

Delcam



**ANNUAL
REPORT**

2007





Delcam GmbH machined a giant replica of the head of the Roman Emperor Constantine for an exhibition in Trier, Germany



Delcam started 2008 with its largest-ever Sales Partner Meeting in Estepona, Spain



To mark Delcam's 20th anniversary of doing business in Japan, Delcam's Asian Business Development Director, Tim Mitchell, presented a plaque to Katsuhiko Ishii, Managing Director of Ishii Iron Works, the company's first customer in the country



Delcam has added a new WFL mill-turn machine to the range of equipment in its in-house toolroom



Delcam's Marketing Director Bart Simpson welcomed Sir Digby Jones, UK Minister of State for Trade and Investment to the stand at EMO



Delcam India's Directors at a blessing ceremony prior to the opening of the new £0.5 million office complex



Delcam Managing Director, Hugh Humphreys, presented a plaque to Laroche General Manager, Hervé Pouyet, during a recent visit to Delcam. Laroche, Delcam's longest-standing customer in France, has used our software for 20 years

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Company Information

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Directors

TRM Kinsey
(Chairman, non-executive) (retired 14 May 2007)

PT Miles
(Chairman, non-executive) (appointed 14 May 2007)

G McFarland
(non-executive) (appointed 14 May 2007)

HRO Humphreys, OBE
(Managing Director)

EB Lambourne
(Technical Director)

CP Martell
(Operations Director)

K Singh
(Finance Director)

SM Hobbs
(Development Director)

BJ Simpson
(Commercial Director)

Secretary

K Singh

Registered office

Talbot Way
Small Heath Business Park
Birmingham
B10 0HJ

Registered number

2311487

Nominated Broker and Nominated Adviser

Brewin Dolphin Securities Limited
Edmund House
12–22 Newhall Street
Birmingham
B3 3DB

Public Relations

Biddicks Associates Limited
Mercury House
Triton Court
14-18 Finsbury Square
London
EC2A 1BR

Bankers

Fortis Bank
Camomile Court
23 Camomile Street
London
EC3A 7PP

Solicitors

Wragge & Co.
55 Colmore Row
Birmingham
B3 2AS

Auditors

Grant Thornton LLP
Registered Auditor and Chartered Accountants
Centre City Tower
7 Hill Street
Birmingham
B5 4UU

Registrars

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

Chairman's Statement

INTRODUCTION

In my first Annual Report as Chairman, I am pleased to report that the business has performed robustly. Results for the financial year to 31 December 2007 show that sales reached record levels. This growth has been achieved partly as a result of the addition during 2006 of the PartMaker and Crispin families of software to the Delcam range and partly through increased organic growth of existing Delcam products.

With more than half of Delcam's global sales undertaken in the US\$, results are especially creditable given the background of US dollar weakness, which adversely affected sales and profitability. The impact of the weak dollar reduced Group profit by in excess of £0.5 million. The robustness of our results demonstrates the high quality of our software offering and the diversified spread of our business across the many industries in which we operate.

FINANCIAL HIGHLIGHTS

The Group has adopted International Financial Reporting Standards (IFRS) for the year ended 31 December 2007 and, accordingly, comparative figures in respect of the period ended 31 December 2006 have been restated. Although IFRIC 14 has not yet been endorsed by the EU, the Company has adopted the prudent accounting practices of IFRIC 14 early and not recognised the IAS 19 pension surplus of £1.7 million for the year ended 31 December 2007.

Group sales for the year to 31 December 2007 rose by 11% to £29.7 million from £26.7 million in 2006. As previously stated, the weak dollar significantly impacted profitability and profit before tax was £2.15 million compared with £2.79 million in 2006. Following the issue of new shares as a result of the investment by Renishaw Plc detailed below, basic earnings per share fell to 24.6p from 38.2p last year. Maintenance revenues increased by 12.8% to £8.1 million and now represent 27% of Group revenues. Our maintenance revenues represent high quality, recurring earnings and provide us with good earnings visibility looking forward.

The Group remains highly cash generative with net cash inflow from operating activities in the year of £2.3 million (2006: £2.4 million). After £1.7 million spent on capital expenditure, the Group's net cash was £5.3 million (2006: £(0.7) million). We remain committed to investing in ongoing research and development, which ensures that our software offerings remain market-leading within our chosen sectors. As our product range has grown so has our R&D investment. Over the year, R&D investment totalled £7.8 million (2006: £7.3 million) and we released improved versions of all of our main software products during the period. The value that our customers place in these enhancements is reflected in the record levels of income from maintenance contracts.

The Group's strong balance sheet gives the Company the flexibility, particularly in the current economic climate, to pursue opportunities which may arise to acquire complementary businesses or products.

