SOPHEON PLC

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

Preliminary Audited Results For The Year To 31 December 2007

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 2007 together with an outlook for the current year. Sopheon shares are traded on AIM in London and on Euronext Amsterdam.

HIGHLIGHTS:

- Revenue for the year was £6.3m (2006: £6.0m) and the EBITDA result for the year was a profit of £113,000 (2006: £33,000). Our US business grew strongly, offset by a reduction in Europe. The declining value of the US dollar weighed on reported revenues. Two of the major orders deferred from the end of 2007 have now been signed, with the others remaining under negotiation. Full year revenue visibility for 2008 already stands above £4m.
- In June we acquired Alignent Software Inc ("Alignent"). The acquisition and ongoing working capital needs were financed through a combination of debt and equity funding. The Alignent Vision Strategist software extends Sopheon's solution upstream to encompass strategic product planning, and also brings immediate market credibility in the aerospace, defense and high-tech markets with customers including Boeing, BAE Systems, Honeywell, Lockheed Martin, and Motorola.
- We closed 47 new license orders and extensions during the year, and broke through our internal goal of 100 customers for our core software platforms. Including new customers secured through the acquisition of Alignent, by year end we had 135 licensees. Our recurring revenue base coming into 2008 was £2.6m compared to £1.7m at the start of 2007.
- We have introduced the most significant new release of Accolade in six years, offering functionality that positions the product for the heavy manufacturing markets. The combination of Accolade and Vision Strategist is the first in the industry to integrate and synchronize product planning and product development execution. AMR Research recently identified Sopheon as the most mature product portfolio management offering in the market today.

Barry Mence, Chairman, commented: *"We had expected a stronger finish to 2007, but continue to anticipate substantial growth in our business and are pleased to maintain positive EBITDA. The acquisition of Alignent has bedded down well and has improved our strategic position. We have a great platform to build from, and continue to drive forward with determination and confidence."*

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About Sopheon

Sopheon (LSE: SPE) is an international provider of software and services that help organizations 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 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.

Stage-Gate® is a registered trademark of the Product Development Institute.

CHAIRMAN'S STATEMENT

INTRODUCTION

2007 was a year of steady progress in our core operations. However, as the year came to a close, a number of expected, significant transactions were deferred into 2008. As a result, our revenue performance for the year shows modest growth. Despite our disappointment over this outcome, we continue to anticipate substantial expansion in our business. Of the six major transactions that we expected to close in 2007 but were deferred, two have now been signed, three remain in negotiations and one has concluded a small initial order. Full-year 2008 revenue visibility incorporating booked revenue, contracted services business and the run rate of recurring contracts, already stands above £4m. We were able to maintain positive EBITDA for the year, even though we raised the level of investment in R&D and built out our customer services operations. We also completed an acquisition - funded largely by debt - which we believe is already having a major strategic impact on our business. License sales and extensions continued to grow in quantity, with 47 transactions compared to 36 the year before, and ended the year with a licensee base of 135 companies. Our recurring revenue base coming into 2008 was £2.6m, 50% higher than at the start of 2007.

The acquisition of Alignent will help drive expansion of Sopheon's business in two areas. First, Alignent's Vision Strategist ("VS") software has extended Sopheon's solution upstream from our existing position to include strategic product planning. Second, Alignent's roster of industry-leading customers has brought Sopheon instant credibility in a range of new markets, including aerospace, defense and high-tech. Integration of the acquisition has gone very smoothly, with people, facilities, and resources successfully consolidated in the third quarter, and we closed six new sales of VS by year end and also converted the vast majority of recurring contracts that came due for renewal in the period.

In parallel with commercial activities, we have continued to invest heavily in product development. During 2007 our development team released two new versions of VS to the market, including features which integrate the software to our core Accolade software. In addition, we have just introduced the most significant new release of Accolade since it was first introduced more than six years ago. This new version of Accolade offers new functionality that positions the product beyond our historical process manufacturing markets, and into the large aerospace, defence and automobile sectors which we are now entering. The combination of Accolade and VS is the first in the industry to integrate product planning and product development execution.

