SOPHEON 2007

ANNUAL REPORT

sopheon

Where innovation means business™

Sopheon is an international provider of software and services. Sopheon's software applications automate product development and strategic product planning, delivering efficiencies and decision support that enable companies to generate more revenue and profit from product innovation.

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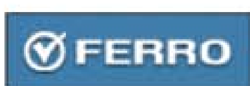
Sopheon's software solves the challenge of synchronizing innovation planning and execution – an industry first – with new capabilities that address the needs of a growing range of companies.

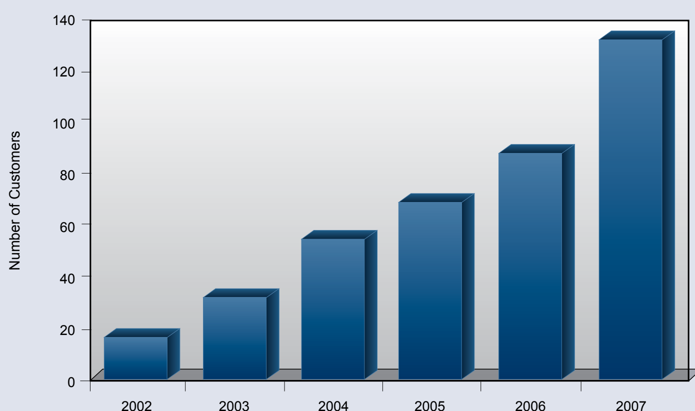


Summary Results and Trends

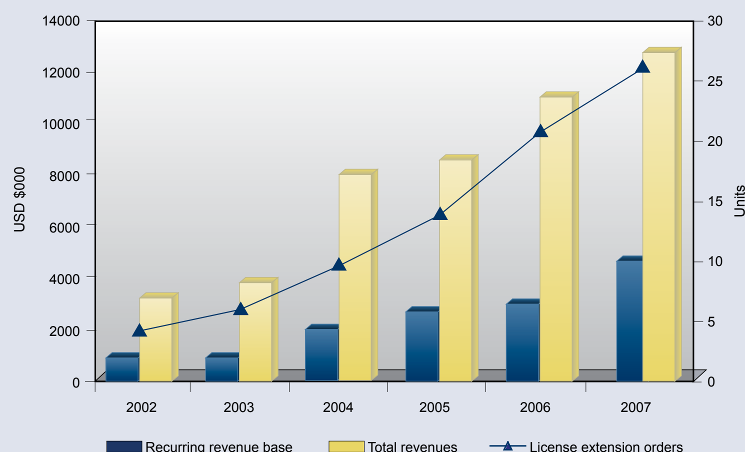
		2007	2006	2005
Revenue	£'000	6,332	6,045	4,664
EBITDA	£'000	113	33	(746)
Loss before tax	£'000	(443)	(303)	(1,236)
Loss per share	pence	(0.3)	(0.2)	(0.9)
Net assets	£'000	3,310	1,620	1,951
Gross cash	£'000	2,053	1,034	1,970
Working capital	£'000	2,140	1,667	1,932

Working capital is calculated as net current assets after adding back deferred income.

Despite the effect of weakness in the US dollar, we had expected higher 2007 revenues. EBITDA continued to improve. However amortization and interest costs linked to the Alignent acquisition weighed on loss before tax and loss per share.



During 2007 we 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.



We are driving growing levels of recurring revenue and repeat sales. In US dollar terms we have grown our business by an annualized average of 41 percent since the launch of Accolade.

STATEMENT FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Performance

Two thousand and seven 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 showed 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 £4 million at the date of this report. 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 £2.6 million, 50% higher than at the start of 2007.

Strategy and Product

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. We closed six new sales of VS by year-end. We 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 launched more than six years ago. This new version of Accolade offers functionality that positions the product beyond our historical process manufacturing markets, and into the large aerospace, defense 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.

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.

Sopheon's executive management team has also been in place for several years, comprised of the two of us, along with CFO Arif Karimjee, Paul Heller our CTO, and Huub Rutten our head of research and development. 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. Details about each of us are on the inside back cover of this report.

In order to help accelerate our growth transition, we have taken steps to fortify our senior-management team in the US. 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 Accolade recognized by members of the analyst community not just as a best-of-breed offering, but now as the most mature solution of its kind.

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 £4 million. 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
Executive Chairman

Andy Michuda
Chief Executive Officer

26 March 2008

FINANCIAL AND OPERATING REVIEW

Trading Performance

Sopheon's consolidated turnover grew to £6.3 million (2006: £6.0 million). As in the prior year, the declining value of the US dollar has continued to weigh on reported performance. In dollar terms, revenues were $12.7 million compared to $11.2 million in 2006. The Alignent business acquired in June 2007 contributed $1.2 million 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 percent. 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 percent 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, and 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 executives who invested in Accolade. Alongside this achievement, we delivered £1.2 million (2006: £0.6 million) of services to existing customers that required additional configuration and consultancy work. While 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, due to 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 £2.6 million coming into 2008, compared to £1.7 million 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 percent (2006: 72 percent).

Research and 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, defense 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 £0.3 million compared to the previous year.

As a result of the above, £0.8 million (2006: £0.5 million) of our 2007 R&D expenditure met the criteria of IAS38 for capitalization.

Operating Costs and Results

Overall staff costs have increased by approximately £0.6 million, 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 reduced 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 was 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 £0.1 million of amortization of intangible assets acquired with Alignent. Administration costs increased by £0.2 million, and much of this increase can be attributed to increases in share-based compensation and depreciation of assets acquired with Alignent, as well as £0.1 million 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 £0.1 million (2006: £0.03 million). This total reflects a deduction of share-based payments of £0.1 million (2006: £0.1 million) but excludes depreciation and amortization charges of £0.5 million (2006: £0.3 million) for the year and net interest costs of £0.1 million (2006: £0.0 million). 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 and reconciled to the retained loss in Note 12 of the financial statements.

Including the effect of interest, depreciation and amortization, the retained loss for the year was £0.4 million (2006: £0.3 million) 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. Further details of the strategic benefits that Sopheon expects to derive from the acquisition are set out in the Product and Market Overview which can be found on page 11.

The maximum consideration for the acquisition was $5.50 million, comprising $4.75 million initially upon closing, and a further $0.75 million 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 $1 million. Accordingly, the initial cash consideration was $3.75 million. In addition, Sopheon incurred transaction expenses for the acquisition of approximately $0.2 million. The cash consideration, transaction expenses and working capital for the combined group were funded by (i) $3.5 million of new medium-term debt as described below and (ii) raising £2.1 million (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 recognized if the assets meet certain criteria. Accordingly, technology and customer relationships acquired as part of the Alignent acquisition were valued at $4 million (£2 million) 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 $1 million (£0.5 million) of residual goodwill, which is also included as an intangible asset at 31 December 2007. Further details are set out in notes 14 and 15 of the financial statements.

Financing and Balance Sheet

Net assets at the end of the year stood at £3.3 million (2006: £1.6 million) and include £3.7 million (2006: £0.8 million) of intangible assets. This includes £1.4 million being the net book value of capitalized research and development (2006: £0.8 million) and an additional £2.3 million (2006: £nil) being the net book value of Alignent intangible assets acquired as described above.

As part of the funding raised for the Alignent acquisition, Sopheon secured $3.5 million of medium-term debt from BlueCrest Capital Finance LLC ("BlueCrest"). The debt is being repaid in 48 equal monthly installments, 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 $1 million facility previously in place with Silicon Valley Bank. Further details are set out in Note 20 of the financial statements.

Gross cash resources at 31 December 2007 amounted to £2.1 million (2006: £1.0 million). Short-term borrowings connected with the group's revolving facilities amounted to £0.4 million (2006: £0.4 million). 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 £2.5 million to £2.3 million year over 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, including the prevailing trading volumes in Sopheon shares, which are described in detail on page 29.

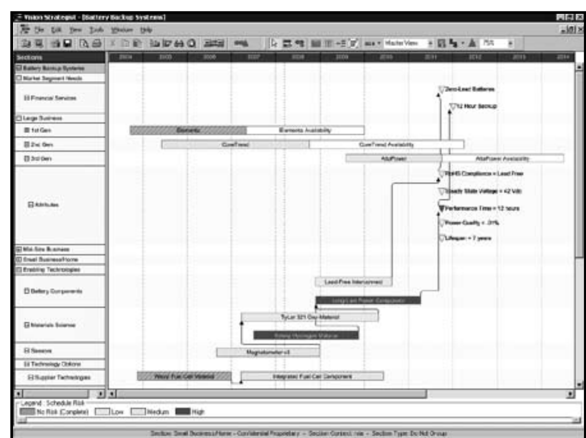
PRODUCT AND MARKET OVERVIEW

Sopheon's Solutions

The need to create sustainable market differentiation is a universal challenge for today's manufacturing and service companies. A sure way of supporting such differentiation is by focusing research and development (R&D) investments on the continuous generation of innovative products that are uniquely suited to end-user requirements. The rewards include consistent improvement in earnings performance and steady growth in the value delivered to shareholders.

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's Accolade® system is used by manufacturing companies to automate their processes for developing new products. Our Vision Strategist™ solution automates processes for strategic product planning. As an integrated offering, they constitute the first software system in the history of product lifecycle management that is able to synchronize product, market and technology planning with day-to-day product development activity.

Sopheon has two principal offerings. Its Accolade® solution is a modular software system specially designed to increase work efficiency and improve decision-making in the development and management of new products. Products fall into three general categories. The first is comprised of new products that are funded and already under development. The second is made up of products that have yet to be funded but are on the roadmap for possible future investment. The third category consists of products that have been commercialized and are contributing to the revenue and profit performance of the company. 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 lifecycle, 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™ ("VS"), 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

Accolade® is a registered trademark of Sopheon plc.
Vision Strategist™ is a trademark of Sopheon plc.

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 ties product, market and technology roadmapping directly to the operational aspects of product development. Use of Sopheon's software creates a work environment that demystifies research and development by providing dynamic, real-time visibility to planning and project information and aligning innovation efforts across the organization. It allows executives and cross-functional teams to more effectively assess the business opportunities and risks associated with product innovation, make better innovation decisions, and operate at new levels of efficiency.

Benefits reported by users of Sopheon's software include faster time-to-market, reductions in new product failure rates, and substantial increases in the financial contribution from new products. Some customers have credited Sopheon's solutions with enabling them to grow the amount of profit and revenue they generate from new products by as much as 40 percent.

