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SOPHEON PLC

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

PRELIMINARY AUDITED RESULTS FOR THE YEAR TO 31 DECEMBER 2008

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 2008 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 £9.3m (2007: £6.3m). All territories grew strongly and the Vision Strategist solution acquired with Alignent contributed 13% of revenues. Full year revenue visibility for 2009 already stands at £5.4m.
- The EBITDA result for the year was a profit of £1.1m (2007: £113,000). The Group generated a maiden profit before tax of £44,000 (2007: loss of £443,000).
- We closed 53 new license orders and extensions during the year, and grew our customer base to 157 licensees for our core software platforms. Our recurring revenue base coming into 2009 was £3.7 million compared to £2.6 million at the start of 2008. Existing customers contributed over 60% of revenue for the second year in a row.
- The combination of Accolade and Vision Strategist is the first in the industry to integrate and synchronise product planning and product development execution. Four product releases were completed during the year, two for each product. Sopheon can now bring immediate value to recession-plagued companies that need to reduce costs, without undercutting their prospects for long-term growth.

Barry Mence, Chairman, commented: *“We are very proud to deliver such material progress in 2008. Our solutions are ideally placed to support major companies in their efforts to maintain strategic investment in innovation, while containing costs during these turbulent times. However, that same market turbulence makes it hard to predict our own business development in 2009 and we will adopt a cautious stance with respect to our own cost base.”*

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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 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.

Revenue visibility is defined in Note 4.

CHAIRMAN'S STATEMENT

INTRODUCTION

Sopheon delivered a landmark performance in 2008. We are delighted to report revenues that grew from £6.3m to £9.3m, an EBITDA of £1.1m (2007: £0.1m) and a profit before taxation of £44,000, leading to a profit after taxation of £29,000 (2007: loss of £443,000).

License sales were spread across a total of 53 new and extension orders compared to 47 transactions the year before. We entered 2008 with a licensee base of 135 companies, and grew this to 157 by the end of the year. Performance was geographically balanced, with both the US and Europe showing revenue growth in excess of 40%. Our reseller partners accounted for 11% of the total, up from 6% in the previous year. Vision Strategist, the solution that we acquired with Alignent in June 2007, contributed 13% of revenues in 2008. The remainder was Accolade related.

These developments underline the growing maturity of our business. However, particularly in these uncertain economic times, our reported performance does remain sensitive to the timing, value and profile of individual sales events.

At the date of this report, full-year 2009 revenue visibility incorporating booked revenue, contracted services business and the run rate of recurring contracts already stands at £5.4m. Revenue visibility is more fully defined in the notes.

Our acquisition of Alignent in 2007 has been fully integrated and is contributing both strategically and operationally to the progress of our business. Revenues for Alignent's Vision Strategist grew 28% compared to the solution's annualised contribution in 2007. Our expectation that the software would improve our ability to break into the aerospace and defence sectors has been validated. Throughout 2008, we invested substantial time and energy in these markets, learning their dynamics and requirements while developing the relationships needed to generate business. As a result of these efforts, we entered 2009 with an active pipeline of significant sales opportunities in these sectors.

TRADING PERFORMANCE

Sopheon's consolidated turnover grew to £9.3m (2007: £6.3m). From a geographical standpoint, revenues for the US business increased by approximately 50%, with 42% growth in Europe. This performance was boosted to a degree by a weakening of the annual average exchange rate between Dollar and Sterling from 1.9969 in 2007 to 1.8521 in 2008. Nevertheless, in dollar terms, total revenues were $17.2m compared to $12.7m in 2007, representing growth of 35%, a very creditable performance given the economic conditions. The annualised average growth of the business since the launch of Accolade eight years ago is approximately 36%.

The 53 transactions completed in 2008 included 15 relating to the Vision Strategist solution, acquired with the Alignent business in June 2007. Overall, the former Alignent business contributed approximately 13% of total revenues during 2008. Although both our core regions demonstrated strong growth in revenues for 2008, the US business accounted for 63% and 64% of our total revenues in 2007 and 2008 respectively, and we believe this emphasis will continue.

BUSINESS MIX

Overall, in 2008 our business delivered a 44:28:27 ratio of license, maintenance, service respectively compared to 34:29:37 in the prior year. In our last report we had predicted that the proportion of license revenues would rise in 2008, assisted in part by the effect of the transactions that were deferred from the end of 2007, and indeed license revenue almost doubled in Sterling terms.