We previously reported having established affiliate or reseller relationships with organizations in Germany, Australia, New Zealand, Portugal, France and, most recently, the United Kingdom. We continue to invest in the development of these partners with the expectation that their contribution to Sopheon's sales and financial performance will increase. The volume of sales generated by our reseller channel did not meet our expectations; however, the number and quality of opportunities in the channel's sales funnel improved substantially.

In 2007, we were encouraged by the increase in commercial activity generated through our consulting partners. This facet of our partner ecosystem continues to grow in strength and contribution. Consulting partners that have been engaged in commercial discussions include Hewlett Packard, Arthur D Little, Deloitte, Kalypso and PRTM, as well as Robert Cooper and Stage-Gate Incorporated.

TRADING PERFORMANCE

Sopheon's consolidated turnover grew to £6.3m (2006: £6.0m). As in the prior year, the declining value of the US dollar has continued to weigh on reported performance. In dollar terms, revenues were \$12.7m compared to \$11.2m in 2006. The Alignent business acquired in June 2007 contributed \$1.2m to this increase. Augmented by orders for the Alignent product, total license transactions including extension orders rose from a total of 36 in 2006 to 47 in 2007. From a geographical standpoint, revenues for our US business increased by approximately 50%, however this was offset by a reduction in Europe. In 2006 our European business closed an unusually high value order which contributed $2 million in revenues during that year.

The geographical pattern of our revenues shifts from year to year, with the US delivering greater revenues in 2005 and 2007, and Europe greater revenues in 2004 and 2006. This does not in our view reflect a particular trend of growth in one region or another, but simply illustrates the substantial impact that the timing of a small number of orders can have, an impact which is magnified for the results of a particular region.

Although the level of revenue growth in 2007 was clearly disappointing, annualized average growth of the business since the launch of Accolade seven years ago is approximately 40% in US dollar terms. Although we look forward to consistently strong underlying growth in our business, we believe that our performance in any particular period will remain relatively unpredictable for some time to come. This is a function of continued variation both in sales cycle times and transaction values.

BUSINESS MIX

Overall, in 2007 our business delivered a 34:29:37 ratio of license, maintenance, service respectively compared to 37:25:38 in the prior year. We believe that the proportion of license revenues will rise in 2008, assisted in part by the effect of the transactions that were deferred from the end of 2007.

We expect our consulting revenues to continue to grow well and to provide a source of stability and maturity to our business. Our 2007 implementations consistently met or exceeded customer expectations, as rated by the client executive who invested in Accolade. Alongside this achievement, we delivered £1.2m (2006: £0.6m) of services to existing customers that required additional configuration and consultancy work. Whilst we are very proud of the achievements of our services organization, we believe 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.

Recurring income has grown to £2.6m coming into 2008, compared to £1.7m a year before. The majority of this income is represented by maintenance services, but also includes hosting services and license rentals. Approximately half of our year-on-year growth can be attributed to license rental income from Alignent customers that subscribe to our software on a rental basis, as opposed to having purchased a perpetual license which is the traditional Sopheon model.

Overall gross margins have held fairly steady at 73% (2006: 72%).

RESEARCH & DEVELOPMENT EXPENDITURE

During 2007, our R&D effort focused on two primary areas. First, we invested in two new releases of the former Alignent's Vision Strategist product planning software, including the incorporation of portfolio management capabilities derived from our core Accolade product. This development is generating considerable interest from the existing Vision Strategist client base. Second, our product development organization completed the coding for the most significant new version of Accolade release in Sopheon's history, This new version of the offering will extend our value not only to the process manufacturing markets we have historically targeted, but also to the large aerospace, defence and automobile sectors which we are now entering. Market roll-out of Accolade version 7.0 has begun in the first quarter of 2008, starting with release of the new software to our existing customers.

We had planned a material expansion of our product development team during the course of 2007 in connection with the anticipated completion of Accolade 7.0, and this was further extended by the acquisition of Alignent. Accordingly, during the year we increased this team from a staff of 16 to 29, underlining Sopheon's commitment to product leadership. Ignoring the effect of the capitalization and amortization of such costs, total R&D expenditure increased by over £0.3m compared to the previous year. As a result of the above, £0.8m (2006: £0.5m) of our 2007 R&D expenditure met the criteria of IAS38 for capitalization.

