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SOPHEON PLC

(“Sopheon”, the “Company” or the “Group”)

**RESULTS FOR THE 6 MONTHS TO 30 JUNE 2012**

**BUSINESS REVIEW AND OUTLOOK**

Sopheon plc (“Sopheon”) the international provider of software and services that improve the return from innovation and product development investments announces its unaudited interim report for the six months ended 30 June 2012 (the “period”) together with a business review and outlook.

**Highlights:**

* Revenue: £6.2m (2011: £4.7m)
EBITDA profit: £0.8m (2011: £0.4m)
Profit before tax: £0.1m (2011: £0.3m loss)
* Twenty-six license transactions were completed including extension sales.
* Revenue visibility for full-year 2012 now stands at £9.9m compared to £7.5m reported in mid-June at the time of our AGM, equalling 95% of Sopheon’s total revenues for the full year 2011. At the time of publication of our 2011 interim report, visibility was £8.5m.
* Cash at 30 June stood at £2.6m (2011: £3.1m).
* Pursuant to shareholder approval obtained at the AGM, Sopheon is filing an application form today to transfer its Amsterdam listing from NYSE Euronext to its exchange-regulated market, NYSE Alternext. The transfer is expected to be effective as from 24 September.
* Maturity of convertible debt has been extended to January 2015 and a further £1.15m of convertible debt finance has been announced this morning.

**Sopheon’s Chairman, Barry Mence said:** *We are delighted to have achieved a return to growth despite continued difficulties in the global economy. Indeed, the tough environment may itself be partially responsible for the uptick, as companies address the need to accelerate innovation in order to compete.* *Corporate developments have also been positive. Alternext is better suited to companies of our scale and stage of development; and the improvements in our convertible debt profile underpin our balance sheet, at a time when it is essential to maintain focus on executing our growth strategy.*

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**About Sopheon**

Sopheon (LSE: SPE) is an international provider of software and services. Sopheon’s solutions structure, align and manage innovation processes to help organizations generate more revenues and profits from new products. Sopheon's solutions are used by industry leaders throughout the world, including BASF, Corning, Electrolux, Honeywell, Lockheed Martin, Philips and SABMiller. Sopheon is listed on the AIM Market of the London Stock Exchange and on the Euronext in the Netherlands. For more information, please visit www.sopheon.com.

**CHAIRMAN’S STATEMENT**

**Trading Performance**

Revenues for the first half of 2012 were £6.2m, compared to £4.7m in 2011. Strong license sales contributed to an overall revenue mix between license, service and maintenance of 32:37:31 respectively, compared to 27:32:41 in the first half of 2011. Services revenue also showed strong growth. Exchange rates had limited impact on revenues for the period, as the weaker Euro was offset by a higher US Dollar.

The growth in license revenues was driven both by an increase in new client acquisition, and by extended growth from our client base. Completed deals included high value transactions in both areas. A total of 26 license orders were booked, compared to 22 during the same period last year. This count included 10 new customers, compared to 5 the year before. Our first half performance was consistent with two key points we brought up in our report for last year. We highlighted an increasing trend for customers to make phased rather than up-front license investments, leading to the potential for major extension activity in 2012; and we also highlighted that we were taking active steps to refocus attention on new customer acquisition.

Alongside this improvement in license activity, our services team saw unprecedented levels of demand with growth approaching 50% compared to the prior year. Again this is from a mix of new and existing customers, and we have good visibility for this to continue through the balance of the year. Our recurring base of maintenance, hosting and rental contracts stands at £4.1m compared to £3.9m a year ago. We have continued to suffer terminations during the period as some customers continue to reorganize and rationalize their operations in these difficult economic times. As a result, growth in this area has not matched license and service revenue streams. New customer retention initiatives have been established to mitigate this challenge.