Consulting revenues grew by almost 40% and we expect this to continue to expand steadily, providing a source of stability and maturity to our business even though it may become a smaller overall proportion as license revenues become more prevalent. Services business from existing customers had grown sharply to £1.2m in 2007, and we were pleased to maintain this performance with £1.3m of such business recorded during 2008. Whilst we are very proud of the achievements of our services staff, 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.

Overall revenues from existing customers remained above 60% of total revenues for the second year in a row. We believe this underlines both the value of our solutions and the increasing stability of the business. Recurring income has grown to £3.7m coming into 2009, compared to £2.6m a year before. The majority of this income is represented by maintenance services, but also includes hosting services and license rentals.

Overall gross margins have held fairly steady at 75% (2007: 73%) but this continues a trend of improvement, with 2006 at 72%. One factor that affects margin is the degree to which our services group recruits permanent staff as opposed to using subcontractors. We have gradually built up our internal resources over the last two years, carefully matching growth in resources to growth in revenue but successfully reducing reliance on subcontractors. This has increased the strength of the services team from 18 to 30 over the two year period, of which five joined in 2008. In future, margins may also be slightly affected by decisions to embed, rather than build, certain third party components or methods of working into our software.

RESEARCH & DEVELOPMENT EXPENDITURE

The R&D effort in 2008 continued the theme of advancing the capabilities in parallel of both of our key product offerings, namely Accolade and Vision Strategist. As a consequence we delivered four releases during the year, two for each product. This effort included the release in the first quarter of the most significant new version of Accolade in Sopheon’s history – version 7.0 - which has extended our value not only to the process manufacturing markets that we have historically targeted, but also to the large aerospace, defense and automobile sectors.

Headline R&D expenditure almost doubled, but half of this can be attributed to an increase of £0.5m in amortisation and impairment charges. Of this, £0.2m represents higher amortisation costs for the Group’s internally generated R&D assets, largely relating to the Accolade 7.0 release. A further £0.1m is due to the full year effect of amortising the R&D assets acquired with Alignent in June 2007. The final £0.2m represents impairment charges taken against the Alignent R&D asset. As further detailed in the notes, the decision by certain customers to terminate or convert their legacy installations of Vision Strategist affected the recurring revenue base which formed part of the valuation of the intangible assets acquired with Alignent. The Board does not believe that these events have any bearing on the commercial and strategic justification for the Alignent acquisition.

Accordingly, ignoring the effect of the capitalisation and amortisation of such costs, total R&D expenditure increased by almost £0.5m compared to 2007. Since 2001 Sopheon has maintained R&D spend at above 20% of revenues. Sopheon is committed to product leadership and R&D excellence is a core competency of the Group. Building on recruitment that took place across 2007, we increased R&D staff from 29 to 33 during 2008. Much of the additional resource was devoted to the research and requirements work associated with the early phases of several planned new releases, in addition to sustaining work to keep existing releases in step with platform changes. As a result of the above, the amount of 2008 R&D expenditure that met the criteria of IAS38 for capitalisation remained flat at £0.8m (2007: £0.8m).

OPERATING COSTS

Overall staff costs have increased by approximately £1.6m. Three principal factors have contributed to the increase. Approximately £0.6m can be attributed to the fall in the exchange rate for Sterling against the US dollar and the Euro, the currencies in which the majority of the Group’s employment costs are denominated. A further £0.2m is due to a higher level of bonus being earned by the Group’s employees as a result of the improvement in financial results over 2007. The remaining amount can be attributed to the impact of our increased staffing levels. During 2007, headcount rose from 65 to 92, leading to an average of 85 for the year; these staff members joined throughout the year, so the full year cost effect of the expansion did not arrive until 2008. During 2008, we expanded resources to a total of 105 by the end of the year, for an average of 98 during the year. These expansions occurred in the three key operational areas, namely research and development, distribution (sales and marketing), and customer services.

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

Headline distribution costs were £1m higher than the previous year. This included £0.1m for the full year effect of amortising the intangible customer assets acquired with Alignent in June 2007, and £0.2m of impairment charges taken in the year against that same asset for the reasons given in the discussion of R&D costs above. Of the remaining £0.7m, over £0.2m of the increase is due to higher bonus and commission payments linked to the higher performance achieved. The remaining increase is due to higher investment in sales and marketing resources in line with revenue growth, in addition to currency exchange factors.

