom 22 August 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).