OPERATING COSTS & RESULTS

Overall staff costs have increased by approximately £0.6m, due largely to an increase in headcount over the course of the year from 65 to 92, of which 10 can be attributed to the acquisition of Alignent in June. The financial effect of this increased headcount was mitigated by three factors: (i) the increasing weakness of the US Dollar reducing the reported cost of the additional staff that were taken on in America; (ii) a reduced bonus was earned by the group's employees in 2007; and (iii) a greater proportion of customer services work performed by our own staff rather than by subcontractors. The services staff expanded from 18 to 25 during the course of the year.

Distribution costs are higher than the previous year, reflecting both the additional staff afforded by the acquisition of Alignent and approximately £0.1m of amortization of intangible assets acquired with Alignent. Administration costs increased by £0.2m, and much of this increase can be attributed to increases in share-based compensation and depreciation of assets acquired with Alignent, as well as £0.1m of provisions against investments and loans to the group's reseller partners. Sopheon operates a conservative policy with regard to the recoverability of such investments.

We achieved a consolidated EBITDA profit of £0.1m (2006: £0.03m). This total reflects a deduction of share based payments of £0.1m (2006: £0.1m) but excludes depreciation and amortization charges of £0.5m (2006: £0.3m) for the year and net interest costs of £0.1m (2006: £0.0m). In common with other businesses in our sector, Sopheon measures its annual performance using EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) 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 in Note 7. Including the effect of interest, depreciation and amortization, the retained loss for the year was £0.4m (2006: £0.3m) and the loss per ordinary share was 0.3p (2006: 0.2p).

ACQUISITION

On 11 June 2007 Sopheon announced the acquisition of Alignent Software Inc ("Alignent"). Based in California, USA, Alignent is one of only a few suppliers worldwide that specializes in the provision of strategic product and technology roadmapping software for complex global companies.

The maximum consideration for the acquisition was $5.50m, comprising $4.75m initially upon closing, and a further $0.75m in potential earn-out payments. The earn-out objectives were linked to aggressive targets for sales performance in the second half of 2007, which were not achieved. Accordingly, no earn-out payment is due. The initial consideration was reduced by the book value of net liabilities of Alignent assumed at the closing, which amounted to $1m. Accordingly, the initial cash consideration was $3.75m. In addition, Sopheon incurred transaction expenses for the acquisition of approximately $0.2m. The cash consideration, transaction expenses and working capital for the combined group were funded by (i) $3.5m of new medium-term debt as described below and (ii) raising £2.1m (before expenses) by the placing of 12,000,000 new Sopheon ordinary shares at 17.5p per share.

International Financial Reporting Standard 3 "Business Combinations" requires that the fair value of assets and liabilities acquired, including intangible assets, should be measured at the date of acquisition. International Accounting Standard 38 "Intangible Assets" requires that intangible assets acquired as part of a business combination should be separately recognised if the asset meet certain criteria. Accordingly, technology and customer relationships acquired as part of the Alignent acquisition were valued at $4m (£2m) upon acquisition and are included in Sopheon's balance sheet at 31 December 2007. These assets are being amortized over four and eight years respectively. In addition, Sopheon has recognized $1m (£0.5m) of residual goodwill, which is also included as an intangible asset at 31 December 2007.

FINANCING AND BALANCE SHEET

Net assets at the end of the year stood at £3.3m (2006: £1.6m) and include £3.7m (2006: £0.8m) of intangible assets. This includes £1.4m being the net book value of capitalized research and development (2006: £0.8m) and an additional £2.3m (2006: £nil) being the net book value of Alignent intangible assets and goodwill as further detailed in Note 8.

As part of the funding raised for the Alignent 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. BlueCrest also offered the enlarged group an additional $750,000 revolving credit facility secured on accounts receivable, which has replaced the $1m facility previously in place with Silicon Valley Bank.

Gross cash resources at 31 December 2007 amounted to £2.1m (2006: £1.0m). Short term borrowings connected with the group’s revolving facilities amounted to £0.4m (2006: £0.4m). A surge of sales at the end of 2006, which did not recur at the end of 2007, resulted in trade and other receivables reducing from £2.5m to £2.3m year on year.