Headline administration costs have fallen by £0.2m. This fall can largely be attributed to exchange gains recorded on the foreign currency cash balances held in Sopheon plc. Underlying administration costs have remained broadly flat year on year; administration staff and related costs have not been expanded during the period, and provisions recorded against investments and loans to the Group's reseller partners has remained in line with prior year levels. We continue to operate a conservative policy with regard to the recoverability of such investments.

RESULTS

The combined effect of the revenue and cost performance discussed above had a dramatic effect on Sopheon's EBITDA performance for 2008 which rose to £1.1m (2007: £0.1m).

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 operating profit in the notes. Our calculation of EBITDA is stated after charging (i) share based payments of £0.1m (2007: £0.1m); (ii) impairment charges of acquired intangible assets of £0.3m (2007: £nil); and (iii) exchange gains of £0.2m (2007: £49,000) but excludes depreciation and amortisation charges for the year of £0.9m (2007: £0.5m) and net finance costs of £0.2m (2007: £0.1m).

Including the effect of interest, depreciation and amortisation, the Group reported a profit before tax for the year of £44,000 (2007: loss £0.4m). Although the Group has substantial accumulated tax losses in all territories, certain tax jurisdictions do not permit a complete offset of profits against such losses resulting in a small US "Alternative Minimum Tax" charge that reduces the retained profit after tax to £29,000. The profit per ordinary share was 0.02p (2007: loss of 0.32p).

FINANCING AND BALANCE SHEET

Net assets at the end of the year stood at £4.3m (2007: £3.3m). Gross cash resources at 31 December 2008 amounted to £2.6m (2007: £2.1m). Approximately £1.1m was held in US dollars, £0.6m in Euros and £0.9m in Sterling.

Intangible assets stood at £4.7m (2007: £3.7m) at the end of the year. This includes (i) £2.4m being the net book value of capitalised research and development arising (2007: £1.4m) and (ii) an additional £2.3m (2007: £2.3m) being the net book value of Alignent intangible assets acquired in 2007. The underlying assets are denominated in US dollars. Due to amortisation and impairment charges, the underlying dollar value of these assets lowered during the year, however, the value in Sterling has risen due to the movement in exchange rates.

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. Since inception, approximately $1.1m of the medium-term debt principal has been repaid. The Group also has an additional $750,000 revolving credit facility from BlueCrest, secured on accounts receivable.

Sopheon's equity line of credit facility with GEM Global Yield Fund Limited ("GEM") remains in place through 23 December 2009. The Directors have not yet concluded whether to seek extension of the instrument. In 2007, GEM agreed to implement a two year 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.

Short-term borrowings connected with the Group's revolving facilities amounted to £0.5m (2007: £0.4m). In both years, this represents $750,000 with the Sterling increase linked to exchange rate movements. Similarly, the overall medium-term loan balance has increased from £1.6m to £1.7m, but this apparent increase disguises payments of $1.1m which actually reduced the dollar carrying value of the debt by $0.8m. These repayments have been funded out of free cash flow.

MARKETS & PRODUCTS

Sopheon's solutions belong to a major class of software applications that concentrate on supporting product lifecycle management ("PLM"). The purpose of this applications Group is to help companies develop and execute their product strategies.

The PLM market is made of multiple submarkets. Some of these submarkets, such as product data management ("PDM"), are mature. Others are new and emerging. Sopheon is focused on an emerging submarket called Product Portfolio Management ("PPM"). Software solutions in most areas of PLM concentrate on the engineering or technical challenges involved in managing a product while it is under development. Sopheon's solutions are designed to instead address the business challenges associated with product innovation, including the management of innovation risk and reward. Analysts have labelled Accolade as best-of-breed among solutions in the product portfolio management sub-class.

A number of vendors of project portfolio management solutions that have historically focused their software and go-to-market efforts on the project management needs of corporate information technology organisations continued to step up their attempts to migrate toward the product portfolio management space. The increased number of competitors and new entrants into our market will challenge our efforts to sustain a position of market leadership.

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. Sopheon's Vision Strategist solution automates and manages the customer's strategic product planning process. Sopheon has integrated these software offerings into a single solution that manages the complete life cycle of products from their conception as raw ideas until they are retired from the marketplace.