The Market

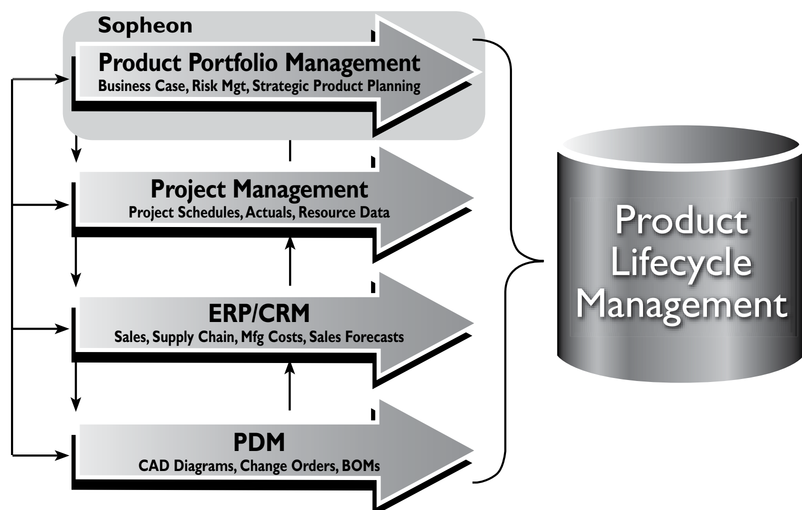
Sopheon's solutions belong to a major class of software applications that concentrate on supporting product lifecycle management (PLM). The purpose of this applications group is to help companies develop and execute their product strategies.

PPM IS THE FASTEST-GROWING SEGMENT OF PLM, WITH A FORECASTED 15% CAGR THROUGH 2011.

– AMR Research

"The Tale of Two PPM Vendors: IDe Folds, Sopheon Grows"
August 2007

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. One of the emerging submarkets is called "Product Portfolio Management" (PPM). It is the area where Sopheon is focused. Analyst research indicates that PPM is among the fastest growing submarkets within PLM, and they expect its exceptional rate of expansion to continue. Software solutions in most areas of product lifecycle management concentrate on the engineering or technical challenges involved in managing a product while it is under development. Sopheon's solutions are designed instead to address the business challenges associated with product innovation, including the management of innovation risk and reward.



Business analysts have placed Sopheon's Accolade system in a subclass of product lifecycle management applications referred to as product portfolio management solutions.

Analysts have labeled Accolade as best-of-breed among solutions in the product portfolio management subclass. They view PPM as a strategically critical applications area. Their research has determined that adoption of PPM methodologies by cross-functional team members is essential to achieving business impact and success. Companies that implement their product portfolio management and product development processes using Sopheon's software system gain a range of important advantages that include being able to continuously measure and track process improvements.

"SOPHEON IS THE MOST MATURE PRODUCT PORTFOLIO MANAGEMENT OFFERING IN THE MARKET TODAY."

– AMR Research

"PLM Market Landscape: Evolving to Enable Value Chain Excellence"
December 2007

In 2007 we saw considerable movement in the PLM market among both established suppliers and new entrants. Many of the more established PLM vendors were involved in mergers and acquisitions. For instance, UGS was acquired by Siemens, and Agile was purchased by Oracle. We expect that the level of M&A activity will slow in 2008 as the market takes time to absorb the transactions from the past year. Also in 2007, IDe, a supplier of PPM solutions against which Sopheon had competed regularly, discontinued business. A number of vendors that have historically focused their software and go-to-market efforts on the project management needs of corporate information technology organizations stepped-up their attempts to migrate toward the product portfolio management space. The increased number of competitors and new entrants into our market will continue to challenge Sopheon in its efforts to sustain its position of market leadership.

Growth Strategy

As we reported last year, Sopheon has been pursuing a five-part growth strategy and we have made significant progress in 2007. Further details are set out below.

1) Expand Within Client Base

Sopheon entered 2007 with a customer base of 87 companies. We exited the year with 135 customers. In November we signed our 100th Accolade account, a milestone that attests to both the health of our company and the advancing maturity of our solutions in the marketplace. As the size of our customer population continues to expand, so, too, do Sopheon's opportunities for growth. In 2007 the number of orders from existing customers to extend their licenses for our Accolade software rose to 25, compared to 20 in 2006. We expect that the recent addition of Vision Strategist to our line of solutions, along with continued Accolade extension activity, will drive consistent growth from within our customer base in the future.

"SABMiller's organic growth depends upon the creation of strong, locally driven brand portfolios. Accolade will help us overcome the challenges of our decentralized approach to innovation across regional hubs. In addition to giving us an efficient, unified process structure, the system's features will guard against duplication of effort and allow cross-functional teams responsible for product innovation to more easily share their knowledge. Its capacity to aggregate regional data will provide corporate executives with essential support in making strategic portfolio decisions. Accolade gives us a common, coherent way of looking at innovation, and a more effective way of making it happen."

— Neil MacGilp, Group Technical Director, SABMiller

2) Expand Product

In early 2007 Sopheon introduced a set of enhancements to its Accolade solution that included a substantial boost to the power of the system's core portfolio engine. The new capabilities increased the efficiency with which Accolade users are able to analyze large, complex product portfolios and communicate information on product development projects within teams and to executive decision-makers.

Mid-year, Sopheon moved beyond the status of a single-product company with the acquisition of Alignent Software and its Vision Strategist line of strategic planning software. We have subsequently developed and launched two new versions of the VS product, expanding its use and value. Many of the recently introduced enhancements had been requested for some time by existing Vision Strategist customers. We recently announced the integration between VS and the portfolio management module of our Accolade system. This new offering enables VS clients to generate portfolio reports as output from their strategic product planning or roadmapping activities. Medtronic, already a Vision Strategist user, is the first to adopt the solution. We expect many additional VS customers to follow.

"Sopheon continues in its excellent tradition of developing software to meet the needs of the new product development space. My colleagues and I have been involved with Sopheon since they first introduced the original Accolade to automate new product development (NPD), and indeed we were on the external advisory committee for the design of Accolade. Accolade has proven to be an excellent product over the years for managing NPD and supporting the Stage-Gate® process."

Dr. Robert Cooper
— Co-founder of the Product Development Institute

In 2006 we announced the creation of a RAD (Research & Application Development) organization. The charter of RAD is to generate new applications that leverage the strength of the Accolade platform but don't require investment in the development of product code. In 2007 RAD created and delivered a new electronic lab notebook (ELN) application that is now used by Land O' Lakes, a global food and beverage company, across its research and development group. The software replaces paper notebooks used by scientists and technicians to document research, experiments and procedures performed in the laboratory. The ELN system offers a range of benefits to users, making content easier to search and retrieve, supporting collaboration, and enabling greater security. It is integrated with Land O'Lakes' product development process which is automated by Accolade. Sopheon believes there is an opportunity to extend the use of this electronic notebook application to other consumer packaged goods companies and has plans to make it available for sale to the market.

3) Expand Within Core Markets

Sopheon's marketing and business development efforts in 2007 continued to focus on manufacturers of chemicals, paper and, within the consumer packaged goods sector, food and beverage producers. Half of the new customers we gained during the period were from these core markets.

"It's important to our business success that we continue to further the maturity of our innovation process. Accolade will help us capture the metrics needed to track and evaluate the efficiency and predictability of our process and the business value of the projects that pass through it. Chemistry is our business. But innovation is our path to creating value for our customers. We view Accolade as a critical component of our value-creation strategy."

— Roy Phillips, Global Research and Development Director, Scott Bader

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

4) Expand to New Markets

Throughout its history, Sopheon has made ongoing, nominal investments in select new markets as a way of evaluating opportunities to leverage existing technologies and drive additional business growth. Early in 2007 Sopheon announced that it was beginning to expand into automotive and aerospace and defense markets. Fifteen percent of Sopheon customers signed in 2007 came from these new sectors. This expansion was augmented by our acquisition of Alignent Software, whose customer base was made up almost entirely of aerospace and defense manufacturers. Entering 2008 we have standing references in all three new market areas, including such leaders as General Motors in automotive, Boeing in aerospace and the U.S. Navy in defense. Each of the new markets is expected to contribute to Sopheon's growth during 2008.

"Our success as a developer of weapons systems depends upon being able to anticipate the direction of technologies and make the right investment decisions. We're rolling out Sopheon's Vision Strategist within our PMA 209 Common Avionics organization, one of NAVAIR's key programs. The solution allows us to chart and analyze the impact that forecasted events and trends will have on the technologies that we expect to be core to the Navy's capabilities in the future. That is an enormous performance advantage."

— Suresh Verma, Lead Science & Technology Strategic Planner
Naval Air Systems Command (NAVAIR)

5) Expand Partnerships

Reseller Partners

As we have indicated, a core element of our strategy for growing through partnerships is to sell our software solutions through third-party resellers. 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. Our commitment to supporting the success of these relationships was evident this past January as we convened a global meeting to launch our 2008 business development plans and initiatives. The event involved three days of intense learning on subjects ranging from imminent new product releases to competitive intelligence and value-based positioning and messaging. All resellers were in attendance.

We continue to be mindful that it takes time and patience to build a vital, productive reseller network. The volume of sales generated by our reseller channel during 2007 did not meet our expectations. However, the number and quality of opportunities in the channel's sales funnel improved substantially. It follows that we anticipate an increase in business from our resellers in 2008.

Consulting Partners

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 regarding Accolade and/or Vision Strategist include Hewlett-Packard, Arthur D. Little, Deloitte, Kalypso and PRTM, as well as Robert Cooper and Stage-Gate Incorporated. Although there have been exploratory talks with other prospective partners in this category, none have resulted in active go-to-market programs. This is partly due to our strategic focus on working with existing partners more deeply across multiple engagements before we expand our network beyond this core.

Sopheon continues its relationship with Microsoft as a Gold Certified partner, leveraging Microsoft technology wherever it brings value to our business development efforts and to our customers. We also continue as a member of the Partner Advisory Council (PAC) for Microsoft's EPM project server product line.

"There is no shortage of technology suppliers that sell to the manufacturing industry, but it's a select club that really 'gets' what manufacturers need. Sopheon has continuously studied its customers and the industry in order to develop a system that anticipates and responds to the innovation and portfolio management challenges facing today's global manufacturing organizations."

— Michael Jarosik, Editor, START-IT Magazine

DIRECTORS AND ADVISORS

Directors	Barry K. Mence	Executive Chairman
	Andrew L. Michuda	Chief Executive Officer
	Arif Karimjee ACA	Finance Director
	Stuart A. Silcock FCA	Non-executive Director
	Bernard P. F. Al	Non-executive Director
	Daniel Metzger	Non-executive Director
Secretary	Arif Karimjee	
Registered Office	Surrey Technology Centre 40 Occam Road, Surrey Research Park Guildford, Surrey GU2 7YG	
Registered Name and Number	Sopheon plc. Registered in England and Wales No. 3217859	
Auditors	BDO Stoy Hayward LLP 55 Baker Street London W1U 7EU	
Principal Bankers	Silicon Valley Bank 3003 Tasman Drive Santa Clara, CA 95054 United States	Lloyds TSB Bank plc. 77 High Street Southend-on-Sea Essex SS1 1HT
Solicitors	Hammonds 7 Devonshire Square Cutlers Gardens London EC2M 4YH	Briggs and Morgan 2400 IDS Center, 80 South Eighth Street Minneapolis, MN 55402 United States
	Loyens & Loeff Fred Roeskestraat 100 1076 ED Amsterdam The Netherlands	
AIM Nominated Adviser and Broker	Seymour Pierce Limited Bucklersbury House 3 Queen Victoria Street London EC3N 8EL	
Euronext Paying Agent	Kempen & Co. Beethovenstraat 300 1077 WZ Amsterdam The Netherlands	
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield HD8 0LA	
Financial PR Consultants	Hansard Communications Limited 14 Kinnerton Place South London SWIX 8EH	Citigate First Financial BV Assumburg 152A 1081 GC Amsterdam The Netherlands

REPORT ON DIRECTORS' REMUNERATION

The remuneration committee of Sopheon Plc is responsible for oversight of the contract terms, remuneration and other benefits for executive directors, including performance related bonus schemes. The committee comprises two non-executive directors, B.P.F. Al, as Chairman, and S.A. Silcock, together with B.K. Mence, other than in respect of his own remuneration. The committee makes recommendations to the board, within agreed parameters, on an overall remuneration package for executive directors and other senior executives in order to attract, retain and motivate high quality individuals capable of achieving the group's objectives. The package for each director consists of a basic salary, benefits and pension contributions, together with performance related bonuses and share options on a case by case basis. Consideration is given to pay and employment policies elsewhere in the group, especially when considering annual salary increases. From time to time, the remuneration committee may take advice from appropriate remuneration consultants.