Revenue visibility has improved to £9.9m compared to £7.5m at the time of our Annual General Meeting in June. Sales pipelines for the third quarter and beyond are healthy and are expected to drive additional increases in revenue visibility between now and the end of the year. Nevertheless, as we have noted in our previous announcements, predicting the timing and value of individual sales is challenging, and this can impact revenue performance in a particular period.

Approximately 56% of revenues during the first half of the year were generated by US customers; 39% came from the Europe, Middle East and Africa (“EMEA”) region including our first deal in Russia; 5% was contributed by customers in Asia-Pacific including our first deal in China. Vision Strategist accounted for 8% of total revenues recorded in the first half of 2012, compared to 11% for full year 2011. Gross margin, which is arrived at after charging direct costs such as payroll for client services staff, was 73% the same as 2011.

**Operating Costs and Results**

As we have previously noted, we continued a controlled staff expansion through 2011 and coming into 2012. As a result our cost base has changed. During 2011, staff count rose from 84 to 97. At the end of June headcount stood at 103, augmented by contracting with partners. The investment in additional headcount is tied to our growth strategies and has included additional resource in sales, development and services teams. As we bring on new business, this growth in staffing will be extended. For the present, we have continued to hold administrative resources constant. In addition to absorbing the impact of additional staff, we have also made full provision for six months costs under the corporate bonus scheme. Clearly, the degree to which bonus is ultimately payable will depend on full year performance. No corporate bonus was payable for 2011 and accordingly the bonus provision has also contributed to the apparent growth in costs in 2012.

The overall operating result for the business during the period was a profit of £232,000 (2011: loss of £106,000). After net finance costs, the final profit before tax reported for the period is £74,000 (2011: loss of £282,000). This result includes interest, depreciation and amortization costs amounting to £731,000 (2011: £668,000). The EBITDA result for the first half of 2012, which does not include these elements, was a profit of £805,000 (2011: £386,000).

**Corporate and Balance sheet**

Net assets at 30 June 2012 stood at £3.1m (2011: £2.7m). Cash resources at the end of the period amounted to £2.6m (2011: £3.1m). Approximately £1.2m was held in US dollars, £1.3m in Euros and the balance in Sterling. Intangible assets at 30 June 2012 stood at £3.8m (2011: £3.7m). This includes (i) £2.9m being the net book value of capitalised research and development (2011: £2.6m) and (ii) £0.9m (2011: £1.1m) being the net book value of acquired intangible assets.

The group has a $3.5 million mezzanine term loan with BlueCrest Capital Finance (“BlueCrest”). This loan is repayable in equal monthly instalments through to March 2014. BlueCrest has also provided the Group with a revolving credit facility secured on US accounts receivable, with a facility limit of $1.25m. The facility is periodically renewable, and the next renewal date is 31 May 2013. At 30 June 2012, the balances outstanding on the medium-term debt and revolving credit facility were $1.9m (2011: $3.0m) and $1.2m respectively (2011: $0.7m). The equivalent figures in Sterling are £1.2m (2011: £1.8m) and £0.8m (2011: £0.4m) respectively. During the early part of 2012, BlueCrest transferred the majority of its lending portfolio to another entity. Sopheon’s debt was not transferred because the acquiring entity has a policy of not lending to publicly held companies. The Company has been advised that this may lead to uncertainty over future renewals of the revolving credit facility. The mezzanine term is contracted through maturity, and accordingly is not exposed to such concerns.

In 2009 the Group issued £850,000 of convertible unsecured loan stock to a number of investors including key members of the Board and senior management team. The conversion price of the loan stock is 5p per ordinary share, and the maturity date is 31 January 2015. This morning the Group has announced that it has reached agreement to raise a further £1,150,000 of convertible loan stock on the same terms. These funds will be used to underpin the Group’s expansion strategy, and will mitigate the risk noted above in respect of the BlueCrest revolving credit facility.

At the recent AGM, shareholders approved the transfer of Sopheon’s listing from the regulated market operated by NYSE Euronext Amsterdam to its exchange-regulated market, NYSE Alternext. Today, Sopheon is filing an application form to achieve this transfer, which subject to approval from the Board of Euronext Amsterdam is expected to become effective on 24 September 2012. As previously explained, this change will introduce certain tax exemptions which the Board believe could attract specialist investment funds, and will also reduce regulatory burden. Alternext is a well-recognized market with over 180 companies listed, representing a combined market capitalization of €5.9 billion. Since Alternext uses the same trading platform as Euronext, no change is expected to the mechanisms by which shareholders can buy and sell Sopheon shares.

Looking forward, the Board is actively considering a corporate restructuring that would comprise a reduction of capital to eliminate the bulk of the accumulated deficit on the profit and loss account, and also a consolidation of share capital into fewer shares each of a larger value than its existing shares. If implemented, these changes (which would be subject to shareholder and other approvals) would improve the profile of the balance sheet, bring forward the potential for the Company to have distributable reserves, and reduce the very large number of shareholders for a company of our size. Sopheon’s share register lists almost 4,000 individual shareholders, over 80% of whom have interests of £100 or less. This analysis does not count shareholders with individual holdings through nominee accounts such as brokers’ accounts, or shareholders with individual holdings through the Netherlands system. These holdings cannot be analysed due to regulatory differences that curtail investigation beyond the registered account, but based on high level information, are expected to show a similar profile of a disproportionately large number of very small shareholdings.

**Strategy**

We have previously stated that Sopheon’s growth strategies for 2012 and beyond center on three key objectives:

* **Increase our rate of growth by deploying vertical-specific marketing strategies.**  Our revised marketing approach comprises a vertical-specific, integrated mix of tactics ranging from digital advertising campaigns and web-based events to conferences, and social media programs. Target sectors include consumer packaged goods, and aerospace & defense.

* **Broaden the use of our solutions within existing accounts.** We introduced a range of new products and services over the past two years, supporting them with account management and marketing programs directed exclusively into our customer base. Most recently, we reorganized our sales teams to segregate and sharpen the focus and effort between generating additional revenue from existing customers and generating new accounts.
* **Expand direct and indirect distribution channels to acquire new accounts.** We have widened sales coverage geographically with new hires on the US West Coast, in Germany and the UK. We also continue to build our relationships with consulting partners, headlined by the recent launch of a joint market offering with Kalypso, a major product development consultancy. Universally, these partnerships are calculated to leverage complementary skills and reciprocal account introductions to generate new customers.

During 2011, we invested in all three of these objectives. Of particular significance was completion of a full technology refresh of our core software platform, which is now wholly based on the current Microsoft software framework, “.net”. We also introduced new agile development methodologies that allow us to introduce multiple product releases over a year, rather than larger releases separated by long intervals of time. These changes enable us to build products faster, and do a better job of ensuring that they are in step with real customer needs. Our preliminary experience during the first half of 2012 indicates that the resulting advantages have improved our ability to win business.

Sopheon’s offering remains a unique all-in-one Innovation Management software system that encompasses support for strategic innovation planning, ideation, product development process execution, and portfolio management across the entire product lifecycle. The strength of our market position continues to be validated by analysts, and our decision to sustain internal product development investment through the ongoing economic uncertainty is serving us well.

### Outlook

We entered 2012 with a number of positive developments under our belt. In 2011, we achieved a milestone product release with a full technology refresh, and introduced a new agile development methodology that has improved our responsiveness to customer and market needs. We both expanded and reorganized the sales team, introducing a more balanced focus between working with our client base for extension business, and winning new customers. We boosted our services capacity, with a view to handling a higher run rate of services business which is giving every indication of being sustainable.

Thanks to the improvements made to our working capital position in late 2010, we had the stability to execute our strategy with confidence during 2011, and hire the resources we needed, in spite of an uncertain revenue picture. Looking at the remainder of 2012 and further into the near-term future, we plan further investments to continue to stimulate and support growth. We are fully aware of the working capital requirements of remaining on this path, and this is one of the reasons we have taken steps to raise further convertible loan stock. We are also conscious that global economic uncertainty has not receded.

That aside, we remain positive about the progress and momentum we have achieved, and look to continued growth in the second half of the year and beyond.

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| --- | --- |
| Barry Mence**Chairman** | 23 August 2012 |

**Visibility**

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 rental streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of 2012.

**Trademarks**

Accolade® and Vision Strategist™ are trademarks of Sopheon plc. All other trademarks are the sole property of their respective owners.

**Cautionary Statement**

This Interim Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for these strategies to succeed. The Interim Report should not be relied on by any other party or for any other purpose. The Interim 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. The continuing uncertainty in global economic outlook inevitably increases the economic and business risks to which the Group is exposed. Nothing in this announcement should be construed as a profit forecast.

**CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED**

**30 JUNE 2012 (UNAUDITED)**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *2012* |  |  *2011* |
|  |  *£’000* |  |  *£’000* |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| **Revenue** |  **6,173** |  |  **4,686** |
| Cost of sales |  (1,685) |  |  (1,308) |
|  |  |  |  |
| **Gross profit** |  **4,488** |  |  **3,378** |
| Sales and marketing expense |  (2,154) |  |  (1,703) |
| Research and development expense |  (1,307) |  |  (1,067) |
| Administrative expense |  (795) |  |  (714) |
|  |  |  |  |
| **Operating (loss) / profit** |  **232** |  |  **(106)** |
| Finance income |  9 |  |  7 |
| Finance expense |  (167) |  |  (183) |
|  |  |  |  |
| Profit / (loss) for the period |  **74** |  |  **(282)** |
|  |  |  |  |
|  |  |  |  |
| Profit / (loss) per share - basic and diluted in pence |  0.05p |  |  (0.19p) |
|  |  |  |  |
|  |  |  |  |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012 (UNAUDITED)**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *2012* |  |  *2011* |
|  |  *£’000* |  |  *£’000* |
|  |  |  |  |
| Profit / (loss) for the period |  **74** |  |  **(282)** |
|  |  |  |  |
| Other comprehensive income |  |  |  |
| Exchange differences on translation of foreign operations |  (104) |  |  (81) |
|  |  |  |  |
| **Total comprehensive loss for the period, net of tax** |  **(30)** |  |  **(363)** |
|  |  |  |  |

####  CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012 (UNAUDITED)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  *30 June* |  |  *31 Dec* |  |  *30 June* |
|  |  *2012* |  |  *2011* |  |  *2011* |
|  |  *£’000* |  |  *£’000* |  |  *£’000* |
| *Assets* |  |  |  |  |  |
|  |  |  |  |  |  |
| **Non-current assets** |  |  |  |  |  |
| Property, plant and equipment |  195 |  |  166 |  |  155 |
| Intangible assets |  3,849 |  |  3,748 |  |  3,657 |
| Other receivable |  12 |  |  12 |  |  12 |
|  |  |  |  |  |  |
|  |  **4,056** |  |  **3,926** |  |  **3,824** |
| **Current assets** |  |  |  |  |  |
| Trade and other receivables |  4,592 |  |  3,265 |  |  2,961 |
| Cash and cash equivalents |  2,615 |  |  2,941 |  |  3,124 |
|  |  |  |  |  |  |
|  |  **7,207** |  |  **6,206** |  |  **6,085** |
|  |  |  |  |  |  |
| **Total assets** |  **11,263** |  |  **10,132** |  |  **9,909** |
|  |  |  |  |  |  |
| *Liabilities* |  |  |  |  |  |
|  |  |  |  |  |  |
| **Current liabilities** |  |  |  |  |  |
| Borrowings |  1,426 |  |  1,448 |  |  1,051 |
| Deferred revenue |  2,950 |  |  2,470 |  |  2,623 |
| Trade and other payables |  2,490 |  |  1,469 |  |  1,634 |
|  |  |  |  |  |  |
|  |  **6,866** |  |  **5,387** |  |  **5,308** |
| **Non-current liabilities** |  |  |  |  |  |
| Borrowings |  1,333 |  |  1,663 |  |  1,943 |
|  |  |  |  |  |  |
|  |  **1,333** |  |  **1,663** |  |  **1,943** |
|  |  |  |  |  |  |
| **Total liabilities** |  **8,199** |  |  **7,050** |  |  **7,251** |
|  |  |  |  |  |  |
| **Net assets** |  **3,064** |  |  **3,082** |  |  **2,658** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
| *Equity* |  |  |  |  |  |
|  |  |  |  |  |  |
| Share capital |  7,279 |  |  7,279 |  |  7,279 |
| Capital reserves |  55,815 |  |  55,803 |  |  73,732 |
| Translation reserve |  258 |  |  362 |  |  339 |
| Retained losses  |  (60,288) |  |  (60,362) |  |  (78,692) |
|  |  |  |  |  |  |
| **Total equity**  |  **3,064** |  |  **3,082** |  |  **2,658** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

**CONDENSED** **CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS
ENDED 30 JUNE 2012 (UNAUDITED)**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  *2012* |  |  *2011* |
|  |  *£’000* |  |  *£’000* |
| **Operating Activities** |  |  |  |
| Profit / (loss) for the period |  74 |  |  (282) |
| Finance income |  (9) |  |  (7) |
| Finance costs |  167 |  |  183 |
| Depreciation of property, plant and equipment |  47 |  |  53 |
| Amortization of intangible assets |  526 |  |  439 |
| Share based payment expense |  12 |  |  13 |
|  |  |  |  |
| Operating cash flows before movement in working capital |  817 |  |  399 |
| (Increase) / decrease in receivables |  (1,228) |  |  1,215 |
| Increase / (decrease) in payables |  1,407 |  |  (796) |
|  |  |  |  |
| Net cash from operating activities |  996 |  |  818 |
|  |  |  |  |
| **Investing Activities** |  |  |  |
| Finance income |  9 |  |  7 |
| Purchases of property, plant and equipment |  (78) |  |  (68) |
| Capitalisation of development costs |  (680) |  |  (554) |
|  |  |  |  |
| Net cash used in investing activities |  (749) |  |  (615) |
|  |  |  |  |
| **Financing Activities** |  |  |  |
| Repayment of borrowings |  (341) |  |  (334) |
| Movement in lines of credit |  - |  |  102 |
| Finance expense |  (155) |  |  (183) |
|  |  |  |  |
| Net cash used in financing activities |  (496) |  |  (415) |
|  |  |  |  |
| **Net decrease in cash and cash equivalents** |  **(249)** |  |  **(212)** |

**CONDENSED** **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2012 (UNAUDITED)**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  *Share* |  | *Capital* |  | *Translation* |  |  *Retained**L* |  |  |
|  |  *Capital* |  | *Reserves* |  | *Reserve* |  | *Losses* |  | *Total* |
|  |  *£’000* |  |  *£’000* |  |  *£’000* |  |  *£’000* |  |  *£’000* |
|  |  |  |  |  |  |  |  |  |  |
| At 1 January 2011 |  7,279 |  |  73,719 |  |  420 |  |  (78,410) |  |  3,008 |
| Share based payments |  - |  |  13 |  |  - |  |  - |  |  13 |
| Comprehensive loss |  - |  |  - |  |  (81) |  |  (282) |  |  (363) |
|  |  |  |  |  |  |  |  |  |  |
| **At 30 June 2011** |  **7,279** |  |  **73,732** |  |  **339** |  |  **(78,692)** |  |  **2,658** |
|  |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |
| At 1 January 2012 |  7,279 |  |  55,803 |  |  362 |  |  (60,362) |  |  3,082 |
| Share based payments |  - |  |  12 |  |  - |  |  - |  |  12 |
| Comprehensive loss |  - |  |  - |  |  (104) |  |  74 |  |  (30) |
|  |  |  |  |  |  |  |  |  |  |
| **At 30 June 2012** |  **7,279** |  |  **55,815** |  |  **258** |  |  **(60,288)** |  |  **3,064** |
|  |  |  |  |  |  |  |  |  |  |

## NOTES TO THE FINANCIAL STATEMENTS

**1. General information**

Sopheon Plc (the "Company") is a company domiciled in England. The condensed consolidated financial statements of the Company for the six months ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

**2. Accounting policies**

*Basis of preparation*

These condensed consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”, as adopted by the European Union. 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 Annual Report and financial statements for the year ended 31 December 2011. The comparative financial information for the year ended 31 December 2011 included within this interim report does not constitute the full statutory accounts for that period. The Annual Report and Financial Statements for 2010 have been filed with the Registrar of Companies. The Independent Auditors' Report on that Annual Report and Financial Statement for 2011 was unqualified and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. However, consistent with prior years, it did draw attention to an emphasis of matter due to uncertainty over going concern. The financial information for the half years ended 30 June 2012 and 30 June 2011 is unaudited.

*Going concern*

The condensed 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 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, including the potential of having to repay convertible loan stock in January 2015 and the need to renew its revolving facility with BlueCrest Capital Finance (“BlueCrest”) in May 2013.

In the first half of 2012, the Group achieved revenues of £6.2m and achieved a profit of £0.1m. This represents a substantial improvement over the previous year. The Group’s sales pipeline remains very active, and accordingly, the directors remain positive about the prospects for the business.

The Group has a loan note from BlueCrest which is repayable in equal monthly instalments of $90,000 plus interest through to March 2014. The balance remaining due on the note at 30 June 2012 was $1,885,000 (£1,158,000). The Group also has access to a $1,250,000 revolving line of credit with BlueCrest which is secured against the trade receivables of Sopheon’s North American business. This is periodically renewable and the current term expires 31 May 2013. BlueCrest has recently transferred the majority of its portfolio to another institution. Sopheon’s debt was not transferred because the acquirer does not lend to public companies. The Group has been advised that this may lead to uncertainty over future renewals of the revolving credit facility. The mezzanine term is contracted through maturity, and accordingly is not exposed to such concerns.

In addition, the Group has £850,000 of convertible unsecured loan stock held by a number of investors including members of the board and management. During the period, the terms of the loan stock were modified such that the conversion price was changed to 5p per ordinary share, and the maturity date extended to 31 January 2015. This morning the Group has announced that it has reached agreement to raise a further £1,150,000 of convertible loan stock on the same terms. These funds will be used to underpin the Group’s expansion strategy, and will mitigate the risk noted above in respect of the BlueCrest revolving credit facility.

## NOTES TO THE FINANCIAL STATEMENTS

At 30 June 2012, the Group reported net assets of £3.0m and cash resources of £2.6m.

Notwithstanding the Group’s funding and trading position, the time-to-close and the order value of individual sales continues to vary considerably. When combined with the relatively low-volume and high-value nature of the Group’s business, these are factors which constrain the ability to accurately predict revenue performance. In addition, to meet its strategic objectives and deliver against higher sales, the Group is expanding staff. If future sales fall short of expectations, there is a risk that the Group’s facilities may prove insufficient to cover both operating activities and the repayment of its debt facilities, being on the one hand the regular repayment of the BlueCrest term loan and on the other hand, the possibility of having to repay up to £2m in cash of convertible loan stock on 31 January 2015. In such circumstances, the Group would be obliged to seek additional funding.

*Changes in accounting policies*

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated financial statements as were applied in the Group's latest annual audited financial statements. A number of new or amended IFRSs and IFRIC interpretations have become effective since the last annual report but none of these have had a material impact on the Group's reporting.

3. Segmental Analysis

All of the Group’s revenues in respect of the six month periods ended 30 June 2012 and 2011 derived from the design, development and marketing of software products with associated implementation and consultancy services. For management purposes, the Group is organised across two principal operating segments, which can be expressed geographically. This basis is the same as that used in the Company’s last annual financial statements. The first segment is North America, and the second EMEA (Europe, Middle East and Africa). 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 2012* |  *N America* |  | *EMEA* |  | *Total* |
|  |  *£’000* |  |  *£’000* |  |  *£’000* |
|  |  |  |  |  |  |
| External revenues  |  3,785 |  |  2,388 |  |  6,173 |
| Net profit / (loss) before tax |  (646) |  |  720 |  |  74 |
| EBITDA |  40 |  |  765 |  |  805 |
| Total assets  |  7,567 |  |  3,696 |  |  11,263 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *Six months to 30 June 2011* |  *N America* |  | *EMEA* |  | *Total* |
|  |  *£’000* |  |  *£’000* |  |  *£’000* |
|  |  |  |  |  |  |
| External revenues  |  3,087 |  |  1,599 |  |  4,686 |
| Net profit / (loss) before tax |  (601)  |  |  319  |  |  (282) |
| EBITDA |  41 |  |  345 |  |  386 |
| Total assets  |  7,160 |  |  2,749 |  |  9,909 |

## NOTES TO THE FINANCIAL STATEMENTS

4. Earnings per share

The calculation of basic earnings per ordinary share is based on a profit of £74,000 (2011: loss of £282,000) and on 145,579,027 ordinary shares (2011: 145,579,027) being the weighted average number of ordinary shares in issue during the year. The diluted earnings (2011: loss) per ordinary share for 2012 is the same as the basic earnings (2011: loss) per ordinary share, because the exercise of conversion rights attaching to the convertible loan stock would have the effect of increasing the earnings (2011: reducing the loss) per ordinary share by more than the impact of the higher number of shares. All warrants and share options to subscribe for ordinary shares either have a strike price above the average market price for the year, or have an immaterial impact.

### 5. Intangible Assets

Certain development expenditure is required to 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 £680,000 (2011: £553,000), and amortisation of £475,000 (2011: £334,000) during the period. In addition, amortisation of £51,000 (2011: £105,000) has been charged during the period against the intangible assets originally acquired with Alignent, in June 2007.

**6. Related party transactions**

The terms of the Company’s convertible loan stock were modified in the period as described in note 2. £415,000 of the Company’s loan stock is held by directors and management. 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.

**7. 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 2011. The continuing uncertainty in the global economic outlook inevitably increases the trading and balance sheet risks to which the Group is exposed. 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 condensed consolidated financial statements included in this interim report. A more detailed explanation of the risks relevant to the group is on page 21 of the annual report which is available at [www.sopheon.com](http://www.sopheon.com).

**8. Statement of Directors Responsibilities**

The Directors confirm to the best of their knowledge:

• The unaudited condensed consolidated financial statements has been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU; and

• The interim report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R of the Disclosure and Transparency Rules of the UK Financial Services Authority.

On behalf of the Board 23 August 2012

Barry Mence Andy Michuda Arif Karimjee

Chairman Chief Executive Officer Chief Financial Officer

**Introduction**

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 June 2012 which comprises the condensed consolidated income statement; condensed consolidated statement of comprehensive income; condensed consolidated statement of financial position; condensed consolidated cash flow statement; condensed consolidated statement of changes in equity; and associated notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

**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 both the London Stock Exchange for companies trading securities on the AIM, the market by that name operated by the London Stock Exchange plc (“AIM”) and Euronext Amsterdam 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 interim financial 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 both the London Stock Exchange for companies trading securities on AIM and Euronext Amsterdam 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 authorised 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 Ireland) 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 interim financial report for the six months ended 30 June 2012 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies trading securities on AIM and for the rules governing listed securities on Euronext Amsterdam.

**BDO LLP**

**Chartered Accountants & Registered Auditors, London, United Kingdom** 23 August 2012

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