The integration of Accolade and Vision Strategist creates the only comprehensive strategic product planning and innovation process support solution in the marketplace. The offering ties product, market and technology roadmapping directly to the operational aspects of product development. Moreover, we believe that our software can bring immediate value to recession-plagued companies that need to reduce costs, without undercutting their prospects for long-term growth. Our solutions help companies maximise returns from available resources when times are tough, while also developing programmes and strategies to enable them to accelerate out of the downturn and emerge with increased competitive strength. In particular, our software can help them with the following critical challenges:

- Improve strategic agility and "uncertainty planning"
- Make faster, better-informed portfolio decisions
- Identify, prioritise and act on the most promising innovation opportunities
- Keep daily operational activities aligned with organisational strategies for growth
- Cut costs by improving innovation process and team efficiencies

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. We thank them for their continuing contribution to our growing success. Over the last two years, we have welcomed many new staff to the Sopheon team; by the end of 2008 we had 105 employees, compared to 65 at the end of 2006 and 92 at the end of 2007.

Sopheon's executive management team has been in place for several years and has five members. Our chief executive officer, Andy Michuda, chief financial officer, Arif Karimjee and I serve on the team, and also act as executive directors. Our chief technology officer Paul Heller, and vice president of research Huub Rutten, complete the group. Executive management is complemented by a strong operational management team that lead the marketing, sales and customer services functions in each of the US and Europe. 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

By the end of 2008, Sopheon had 157 licensed customers with strong representation from each of our target markets. During the year, we were recognised by members of the analyst community not just as a best-of-breed offering, but as the most mature within our class of applications.

Companies understand the business importance of continued, prudent investment in product innovation, and Sopheon addresses that need. We are enjoying significant repeat business from our customer base, coupled with a good number of new high quality clients; since the start of the market downturn, organisations such as Bayer HealthCare, Burger King, Novartis, PepsiCo and the U.S. Army have adopted our software. During the same period, existing customers such as General Motors, Medtronic, Lockheed Martin, SABMiller and Verizon Wireless extended their investment in our solutions.

Anecdotal evidence indicates that many of these investments were made not in spite of the recession, but because of it. However, we are very conscious that the current level of uncertainty in the economic environment is unprecedented, and a number of major corporations find themselves fighting for survival. Although our sales pipelines remain very active, some potential customers are simply deferring all capital investment decisions, irrespective of their potential return. Accordingly, it is tough to predict growth with any accuracy. In response, we have developed tight operational plans that make spending contingent on historic and forecasted revenue performance on a quarter-by-quarter basis. This cautious mindset may well affect our growth trajectory in the short-term, but will underpin all hiring and expenditure decisions throughout 2009.

Revenue visibility for 2009 already stands at £5.4m. This gives us a solid base from which to pursue our business goals. We believe that our solutions offer compelling value to companies faced with the need to cut costs without jeopardising their strategies for growth. However, the market promise is countered by turmoil across the economic landscape. We face this uncertain environment with caution, but with continued optimism.

Barry Mence **25 March 2009**
CHAIRMAN

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 *£'000*	*2007* *£'000*
Revenue	**9,304**	**6,332**
Cost of sales	(2,304)	(1,703)
Gross profit	**7,000**	**4,629**
Distribution expense	(3,516)	(2,523)
Research and development expense	(1,995)	(1,027)
Other administrative expense	(1,289)	(1,462)
Total administrative expense	(3,284)	(2,489)
Operating profit / (loss)	**200**	**(383)**
Finance income	55	70
Finance expense	(211)	(130)
Profit / (loss) before tax	**44**	**(443)**
Income tax expense	(15)	-
Profit / (loss) for the year (all attributable to equity holders of the parent company)	**29**	**(443)**
Earnings / (loss) per share - basic and diluted	0.02p	(0.32p)

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 *£'000*	*2007* *£'000*
Exchange difference on translation of foreign operations	778	(27)
Net income / (expense) recognised directly in equity	**778**	**(27)**
Profit / (loss) for the financial year	29	(443)
Total recognised income and expense for the year (all attributable to equity holders of the parent company)	**807**	**(470)**