CORPORATE

In June 2006, Sopheon filed a certification with the US Securities and Exchange Commission (“SEC”) on Form 15, to immediately suspend its duty to file reports under the Securities Act of 1934. This has saved us filing costs. However, the acquisition of Alignent could have required Sopheon to resume SEC reporting, unless it terminated its registration. Accordingly, pursuant to recently adopted Rule 12h-6(i) of the Exchange Act, on 28 December 2007 we filed a certification with the SEC on Form 15F, in order to effect such termination. Sopheon’s ordinary shares are not traded on any US Stock Exchange, and this change will have no effect on the trading of Sopheon’s shares on AIM or Euronext.

During 2007 we agreed terms to extend Sopheon’s equity line of credit facility with GEM Global Yield Fund Limited (“GEM”) for a further two year period through to 23 December 2009. GEM agreed to implement this extension at no cost to Sopheon. 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

Companies are challenged to bring new innovative products to market that will offer them sustainable profitable growth. More than half of today’s corporate executives are dissatisfied with the business return their organizations receive from R&D investments. Often those investments are undercut by poor execution. Recent studies show that, on average, corporations fail to implement 35 percent of their strategic initiatives. An estimated 65 percent of companies also struggle to keep product portfolios and development activity aligned with corporate strategic plans. A root cause of these issues is the fact that in most organizations, product planning and product development execution are independent, complex processes. What’s more, they are typically carried out by multiple, geographically dispersed teams and functions, with little emphasis on making sure that innovation projects fit the business’ long-term strategies.

Sopheon’s software synchronizes corporate strategic product plans with the execution of new product development, commercialization and management. Our solutions are the first in the industry to address and successfully resolve the synchronization challenge.

Sopheon has two principal offerings. Its Accolade® solution is a modular software system specifically designed to increase work efficiency and improve decision-making in the development and management of new products. Accolade provides a central repository for storing and managing data and information on all types of product innovation projects across the organization. This centralization, augmented by easy access to the stored data, enables executives and product development teams to make quicker, more informed decisions. Accolade also automates the management of the product life cycle, allowing the user to track the business opportunities and risks associated with products from their inception as ideas to their retirement from the marketplace.

Sopheon's other principal offering, Vision Strategist^tm, automates and manages the customer's strategic product planning process. Acquired in mid-2007 as part of Sopheon's purchase of Alignent Software, the solution helps companies reduce the uncertainty and risks associated with making portfolio decisions by allowing them to visualize the likely impact of external market factors on innovation plans. Roadmaps created by the VS system can be used to project and analyze the future of everything from products, markets and technologies to the competitive landscape. The software simplifies the complex task of product roadmapping and improves long-term decisions on innovation projects.

The integration of Accolade and Vision Strategist creates the only comprehensive strategic product planning and innovation process support solution in the marketplace. The offering is the first to tie product, market and technology roadmapping directly to the operational aspects of product development.

PEOPLE

Our ability to deliver value to our customers is a testament to Sopheon people in all parts of our company, many of whom have been working tirelessly for several years to build the business we have today. I thank them for their continuing contribution to our growing success.

Sopheon's executive management team has also been in place for several years, comprised of our CEO Andy Michuda, CFO Arif Karimjee Paul Heller our CTO, Huub Rutten our head of research, and myself. The Sopheon plc board is made up of three executive directors, augmented by three non-executive directors who bring a wealth of knowledge and experience to our business.

In order to help accelerate our growth transition, we have taken steps to fortify our senior-management team in the USA. During the second quarter we added executive leaders for our North American sales and client services organizations. Each brings considerable experience from Lawson Software and Oracle respectively.

OUTLOOK

Sopheon has built a strong stable of 135 licensed customers spread across the key vertical markets that we have chosen to address. Our results for 2007 demonstrate how our customer base is leading to rising levels of repeat business and recurring revenues, which are providing, at last, an element of the predictability which has proved so elusive for us. Initial indications are that our newly released Accolade 7.0, further enhanced by the opportunity to integrate with Vision Strategist, is being received well by the market. We believe this will further underpin growth and solidify our leadership position. It is very gratifying to have our solution recognized by members of the analyst community not just as a best of breed offering, but now as the most mature.