Contracts

Service contracts between the company and the executive directors are terminable on 6 months' notice.

Fees for non-executive directors

The fees for non-executive directors are determined by the board. The non-executive directors are not involved in any discussions or decisions about their own remuneration.

Directors' Remuneration

Set out below is a summary of the fees and emoluments received by all directors during the year, translated where applicable into sterling at the average rate for the period. Mr. Mence's remuneration is largely fee-based and therefore subject to fluctuations from period to period. Mr. Michuda's remuneration is payable in U.S. dollars, the average exchange rate for which has declined significantly compared with the previous year. Details of directors' interests in shares and options are set out in the Directors' Report.

	Pay and fees 2007 £	*Benefits 2007 £*	*Bonus 2007 £*	*Total 2007 £*	*Total 2006 £*
Executive Directors					
B. K. Mence	125,732	1,670	13,750	141,152	142,388
A. L. Michuda	106,255	6,454	13,282	125,991	148,109
A. Karimjee	91,136	1,390	8,487	101,013	107,067
Non-Executive Directors					
S. A. Silcock	18,000	-	-	18,000	18,000
B.P.F. Al	18,000	-	-	18,000	18,000
D. Metzger	18,000	-	-	18,000	18,000
A. M. Davis	-	-	-	-	9,000
	377,123	9,514	35,519	422,156	460,564

The remuneration committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. With the principal exception of members of Sopheon's sales teams, for whom incentives are tied to individual or territory results, the committee concluded that the cash incentive should be tied to the financial performance of the group as a whole, and in 2007 objectives were set with regard to both revenue and EBITDA performance. These measures were applied to, and a bonus was earned by, all members of the executive board and management committee of the group, as well as the majority of the group's employees.

In addition to the amounts disclosed above, pension contributions are made to individual directors' personal pension schemes. During 2007 contributions of £4,875, £2,253 and £4,396 (2006 - £4,875, £2,228 and £4,167) were paid respectively to the pension schemes of B. K. Mence, A. L. Michuda and A. Karimjee.

A.M. Davis resigned as a director on 30 June 2006. The emoluments of S.A. Silcock are paid to Lawfords Limited, of which Mr. Silcock is a director.

DIRECTORS' REPORT

The group's principal activities during the year continued to focus on the provision of software and services that improve the return on investment of product development, within the rapidly emerging product lifecycle management (PLM) market. A review of the development of the business during the year, including the requirements of S234 of the Companies Act 1985, is given in the Statement from the Chairman and Chief Executive Officer on page 6 and subsequent Financial and Operating Review. This also includes reference to the Group's future prospects. An overview of the Group's products and markets incorporating advances in research and development is provided on page 11.

Corporate Governance
The Sopheon board is committed to high standards of corporate governance and aims to follow appropriate governance practice, although as a company incorporated in the UK and listed on AIM and Euronext, the Company is not subject to the requirements of the new UK Combined Code or the Netherlands Tabaksblat Committee. The board currently comprises three executive directors and three independent non-executive directors. Their biographies appear on the inside back cover of this annual report, and demonstrate a range of experience and calibre to bring the right level of independent judgement to the board.

The board is responsible for the group's system of internal control and for reviewing its effectiveness. Such a system can only provide reasonable, but not absolute, assurance against material misstatement or loss. The board believes that the group has internal control systems in place appropriate to the size and nature of its business. The board is also responsible for identifying the major business risks faced by the group and for determining the appropriate course of action to manage those risks. Formal meetings are held quarterly to review strategy, management and performance of the group with additional meetings between those dates convened as necessary. The audit committee, which comprises all of the non-executive directors and is chaired by Stuart Silcock, considers and determines actions in respect of any control or financial reporting issues they have identified or that are raised by the auditors. The board has a formal schedule of matters specifically reserved to it for decision. Details of the constitution of the remuneration committee are provided in the Report on Directors' Remuneration on page 17.

Principal Risk Areas
As with any business at its stage of development Sopheon faces a number of risks and uncertainties. The board monitor these risks on a regular basis. The key areas of risk identified by the board are summarized below.

Sopheon's markets continue to be at a relatively early stage of development and it is possible that Sopheon's products may not sell in the quantities or at the prices required to achieve sustained profitability. The broad market for Sopheon's software products continues to emerge and evolve. Sopheon has sought to focus its resources on the sub-segments that it believes offer the best short-term opportunity for growth, and on developing functionality which its research indicates customers in those segments require. However, determining the potential size, growth rate and needs of a particular market segment remains challenging.

Sopheon has a history of losses and its prospects of achieving profitability are dependent on meeting sales targets. Sopheon has in past years experienced substantial net losses due, in part, to its investment in product development and marketing. Sopheon's ability to continue to finance its activities through to the point that its operations become cash generative on a sustained basis is dependent on the group maintaining sales growth, or in the absence of such growth, its ability to secure funding through the company's facilities or other sources. Details of the resources available to Sopheon and the reasons why management consider that the company is able to continue as a going concern are set out in Note 2 to the financial statements.

Some of Sopheon's competitors and potential competitors have greater financial resources than Sopheon. Sopheon remains a relatively small organization by global standards. Its resources are dwarfed by those of many larger companies that are capable of developing competitive solutions, and it is difficult to overcome the marketing engine of a large global firm. Sopheon seeks to compete effectively with such companies by keeping its market communications focused, clear and consistent with its product and market strategy, and working to deliver first class quality of execution so that referenceability of the customer base is maximized.

Sopheon is dependent upon skilled personnel, the loss of whom could have a material impact. While service agreements have been entered into with key executives, retention of key members of staff cannot be guaranteed and departure of such employees could be damaging in the short term. In addition, as the economic environment has improved, the competition for qualified employees continues to be difficult and retaining key employees has become accordingly more challenging and expensive.

Sopheon will require relationships with partners who are able to market and implement its products. Historically, Sopheon has devoted substantial resources to the direct marketing of its products, and its strategy to enter into strategic alliances and other collaborative relationships to widen the customer base and create a broad sales and implementation channel for its products is not yet mature. The successful implementation of this strategy is crucial to Sopheon's prospects and its ability to scale effectively. However, Sopheon cannot be sure that it will select the right partners, or that the partners it does select will devote adequate resources to promoting, selling and becoming familiar with Sopheon's products.

Sopheon could be subject to claims for damages for errors in its products and services. Sopheon may be exposed to claims for damages from customers in the event that there are errors in its software products or should support and maintenance service level agreements fail to meet agreed criteria. Sopheon has sought to protect itself from such risks through its development methodologies, its contract terms and insurance, and is not aware of any such claims at this time.

Share Option Schemes
Details of options granted are shown in Note 30 to the financial statements.

Supplier Payment Policy and Practice
It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with. At 31 December 2007 the company had approximately 39 days' purchases outstanding (2006: 47 days).

Auditors
All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to ensure that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware. A resolution to reappoint BDO Stoy Hayward LLP as auditors will be put to the members at the Annual General Meeting.

Financial Instruments
Details of the group's financial instruments and its policies with regard to financial risk management are given in Note 24 to the financial statements.

Directors and Their Interests
The interests of the directors, who held office at the end of the year, in the share capital of the company (all beneficially held except those marked with an asterisk (*), which are held as trustee), were as follows:

	Share Options		*Ordinary Shares*	
At 31 December	*2007*	*2006*	*2007*	*2006*
B. K. Mence	385,000	285,000	14,423,847	14,423,847
A. L. Michuda	3,309,251	3,248,607	155,188	155,188
A. Karimjee	825,000	725,000	87,667	87,667
S. A. Silcock	-	-	918,716	918,716
S. A. Silcock*	-	-	98,077	98,077
B.P.F. Al		25,000	650,000	650,000
D. Metzger	-	-	100,000	-

Of the 14,423,847 ordinary shares mentioned above B. K. Mence beneficially owns and is the registered holder of 8,275,227 ordinary shares. A further 2,300,820 ordinary shares are held by Inkberrow Limited, a company in which his family trust is the major shareholder. In addition he is, or his wife or children are, potential beneficiaries under trusts holding an aggregate of 3,847,800 ordinary shares, of which trusts directors of Lawfords Ltd., in the Isle of Man, are trustees and are registered as the holders of such shares. S.A. Silcock is a shareholder in Lawfords Ltd and is a minority shareholder in Inkberrow Limited.

The following table provides summary information for each of the directors who held office during the year and who held options to subscribe for Sopheon ordinary shares. All options were granted without monetary consideration.

	Date of Grant	*Exercise price*	*At 31 December 2006*	*Granted during year*	*Lapsed during year*	*At 31 December 2007*
B. K. Mence (1)	2 May 2001	77.5p	22,500	-	-	22,500
B. K. Mence (1)	30 April 2002	14.75p	100,000	-	-	100,000
B.K. Mence (7)	15 April 2005	25.25p	62,500	-	-	62,500
B.K. Mence (8)	3 May 2006	22p	100,000	-	-	100,000
B.K.Mence (9)	29 June 2007	19p	-	100,000	-	100,000
A. L. Michuda (2)	15 September 2000	184p	187,600	-	(187,600)	0
A. L. Michuda (2)	15 September 2000	230p	7,846	-	-	7,846
A. L. Michuda (2)	15 September 2000	322p	12,501	-	-	12,501
A. L. Michuda (2)	15 September 2000	368p	1,756	-	(1,756)	0
A. L. Michuda (3)	2 October 2000	427.5p	16,280	-	-	16,280
A. L. Michuda (3)	1 January 2001	160p	5,030	-	-	5,030
A. L. Michuda (3)	2 May 2001	77.5p	54,662	-	-	54,662
A. L. Michuda (4)	30 April 2002	14.75p	487,932	-	-	487,932
A. L. Michuda (4)(5)	5 November 2003	16.25p	2,225,000	-	-	2,225,000
A.L. Michuda (6)	15 April 2005	25.25p	150,000	-	-	150,000
A.L. Michuda (8)	3 May 2006	22p	100,000	-	-	100,000
A.L. Michuda (9)	29 June 2007	19p	-	250,000	-	250,000
A. Karimjee (1)	22 November 1999	150p	100,000	-	-	100,000
A. Karimjee (1)	2 May 2001	77.5p	12,500	-	-	12,500
A. Karimjee (1)	30 April 2002	14.75p	150,000	-	-	150,000
A. Karimjee (5)(7)	5 November 2003	16.25p	300,000	-	-	300,000
A. Karimjee (6)	15 April 2005	25.25p	62,500	-	-	62,500
A. Karimjee (8)	3 May 2006	22p	100,000	-	-	100,000
A. Karimjee (9)	29 June 2007	19p	-	100,000	-	100,000
B. P. F. Al (1)	2 May 2001	77.5p	25,000	-	-	25,000

None of the directors exercised any share options during the year.