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008

	2008 *£'000*	*2007* *£'000*
Non-current assets		
Property, plant and equipment	235	182
Intangible assets	4,706	3,725
Non-current receivables	12	10
	4,953	**3,917**
Current assets		
Trade and other receivables	3,568	2,221
Cash and cash equivalents	2,586	2,053
	6,154	**4,274**
Total assets	**11,107**	**8,191**
Current liabilities		
Short term borrowings	1,080	755
Deferred revenue	2,648	1,552
Trade and other payables	2,006	1,379
	5,734	**3,686**
Non-current liabilities		
Bank loans	1,105	1,195
Total liabilities	**6,839**	**4,881**
Net assets	**4,268**	**3,310**
Equity and reserves		
Share capital	7,279	7,279
Other reserves	73,627	73,499
Profit and loss account and translation reserve	(76,638)	(77,468)
Total equity (all attributable to equity holders of the parent company)	**4,268**	**3,310**

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

	2008 *£'000*	*2007* *£'000*
Profit / (loss) for the year	**29**	**(443)**
Adjustments for non-cash and similar items	1,551	661
Movements in working capital	143	24
Net cash generated from operating activities	**1,723**	**242**
Investing activities	(827)	(2,687)
Financing activities	(680)	3,452
Increase in cash and cash equivalents	**216**	**1,007**

NOTES

1. Annual Report

The abridged financial information set out herein has been extracted from financial statements approved by the directors on 25 March 2009, and which will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on these accounts and their report was unqualified, but consistent with prior years, have drawn attention to the uncertainty over going concern described below and did not contain statements under the Companies Act 1985, section 237(2) or (3). This financial information does not constitute statutory accounts as defined in section 240 of the Companies Act 1985.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement itself does not contain sufficient information to comply with IFRSs. 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 7UG, and from the Company's website www.sopheon.com.

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 2008, the Group achieved revenues of £9.3m and generated a profit of £29,000. 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 continuing to deliver 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, and which are heightened by the tough economic conditions. These conditions are also likely to result in customers taking longer to pay amounts owed to the Group.

At 31 December 2008, the Group reported net assets of £4.3m and gross cash resources of £2.6m. The Group has a loan note from BlueCrest Capital Finance (“BlueCrest”) which is repayable in equal monthly installments of £63,000 through July 2011 and stood at £1.6m at year end. 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, and was fully drawn down at 31 December 2008 for a value of £521,000.

If sales fall short of expectations, or if the Group’s bank facilities prove insufficient, the Group may need to raise additional finance. Sopheon continues to have access to the equity markets. 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 2009. The facility originally expired in December 2005 and has been extended twice, each time for an additional two year period. 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 €1m in March 2004, leaving a maximum €9m potentially available.

The directors have concluded that these circumstances represent material uncertainties, however 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.

NOTES

3. 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 recognised 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 recognised as the services are performed, or in the case of milestone based or long term contracts, recognised 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 recognised in profit or loss in the period in which the foreign operation is disposed of.

Deferred taxation
Deferred tax is recognised 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 recognised for all taxable temporary differences, but deferred tax assets are recognised 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 realised. 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

3. 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 amortised 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 recognised 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

4. Revenue

All of the Group's revenue in respect of the years ended 31 December 2008 and 2007 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.

Revenue visibility at any point in time comprises revenue expected from (i) closed license orders, including those which are contracted but conditional on acceptance decisions scheduled later in the year; (ii) contracted services business delivered or expected to be delivered in the year; and (iii) recurring maintenance, hosting and rental streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of the year.

5. 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 profit and loss account over the expected vesting period and leading to a charge of £151,000 (2007: £149,000).

6. Income Tax

At 31 December 2008, tax losses estimated at £70 million were available to carry forward by the Sopheon Group, arising from historic losses incurred. An aggregate £22 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") is payable on the profits of our US subsidiaries. For AMT purposes, the offset of prior year tax losses is restricted in to 90% of current year taxable profits, with AMT chargeable on the remainder at a rate of 20%.

7. Earnings per Share

The calculation of basic loss per ordinary share is based on a loss of £29,000 (2007: loss of £443,000), and on 145,579,000 (2007: 140,286,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year. The effect of all potential ordinary shares is antidilutive.

8. EBITDA

EBITDA is defined as earnings before interest, tax, depreciation and amortisation and can be arrived at by adding back depreciation and amortisation charges amounting to £920,000 (2007: £496,000) to the operating profit of £200,000 (2007: loss of £383,000).

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 capitalisation of £797,000 (2007: £785,000), and amortisation of £459,000 (2007: £233,000) during the year. A further £365,000 (2007: £169,000) of amortisation was incurred during the year relating to intangible assets acquired with Alignent. In addition, during 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 £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.