This growing reputation coupled with the increasing recognition of the importance of our chosen market, is leading to more competition from major enterprise software vendors as well as new entrants. Staying on top of this fast changing competitive landscape is challenging for a company our size, which is why we continue to invest in expanding our partnership and reseller network. Our successful ongoing business at General Motors, delivered alongside Hewlett Packard, is just one example of the partner model we are working to develop.

We remain alert to potential shifts in buying patterns caused by the increasingly turbulent financial environment, and are aware that this could have an impact on our business. However, when appropriate, we do emphasize the benefits that our solutions can bring to organizations facing both financial and competitive pressures.

The backdrop set out above, together with the pipeline of business built up in the later stages of 2007, lead us to expect a good start to the current year, reinforced by the fact that revenue visibility already stands above £4m. This will contribute to getting us back on track for more significant growth and an improved performance for the full year of 2008. We look forward with optimism to the challenges and potential rewards ahead.

Barry Mence **27 March 2008**
CHAIRMAN

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 *£'000*	*2006* *£'000*
Turnover – continuing activities	**6,332**	**6,045**
Cost of sales	(1,703)	(1,690)
Gross profit	**4,629**	**4,355**
Distribution costs	(2,523)	(2,401)
Research and development expenses	(1,027)	(1,028)
Other administrative expenses	(1,462)	(1,232)
Total Administrative costs	2,489	2,260
Operating loss	**(383)**	**(306)**
Investment revenue	70	39
Finance costs	(130)	(36)
Loss on ordinary activities before taxation	**(443)**	**(303)**
Retained loss for the year	**(443)**	**(303)**
Loss per share - basic and diluted	(0.3p)	(0.2p)
EBITDA	**113**	**33**

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 *£'000*	*2006* *£'000*
Exchange difference on translation of foreign operations	(27)	(133)
Net expense recognised directly in equity	**(27)**	**(133)**
Loss for the financial year	(443)	(303)
Total recognised income and expense for the year (all attributable to equity holders of the parent company)	**(470)**	**(436)**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2007

	2007 *£'000*	*2006* *£'000*
Non-current assets		
Property, plant and equipment	182	110
Intangible assets	3,725	848
Non-current receivables	10	10
	3,917	**968**
Current assets		
Trade and other receivables	2,221	2,484
Cash and cash equivalents	2,053	1,034
	4,274	**3,518**
Total assets	**8,191**	**4,486**
Current liabilities		
Short term borrowings	755	414
Trade and other payables	2,934	2,452
	3,689	**2,866**
Non-current liabilities		
Bank loans	1,192	-
Total liabilities	**4,881**	**2,866**
Net assets	**3,310**	**1,620**
Equity and reserves		
Share capital	7,279	6,679
Other reserves	73,499	72,827
Profit and loss account and translation reserve	(77,468)	(77,886)
Total equity (all attributable to equity holders of the parent company)	**3,310**	**1,620**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 *£'000*	*2006* *£'000*
Loss for the year	**(443)**	**(303)**
Adjustments for non-cash and similar items	661	397
Movements in working capital	24	(596)
Net cash outflow from operating activities	**242**	**(502)**
Investing activities	(2,687)	(510)
Financing activities	3,452	95
Increase/(Decrease) in cash and cash equivalents	**1,007**	**(917)**

NOTES

1. Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board as adopted by the European Union and those parts of the Companies Act 1985 which apply to companies preparing their financial statements under IFRS. Accounting policies have been applied consistently to all the years presented, and on the going concern basis.

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.

In 2007, the group achieved revenues of £6.3m and generated a loss of £443,000. The directors are positive about the direction, focus and momentum of the business and believe that the group's existing resources and facilities described below provide it with adequate funding to support its activities through to the point at which they anticipate that operations will become cash generative on a sustained basis. This is however dependent on the group delivering an adequate level of sales. Furthermore, the time-to-close and the order value of individual sales can vary considerably, factors which constrain the ability to accurately predict revenue performance.

At 31 December 2007, the group reported net assets of £3.3 million and gross cash resources of £2.0 million. The group has a £1.8 million loan note from BlueCrest Capital Finance ("BlueCrest") which is repayable in equal instalments of £45,000 through July 2011. The group also has access to a bank line of credit with BlueCrest which is secured against the trade receivables of Sopheon's North American business.

If sales fall short of expectations, the group may need to raise additional finance. Sopheon continues to have access to the equity markets, as demonstrated by the placing in June 2007 in London of 12 million shares to raise £2 million after expenses. In addition, the group has access to an equity line of credit facility from GEM Global Yield Fund Limited ("GEM") for an aggregate of €10 million for a term, the expiry date of which was recently extended until December 2009. 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, raising just under €1 million in March 2004, leaving a maximum €9 million potentially available.

The directors believe that taken as a whole, the factors described above enable the group to continue as a going concern for the foreseeable future. The financial information does not include the adjustments that would be required if the company or group were unable to continue as a going concern.

3. Annual Report
The abridged financial information set out herein has been extracted from financial statements approved by the directors on 26 March 2008, and which will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have issued an unqualified audit report, but consistent with prior years, have drawn attention to the uncertainty over going concern. This financial information does not constitute statutory accounts as defined in section 240 of the Companies Act 1985 and has been prepared on the basis of the accounting policies set out in the financial statements for the year ended 31 December 2007. The Annual Report and Financial Statements 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.

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4. Principal Accounting Policies

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company ("subsidiaries"). Control is achieved where the company has the power to govern the financial and operating policies of an entity and to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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 products are recognized on delivery, and when no significant vendor obligations remain. Revenues relating to maintenance 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 milestone based or long term contracts, recognized 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.

Leases
Assets held under finance leases are recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the net present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss. Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

Retirement benefit costs
Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. The group does not operate any defined benefit retirement benefit plans.

Treatment of foreign currencies for consolidation
For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in sterling using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period. Exchange differences arising (including exchange differences on intra-group loans) are classified as equity and transferred to the group's translation reserve. Such translation differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Deferred taxation
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, but deferred tax assets are recognized only to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. 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

4. Principal Accounting Policies (continued)

Property, plant and equipment
Computer equipment and fixtures and fittings are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the costs of assets over their estimated useful lives, using the straight-line method. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, when shorter, over the term of the relevant lease. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets - research and development expenditure
Development expenditure on internally developed software products is capitalised 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

Capitalised development costs are amortized over the period over which the group expects to benefit from selling the product developed. Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

Share based payments
The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. Fair value is measured by the binomial option-pricing model. The expected life used in the model had been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the entity being acquired, together with any costs directly attributable to the business combination. The results of the acquired entities are included in the consolidated income statement from the date on which effective control is obtained. The identifiable assets, liabilities and contingent liabilities of the entity being acquired that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognized at their fair values of the date of acquisition.

Identifiable intangible assets are capitalised at fair value as at the date of acquisition. The useful lives of these intangible assets are assessed and amortisation is charged on a straight-line basis, with the expense taken to the income statement. Intangible assets are tested for impairment when a trigger event occurs. Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis.

NOTES

5. Turnover
All of the Group's revenue in respect of the years ended 31 December 2007 and 2006 derived from continuing operations and from the Group's single business segment, the design, development and marketing of software products with associated implementation and consultancy services.

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 value being charged to the profit and loss account over the expected vesting period and leading to a charge of £105,000 (2006: £62,000).

7. Earnings per share and EBITDA
The calculation of basic loss per ordinary share is based on a loss of £443,000 (2006: £303,000), and on 140,286,000 (2006: 133,441,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year. The effect of all potential ordinary shares is antidilutive.

EBITDA is defined as earnings before interest, tax, depreciation and amortization and can be arrived at by adding back depreciation and amortization charges amounting to £496,000 (2006: £338,000) to the operating loss of £383,000 (2006: £306,000).

8. Acquisition of Alignent

	£'000
Net Assets acquired	
Property, plant and equipment	86
Intangible assets	2,012
Net working capital and deferred income	(632)
	1,466
Goodwill	493
Cost of acquisition	1,959
Comprising	
Cash consideration	1,852
Costs of transaction	107
	1,959

Included in intangible assets is the fair value of technology and customer relationships arising upon acquisition, estimated at £700,000 and £1,312,000 respectively.

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 profit and loss account as they arise. This has led to the capitalization of £785,000 (2006: £495,000), and amortization of £233,000 (2006: £305,000) during the year. In addition as noted above the acquisition of Alignent resulted in the recognition of a further £2,505,000 of intangible assets and goodwill, and £169,000 of amortization during the year.

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