(1) Exercisable between the third and tenth anniversary of the date of grant.
(2) Fully vested options, which were granted as part of the acquisition of Teltech Resource Network Corporation.
(3) One fourth of these options becomes exercisable on each of the first four anniversaries of the date of grant and they expire on the tenth anniversary of the date of grant.
(4) One third of these options are exercisable from the date of grant, one third from the first anniversary of the date of grant and one third from the second anniversary.
(5) Vesting of a proportion of these options was subject to performance conditions relating to the achievement of positive EBITDA in two successive quarters. The conditions were met.
(6) One third of these options are exercisable from the first anniversary of the date of grant, one third from the second anniversary, and the remainder from the third anniversary.
(7) 93,846 of these options are exercisable between the third and tenth anniversary of the date of grant and 206,154 options are exercisable as to one third immediately and one third on each of the first and second anniversaries of the date of grant.
(8) Vesting of one half of these options was subject to performance conditions based on the achievement of certain financial objectives in 2006. The conditions were met.
(9) Vesting of one half of these options is subject to performance conditions based on the achievement of certain financial objectives in 2007. The conditions were met.

The mid-market price of Sopheon ordinary shares at 31 December 2007 was 14.25p. During the financial year the mid-market price of Sopheon ordinary shares ranged from 26p to 14.25p.

Save as disclosed above, no director (or member of his family) or connected persons within the meaning of Section 346 of the Companies Act 1985 has any interest, beneficial or non-beneficial, in the share capital of the company.

Substantial Shareholdings

The Directors are aware of the following persons who as at 27 March 2008 were interested directly or indirectly in three percent or more of the company's issued ordinary shares:

Name	*No. of ordinary Shares*	*% issued ordinary Shares*
B. K. Mence (director)	14,423,847	9.9
Norman Nominees Limited	9,691,260	6.7

Mr. Mence's interest represents direct beneficial holdings as well as those of his family.

Approved by the Board on 26 March 2008 and signed on its behalf by:

A. Karimjee
Director

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report which complies with the requirements of the Companies Act 1985.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market, and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the company in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements." In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the Directors to:

- consistently select and apply appropriate accounting policies;

- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and

- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SOPHEON PLC

We have audited the group and parent company financial statements (the "financial statements") of Sopheon plc. for the year ended 31 December 2007 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated and Company Cash Flow Statements, the Consolidated and Company Statement of Recognized Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulations and whether the information given in the Directors' Report is consistent with those financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Report on Directors' Remuneration, the Statement from the Chairman and Chief Executive Officer, the Financial and Operating Review and the Product and Market Overview. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorized to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2007 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the directors' report is consistent with the financial statements.

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in Note 2 to the financial statements concerning the group's ability to continue as a going concern. As in prior years, these disclosures identify certain factors that indicate the existence of material uncertainties which may cast significant doubt about the group's ability to continue as a going concern. As discussed in Note 2, the appropriateness of the going concern basis remains reliant on the group achieving an adequate level of sales in order to maintain sufficient working capital to support its activities, or if this objective is not met, being able to raise sufficient additional finance.

BDO Stoy Hayward LLP
Chartered Accountants and Registered Auditors
London

26 March 2008

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	*2007* *£'000*	*2006* *£'000*
Revenue	3	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)
Finance income	8	70	39
Finance expense	9	(130)	(36)
Loss before tax		(443)	(303)
Income tax	10	-	-
Loss for the year attributable to equity shareholders of the parent		(443)	(303)
Loss Per Share			
Basic and diluted (pence)	12	(0.3p)	(0.2p)
EBITDA	12	113	32

BALANCE SHEETS AT 31 DECEMBER 2007

	Notes	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Assets					
Non-current Assets					
Property, plant and equipment	13	182	110	-	-
Intangible assets	14	3,725	848	-	-
Investments in subsidiaries	16	-	-	6,119	6,119
Non-current receivables	17	10	10	-	-
Total non-current assets		3,917	968	6,119	6,119
Current Assets					
Trade and other receivables	18	2,221	2,484	40	36
Cash and cash equivalents	19	2,053	1,034	1,391	741
Total current assets		4,274	3,518	1,431	777
Total assets		8,191	4,486	7,550	6,896
Liabilities					
Current Liabilities					
Borrowings	20	755	414	-	1
Trade and other payables	21	1,376	1,434	443	332
Deferred revenue		1,552	1,010	-	-
Obligations under finance leases	22	3	3	-	-
Total current liabilities		3,686	2,861	443	333
Non-current Liabilities					
Borrowings	20	1,192	-	-	-
Obligations under finance leases	22	3	5	-	-
Total non-current liabilities		1,195	5	-	-
Total liabilities		4,881	2,866	443	333
Net assets		3,310	1,620	7,107	6,563
Equity and Reserves					
Capital and Reserves					
Share capital	25	7,279	6,679	7,279	6,679
Other reserves	26	73,499	72,827	65,734	65,062
Translation reserve	27	(191)	(164)	-	-
Retained losses	27	(77,277)	(77,722)	(65,906)	(65,178)
Total equity (all attributable to equity holders of the parent company)		3,310	1,620	7,107	6,563

Approved by the Board and authorized for issue on 26 March 2008

Barry K. Mence
Director

Arif Karimjee
Director

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

	Group		*Company*	
	2007	*2006*	*2007*	*2006*
	£'000	*£'000*	*£'000*	*£'000*
Exchange differences on translation of foreign operations	(27)	(133)	-	-
Net income/(expense) recognized directly in equity	(27)	(133)	-	-
Loss for the year	(443)	(303)	(1,616)	(560)
Total recognized income and expense for the year (all attributable to equity holders of the parent company)	(470)	(436)	(1,616)	(560)

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2007

	Notes	*Group*		*Company*	
		2007 *£'000*	*2006* *£'000*	*2007* *£'000*	*2006* *£'000*
Operating Activities					
Loss for the year		(443)	(303)	(1,616)	(576)
Adjustments for:					
Investment revenues		(70)	(39)	(62)	(35)
Finance costs		130	36	14	13
Depreciation of property, plant and equipment		94	33	-	-
Amortization of intangible assets		402	305	-	-
Share-based payment expense		105	62	105	78
Intra-group credits and charges		-	-	(147)	(239)
Provisions against intra-group loans		-	-	1,171	258
Operating cash flows before movements in working capital		218	94	(535)	(501)
Decrease/(increase) in receivables		399	(925)	(4)	2
Decrease/(increase) in payables		(375)	329	14	(15)
Net cash generated from/(used in) operating activities		242	(502)	(525)	(514)
Investing Activities					
Interest received		70	39	62	35
Purchases of property, plant and equipment		(78)	(54)	-	-
Acquisition of business		(1,894)	-	-	-
Recognition of development costs		(785)	(495)	-	-
Intra-group loans		-	-	(911)	(19)
Net cash used in investing activities		(2,687)	(510)	(849)	16
Financing Activities					
Proceeds of issues of shares		2,011	43	2,011	43
Proceeds from borrowings		1,758	-	-	-
Repayment of borrowings		(150)	(4)	-	-
(Decrease)/increase in bank overdrafts and lines of credit		(37)	92	-	-
Interest paid		(130)	(36)	(13)	(13)
Net cash from financing activities		3,452	95	1,998	30
Net Increase/(decrease) in cash and cash equivalents		1,007	(917)	624	(468)
Cash and cash equivalents at the beginning of the year		1,034	1,970	741	1,209
Effect of foreign exchange rate changes		12	(19)	26	-
Cash and cash equivalents at the end of the year					
Bank balances and cash	19	2,053	1,034	1,391	741

1. GENERAL INFORMATION

Sopheon plc. ("the Company") is a public limited company incorporated in England and Wales. The address of its registered office and principal place of business is set out on page 16. The principal activities of the Company and its subsidiaries are described in Note 3.

2. SIGNIFICANT ACCOUNTING POLICIES

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. The principal accounting policies are set out below. The policies have been applied consistently to all the years presented and on a going concern basis.

The group has adopted the following new standards:

- IFRS 7, Financial Instruments and a complementary amendment to IAS 1 Presentation of Financial Statements – capital disclosure (effective for accounting periods beginning on or after 1 January 2007). IFRS 7 requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Where these risks are deemed material to the group, it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32 "Financial Instruments: disclosure and presentation." The amendment to IAS 1 introduces disclosures about the level and management of an entity's capital. The group has applied IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning 1 January 2007.

- IFRIC 8, Scope of IFRS 2 (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issue or grant of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued. There was no impact on the group's accounts from its adoption.

- IFRIC 9, Reassessment of embedded derivatives (effective for accounting periods beginning on or after 1 June 2006). IFRIC 9 requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. There was no impact on the group's accounts from its adoption.

- IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits impairment losses recognized in an interim period on goodwill and investments in equity instruments and on financial assets carried at cost to be reversed at a subsequent balance sheet date. There was no impact on the group's accounts from its adoption.

The following new standards, amendments and interpretations to existing standards have been published that are mandatory for the group's accounting periods beginning on or after 1 January 2008 or later periods and which the group has decided not to adopt early. These are:

- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009). This standard sets out requirements for the disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. It replaces IAS 14, Segmental Reporting. The group expects to apply this standard in the accounting period beginning on 1 January 2009. As this is a disclosure standard it will not have any impact on the results or net assets of the group.

- IAS 23, Borrowing Costs (revised) (effective for accounting periods beginning on or after 1 January 2009). The revised IAS 23 is still to be endorsed by the EU. The main change from the previous version is the removal of the option of immediately recognizing as an expense borrowing costs that relate to qualifying assets, broadly being assets that take a substantial period of time to get ready for use or sale. The group is currently assessing its impact on the financial statements.

- IFRIC 11, IFRS 2 - Group and Treasury Share Transactions (effective for accounting periods beginning on or after 1 March 2007). IFRIC 11 requires share-based payment transactions in which an entity receives services as consideration for its own equity instruments to be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its

employees under the share-based payment arrangement. It also applies regardless of whether: (a) the employee's rights to the entity's equity instruments were granted by the entity itself or by its shareholder(s); or (b) the share-based payment arrangement was settled by the entity itself or by its shareholder(s). Management is currently assessing the impact of IFRIC 11 on the accounts.

- IAS 32, Amendments relating to Puttable Instruments and Obligations Arising on Liquidation (effective for accounting periods beginning on or after 1 January 2009). The amendment is intended to improve the accounting for particular types of financial instruments that have characteristics similar to ordinary shares but are at present classified as financial liability. Management do not anticipate this to have any impact on the accounts.

- IFRS 3, Revised Business combinations (effective for accounting periods beginning on or after 1 July 2009). The group is currently assessing its impact on the financial statements.

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 £6.3 million 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 installments 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, and was fully drawn down at 31 December 2007 for a value of £377,000.

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.

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.

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 capitalized at fair value as at the date of acquisition. The useful lives of these intangible assets are assessed and amortization 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.

Significant Accounting Estimates and Judgements

Management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates, and accordingly they are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or is in the period of the revision, and future periods if the revision affects both current and future periods. Assumptions regarding the depreciation of property, plant and equipment, and the amortization of intangible assets, are set out in notes 13 and 14 respectively. The group's policy with regard to impairment of such assets is set out below.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. If, after reassessment, the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity being acquired exceeds the cost of the business combination, the excess is recognized immediately in profit or loss. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to those cash-generating units of the group expected to benefit from the synergies of the business combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying value of the unit, the impairment loss is allocated firstly to reduce the carrying cost of any goodwill allocated to the unit and then to any other assets of the unit pro rata to the carrying value of each asset of the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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 recognized 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.

Borrowing Costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

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.

Foreign Currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in sterling, which is the functional currency of the parent company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at rates approximating to the transaction rates. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences on the retranslation of non-monetary items, in respect of which gains or losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

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.

On disposal of a foreign operation the cumulative exchange differences recognized in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the income statement as part of the profit or loss on disposal.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, 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 utilized.

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

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 recognized in profit or loss.

Investments

Investments in subsidiaries are stated at cost less impairment. Impairment tests are undertaken whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an investment exceeds its recoverable amount, the investment is written down accordingly.

Externally Acquired Intangible Assets

Externally acquired intangible assets are initially recognized at cost and subsequently amortized on a straight-line basis over their useful economic lives. The amortization expense is included in administration costs in the income statement.

Internally Generated Intangible Assets (Research and Development Expenditure)

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

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

Capitalized development costs are amortized over the period over which the group expects to benefit from selling the product developed, typically over four years.

Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in profit or loss as incurred.

Impairment of Tangible and Intangible Assets (Excluding Goodwill)

At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their net present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the administrative expenses line item in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying value of the asset or cash-generating unit is increased to the revised recoverable amount, but so that the increased carrying amount does not exceed the carrying amount which would have been determined had no impairment loss been recognized in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial Instruments

1. Financial Assets

The group's financial assets fall into the category of loans and receivables. The group does not have any financial assets in the categories of fair value through profit and loss or available for sale. The group has not classified any of its financial assets as held to maturity.

Unless otherwise indicated, the carrying values of the group's financial assets are a reasonable approximation of their fair values.

Loans and Receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services (e.g., trade receivables) but also include cash and cash equivalents and other types of contractual monetary asset. They are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue and subsequently carried at amortized cost using the effective interest rate method, less provision for impairment. The effect of discounting on these financial instruments is not considered material.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties, default or significant delay in payment on the part of the counterparty) that the group will be unable to collect all the amounts due under the terms of the receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the receivable. For trade receivables, such provisions are recorded in a separate allowance account with the loss being recognized within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

2. Financial Liabilities

The group classifies its financial liabilities in the category of financial liabilities measured at amortized cost. The group does not have any financial liabilities at fair value through profit or loss.

Unless otherwise indicated, the carrying values of the group's financial liabilities are a reasonable approximation of their fair values.

Financial Liabilities Measured at Amortized Cost

Financial liabilities measured at amortized cost include:

- Trade payables and other short-dated monetary liabilities, which are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

- Bank and other borrowings, which are initially recognized at fair value net of any transaction costs directly attributable to the acquisition of the instrument. Such interest-bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that the interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest payable while the liability is outstanding.

3. Share Capital

Financial instruments issued by the group are treated as equity only to the extent that they do not meet the definition of a financial liability. The group's ordinary shares are classified as equity. For the purpose of the disclosures given in note 24(d), the group considers its capital to comprise its ordinary share capital, share premium and other capital reserves less its accumulated retained loss.

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.

As set out in Note 25, the group has also issued warrants to certain financing institutions which are also treated as equity-settled, share-based payments and expensed over the life of the warrant instrument as set out above.

3. REVENUE

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

	2007	*2006*
	£'000	*£'000*
Continuing Operations		
Software and associated consultancy services	6,332	6,045

4. GEOGRAPHICAL SEGMENTS

The group's primary reporting format for segment information is geographical segments. Information relating to the group's geographical segments, which are North America, United Kingdom and Rest of Europe, is given below. The group's principal operations are based in the United States, the United Kingdom and the Netherlands.

For management purposes, the group is organized as a single business segment, namely the design, development and marketing of software products with associated implementation and consultancy services. Therefore, no analysis of the group's trading result and balance sheet in terms of a secondary reporting format for business segments is presented in this note.

The information in the following table relating to sales revenue provides an analysis by the location of customer, irrespective of the origins of the goods and services.

Year ended 31 December 2007	*North America*	*United Kingdom*	*Rest of Europe*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Income Statement				
External revenues	4,002	1,087	1,243	6,332
Inter-segment revenues	564	-	555	1,119
Net loss before interest and tax	(44)	(137)	(202)	(383)
Depreciation and amortization	(491)	(1)	(4)	(496)
Balance Sheet				
Capital expenditure	74	1	3	78
Total assets	6,192	1,869	130	8,191
Total liabilities	(3,792)	(732)	(357)	(4,881)

Year ended 31 December 2006	*North America*	*United Kingdom*	*Rest of Europe*	*Total*
	£'000	*£'000*	*£'000*	*£'000*
Income Statement				
External revenues	2,733	682	2,630	6,045
Inter-segment revenues	820	-	315	1,135
Net loss before interest and tax	(122)	(125)	(59)	(306)
Depreciation and amortization	(333)	(2)	(3)	(338)
Balance Sheet				
Capital expenditure	50	-	4	54
Total assets	3,106	1,146	234	4,486
Total liabilities	(1,743)	(829)	(294)	(2,866)

5. LOSS FOR THE YEAR

The loss for the year has been arrived at after charging/(crediting):

	2007 £'000	2006 £'000
Continuing Operations		
Net foreign exchange (gains)/ losses	(49)	35
Research and development costs (excluding amortization)	707	723
Amortization of intangible assets	402	305
Depreciation of property, plant and equipment	94	33
Operating lease rentals – land and buildings	265	298
Operating lease rentals – equipment and vehicles	87	78

6. AUDITORS' REMUNERATION

	2007 £'000	2006 £'000
Audit of the financial statements of the group	64	55

Fees for the audit of the Company are not segregated from those for the group and are included in the above amounts.

7. STAFF COSTS

	Group		Company	
	2007 Number	2006 Number	2007 Number	2006 Number
Wages and salaries	3,929	3,476	130	126
Social security costs	294	270	19	18
Pension contributions	76	65	10	10
Employee benefits expense	223	201	1	1
Share-based payments expense (all equity-settled)	105	62	17	12
	4,627	4,074	177	167

The average monthly number of employees during the year was made up as follows:

	Group		Company	
	2007 Number	2006 Number	2007 Number	2006 Number
Development and operations	55	35	-	-
Sales and management	30	28	2	2
	85	63	2	2

The above staff costs and the numbers of employees during the year include the executive directors.

The fees and emoluments of all directors were as follows:

	2007 £'000	2006 £'000
Fees and emoluments	423	461
Pension contributions	12	11
Share-based payments expense (all equity-settled)	29	21
	464	493

No director exercised share options during the year (2006: None).

Pension contributions are to personal defined contribution schemes and have been made for three directors (2006: three) who served during the year.

The emoluments of the highest paid director were as follows:

	2007 *£'000*	*2006* *£'000*
Emoluments	139	139
Benefits	2	9
Pension contributions to defined contribution schemes	5	2
Share-based payments expense (all equity-settled)	8	9
	154	159

8. FINANCE INCOME

	2007 *£'000*	*2006* *£'000*
Income on financial assets measured at amortized cost		
Interest income on bank deposits	70	39

9. FINANCE EXPENSE

	2007 *£000*	*2006* *£000*
Interest expense on financial liabilities measured at amortized cost		
Interest on borrowings	(130)	(36)

10. INCOME TAX EXPENSE

	2007 *£000*	*2006* *£000*
Income tax expense for the year	-	-

The charge for the year can be reconciled to the accounting loss as follows:

	2007 *£'000*	*2007* *%*	*2006* *£'000*	*2006* *%*
Loss before tax	(443)		(303)	
Tax credit at the UK corporation tax rate of 30 percent	133	30%	91	30%
Tax effect of expenses that are not deductible in determining taxable losses	(122)	(27%)	(29)	(9%)
Other movements	166	37%	57	18%
Losses for the year not relievable against current tax	(177)	(40%)	(119)	(39%)
	-	-	-	-

The group has an unrecognized deferred tax asset arising from its unrelieved trading losses, which has not been recognized owing to uncertainty as to the level and timing of taxable profits in the future.

The unrecognized deferred tax asset is made up as follows:

	2007	*2006*
	£'000	*£'000*
Shortfall of tax depreciation compared to book depreciation	165	165
Effect of timing differences arising from capitalization of internally generated development costs	(623)	(374)
Unrelieved trading losses	21,904	20,329
Unrecognized deferred tax asset	21,446	20,120

At 31 December 2007, tax losses estimated at £57 million were available to carry forward by the Sopheon group, arising from historic losses incurred. These losses represent a potential deferred tax asset of £21.9 million, based on the tax rates currently obtaining in the relevant tax jurisdictions.

Of these tax losses, an aggregate amount of £16.8 million (representing £7.7 million of the potential deferred tax asset) represents pre-acquisition tax losses of Sopheon Corporation (Minnesota), Orbital Software Inc. and Alignent Software, Inc. The future utilization of these losses may be restricted under section 382 of the US Internal Revenue Code, whereby the ability to utilize net operating losses arising prior to a change of ownership is limited to a percentage of the entity value of the corporation at the date of change of ownership.

11. LOSS DEALT WITH IN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

The loss dealt with in the financial statements of the parent company for the year ended 31 December 2007 was £1,616,000 (2006: £560,000). The loss in 2007 included a net provision of £1,171,000 (2006: £268,000) against the company's investment in and loans to subsidiary companies. Advantage has been taken of Section 230 of the Companies Act 1985 not to present an income statement for the parent company.

12. LOSS PER SHARE AND EBITDA

Loss per Share

	2007	*2006*
	£'000	*£'000*
Loss for the purpose of basic earnings per share	(443)	(303)
	'000s	*'000s*
Weighted average number of ordinary shares for the purpose of basic earnings per share	140,286	133,441

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted loss per ordinary share are identical to those used for calculating the basic loss per ordinary share in both 2007 and 2006. This is because the exercise of warrants to subscribe for 502,790 ordinary shares and of share options to subscribe for 10,925,314 ordinary shares, details of which are set out in Notes 25 and 30, would have the effect of reducing the loss per ordinary share and are therefore not dilutive.

EBITDA

The directors consider that EBITDA, which is defined as earnings before interest, tax, depreciation and amortization, is an important measure, since it is widely used by the investment community. It is calculated as follows:

	2007 *£'000*	*2006* *£'000*
Loss for the year	(443)	(303)
Interest expense	130	36
Interest income	(70)	(39)
Amortization of intangible assets	402	305
Depreciation of tangible fixed assets	94	33
EBITDA	113	32

13. PROPERTY, PLANT AND EQUIPMENT

Group	*Computer Equipment £'000*	*Furniture & fittings £'000*	*Total £'000*
Cost			
At 1 January 2006	1,644	352	1,996
Additions	50	4	54
Exchange differences	(109)	(21)	(130)
At 1 January 2007	1,585	335	1,920
Additions	73	5	78
Acquisitions	73	13	86
Exchange differences	22	7	29
At 31 December 2007	1,753	360	2,113
Accumulated Depreciation			
At 1 January 2006	1,564	331	1,895
Depreciation charge for the year	26	7	33
Exchange differences	(98)	(20)	(118)
At 1 January 2007	1,492	318	1,810
Depreciation charge for the year	83	11	94
Exchange differences	20	7	27
At 31 December 2007	1,595	336	1,931
Carrying Amount			
At 31 December 2007	158	24	182
At 31 December 2006	93	17	110

The following rates are used for the depreciation of property, plant and equipment:

Computer equipment	20% to 33% on a straight-line basis
Furniture and fittings	20% to 25% on a straight-line basis

The net carrying amount of property, plant and equipment includes £4,000 (2006: £8,000) in respect of assets held under finance leases.

Company

The company has no property, plant and equipment.

14. INTANGIBLE ASSETS

Group	*Development costs (internally generated)*	*Technology and IPR*	*Customer relationships*	*Goodwill*	*Total*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Cost					
At 1 January 2006	1,998	-	-	-	1,998
Additions (internally generated)	495	-	-	-	495
Exchange differences	(275)	-	-	-	(275)
At 1 January 2007	2,218	-	-	-	2,218
Additions (internally generated)	785	-	-	-	785
Acquisitions (see Note 15)	-	700	1,312	493	2,505
Exchange differences	(36)	-	1	-	(35)
At 31 December 2007	2,967	700	1,313	493	5,473
Amortization					
At 1 January 2006	1,234	-	-	-	1,234
Charge for the year	305	-	-	-	305
Exchange differences	(169)	-	-	-	(169)
At 1 January 2007	1,370	-	-	-	1,370
Charge for the year	233	87	82	-	402
Exchange differences	(24)	-	-	-	(24)
At 31 December 2007	1,579	87	82	-	1,748
Carrying Amount					
At 31 December 2007	1,388	613	1,231	493	3,725
At 31 December 2006	848	-	-	-	848

The amortization period for the internally generated development costs relating to the group's software products is four years. The amortization periods for (a) technology & IPR and (b) customer relationships, arising from the acquisition of Alignent Software, Inc., are four years and eight years respectively.

Goodwill is not amortized but is subject to annual impairment review.

Company
The company has no intangible assets.

15. ACQUISITION DURING THE YEAR

Acquisition of Alignent Software, Inc.

On 21 June 2007 the group acquired the whole of the share capital of Alignent Software, Inc. ("Alignent"), whose principal activity is the design, development and marketing of strategic product and technology roadmapping software for complex global companies. Details of the fair values of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Fair Value of Assets Acquired

	£'000	*£'000*	*£'000*
	Book values	*Fair value adjustments*	*Fair values*
Property, plant and equipment	86	-	86
Intangible assets (see Note 14)			
Technology	-	700	700
Customer relationships	-	1,312	1,312
Cash and cash equivalents	65	-	65
Receivables	149	-	149
Payables	(846)	-	(846)
	(546)	2,012	1,466

Consideration Paid

Cash consideration		1,852	
Costs of acquisition		107	
			1,959
Goodwill (see Note 14)			493

The fair values of property, plant and equipment, receivables and payables are the same as the carrying values immediately prior to the acquisition. The financial statements of Alignent Software, Inc ("Alignent") were not prepared under International Financial Reporting Standards and did not recognize the intangible assets included above. Goodwill represents the synergistic benefits resulting from the enlarged group's software offering, which synchronizes corporate strategic product plans with the execution of new product development, commercialization and management. Since the acquisition, Alignent has contributed an operating profit of £108,000 to the group result. This is stated before deducting £94,000 of interest on the loan from BlueCrest Capital used to finance the acquisition. In addition, the group has incurred amortization expense in connection with the intangible assets acquired amounting to £169,000.

If the acquisition of Alignent had taken place at the beginning of the year, the consolidated revenue of the group would have been £6,700,000. Due to differences between US and International Accounting requirements, Alignent did not have all the systems and processes required to record data that would enable the computation of consolidated profit or loss as if the acquisition had taken place at the start of the financial year.

16. SUBSIDIARIES

At 31 December 2006 and at 31 December 2007

	Company £'000
Cost	41,560
Less: Amounts provided	35,441
Carrying amount	6,119

Details of the company's subsidiaries at 31 December 2007 are set out below. Companies marked with an asterisk* are held via Sopheon UK Ltd. and those with an obelus† are held via Orbital Software Holdings plc. The common stock of Alignent Software, Inc. is held by Sopheon Corporation, Delaware, USA.

Name of Company Place of Incorporation	*Nature of Ownership Interest*	*Proportion of Voting Rights Held*	*Nature of Business*
Sopheon Corporation Minnesota, USA	Common Stock	100%	Software sales and services
Sopheon Corporation Delaware, USA	Common Stock	100%	Software development and sales
Alignent Software, Inc. California, USA	Common Stock	100%	Software sales and services
Sopheon NV The Netherlands	Ordinary Shares	100%	Software sales and services
Sopheon UK Ltd. United Kingdom	Ordinary Shares	100%	Software sales and services
Orbital Software Holdings plc. United Kingdom	Ordinary Shares	100%	Holding company
Orbital Software Inc.† Delaware, USA	Common Stock	100%	Dormant
Sopheon Edinburgh Ltd.† United Kingdom	Ordinary Shares	100%	Dormant
Orbital Software Europe Ltd.† United Kingdom	Ordinary Shares	100%	Dormant
Network Managers (UK) Ltd.* United Kingdom	Ordinary Shares	100%	Dormant
AppliedNet Ltd.* United Kingdom	Ordinary Shares	100%	Dormant
Future Tense Ltd.* United Kingdom	Ordinary Shares	100%	Dormant
Polydoc Ltd. United Kingdom	Ordinary Shares	100%	Dormant
Applied Network Technology Ltd.* United Kingdom	Ordinary Shares	100%	Employee Share Ownership Trust

During 2007 the group invested a further £48,000 in companies established to market the group's software products in France and New Zealand, in which the group has minority holdings. Full provision has been made against these investments during the year.

17. NON-CURRENT RECEIVABLE

		Group		Company
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Non-current receivable	10	10	-	-

The non-current receivable represents a deposit paid in respect of a property leased by the group.

18. TRADE AND OTHER RECEIVABLES

		Group		Company
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Amounts receivable from the sale of software and services	1,980	2,358	-	-
Other receivables	82	18	14	13
Total receivables	2,062	2,376	14	13
Prepayments and accrued income	159	108	26	23
	2,221	2,484	40	36

Of the trade receivables at 31 December 2006, £1,637,000 being the trade receivables of Sopheon Corporation Minnesota, were assigned as security to Silicon Valley Bank in respect of the line of credit referred to in Note 20. This line of credit was replaced during the year by a line of credit from BlueCrest Capital Finance LLC, secured by a debenture and guarantee of Sopheon plc. and is limited to the lesser of $750,000 (£377,000) and 75 percent of the eligible trade receivables of the group's US subsidiaries, which at 31 December 2007 amounted to $2,341,000 (£1,176,000).

Trade and other receivables are stated net of allowances totalling £47,000 (2006: £41,000) for estimated irrecoverable amounts. The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

A full provision has been made against amounts totalling £39,398,000 (2006: £38,278,000) owed to the company by subsidiary undertakings, which are due after more than one year and are subordinated to the claims of all other creditors.

19. CASH AND SHORT-TERM BANK DEPOSITS

		Group		Company
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Cash at bank	1,043	310	381	17
Short-term bank deposits	1,010	724	1,010	724
	2,053	1,034	1,391	741

Cash and short-term bank deposits comprise cash held by the group, bank current accounts and short-term bank deposit accounts with maturities of three months or less and bearing interest at variable rates. The carrying amount of these assets represents a reasonable approximation to their fair value.

Included in cash at bank of the group is an amount of £36,000 held by the group's employee share ownership trust.

20. LOANS AND BORROWINGS

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Current Loans and Borrowings				
Bank overdrafts	-	5	-	1
Line of credit	377	409	-	-
Loan notes (current portion)	378	-	-	-
	755	414	-	1
Non-current Loans and Borrowings				
Loan notes	1,192	-	-	-
Total loans and borrowings	1,947	414	-	1

The line of credit and the loan notes are denominated in US dollars.

The loan notes are for an initial principal amount of $3,500,000 repayable in equal installments over the four-year period to July 2011 and bear interest at a fixed rate of 11.03 percent.

The line of credit bears interest at a variable rate based on a margin of 1.25 percent over the Prime Rate. The line of credit is a revolving facility limited to the lesser of $750,000 and 75 percent of the eligible trade receivables of the group's US subsidiaries.

The loan notes and the line of credit, both of which are provided by BlueCrest Capital Finance LLC, are secured by a debenture and guarantee provided by Sopheon plc. The company has estimated the risk of this guarantee being called at 5 percent of the carrying value of the loan, and in its own financial statements has included a provision for this amount within other payables.

The directors consider that the carrying amounts for loan notes and the line of credit represent a reasonable approximation of the financial instruments' fair values.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Trade payables	211	377	22	34
Other payables	278	229	184	76
Accruals	887	828	237	222
	1,376	1,434	443	332

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The directors consider that the carrying amounts of trade and other payables represent a reasonable approximation to their fair values.

22. OBLIGATIONS UNDER FINANCE LEASES

The present value of future lease payments is analyzed as:

	Group		*Company*	
	2007 *£'000*	*2006* *£'000*	*2007* *£'000*	*2006* *£'000*
Current liabilities	3	3	-	-
Non-current liabilities	3	5	-	-
	6	8	-	-

The group leases a telephone system with a net carrying value at 31 December 2007 of £4,000 (2006: £8,000).

Future lease payments are due as follows:

At 31 December 2007	*Minimum lease payments £'000*	*Interest £'000*	*Present value £'000*
Within one year	3	-	3
Due in one-to-five years	4	1	3
	7	1	6

At 31 December 2006	*Minimum lease payments £'000*	*Interest £'000*	*Present value £'000*
Within one year	3	-	3
Due in one-to-five years	6	1	5
	9	1	8

23. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the group has outstanding commitments under operating leases in respect of which the total future minimum lease payments were due as follows:

	Land & buildings 2007 £'000	*Other 2007 £'000*	*Land & buildings 2006 £'000*	*Other 2006 £'000*
Due within one year	331	180	257	214
Due after one year and within five years	98	15	133	71
	429	195	390	285

Company
The company has no operating leases.

24. FINANCIAL INSTRUMENTS

Categories of Financial Assets and Liabilities

The following table set out the categories of financial instruments held by the group. All of the group's financial assets are in the category of loans and receivables, and all of its financial liabilities are in the category of financial liabilities measured at amortized cost.

Financial Assets

	Loans and receivables			
	Group		*Company*	
	2007 £'000	*2006 £'000*	*2007 £'000*	*2006 £'000*
Current Financial Assets				
Trade and other receivables	2,221	2,484	40	36
Cash and cash equivalents	2,053	1,034	1,391	741
	4,274	3,518	1,431	777
Non-current Financial Assets				
Non-current receivable	10	10	-	-

The group does not have any financial assets in the categories of financial assets held for trading or financial assets available for sale.

Financial Liabilities

	Financial liabilities measured at amortized cost			
	Group		*Company*	
	2007 £'000	*2006 £'000*	*2007 £'000*	*2006 £'000*
Current Financial Liabilities				
Trade and other payables	1,376	1,434	443	333
Loans and borrowings	755	414	-	-
Obligations under finance lease	3	3	-	-
	2,134	1,851	443	333
Non-current Financial Liabilities				
Loans and borrowings	1,192	-	-	-
Obligations under finance lease	3	5	-	-
	1,195	5	-	-
	3,329	1,856	443	333

The group does not have any financial liabilities in the category of financial liabilities held for trading.

Financial Instrument Risk Exposure and Management

The group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them.

There have been no changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods, unless otherwise disclosed in this note.

Principal Financial Instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Loan notes

General Objectives, Policies and Processes

The Board has overall responsibility for the determination of the group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The Board receives monthly reports from the group finance director through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The group's risk management procedures are also reviewed periodically by the Audit Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

1. Credit Risk

Credit risk arises principally from the group's trade receivables. It is the risk that the counterparty fails to discharge its obligations in respect of the instrument.

The group's software is principally marketed at major international corporations of good credit standing, and the group's historical bad debt experience is very low. Due to the potentially large size of certain individual sales, in a particular year, one customer can account for a substantial proportion of revenues recorded. However, such concentrations rarely persist for multiple years and therefore the directors do not believe that the group is systematically exposed to credit risk concentration in respect of particular customers. In 2007, the largest single customer accounted for 9 percent of group revenues but no revenue was recorded for this customer in 2006. Similarly, the largest single customer in 2006 accounted for 17 percent revenues in that year, but 2 percent of total revenues in 2007.

The following table illustrates the group's maximum exposure to credit risk by class of financial instruments at the balance sheet date, including a geographical analysis of exposure in respect of trade receivables:

	2007 Carrying Value £'000	*2007 Maximum exposure £'000*	*2006 Carrying value £'000*	*2006 Maximum exposure £'000*
Trade receivables				
North America	1,568	1,568	1,910	1,910
United Kingdom	377	377	334	334
Rest of Europe	35	35	114	114
Total trade receivables	1,980	1,980	2,358	2,358
Cash and cash equivalents	2,053	2,053	1,037	1,037
Maximum credit risk exposure	4,033	4,033	3,395	3,395

The group's customers are major international corporations of high credit standing and therefore the group does not typically obtain credit ratings for individual customers. Impairment of trade receivables is very rare and in the three years ending 31 December 2007 provisions or write-offs against customer receivables amounted in total to approximately 0.5 percent of revenues. Such impairments do not arise from credit defaults but principally from disagreements with a very small number of former customers over their responsibility for renewal fees for maintenance or hosting contracts. Sopheon's policy is to pursue collection of such fees but to make provision against the applicable receivable if collection is uncertain.

The following is an analysis of the group's trade receivables, identifying the totals of trade receivables which are current and those which are 30 days or more past due but not impaired:

	Total £'000	*Current £'000*	*Past due +30 days £'000*	*Past due +60 days £'000*
At 31 December 2007	1,980	1,864	36	80
At 31 December 2006	2,358	1,593	222	143

The following is an analysis of the group's provisions against trade receivables, analyzed between the geographical segments in which the group's operations are located:

	£'000 Gross value	*2007 £'000 Provision*	*£'000 Carrying value*	*£'000 Gross value*	*2006 £'000 Provision*	*£'000 Carrying value*
Trade receivables						
North America	1,611	43	1,568	1,915	5	1,910
United Kingdom	381	4	377	338	4	334
Rest of Europe	35	-	35	146	32	114
	2,027	47	1,980	2,399	41	2,358

The group records impairment losses on its trade receivables separately from the gross amounts receivable. The movements on this allowance during the year are summarized below:

	2007 £'000	*2006 £'000*
Opening balance	41	5
Increases in provisions	39	36
Written off against provisions	(14)	
Recovered amounts reversed	(19)	-
Closing balance	47	41

The main factors used in assessing the impairment of trade receivables are the age of the balances and the circumstances of the individual customer.

The company does not have any credit risk in respect of trade receivables. The company has a maximum credit risk in respect of cash and cash equivalents of £1,391,000 (2006: £741,000) included in the group totals above.

2. Liquidity Risk

Liquidity risk arises from the group's management of working capital, and more particularly its ability to reach a point where its trading is cash generative, together with the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulties in meeting its financial obligations as they fall due.

The group's policy is to maintain significant cash balances, short-term bank deposits, trade receivables and facilities with a view to having sufficient cash to meet its liabilities when they become due. The Board annually approves budgets including cash-flow projections for each of the operating companies within the group and receives regular information as to cash balances held and progress against budget. Attention is particularly drawn to the detailed discussion of the factors which enable the group to continue as a going concern for the foreseeable future in the section headed "Going Concern" in Note 2 to the financial statements.

The following table sets out an analysis of the contractual maturity of the group's financial liabilities that must be settled gross, based on exchange rates prevailing at the relevant balance sheet date.

Group
At 31 December 2007

	Within one year £'000	*One to five years £'000*	*Total £'000*
Trade and other payables	1,376	-	1,376
Line of credit	377	-	377
Loan notes	378	1,192	1,570
Total financial liabilities	2,131	1,192	3,323

At 31 December 2006

	Within one year £'000	*One to five years £'000*	*Total £'000*
Trade and other payables	1,434	-	1,434
Line of credit and overdrafts	414	-	414
Total financial liabilities	1,848	-	1,848

Company
At 31 December 2007

	Within one year £'000	*One to five years £'000*	*Total £'000*
Trade and other payables	443	-	443
Total financial liabilities	443	-	443

At 31 December 2006

	Within one year £'000	*One to five years £'000*	*Total £'000*
Trade and other payables	333	-	333
Total financial liabilities	333	-	333

3. Market Risk

Market risk arises from the group's use of interest-bearing and foreign currency financial instruments. It is the risk that the future cash-flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

The group does not have any financial instruments that are publicly traded securities and is not exposed to other price risk associated with changes in the market prices of such securities.

4. Interest Rate Risk

The group's interest bearing liabilities comprise loan notes with a carrying value of £1,570,000 which bear a fixed interest rate of 11.03 percent and accordingly do not give rise to interest rate risk, together with a line of credit for £377,000 which bears a variable interest rate based on 1.25 percent above the lender's prime rate. Should this rate vary by 0.5 percent the annualized effect would be to increase or reduce finance costs by £2,000.

The group invests its surplus cash in bank deposits denominated in dollars, euros or sterling, which bear interest based on short-term money market rates, and in doing so exposes itself to fluctuations in money market interest rates. The group's and the company's surplus cash held in the form of bank deposits at the balance sheet date was £1,010,000 (2006: £724,000). The annualized effect of a movement of 0.5 percent in the average interest rate received on the group's and the company's bank deposits at the balance sheet date would result in an increase or decrease in the group's and the company's interest income of £5,000 (2006: £4,000).

5. Currency Risk

The group's policy is, where possible, to allow group entities to settle liabilities denominated in the functional currency with cash generated from their own operations in that currency. The group also maintains cash and bank deposits in the currencies which are the functional currencies of its operating entities, which are the US dollar, the euro and sterling.

The group is exposed to currency risk in respect of such foreign currency denominated bank deposits and bank loans. Taking into account the fact that a large proportion of the group's income and expenditure arise in US dollars and, to a lesser extent, in euros, the group's policy is not to seek to hedge such currency risk.

Foreign currency risk also arises where individual group entities enter into transactions denominated in currencies other than their functional currency, with fluctuations in exchange rates giving rise to gains or losses in the income statement. Where the foreign currency risk to the group is significant, consideration is given to hedging the risk through the forward currency market and, while this would be an economic hedge of the cash-flow risk, the group does not employ hedge accounting.

Assets and liabilities of group entities located in the United States and the Netherlands are denominated respectively in US dollars and euros and are therefore exposed to currency risk giving rise to gains or losses on translation into sterling, which are recognized directly in equity through the translation reserve. Such assets include the group's intangible assets, which are denominated in US dollars, and the group's line of credit and loan notes, which are also denominated in US dollars. It is not the group's policy to hedge its net investments in foreign operations because it judges that the necessary hedging techniques would involve risks to cash flow.

The following table shows the effects, all other things being equal, of changes to exchange rates on the group's loss after tax and on the exchange differences on retranslation of the assets and liabilities of foreign operations which is recognized directly in equity. It illustrates the effects if the exchange rates for the US dollar and the euro had been higher or lower than those which actually applied during the year and at the year end.

	2007	*2006*	*2007*	*2006*
	(Increase)/decrease in loss after tax		*Effect on exchange differences on translation of assets and liabilities of foreign operations*	
	£'000	*£'000*	*£'000*	*£'000*
Weakening of US dollar by 10c	11	27	(138)	(93)
Strengthening of US dollar by 10c	(12)	(30)	148	103
Weakening of euro by 10c	34	15	(19)	(11)
Strengthening of euro by 10c	(31)	(17)	16	13

The company holds certain assets, mainly bank deposits, and liabilities denominated in the functional currencies of its principal operating subsidiaries, which are the US dollar, the euro and sterling. The following table shows the effects, all other things being equal, of changes to exchange rates at the year end on the loss after tax of the company. It is based on the company's assets and liabilities at the relevant balance sheet date.

	2007	*2006*
	(Increase)/decrease in loss after tax	
	£'000	*£'000*
Weakening of US dollar by 10c	3	3
Strengthening of US dollar by 10c	(3)	(4)
Weakening of euro by 10c	(93)	(52)
Strengthening of euro by 10c	108	46

6. Capital

The group considers its capital to comprise its share capital and share premium and other capital reserves less the accumulated retained losses. The group is not subject to any externally imposed capital requirements. In managing its capital, the group's primary objective in managing its capital is to support the development of the group's activities through to the point where they are cash generative on a sustained basis.

The group's capital is all equity capital and is summarized in Note 27.

25. SHARE CAPITAL

Authorized	*2007 Number*	*2007 £000*	*2006 Number*	*2006 £000*
Ordinary shares of 5p each	175,000,000	8,750	175,000,000	8,750

Issued and Fully Paid	*2007 Number*	*2007 £000*	*2006 Number*	*2006 £000*
At 1 January	133,579,027	6,679	133,305,139	6,665
Issued for cash	12,000,000	600	-	-
Issued on exercise of share options	-	-	273,888	14
At 31 December	145,579,027	7,279	133,579,027	6,679

The company has one class of ordinary shares, which carry no right to fixed income.

On 21 June 2007, 12,000,000 new ordinary shares were issued by way of a placing for cash at 17.5p per share to raise £2.1 million before expenses to fund the cash consideration payable in respect of the acquisition of Alignent Software, Inc. and the expenses of the transaction, and to provide working capital for the enlarged group. On the same date, 502,790 warrants to subscribe for ordinary shares at a price of 20p per share were issued to BlueCrest Capital Finance LLC in connection with the financing of the acquisition.

26. CAPITAL RESERVES

Group

	Share premium £'000	*Merger reserve £'000*	*Capital redemption reserve £'000*	*Share options reserve £'000*	*Total £'000*
At 1 January 2006	50,656	17,944	2,884	1,447	72,931
Shares issued at a premium	29	-	-	-	29
Recognition of share-based payments	-	-	-	62	62
Lapsing of share options	-	-	-	(195)	(195)
At 1 January 2007	50,685	17,944	2,884	1,314	72,827
Shares issued at a premium	1,411	-	-	-	1,411
Recognition of share-based payments	-	-	-	149	149
Lapsing of share options	-	-	-	(888)	(888)
At 31 December 2007	52,096	17,944	2,884	575	73,499

Company

	Share premium £'000	*Merger reserve £'000*	*Capital redemption reserve £'000*	*Share options reserve £'000*	*Total £'000*
At 1 January 2006	50,656	10,179	2,884	1,447	65,166
Shares issued at a premium	29	-	-	-	29
Recognition of share-based payments	-	-	-	62	62
Lapsing of share options	-	-	-	(195)	(195)
At 1 January 2007	50,685	10,179	2,884	1,314	65,062
Shares issued at a premium	1,411	-	-	-	1,411
Recognition of share-based payments	-	-	-	149	149
Lapsing of share options	-	-	-	(888)	(888)
At 31 December 2007	52,096	10,179	2,884	575	65,734

Share premium represents the premium arising on the issue of shares and its use is governed by the provisions of the Companies Act 1985.

Merger reserve is a non-statutory reserve representing the premium on the issue of shares pursuant to certain past business combinations which meet specified criteria.

The capital redemption reserve is a non-distributable reserve arising from the cancellation in 2001 of deferred shares.

The share options reserve comprises the value of outstanding share options granted in connection with the acquisitions of Teltech Resource Network Corporation in 2000 and of Orbital Software Holdings plc. in 2001, together with the fair value of share-based payments to employees pursuant to the group's share option schemes and the fair value of warrants to subscribe for Sopheon shares issued to BlueCrest Capital Finance LLC.

27. CHANGES IN EQUITY

Group

	Share capital £'000	*Capital reserves £'000*	*Translation reserve £'000*	*Retained earnings £'000*	*Total £'000*
At 1 January 2006	6,665	72,931	(31)	(77,614)	1,951
Shares issued at a premium	14	29	-	-	43
Recognition of share-based payments	-	62	-	-	62
Lapsing of share options	-	(195)	-	195	-
Exchange differences on translation of foreign operations	-	-	(133)	-	(133)
Loss for the year attributable to equity shareholders	-	-	-	(303)	(303)
At 1 January 2007	6,679	72,827	(164)	(77,722)	1,620
Shares issued at a premium	600	1,411	-	-	2,011
Recognition of share-based payments	-	149	-	-	149
Lapsing of share options	-	(888)	-	888	-
Exchange differences on translation of foreign operations	-	-	(27)	-	(27)
Loss for the year attributable to equity shareholders	-	-	-	(443)	(443)
At 31 December 2007	7,279	73,499	(191)	(77,277)	3,310

Company

	Share capital £'000	*Capital reserves £'000*	*Retained earnings £'000*	*Total £'000*
At 1 January 2006	6,665	65,166	(64,813)	7,018
Shares issued at a premium	14	29	-	43
Recognition of share-based payments	-	62	-	62
Lapsing of share options	-	(195)	195	-
Loss for the year attributable to equity shareholders	-	-	(560)	(560)
At 1 January 2007	6,679	65,062	(65,178)	6,563
Shares issued at a premium	600	1,411	-	2,011
Recognition of share-based payments	-	149	-	149
Lapsing of share options	-	(888)	888	-
Loss for the year attributable to equity shareholders	-	-	(1,616)	(1,616)
At 31 December 2007	7,279	65,734	(65,906)	7,107

28. RETIREMENT BENEFIT PLANS

The group operates defined contribution retirement benefit plans which employees are entitled to join. The total expense recognized in the income statement of £76,000 (2006: £65,000) represents contributions paid to such plans at rates specified in the rules of the plans.

29. RELATED PARTY TRANSACTIONS

Details of transactions between the group and related parties are disclosed below.

Compensation of Key Management Personnel

Details of directors' remuneration are given in Note 7. The total remuneration of directors and members of the group's management committee during the year was as follows:

	2007	*2006*
	£'000	*£'000*
Emoluments and benefits	617	649
Pension contributions	17	16
	634	665

Transactions with Related Parties Who Are Subsidiaries of the Company

The following is a summary of the transactions of the company with its subsidiaries during the year:

	2007	*2006*
	£'000	*£'000*
Amounts advanced to subsidiaries by way of interest-free loans	911	19
Net management charges to subsidiaries	209	239

During 2007 and 2006 the company granted share options to employees of subsidiary companies, details of which are disclosed in Note 30.

Other Related Party Transactions

There were no other related party transactions during the year under review or the previous year.

30. SHARE-BASED PAYMENTS

Equity-Settled Share Option Schemes

The group has a number of share option schemes for all employees. Options are exercisable at a price equal to the market price on the date of grant. The normal vesting periods are as set out below.

	Vesting
Sopheon plc (USA) stock option plan	In three equal tranches between the first and third anniversary of grant
Sopheon UK approved share option scheme	On third anniversary of grant
Sopheon UK unapproved share option scheme	Immediate or as per USA plan
Sopheon NV share option scheme	Immediate or as per USA plan

Details of the share options outstanding during the year are as follows:

	Number of share options 2007	*Weighted average exercise price 2007 £*	*Number of share options 2006*	*Weighted average exercise price 2006 £*
Outstanding at the beginning of the year	9,439,665	0.33	8,530,716	0.36
Granted during the year	1,857,500	0.19	1,602,500	0.22
Exercised during the year	-	-	(273,888)	0.16
Lapsed during the year	(371,851)	1.47	(419,663)	0.57
Outstanding at the end of the year	10,925,314	0.27	9,439,665	0.33
Exerciseable at the end of the year	7,752,875	0.30	7,147,165	0.37

No share options were exercised during the year. The weighted average share price at the date of exercise for share options exercised during 2006 was 21p. The options outstanding at the end of the year have a weighted average remaining life of 6.4 years (2006: 7.5 years).

In 2007, share options were granted on 28 June 2007. The exercise price of the options granted on that date was 19p, and the estimated fair value was 11.25p. In 2006, share options were granted on 15 April 2006 and on 11 October 2006. The exercise prices of the options granted on those dates were 22p and 18.75p respectively, and the estimated fair values were 13p and 11.1p respectively.

The fair values were calculated using the binomial option-pricing model. The principal assumptions used were:

	28 June 2007	*15 April 2006*	*11 October 2006*
Share price at time of grant	19p	22p	18.75p
Exercise price	19p	22p	18.75p
Expected volatility	40%	40%	40%
Risk-free rate	5%	5%	5%
Expected dividend yield	Nil	Nil	Nil

The expected life of the options used was either five or ten years, depending upon the particular scheme rules.

Expected volatility was determined by reference to the historic volatility of the company's share price in the period before the date of grant.

The group recognized total expenses of £105,000 (2006: £62,000) relating to equity-settled, share-based payments during the year.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on 26 March 2008.

DIRECTORS AND SENIOR MANAGEMENT

Barry Mence, Executive Chairman. Barry Mence has served as executive chairman and as a director and substantial shareholder of Sopheon since its inception in 1993 when he was one of the founding members. From 1976 to 1990, Mr. Mence was a major shareholder and group managing director of the Rendeck Group of Companies, a software and services group based in the Netherlands.

Andrew Michuda, Executive Director. Andrew Michuda was appointed chief executive officer of Sopheon in September 2000. From 1997 to 2000 he served as chief executive officer and an executive director of Teltech Resource Network Corporation, which was acquired by Sopheon. He earlier held senior leadership positions at Control Data, including general manager of the business that evolved into Decision Data, the world's largest independent computer services provider.

Arif Karimjee, ACA, Executive Director. Arif Karimjee has served as chief financial officer of Sopheon since February 2000. Mr. Karimjee was previously an auditor and consultant with Ernst & Young in London, Brussels and Reading, from August 1988 until joining Sopheon.

Stuart Silcock, FCA, Non-executive Director. Stuart Silcock has served as a director of Sopheon from its inception in 1993. Since 1982, Mr. Silcock has been a principal partner of Lawfords & Co. and a director of Lawfords Ltd., chartered accountants. Mr. Silcock was a non-executive director of Brown & Jackson plc. for four years from June 2001 to July 2005 and currently holds a number of other directorships in the United Kingdom.

Bernard Al, Non-executive Director. Bernard Al was appointed as director of Sopheon in January 2001. He is a former chief executive officer of Wolters Kluwer in the Netherlands and has a background in science and linguistics.

Daniel Metzger, Non-executive Director. Daniel Metzger was until 1998 an executive vice president of Lawson Software, a leading ERP provider, where he was responsible for corporate strategy and marketing. Since then he has held similar roles at Parametric Technologies, where he led the business strategy and marketing around collaborative product development technologies, and at nQuire Software, which was subsequently sold to Siebel.

Ronald Helgeson, Vice President of Corporate Communications. Ronald Helgeson has served as vice president of corporate communications for Sopheon since 2000. He previously held senior marketing-management roles with Teltech Resource Network Corporation and 3M Company.

Paul Heller, Chief Technology Officer. Paul Heller was appointed chief technology officer in June 1999. He was previously vice president of product management for Baan Company.

Huub Rutten, Vice President of Product Research and Design. Huub Rutten is responsible for Sopheon's healthcare business in the Netherlands and also has responsibility for product research. A founder of Sopheon, he was a director until September 2000 when he assumed a more operational role.

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