DIVIDEND

The Board is pleased to propose an increase of the final dividend to 4.0p per ordinary share (2006: 3.8p). This makes a total for the year of 5.25p per share (2006: 5.0p), an increase of 5% on last year. The final dividend will be paid on 16 May 2008 to shareholders on the Register as at 4 April 2008 (the ex-dividend date being 2 April 2008).

RENISHAW PLC PLACING

At an EGM held on 23 April 2007, Delcam shareholders voted to accept an investment of £6.1 million from leading UK metrology Company, Renishaw Plc. This investment was effected through a placing of 1,524,052 new Delcam Ordinary Shares with Renishaw at £4.00 per share. Following the placing, we were pleased to appoint Renishaw Director, Geoff McFarland, as a non-executive Director of Delcam.

Chairman's Statement (continued)

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Renishaw and Delcam have worked together for many years and share common metrology interests and customers. Since April, we have been working together on new software initiatives, including the development of software to support Renishaw's new inspection probes. We are also jointly looking at software applications for the dental and medical industries.

REVIEW

The Group made good progress over the year. We continue to grow the sales of our core CAD/CAM products and to expand the international distribution of the additional software ranges acquired during 2005 and 2006.

The most impressive growth has been among our European subsidiaries in France, Germany and Italy, where sales across the three countries improved by over £1 million. In North America, the management changes we implemented towards the end of 2006 have resulted in increased sales but this was overshadowed by the impact of the dollar weakness. Other areas where we did well included the emerging economies of China, India, Russia and South America.

The addition of the Crispin range for footwear design and manufacture to our existing software has reinforced our position as the world's leading supplier of software to the industry. We are further broadening our offering in this area with the addition of software for orthotic and orthopaedic applications. The acquisition of PartMaker has given us strength in the supply of systems for the programming of Swiss-type lathes and mill-turn machines and its addition now allows us to offer the widest range of industry-leading CAM software from any supplier.

2007 also saw continued growth in our Professional Services Group to meet the increasing demand for its consultancy expertise, especially from aerospace engine manufacturers and from companies that machine aerostructures. In order to promote further growth in our Professional Services activity and in particular to develop opportunities in mainland Europe, we have begun similar operations in France and the Netherlands. The Professional Services Group has worked closely with our Tooling Services Division on projects where it has developed processes that have been used for initial production in our in-house manufacturing facility. To support a number of these projects, we have invested in a new mill-turn machine. This additional capacity is already committed for the majority of 2008.

We continue to ensure that our software products remain industry-leading through significant investment in research and development and believe this policy will ensure higher sales over the longer term.

OUTLOOK

We have had an encouraging start to the current year but we will not be immune to any global downturn in economic activity. However, by offering our wide range of products and services across a number of industries, we are in a position to capitalise on the variety of opportunities available to us. We continue to view prospects for the business over the long term very positively.

I would like to thank all our staff worldwide for their loyalty, hard work and dedication during the year.

PETER MILES

Chairman

28 March 2008

Report of the Directors

The Directors present their annual report and the audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the supply of CAD/CAM systems and services for the design of products with complex shapes and their manufacture with tooling.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The results are set out on page 13. The Group turnover and profit after tax for the year ended 31 December 2007 was £29.7 million (2006: £26.7 million) and £1,747,000 (2006: £2,369,000) respectively. The retained profit for the year will be transferred to reserves.

This report should be read in conjunction with the Chairman's Statement on pages 2 to 3. This report provides details of the Group's trading during the year and an assessment of the Group's future prospects.

The Group continues to undertake significant research and development expenditure, which amounted to £7,827,000 during the year (2006: £7,285,000) and will benefit from research and development tax allowances in the United Kingdom.

DIVIDENDS

The 2006 final dividend of £230,000 and the 2007 interim dividend of £97,000 were paid in 2007 (2006: a final 2005 dividend of £207,000 and a 2006 interim dividend of £69,000). The Directors recommend the payment of a final dividend for the year ended 31 December 2007 of 4.0 pence per share.

KEY PERFORMANCE INDICATORS

The Directors have established a number of key performance indicators, which are used to measure and monitor the performance of the Group in a number of different areas.

The Group's primary internal measurement is performance against annual budgets. In the table below "Target" represents the Group's consolidated budget for 2007. Source data is taken from the audited financial statements and the Group's budget.

Key performance indicator	Target	2007	2006
Return on capital employed (ROCE) ¹	10-25%	9.8%	27.1%
Sales per employee ²	£62,000	£62,278	£61,050
Gross margin ³	64%	65.5%	64.3%
Operating cashflow to operating profit ⁴	1 : 1	1.42 times	0.98 times

Notes to KPIs

- ¹ Return on capital employed = Operating profit as a percentage of closing equity shareholder funds.
The Group aims to optimise shareholder value by delivering a high return on its shareholders' funds.
The significant reduction in ROCE is primarily due to the new share issue of 1.5 million Ordinary Shares to Renishaw Plc for £6.1 million, which has increased shareholder funds.
- ² Sales per employee = Turnover divided by average number of employees.
The Group aims to optimise its ratio of sales per employee.
- ³ Gross margin = Gross profit as a percentage of turnover. The Group is encouraged to deliver margins in the range of 60-65%.
- ⁴ Operating cash flow to operating profit = operating cashflows as a percentage of operating profit.
The Group aims to convert its operating profit into operating cash flows.

Report of the Directors (continued)

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PRINCIPAL RISKS AND UNCERTAINTIES FACING THE BUSINESS

This annual report contains certain forward looking statements. These statements are made by the Directors in good faith, based on the information available to them up to the time of approval of this report. Actual results may differ to those expressed in such statements depending on a variety of factors. These factors include variability in the levels of demand in the market, restrictions to market access, competitive pressures on pricing, delays or additional cost in product design and launch programmes and overall economic conditions.

A risk inherent in this industry occurs in the management of and its controls around cash of its foreign businesses. To mitigate these risks the Group's senior management regularly visit overseas sites, and monitor the financial performance in line with monthly budgets.

Other specific risks relevant to Delcam Plc are:

- Technological changes — mitigated by continual investment in research and development
- Intellectual property infringement and piracy
- Recruitment and retention of a highly skilled workforce
- Foreign exchange rate fluctuations and management of this risk
- Transactions with politically unstable economies
- Contracts with high risk industries

DIRECTORS AND THEIR INTERESTS

Included in the Board of Directors are two non-executive Directors, a number which is considered appropriate for a Group of this size.

TRM Kinsey retired on 14 May 2007 as the non-executive Chairman and was replaced by PT Miles on the same date. PT Miles has been a non-executive Director since April 1997. He is a former corporate finance partner in Deloittes.

G McFarland was appointed on 14 May 2007 and is a Director of Renishaw Plc.

SM Hobbs and BJ Simpson were appointed as Directors on 27 March 2008.

The Directors who served during the year and the beneficial interests of those serving at the end of the year in the shares of the Company are as follows:

	Ordinary shares of 10p each	
	2007	2006
G McFarland	—	—
PT Miles	102,500	102,500
HRO Humphreys	976,576	971,576
EB Lambourne	924,903	924,903
CP Martell	147,376	146,147
K Singh	33,314	35,587

In accordance with the Company's Articles of Association, HRO Humphreys and CP Martell retire by rotation and, being eligible, offer themselves for re-election.

SHARE OPTION SCHEMES

The Group operates both an Approved and Unapproved share option scheme and an Employee Benefit Trust. Further information is set out in notes 25 and 26 of these financial statements and details of the Directors' share options are set out below:

	Date of grant	1 January 2007	31 December 2007	Exercise price (p)	Earliest date for exercise	Latest date for exercise
Approved scheme						
CP Martell	6 June 1997	1,229	—	168p	6 June 2000	5 June 2007

CP Martell exercised share options at 168 pence per share on 24 April 2007. The closing mid-price of the shares on 31 December 2007 was 237p (2006: 312p), reflecting a bid price of 232p and an offer price of 242p. The high and low for the year were 451p and 225p respectively.

Report of the Directors (continued)

Share options form part of the Group's strategy of retaining and incentivising key members of staff. See note 26 for further information on the Group's share-based payments.

DIRECTORS' SERVICE CONTRACTS

Executive Directors have service contracts with the Company that expire by serving 12 months' notice of termination.

Non-executive Directors have contracts for services with the Company that expire by serving six months' notice of termination.

SHARE CAPITAL

On 23 April 2007, the Company placed 1,524,052 new ordinary shares in the Company with Renishaw Plc, to raise £6.1 million before expenses.

SUBSTANTIAL SHAREHOLDINGS

At 28 March 2008, so far as the Company is aware, the only person, other than Directors, holding an interest comprising 3% or more of the Ordinary share capital of the Company was:

	Number of Ordinary shares	Percentage of issued share capital
Renishaw Plc	1,524,052	19.8%

EMPLOYEES

It is Group policy to provide employment opportunities and retraining where possible for disabled people and to care for people who become disabled whilst in the Group's employment. The Group operates an equal opportunities employment policy.

The Group has well established structures and procedures for consultation, communication and negotiation with its employees, appropriate to the Company concerned. Importance is placed on this aspect of the business and all managers have a responsibility to this end.

SPECIAL RESOLUTIONS

The Directors draw your attention to resolution 6 set out in the Notice of meeting on page 53. The special resolution will be proposed to allow the Directors to make market purchases of ordinary shares in the capital of the Company. Once purchased, the shares will be treated as cancelled and the issued share capital of the Company will be reduced by that amount. The authority is limited to not more than 10% of the current issued share capital.

The Directors will only exercise this authority in circumstances where the Directors believe it would result in an increase in earnings per share and would be in the interests of the shareholders generally.

The Directors will propose to renew the authority to disapply Section 89 of the Companies Act 1985 pre-emption rights as set out in resolution 7.

The Directors will propose to allow shares to be issued for other than cash under Section 80 of the Companies Act 1985 as set out in resolution 8.

POLICY ON PAYMENT OF CREDITORS

It is the Group's practice to agree payment terms with its suppliers. Payment is made when it can be confirmed that goods and/or services have been provided in accordance with the relevant contractual conditions. At 31 December 2007, the Company's trade creditors represented 35 days (2006: 52 days) of annual purchases.

FINANCIAL INSTRUMENTS

The Group's principal financial instruments are amounts receivable from customers, cash, forward foreign currency contracts, bank overdrafts, bank loans, payments to suppliers and finance leases.

Report of the Directors (continued)

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The Group's policy for the financing of its business is principally by the use of a mixture of share capital, retained earnings, bank borrowings and finance leases.

Credit risk

The Group relies on maintaining a high quality customer base, management of its sales partners and places emphasis on good credit management. This is managed by strict control over trade receivables and application of credit limits.

Cash flow interest rate risk

At the present time, the Directors do not consider it necessary to use specific measures to control this risk. The Group does not have significant borrowings. The interest rate on the bank loans and overdrafts is at market rate and the Group's policy is to keep bank overdrafts within defined limits such that significant changes in interest rates would not have a material impact on cash flows.

Liquidity risk

The Group's assets are principally financed by secured floating rate bank loans and overdrafts. Interest on the bank facilities is payable at variable rates above United Kingdom base rates.

Foreign currency risk

The Group has overseas subsidiaries as detailed in note 14. Their revenues and expenses are denominated substantially in their local currencies. During the year, the Group used derivative financial instruments including forward foreign currency contracts, to reduce exposure to foreign exchange risk. The Group does not hold derivative financial instruments for speculative purposes. There were forward foreign currency contracts in place at 31 December 2007 and these have been recognised at their fair value (2006: none).

Environmental risk

The Group's policy is to ensure that it fully understands and manages the actual and potential environmental impact of its activities. Our operations are conducted in such a way that we comply with the legal requirements relating to the environment in all areas of our business.

DISCLOSURE OF INFORMATION TO AUDITORS

At the date of making this report each of the Company's Directors, as set out on page 2, confirm the following:

- so far as each Director is aware, there is no relevant information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware, and
- each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

AUDITORS

RSM Robson Rhodes LLP ("Robson Rhodes") merged its audit practice with that of Grant Thornton UK LLP ("Grant Thornton") with effect from 2 July 2007, with the successor firm being Grant Thornton. Robson Rhodes resigned as auditors on 1 July 2007, creating a casual vacancy which the Directors have filled by appointing Grant Thornton. A resolution to reappoint Grant Thornton as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors on 28 March 2008 and signed on behalf of the Board by:

K SINGH

Company Secretary

Report on Corporate Governance

As a Company listed on the Alternative Investment Market of the London Stock Exchange, Delcam Plc is not required to comply with the Combined Code (“the Code”). However, the Board of Directors has considered the effects of the Code and taken steps to comply with the Code insofar as it can be applied practically, given the size of Delcam and the nature of its operations.

The Audit Committee comprised the non-executive Directors Mr PT Miles and Mr TRM Kinsey, up to the date of his retirement on 14 May 2007. Mr G McFarland replaced TRM Kinsey on that date. The Audit Committee has met twice during the year with the external auditors.

The Directors acknowledge their responsibility for the Group’s system of internal financial control of which the objectives are:

- a) Safeguarding Group assets.
- b) Ensuring proper accounting records are maintained.
- c) Ensuring that the financial information used within the business and for publication is reliable.

The key procedures that have operated during the financial year are set out below:

- a) The Board meets regularly to review all aspects of the Group’s performance concentrating mainly on financial performance, business risks and development.
- b) A number of matters are reserved for the Board’s specific approval including major capital expenditure, banking and dividend policy.

In establishing the systems of internal control, the Directors have implemented a control environment, risk management procedures and reporting processes appropriate to the size of the Group. Further procedures will continue to be adopted in respect of all the Group’s activities, especially those overseas, to further improve financial control.

As an AIM listed company, Delcam Plc is not required to comply with the Directors’ Remuneration Report Regulations 2002.

The Remuneration Committee consists of the non-executive Directors Mr PT Miles and Mr TRM Kinsey, up to the date of his retirement on 14 May 2007. Mr G McFarland replaced TRM Kinsey on that date.

At present the committee annually reviews the level of Directors’ remuneration packages. Disclosure of Directors’ remuneration is provided in note 7 to the financial statements.

The remuneration of the non-executive Directors is determined by the Board.

GOING CONCERN

After making appropriate enquiries, the Directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Company and the Group have adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' Responsibilities

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The Directors are responsible for preparing the Annual Report and the financial statements. The Directors are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs) and have also elected to prepare financial statements for the Company in accordance with IFRS's. Company law requires the Directors to prepare such financial statements in accordance with IFRS's, the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group and 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. Directors are also required to:

- properly select and apply 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 IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and the financial performance.

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 Group, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

The Directors are responsible for the maintenance and integrity of the Company website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the business review and future developments, which cross refers to the Chairman's statement, which is incorporated into the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

K SINGH

Finance Director

28 March 2008

Independent Auditors' Report

to the Shareholders of Delcam Plc

We have audited the Group and parent Company financial statements (the "financial statements") of Delcam Plc for the year ended 31 December 2007, which comprise the Group income statement, the Group and parent Company balance sheets, the Group and parent Company cash flow statements, the Group and parent Company statement of recognised income and expense and notes 1 to 34. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors' responsibilities for preparing the Annual 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement that is cross-referred from the Business Review and Future Developments section of the Directors' Report.

In addition, we 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 Corporate Governance and the Chairman's Statement. 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.

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 judgements 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 profit 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
- the information given in the Directors' Report is consistent with the financial statements.

GRANT THORNTON UK LLP

Registered Auditor and
Chartered Accountants
Birmingham, England
28 March 2008

Consolidated Income Statement

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YEAR ENDED 31 DECEMBER 2007

	Note	2007 £'000	2006 £'000
CONTINUING OPERATIONS			
Revenue	3	29,707	26,740
Cost of sales		<u>(10,234)</u>	<u>(9,535)</u>
GROSS PROFIT		19,473	17,205
Administrative expenses		(11,013)	(8,937)
Distribution costs		(7,006)	(5,989)
Other operating income		<u>188</u>	<u>187</u>
OPERATING PROFIT		1,642	2,466
Share of results of associates		3	66
Finance income	5i	638	372
Finance costs	5ii	<u>(135)</u>	<u>(112)</u>
PROFIT BEFORE TAXATION		2,148	2,792
Taxation	8	<u>(401)</u>	<u>(423)</u>
PROFIT FOR THE YEAR	4	<u>1,747</u>	<u>2,369</u>
Attributable to:			
Equity holders of the parent Company		1,778	2,328
Equity minority interest		<u>(31)</u>	<u>41</u>
		<u>1,747</u>	<u>2,369</u>
Earnings per share:			
from continuing operations	10		
Basic		24.6p	38.2p
Diluted		24.6p	37.2p

Statement of Recognised Income and Expense

YEAR ENDED 31 DECEMBER 2007

	Group		Company	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Foreign currency translation differences	(71)	(8)	—	—
Actuarial gains and losses on defined benefit pension scheme	1,661	1,396	1,661	1,396
De-recognition of pension surplus	(1,745)	—	(1,745)	—
Tax on items taken directly to equity	<u>25</u>	<u>(418)</u>	<u>25</u>	<u>(418)</u>
Net movement recognised directly in equity	(130)	970	(59)	978
Profit for year	<u>1,778</u>	<u>2,328</u>	<u>818</u>	<u>2,139</u>
Total recognised income and expense for year	<u>1,648</u>	<u>3,298</u>	<u>759</u>	<u>3,117</u>
Total recognised income and expense for year:				
Minority Interests	(31)	41	—	—
Equity shareholders of the parent Company	<u>1,679</u>	<u>3,257</u>	<u>759</u>	<u>3,117</u>

Balance Sheets

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AS AT 31 DECEMBER 2007

	Notes	Group		Company	
		2007 £'000	Restated 2006 £'000	2007 £'000	2006 £'000
NON CURRENT ASSETS					
Goodwill	11	2,259	2,104	46	46
Other intangible assets	12	1,944	1,643	567	101
Property, plant and equipment	13	7,186	6,154	6,083	5,544
Interests in subsidiary undertakings	14	—	—	3,941	3,449
Interests in associates	15	689	774	173	196
Other investments	16	26	26	26	26
Deferred tax assets	23	—	379	—	379
		<u>12,104</u>	<u>11,080</u>	<u>10,836</u>	<u>9,741</u>
CURRENT ASSETS					
Inventories	17	421	210	416	199
Trade and other receivables	18	7,437	6,763	6,761	6,814
Cash and cash equivalents	19	7,717	2,447	5,347	1,057
		<u>15,575</u>	<u>9,420</u>	<u>12,524</u>	<u>8,070</u>
TOTAL ASSETS		<u>27,679</u>	<u>20,500</u>	<u>23,360</u>	<u>17,811</u>
CURRENT LIABILITIES					
Trade and other payables	20	(5,279)	(3,925)	(3,081)	(2,110)
Borrowings	21	(941)	(1,244)	(941)	(1,244)
Deferred income	22	(2,324)	(2,122)	(1,370)	(1,393)
Current tax liabilities		(237)	(47)	(110)	(21)
		<u>(8,781)</u>	<u>(7,338)</u>	<u>(5,502)</u>	<u>(4,768)</u>
NON CURRENT LIABILITIES					
Borrowings	21	(1,453)	(1,899)	(1,453)	(1,899)
Retirement benefit obligation	32	—	(930)	—	(930)
Deferred income	22	(63)	(120)	(45)	(120)
Deferred tax liabilities	23	(583)	(1,016)	(583)	(1,016)
		<u>(2,099)</u>	<u>(3,965)</u>	<u>(2,081)</u>	<u>(3,965)</u>
TOTAL LIABILITIES		<u>(10,880)</u>	<u>(11,303)</u>	<u>(7,583)</u>	<u>(8,733)</u>
NET ASSETS		<u>16,799</u>	<u>9,197</u>	<u>15,777</u>	<u>9,078</u>
EQUITY					
Share capital	25	779	617	779	617
Share premium	28	8,074	1,983	8,074	1,983
Investment in own shares	27	(297)	(144)	—	—
Revaluation reserve	28	1,477	1,495	1,477	1,495
Capital reserves	28	9	9	9	9
Retaining earnings	28	6,685	5,134	5,438	4,974
Equity attributed to equity holders of the parent		<u>16,727</u>	<u>9,094</u>	<u>15,777</u>	<u>9,078</u>
Minority interests	24	72	103	—	—
Total equity		<u>16,799</u>	<u>9,197</u>	<u>15,777</u>	<u>9,078</u>

Signed on 28 March 2008 and on behalf of the Board

HRO HUMPHREYS (Director)

Cash Flow Statements

FOR THE YEAR ENDED 31 DECEMBER 2007

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	Notes	Group		Company	
		2007 £'000	2006 £'000	2007 £'000	2006 £'000
OPERATING ACTIVITIES					
Cash flows from operating activities	30a	2,517	2,600	831	2,222
Finance income received	30b	220	90	190	75
Finance costs paid	30c	(135)	(112)	(71)	(91)
Income taxes paid		(265)	(159)	(200)	(188)
NET CASH INFLOW FROM OPERATING ACTIVITIES		2,337	2,419	750	2,018
Investing activities					
Development costs		(466)	(101)	(466)	(101)
Acquisition of investments in associate		—	(34)	—	—
Acquisition of investment in subsidiary undertakings		(290)	(1,929)	(290)	(2,376)
Purchase of property, plant and equipment		(1,682)	(444)	(954)	(209)
Proceeds on disposal of property, plant and equipment		—	13	—	4
Payments to acquire investment in own shares		(200)	—	(200)	—
NET CASH USED IN INVESTING ACTIVITIES		(2,638)	(2,495)	(1,910)	(2,682)
FINANCING ACTIVITIES					
Dividends paid		(327)	(276)	(327)	(276)
New bank loans raised		—	2,550	—	2,550
Repayments of borrowings		(1,610)	(891)	(1,610)	(891)
Decrease in restricted cash		—	(83)	—	(83)
Proceeds from issue of share capital		6,253	—	6,253	—
New finance leases advanced		866	—	866	—
NET CASH FROM FINANCING ACTIVITIES		5,182	1,300	5,182	1,300
Increase in cash and cash equivalents		4,881	1,224	4,022	636
Cash and cash equivalents at 1 January		1,904	788	514	(122)
Effect of foreign exchange rate charges		121	(108)	—	—
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		6,906	1,904	4,536	514
ANALYSIS OF CASH AND CASH EQUIVALENTS:					
Cash and cash equivalents		7,717	2,447	5,347	1,057
Bank overdraft		(811)	(543)	(811)	(543)
Cash and cash equivalents		6,906	1,904	4,536	514

Notes to the Financial Statements

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YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES

a) Basis of preparation

The financial statements of the Group and parent entity have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the European Union and IFRIC interpretations and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS for the first time. The financial statements have been prepared under the historical cost convention, except for derivative financial instruments carried at fair value.

The comparative information for the year to 31 December 2006 has been restated and reconciliations are included in note 34 to explain the changes. Although IFRIC 14 has not yet been endorsed by the EU, Delcam have adopted the prudent accounting practices of IFRIC 14 "Retirement pensions" early and have not recognised the defined pension surplus for the year ended 31 December 2007.

Standards that have been issued in the period, but are not yet effective for Delcam Plc financial year ended 31 December 2007 includes IFRS 8 "Segmental reporting". This is not expected to have any significant changes in disclosure requirements for Delcam Plc. The accounting policies have been consistently applied for all years presented except as explained below. Other accounting standards include IAS 23 "Borrowing costs" which will be effective for Delcam 2009 year end and is considered to have minimal impact. IFRIC 12 "Service concession arrangements" and IFRIC 13 "Customer loyalty programmes" have little relevance to Delcam Plc.

First time adoption of IFRS

i) Application of IFRS 1

The Group and parent Company's financial statements for the year ended 31 December 2007 are the first annual financial statements that comply fully with IFRS 1 and all other applicable International Financial Reporting Standards. These financial statements have been prepared as described above.

The Group and parent Company's transition date is 1 January 2006 and the Group and parent Company prepared its opening IFRS balance sheet at that date. In preparing these consolidated and individual Company financial statements in accordance with IFRS 1, the Group and the parent Company has applied the mandatory exceptions and certain optional exemptions from full retrospective application of IFRS.

ii) Exemption from full retrospective application elected by the Group and parent Company

The Group has elected to apply the following optional exemptions from full retrospective application:

a) Business combinations exemption

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2006 transition date.

b) Employee benefits (pensions) exemption

The Group and parent Company have elected to recognise all cumulative actuarial gains and losses as at 1 January 2006 and also not to disclose the history of gains and losses prior to the date of transition.

c) Cumulative translation differences exemption

The Group has elected to set the previously accumulated translation reserve to zero at 1 January 2006. This exemption has been applied to all foreign subsidiaries in accordance with IFRS 1.

d) Share-based payment transaction exemption

The Group and parent Company have elected to apply the share-based payment exemption. It applied IFRS 2 from 1 January 2006 to those options that were issued after 7 November 2002 but that had not vested by 1 January 2006.

Notes to the Financial Statements

YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES (continued)

- e) Estimates exception
Estimates under IFRS at 1 January 2006 are consistent with estimates made for the same date under UK GAAP.

- f) Fair value as deemed cost exemption
The Group and parent Company have elected to measure previously revalued items of property, plant and equipment under UK GAAP at deemed cost at the IFRS transition date, 1 January 2006.

b) Basis of consolidation

The financial statements of the Group consolidate the financial statements of Delcam Plc and all its subsidiaries and associates. Subsidiaries are entities over which the Group has the power to govern the financial and operating policies. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until that control ceases.

c) Business combinations

The acquisition of subsidiaries are accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed, and the equity instruments issued by the Group in exchange for control of the business acquired, plus any costs directly attributable to the business combination. The assets, liabilities and contingent liabilities that meet the conditions under IFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset, being the excess of the cost of the business combination over the net fair value of the assets being acquired.

d) Investments

Interests in subsidiary undertakings

Investments in subsidiaries are shown at cost, less a provision for impairment.

Interests in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have the control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the Group financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost less any impairment. Losses of the associates in excess of the Group's interest in those associates are not recognised. Investments in associates are carried in the parent Company balance sheet at cost less any impairment.

Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets of the associate at the date of acquisition is recognised as goodwill.

e) Intangible assets

i) Goodwill

In respect of acquisitions since 1 January 2006, goodwill arising on consolidation represents the excess of cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the acquired entity at the date of acquisition. For acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous UK GAAP. Goodwill is recognised as an asset and assessed for impairment at least annually. Impairment is assessed by comparing the carrying value of goodwill with the discounted cash flows projected for each acquired cash generating unit ("CGU"), using a discount rate that management estimate to be the risk adjusted weighted average cost of capital for the parent Company, being the acquirer.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES (continued)

ii) *Research and development*

Research expenditure is written off as incurred. Expenditure on a development project will be written off as incurred unless and until the project is identified as being:

- a) for a new or substantially improved product or process;
- b) technically feasible; and
- c) commercially feasible, and with a high probability that recovery of the costs will take place.

For a project meeting these criteria, subsequent costs will be capitalised and amortised from the date the product or process is available for use, on a straight-line basis over the product's estimated useful life, estimated to be a maximum of three years.

iii) *Acquired intangible assets*

Intangible assets that are acquired as a result of a business combination are recorded at fair value at acquisition date, provided they can be identifiable and capable of reliable measurement. The assets are amortised on a straight-line basis over their expected useful lives.

Intellectual property is being amortised over ten years, being its estimated useful economic life. Brand value and customer lists are being amortised over ten years straight-line.

f) **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, VAT and other sales related taxes.

Sales of hardware and software are recognised when the goods are delivered and title has passed.

Maintenance income invoiced in advance for fixed periods is treated as deferred income, being recognised in the Income Statement in equal instalments over the period of the contract.

Interest income is accrued on a time basis, by reference to the principal outstanding at the effective interest rate applicable.

g) **Property, plant and equipment**

Property, plant and equipment are shown at historical cost, less any accumulated depreciation and provision for impairment in value.

Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful life, except freehold land which is not depreciated. The rates used are as follows:

Long leasehold buildings	2% straight-line
Plant and machinery	10% to 15% straight-line
Computer equipment	20% to 33% straight-line
Fixtures and fittings	20% straight-line
Motor vehicles	25% straight-line

h) **Impairment of non-current assets**

All non-current assets are assessed at each balance sheet date to determine whether there is any indication of impairment. Where there is an indication of impairment, the recoverable amount of the asset is estimated and any impairment loss is charged to the Income Statement.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES (continued)

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

If the impairment is subsequently reversed, the carrying amount is increased to the revised estimate of its recoverable amount, but limited to the carrying value that would have been determined had no impairment been recognised in prior years.

i) Inventories

Inventories are valued on a First in First out basis at the lower of cost and net realisable value. Cost includes the relevant proportion of production overhead assuming normal levels of activity. Net realisable value is based on estimated selling price less further costs expected to be incurred on completion and disposal.

j) Taxation

The tax charge for the year includes the charge for tax currently payable and deferred taxation. The current tax charge represents the estimated amount due that arises from the operations of the Group in the financial year and after making adjustments in respect of prior years.

Deferred tax is recognised in respect of all differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except where the temporary difference arises from the initial recognition in translation that is not a business combination of goodwill or from the initial recognition of assets or liabilities that effect neither accounting nor taxable profit.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when this relates to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in the Income Statement, except when they relate to items recognised directly in equity, when they are similarly taken to equity.

k) Foreign currencies

Normal trading activities denominated in foreign currencies are recorded in sterling at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at the balance sheet date; exchange differences arising are taken to the Income Statement account.

Income statements of overseas subsidiaries are translated to sterling at average exchange rates. The net assets of overseas subsidiaries are translated to sterling at the rate of exchange at the balance sheet date. Exchange differences arising on the translation of the opening net assets and results of overseas operations are taken directly to reserves.

l) Government grants

Grants are recognised in the balance sheet initially as deferred income. Grants in respect of assets are transferred to the Income Statement as other operating income over the estimated useful life of the asset concerned. Grants to compensate for expenses are transferred to the income statement in the same periods as the expenses are incurred.

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES (continued)

m) Employee benefits

i) Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense in the Income Statement as incurred.

ii) Defined benefit plan

The Group's net obligation in respect of its defined benefit pension plan is calculated by estimating the amount of future benefits payable to members, discounted to present value, and deducting the fair value of the plan assets. The calculation is performed by a qualified independent actuary using the projected unit credit method. Scheme assets are measured at fair value. Scheme liabilities are measured on an actuarial basis and are discounted using an appropriate corporate bond matching the maturity of the scheme. Actuarial gains or losses are recognised in the Consolidated Statement of Recognised Income and Expenses. Current and past service costs, curtailments and settlements are recognised within operating profit in the Income Statement. Returns on scheme assets and interest on obligations are recognised as a component of finance income or expense.

iii) Share-based payment transactions

Equity settled share-based incentive arrangements are provided to employees under the Group's share option schemes. Share-based arrangements granted since 7 November 2002 and not vested at 1 January 2006 are valued at their fair value and an expense is charged to operating profit over the vesting period of the share options scheme. The fair value of the Share Options are valued using an appropriate pricing model (Black-Scholes). The annual charge is modified to take account of expected and actual numbers of options vesting.

n) Leased assets

Leasing agreements that transfer substantially all the risks and rewards of ownership to the Group are classified as Finance Leases. Assets financed by a Finance Lease are accounted for as if they had been purchased outright, with the corresponding liability to the leasing Company included as an obligation. The rentals payable are apportioned between interest, which is charged to the Income Statement, and capital, which reduces the outstanding obligation. All other leases are classified as Operating Leases and lease rentals are charged to the Income Statement on a straight-line basis over the term of the lease.

o) Share Capital

Ordinary shares are classified as equity. When a company purchases its own shares, the consideration is deducted from equity attributable to the company's equity holders until the shares are either cancelled or reissued. When this happens, any consideration received is included in equity attributable to equity holders.

p) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statement in the period in which the dividends are approved by the Company's shareholders.

q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and deposits and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

r) Financial instruments

The Company's financial assets relate to the following:

- i) trade and other receivables are classified as loans and receivables
- ii) no financial assets are classified as FVTPL
- iii) no financial assets are assessed as held to maturity or available for sale.

Trade and other receivables are classified as loans and receivables. Loans and receivables are measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for any impairment. Any change in their value through impairment or reversal of impairment is recognised in the Income Statement.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

1. ACCOUNTING POLICIES (continued)

Provision against trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Impairment of financial assets

All financial assets, other than FVTPL are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is evidence that a loss event has occurred and that estimated future cash flows of the financial asset have been impacted.

For certain categories of financial asset, such as trade receivables, assets are to be assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and the average credit period, as well as observed changes in the national or local economic conditions that correlate with default on receivables. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements.

Financial liabilities

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as a FVTPL.

Other financial liabilities, including borrowings, are initially measured at fair value. