



SOPHEON PLC

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

PRELIMINARY AUDITED RESULTS FOR THE YEAR TO 31 DECEMBER 2009

Sopheon plc, the international provider of software and services that improve the financial return from innovation and product development investments, announces its results for the year ended 31 December 2009 together with an outlook for the current year.

HIGHLIGHTS:

- Revenue for the year was £8.3m (2008: £9.3m and 2007: £6.3m). Full year revenue visibility for 2010 currently stands at £4.8m.
- EBITDA result for the year was a loss of £0.2m (2008: profit £1.1m).
- 48 new and extension license orders secured during the year.
- Grew our customer base to 168 licensees for our core software platforms.
- Recurring revenue base coming into 2010 held up at £3.7 million, the same as for 2009. Existing customers contributed 70% of non-recurring sales during the year.
- Maintained investment in product and marketing during the course of a very tough 2009.
- Achievements during the year include the launch of Accolade® Idea Lab™, a major new version of Accolade Vision Strategist™, and significant enhancements to the capabilities of the core Accolade Process Manager™ platform.

Barry Mence, Chairman, commented: *“2009 posed a number of difficult challenges to overcome. Having a profitable fourth quarter shows that we reacted appropriately to balancing investment with cost containment. Our current pipeline, coupled with our unique solution set and the continued maturing of our chosen market, continue to give me confidence in our quest to improve shareholder value. Whilst we continue to adopt a prudent stance, we remain excited about our recent developments, and about the year ahead.”*

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About Sopheon

Sopheon (LSE: SPE) is an international provider of software and services that help organisations improve the business impact of product innovation. Sopheon’s solutions automate and govern the innovation process, enabling companies to increase revenue and profits from new products. Sopheon’s solutions are used by industry leaders throughout the world, including BASF, Cadbury, Corning, Electrolux, Honeywell, Motorola 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.

Accolade®, *Vision Strategist™*, *Idea Lab™* and *Process Manager™* are trademarks of Sopheon.
Stage-Gate® is a trademark of the Product Development Institute.
Revenue visibility is defined in Note 5.

CHAIRMAN'S STATEMENT

INTRODUCTION

Much in line with the majority of businesses across the world, 2009 was a tough year for Sopheon with revenues of £8.3m. This compares to £9.3m in 2008, and £6.3m in 2007. After reporting growth approaching 50% the year before, this fall of 11% was clearly disappointing. The impact on our bottom line was marked, with an EBITDA loss of £0.2m compared to £1.1m profit the year before, and a loss after tax of £1.5m compared to a breakeven position for 2008. In response to these shifts in performance, we took decisive cost actions during 2009, and have reduced staffing from 105 to 85 over the year.

In our half year results for 2009 we signalled the challenging nature of the business environment, but in the latter part of the year we noted some evidence of improvement, with the potential for a good recovery in the final quarter of 2009. This proved to be the case, with 21 new and extension license orders in the fourth quarter, compared to a total of 27 for the first three quarters. In addition to the improvement in sales, the careful adjustments that we made to our cost base earlier in 2009 contributed to a positive EBITDA result for the second half of the year.

Total license transactions including extension orders were 48 in 2009 compared to 53 in 2008. We entered 2009 with a licensee base of 157 companies, and grew this to 168 by the end of the year. Total business from existing customers represented 85% of revenues in 2009 compared to 65% in 2008; this underlines the strength of our customer base and the value that our customers ascribe to their Sopheon solutions.

From a geographical standpoint, the relative importance of the US rose from 64% to 69%, with Dollar strength playing a role in the increase. Reseller partners accounted for 9% of revenues, down from 11% the year before. Accolade Vision Strategist contributed approximately 12% of total revenues during 2009 compared to 13% in 2008. Many of our customers were affected by the economic difficulties, and we did experience some terminations of maintenance and rental contracts during the year. However, when offset by new orders received, the base of recurring revenue remained steady at £3.7m coming into 2010, the same as in 2009. By comparison, we entered 2008 with recurring revenues totaling £2.6m.

At the date of this report, full-year 2010 revenue visibility incorporating booked revenue, contracted services business and the run rate of recurring contracts already stands at £4.8m. Revenue visibility is more fully defined in Note 5.

Clearly, our growth was interrupted in 2009. We believe that the fourth quarter showed positive signs of a return to better times. However, our business performance remains subject to the timing and size of relatively small number of transactions. This ongoing challenge, combined with the continuing economic uncertainties lead us to adopt a prudent stance in planning our operations.

TRADING PERFORMANCE

Sopheon's consolidated revenue in 2009 was £8.3m compared to £9.3m in 2008, a reduction of 11%. From a geographical standpoint, the fall was more pronounced in our European markets, although the reduction in US performance was offset to a degree by the relative strengthening of the US Dollar compared to Sterling. As a proportion of overall revenue, the US markets accounted for 69% in 2009 compared to 64% in 2008.

Total license transactions including extension orders were 48 in 2009 compared to 53 in 2008, a reduction of 9%. License transactions included 10 relating to the Accolade Vision Strategist solution, acquired with the Aligned business in June 2007. Overall, the former Aligned business contributed approximately 12% of total revenues during 2009 compared to 13% in 2008.

The annualised average growth of the business since the launch of Accolade is approximately 29%.

BUSINESS MIX

Overall, in 2009 our business delivered a 32:42:26 ratio of license, maintenance, service respectively compared to 45:28:27 in the prior year. The maintenance category also includes revenue derived from hosting services. In addition to the small drop in volumes year over year, the average value of each transaction fell, further contributing to the relative fall in the proportion of revenues derived from license sales. The smaller size of each transaction also impacted services revenues, which rose slightly as a proportion of total revenues, but fell in absolute terms.

An important factor in such tough economic times is the strength of customer relationships, and approximately 70% of the value of orders (excluding recurring revenues) in 2009 was derived from our existing customers. Indeed, services revenue from existing customers went up during the year from £1.3m in 2008 to £1.6m in 2009. We continue to expect that in time, services will moderate as a proportion of our total revenues by the effect of license business coming through partners, for which associated services work is unlikely to be performed by Sopheon.

Notwithstanding these strong customer relationships, some of our customers did terminate maintenance or rental contracts during the year, typically due to unprecedented internal budget pressures coupled with staff changes or merger activity. Nevertheless, thanks to the new licenses signed during the year, the base of recurring revenue has remained steady at £3.7m coming into 2010, the same as in 2009. The majority of this income is represented by maintenance services, but also includes hosting services and license rentals.

Overall gross margins have fallen to 71% (2008: 75%) which can be largely attributed to the fall in the relative proportion of license revenues. In the future, license margins may also be slightly affected by decisions to embed, rather than build, certain third party components or methods of working into our software. In 2009 we were quick to control margins in our professional services team, taking difficult decisions during the year to reduce permanent headcount in both territories, to reflect the reduction in services revenues. As and when markets pick up again, our expectation is to maintain flexibility by initially relying on subcontracted resources, prior to shifting back into recruitment of permanent staff.

RESEARCH & DEVELOPMENT EXPENDITURE

Sopheon's investment and progress in product development during the course of 2009 reflected our goal of continued leadership of our chosen markets. We launched Accolade Idea Lab in May, and completed a major new version of our Accolade Vision Strategist roadmapping software in October. We also made significant changes to our core innovation process management software. Further details of these developments can be found elsewhere in this report. Sopheon is committed to product leadership with excellence in research and development a core competency of the group; since 2001 Sopheon has maintained research and development costs above 20% of revenues. Our decision to maintain this level of investment in spite of the tough economic conditions resulted in this ratio rising to 27% of revenues in 2009, compared to 22% in 2008.

Headline research and development expenditure rose by 11% from £2m to £2.2m. The net impact on these headline amounts of capitalisation, amortisation and impairment charges associated with research and development in 2009 was to reduce the reported expenditure by £0.1m (2008: £nil) and accordingly, the apparent increase in operating terms year on year was actually £0.3m. The majority of our development resources are based in the USA and this increase can largely be attributed to the relative strength of the US Dollar; the underlying spend in dollars was relatively flat. The amount of 2008 research and development expenditure that met the criteria of IAS38 for capitalisation rose to £0.9m (2008: £0.8m).

OPERATING COSTS

Overall staff costs have increased by £0.6m. The apparent increase is entirely due to the impact of Sterling weakness against the US Dollar and the Euro; most of our staff are located outside the UK. Using constant exchange rates, staff costs actually fell by £0.4m. This can in turn be largely attributed to the fact that the majority of group's employees did not earn a bonus in 2009, due to the financial performance during the year. Average staffing levels appear constant at 99 in 2009 compared to 98 in

2008; this disguises an increase from 92 to 105 in the course of 2008, which was then reduced to 85 by the end of 2009. As noted above the majority of the reduction has been implemented in professional services. Other areas affected were sales and marketing, and product development; the former in the early part of 2009, and the latter towards the end of the year. This profile reflects our decision to maintain investment in product at high levels during 2009.

Detailed comments regarding professional services and research and development costs are noted above.

Headline distribution costs dipped slightly from £3.5m in 2008 to £3.4m in 2009. To a degree this reflects lower amortisation and impairment charges for the intangible customer assets acquired with Aligned in 2007. However, as noted before, the effect of currency exchange factors on the reported figures disguises a fall in the underlying costs in US Dollar and Euro, due primarily to lower commission payments. Average headcount in sales and marketing remained relatively constant.

Headline administration costs have risen by £0.3m. As we noted in the 2008 report, that year recorded substantial exchange gains relating to the foreign currency cash balances held in Sopheon plc, which did not recur in 2009. The apparent increase is due to the higher Sterling impact of such costs in our US and Netherlands operations. The underlying administration costs and resourcing have remained broadly constant, as they did from 2007 to 2008.

RESULTS

The combined effect of the revenue and cost performance discussed above impacted Sopheon's EBITDA performance for 2009, which was a loss of £0.2m (2008: £1.1m profit).

In common with other businesses in our sector, Sopheon measures its annual performance using EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) which the board believes provides a useful indicator of the operating performance of our business by removing the effect on earnings of tax, capital spend and financing. EBITDA is further defined and reconciled to the profit before tax in Note 4. Our calculation of EBITDA is stated after charging (i) share based payments of £0.1m (2008: £0.1m); (ii) impairment charges of acquired intangible assets of £0.2m (2008: £0.3m); and (iii) exchange losses of £31,000 (2008: £0.2m gain) but excludes depreciation and amortisation charges for the year of £1.1m (2008: £0.9m) and net finance costs of £0.2m (2008: £0.2m).

Including the effect of interest, depreciation and amortisation, the group reported a loss before tax for the year of just under £1.5m (2008: £44,000 profit). There is no tax provision in the year, compared to a charge of £15,000 for 2008 which reduced retained profit after tax to £29,000 that year. The loss per ordinary share was 1.03p (2008: 0.02p profit).

The better revenue performance in the closing months of 2009, coupled with cost adjustments made earlier in the year, led to a profitable final quarter at both EBITDA and retained profit levels.

FINANCING AND BALANCE SHEET

The effect of exchange rates on the income statement is quite different to the impact on the balance sheet. As noted above, the former is characterised by Sterling being *weaker* on average during 2009 compared to 2008, relative to the US Dollar and the Euro. The latter is characterised by Sterling being *stronger* at 31 December 2009 compared to 31 December 2008, relative to the US Dollar and the Euro.

Net assets at the end of the year stood at £2.7m (2008: £4.3m). Gross cash resources at 31 December 2009 amounted to £1.6m (2008: £2.6m). Approximately £0.8m was held in US Dollars, £0.4m in Euros and £0.4m in Sterling.

Intangible assets stood at £4.0m (2008: £4.7m) at the end of the year. This includes (i) £2.4m being the net book value of capitalized research and development (2008: £2.4m) and (ii) an additional £1.6m (2008: £2.3m) being the net book value of Aligned intangible assets acquired in 2007. The apparently constant level of the capitalized research and development, disguises an increase in the underlying US Dollar value offset by a fall in the relative value of the US Dollar compared to Sterling at the balance

sheet date. This has also caused part of the fall in carrying value of the Aligent intangibles, in addition to amortisation and impairment charges.

As part of the funding raised for the Aligent acquisition, Sopheon secured \$3.5m of medium-term debt from BlueCrest Capital Finance LLC ("BlueCrest"). The debt is being repaid in 48 equal monthly instalments, and is secured by a debenture and guarantee from Sopheon plc. Since inception through the end of 2009, \$1.9m of the medium-term debt principal has been repaid.

The group also had an additional \$750,000 revolving credit facility from BlueCrest, secured on accounts receivable. During 2009, this was renegotiated to \$1,250,000. At year end, short term borrowings connected with the group's revolving facilities were £756,000 (2008: £522,000). This represents underlying US Dollar values of \$1,220,000 (2008: \$750,000).

On 1 October 2009 the group issued £850,000 of convertible unsecured loan stock to a group of investors including key members of the Board and the senior management team. The stock is convertible into ordinary shares at a conversion price of £0.10 between 1 October 2010 and 30 September 2011, or earlier if the Company undertakes an equity issue. Any portion of the stock which is not converted will be redeemed at par on 30 September 2011. The stock carries an annual coupon rate of 8%. At any time up to 31 March 2010, investors may subscribe for an additional one third of their initial stock value, with a conversion price set at a 30% premium to the conversion price applicable to their original holding. If at any time after the date of issue of the stock and before the date of conversion, the Company undertakes a placing or other issue at a lower price than the conversion price for any outstanding stock will be adjusted to the placing price. All ordinary shares issued in relation to the stock are subject to lock-in arrangements. Fair value adjustments relating to the conversion features have resulted in the carrying value of the stock at 31 December 2009 being analyzed between host debt of £755,000 and an embedded financial derivative of £95,000.

Sopheon's equity line of credit facility with GEM Global Yield Fund Limited ("GEM") was due to expire on 23 December 2009. During the year, GEM agreed to implement a further two year extension at no cost to Sopheon, through to 23 December 2011. The facility has been used to raise working capital once, in March 2004, leaving approximately 90% of the original €10m facility available under the extended agreement. Drawings under the GEM equity line of credit are subject to conditions relating inter alia to trading volumes in Sopheon shares.

MARKETS & PRODUCTS

Our investment and progress in both product and marketing during the course of 2009 reflect our goal of continued leadership of our chosen markets. In May, we launched Accolade Idea Lab in partnership with Hype GmbH, bringing to market the first integrated solution that not only facilitates generation and development of ideas, but makes it possible to seamlessly move those ideas into product development for execution. During October, we completed a major new version of our Accolade Vision Strategist roadmapping software. Principal advances include greater ease of use, and increased support for collaboration throughout the product planning process. We have also been making significant changes to our core innovation process management software. These changes include a number of product extensions fulfilling short term market requirements that will not only benefit our existing client base but also expand our differentiation, and deepen our value proposition.

In conjunction with product advancements, we have invested in new marketing capabilities that leverage emerging channels such as social media. These new practices have the promise to fundamentally transform the way in which we identify, create and nurture relationships with existing and potential customers. We have also worked hard to improve the strength of our partner relationships through the tough economy, both at the reseller level and at the strategic level. We expect this to bear fruit in 2010.

Major analyst organisations like Forrester, Gartner and IDC continue to see traction and opportunity in our chosen market. In December 2009, Forrester noted increasing interest and investment in project and portfolio management tools for product development, and in the same month Gartner noted that software that supports product strategy and planning is gaining attention as a segment of the PLM (Product Lifecycle Management) software market. Forrester also identified Sopheon as one of the clear

market share leaders in the PPM space.

PEOPLE

One of Sopheon's proven market differentiations is the deep domain expertise our people have gained around Innovation Governance. This knowledge and experience has been created over many years from working with industry leading companies on this emerging business process. We are very proud of the commitment that our staff have shown in achieving leadership in this area, and in maintaining it through the cost adjustments implemented during the last year. We are confident that we have protected and continue to grow this very important competency in our people, while also continuing to invest in our internal best practices and our knowledge sharing programs.

Sopheon's executive management team, which has been in place for several years, consists of five members. Our CEO Andy Michuda, CFO Arif Karimjee and myself serve on the team, and also act as executive directors. Our CTO Paul Heller, and vice president of research Huub Rutten, complete the group. Executive management is complemented by a strong operational management team that leads the marketing, sales and professional services functions. The Sopheon plc board is made up of the three executive directors, augmented by three non-executive directors who bring a wealth of knowledge and experience to our business.

OUTLOOK

We entered 2009 cautiously optimistic, but with tight operational plans that made spending contingent on historic and forecasted revenue performance on a quarter-by-quarter basis. As events turned out, our caution was well founded and the second and third quarters of the year proved particularly challenging. We made immediate cost adjustments, but have been very careful to preserve our ability to fully pursue our promising sales pipeline. This remains very active, and leads us to believe that the improvements in the final quarter of 2009 are persisting. Nevertheless, in this environment it is tough to predict growth with accuracy. Accordingly we approach 2010 with the same mindset as 2009. We recognise, as before, that this approach may restrict our growth trajectory in the short term, but it will nevertheless underpin all hiring and expenditure decisions.

Strategically, we believe Sopheon's position continues to strengthen. Innovation remains a key priority at many corporations. We are the only vendor that can offer customers a total solution for governance of innovation, covering both strategy and execution, while fully integrating an ideation platform. We have 168 customers under license, with strong representation from our core target vertical markets of chemicals, food and beverage, consumer products and defense. We are also gaining footholds in the high-technology and medical device sectors. Our existing customers contributed 85% of revenues, and 70% of new orders during the year, validating the benefits of our solutions. During the year, organisations such as Novartis, PepsiCo, the U.S. Army, SABMiller, ConAgra, Bostik and Bell Helicopter extended their investment in Sopheon's products.

Sales cycles continue to be extended, with an increased number of approvals required to get each transaction concluded. However, revenue visibility for 2010 already stands at £4.8m and our sales pipeline remains resilient. Our final quarter of last year saw a return to decent levels of business, and was profitable. Accordingly, while we continue to adopt a prudent stance, we remain excited about our recent developments, and about our future.

Barry Mence
CHAIRMAN

24 March 2010

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

	<i>2009</i> <i>£'000</i>	<i>2008</i> <i>£'000</i>
Revenue	8,260	9,304
Cost of sales	<u>(2,384)</u>	<u>(2,304)</u>
Gross profit	5,876	7,000
Sales and marketing expense	(3,379)	(3,516)
Research and development expense	(2,210)	(1,995)
Administrative expense	<u>(1,560)</u>	<u>(1,289)</u>
Operating (loss)/ profit	(1,273)	200
Finance income	19	55
Finance expense	<u>(240)</u>	<u>(211)</u>
(Loss) / profit before tax	(1,494)	44
Income tax expense	-	(15)
(Loss) / profit for the year	<u>(1,494)</u>	<u>29</u>
(Loss) / earnings per share - basic and diluted	(1.03p)	0.02p

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009**

	<i>2009</i> <i>£'000</i>	<i>2008</i> <i>£'000</i>
(Loss)/profit for the period	(1,494)	29
Other comprehensive income		
Exchange differences on translation of foreign operations	<u>(206)</u>	<u>778</u>
Total comprehensive (loss)/income for the year	<u>(1,700)</u>	<u>807</u>

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2009

	2008 £'000	2008 £'000
<i>Assets</i>		
Non-current assets		
Property, plant and equipment	151	235
Intangible assets	3,993	4,706
Non-current receivables	12	12
	4,156	4,953
Current assets		
Trade and other receivables	2,905	3,568
Cash and cash equivalents	1,624	2,586
	4,529	6,154
Total assets	8,685	11,107
<i>Liabilities</i>		
Current liabilities		
Short term borrowings	1,340	1,080
Deferred revenue	2,250	2,648
Trade and other payables	1,188	2,006
	4,778	5,734
Non-current liabilities		
Borrowings	1,222	1,105
Total liabilities	6,000	6,839
Net assets	2,685	4,268
<i>Equity</i>		
Share capital	7,279	7,279
Other reserves	73,633	73,627
Profit and loss account and translation reserve	(78,227)	(76,638)
Total equity	2,685	4,268

**CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR
ENDED 31 DECEMBER 2009**

	<i>2009</i> <i>£'000</i>	<i>2008</i> <i>£'000</i>
Operating Activities		
(Loss) / profit before and after taxation	(1,494)	29
Adjustments for non-cash and financial items	1,596	1,551
Movements in working capital	(404)	143
	<hr/>	<hr/>
Net cash (used in) / generated from operating activities	(302)	1,723
Investing Activities		
Finance income	19	55
Purchases of property, plant and equipment	(48)	(85)
Development costs capitalized	(945)	(797)
	<hr/>	<hr/>
Net cash used in investing activities	(974)	(827)
Financing Activities		
Proceeds from borrowings	850	-
Repayment of borrowings	(545)	(469)
Increase in lines of credit	301	-
Finance expense	(240)	(211)
	<hr/>	<hr/>
Net cash generated from / (used in) financing activities	366	(680)
	<hr/>	<hr/>
Net (decrease) / increase in cash and cash equivalents	(910)	216

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED
31 DECEMBER 2009**

	<i>Share Capital £'000</i>	<i>Capital Reserves £'000</i>	<i>Translation Reserve £'000</i>	<i>Retained Losses £'000</i>	<i>Total £'000</i>
At 1 January 2008	7,729	73,499	(191)	(77,277)	3,310
Total comprehensive income for the year	-	-	778	29	807
Share based payments	-	128	-	23	151
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2009	7,279	73,627	587	(77,225)	4,268
Total comprehensive income for the year	-	-	(206)	(1,494)	(1,700)
Share based payments	-	6	-	111	117
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2009	7,279	73,633	381	(78,608)	2,685

The translation reserve represents accumulated differences on the translation of assets and liabilities of foreign operations. Retained losses represent accumulated trading losses, including amortisation and impairment charges in respect of goodwill and intangible assets arising from past acquisitions. Capital reserves represent share premium, merger reserve, capital redemption reserve and share options reserve.

NOTES

1. Basis of preparation

The financial information set out in this document does not constitute the company's statutory accounts for 2008 or 2009. Statutory accounts for the years ended 31 December 2009 and 31 December 2008 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for 2008 was unqualified, but consistent with prior years, has drawn attention to an emphasis of matter due to the uncertainty over going concern, and did not contain a statement under 237(2) or 237(3) of the Companies Act 1985. The Independent Auditor's Report on the Annual Report and Financial Statements for 2009 was unqualified, but consistent with prior years, has drawn attention to an emphasis of matter due to the uncertainty over going concern 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 2008 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2009 will be delivered to the Registrar in due course and will be posted to shareholders shortly and thereafter will be available from the Company's registered office at 40 Occam Road, Surrey Research Park, Guildford, Surrey, GU2 7YG and from the Company's website www.sopheon.com.

The financial information set out in these preliminary 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 preliminary 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 2009. Other than as indicated below, the principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the period ended 31 December 2008. The group has adopted the following new standards, which have had an impact on the financial statements:

- *Amendments to IAS 1: Presentation of Financial Statements: A Revised Presentation.*

As a result of the application of this amendment the group has elected to present an income statement and a statement of comprehensive income. In addition, a statement of changes in equity is now presented as a primary statement where previously the information was included in a note. The Amendment does not change the recognition or measurement of transactions and balances in the financial statements.

- *Adoption of IFRS 8: Operating Segments.*

The group has adopted IFRS 8 as a mandatory requirement that requires the group to adopt a 'management approach' in the identification of its operating segments and its reporting on their financial performance in the consolidated financial statements. The group now presents segmented information in respect of two geographical areas, North America and Europe, Middle East and Africa (EMEA). Previously segmented information was presented in respect of three geographical areas, North America, United Kingdom and Europe.

Other 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.

NOTES

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 and have considered both the forecast performance for the next 12 months and the cash and financing facilities available to the group.

During 2009, the group achieved revenues of £8.3m and incurred a loss of £1.5m. This represents a weaker performance than for the previous year, which the directors believe was caused primarily by delays in closing new sales, due to the ongoing weakness in global economic conditions. The Group's sales pipeline remains very active, and accordingly, the directors remain positive about the prospects for the business. However, the time-to-close and the order value of individual sales can vary considerably, factors which constrain the ability to accurately predict short term revenue performance. The weakness in global economic conditions is also likely to result in customers taking longer to pay amounts owed to the group.

The Group has a loan note from BlueCrest Capital Finance ("BlueCrest") which is repayable in equal monthly instalments of \$91,000 through July 2011. The balance remaining due on the note at 31 December 2009 was \$1.6m. The Group also has access to a revolving line of credit with BlueCrest which is secured against the trade receivables of Sopheon's North American business. This was renewed for an additional 12 month period through 30 June 2010, and as part of this renewal, the facility limit was increased from \$750,000 to \$1,250,000. At 31 December 2009, \$1,220,000 (£756,000) was drawn against this revolving facility. In addition, during the year the group secured a convertible loan for £850,000, repayable or convertible by 30 September 2011. At 31 December 2009, the Group reported net assets of £2.7m and gross cash resources of £1.6m.

In addition to funding activities, during 2009 the directors implemented several actions to reduce costs, leading to a lower cost base in 2010. However, if sales fall short of expectations, or if the Group's existing facilities prove insufficient, the Group may need to raise additional finance. The Group continues to have access to the debt and equity markets, and the directors have demonstrated the ability to raise funds during the previous year. In addition, the Group has access to an equity line of credit facility from GEM Global Yield Fund Limited ("GEM") for an aggregate of €10m, the current term of which expires in December 2011. GEM's obligation to subscribe for shares is subject to certain conditions linked to the prevailing trading volumes and prices of Sopheon shares on the Euronext stock exchange. To date Sopheon has made one call on the equity line of credit facility in March 2004, leaving a maximum €9m potentially available.

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

3. Revenue

All of the Group's revenue in respect of the years ended 31 December 2009 and 2008 derived from continuing operations and from the design, development and marketing of software products with associated implementation and consultancy services.

4. EBITDA

The directors consider that EBITDA, which is defined as (loss)/earnings before interest, tax, depreciation and amortisation, is an important measure, since it is widely used by the investment community. It is calculated by adding back depreciation and amortisation charges amounting to £1,078,000 (2008: £920,000) to the operating loss of £1,273,000 (2008: profit of £200,000).

NOTES

5. Revenue visibility.

Another performance indicator used by the group and referred to in narrative descriptions of the group's performance is revenue visibility. At any point in time it comprises revenue expected from (i) closed license orders, including those which are contracted but conditional on acceptance decisions scheduled later in the year; (ii) contracted services business delivered or expected to be delivered in the year; and (iii) recurring maintenance, hosting and rental streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of the year.

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 £117,000 (2008: £151,000).

7. Income Tax

At 31 December 2009, tax losses estimated at £65 million were available to carry forward by the Sopheon Group, arising from historic losses incurred. An aggregate £20 million of these losses are subject to restriction under section 392 of the US Internal Revenue Code due to historical changes of ownership. Notwithstanding the availability of tax losses, Alternative Minimum Tax ("AMT") was payable on the profits of our US subsidiaries arising in 2008. For AMT purposes, the offset of prior year tax losses is restricted to 90% of current year taxable profits, with AMT chargeable on the remainder at a rate of 20%.

8. Earnings per Share

The calculation of basic loss per ordinary share is based on a loss of £1,494,000 (2008: profit of £29,000), and on 145,579,000 (2008: 145,579,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year. The effect of all potential ordinary shares is anti-dilutive.

9. Intangible Assets

In accordance with *IAS 38 Intangible Assets*, certain development expenditure must be capitalised and amortised based on detailed technical criteria, rather than automatically charging such costs in the income statement as they arise. This has led to the capitalisation of £945,000 (2008: £797,000), and amortisation of £642,000 (2008: £459,000) during the year. A further £327,000 (2008: £365,000) of amortisation was incurred during the year relating to intangible assets acquired with Alignent. In addition, during 2009 and 2008 the recurring income from the acquired Alignent customer base reduced, due to a mix of factors including the conversion of certain rental licenses to perpetual, changes in rental levels, and cancellations. The overall reduction exceeded the rate of attrition of such recurring income estimated in the original valuation exercise, leading to impairments in the carrying value of the acquired Alignent intangible assets of £180,000 (2008: £324,000).

10. Cautionary Statement

Sopheon has made forward-looking statements in this press release, including statements about the market for and benefits of its products and services; financial results; product development plans; the potential benefits of business relationships with third parties and business strategies. These statements about future events are subject to risks and uncertainties that could cause Sopheon's actual results to differ materially from those that might be inferred from the forward-looking statements. Sopheon can make no assurance that any forward-looking statements will prove correct.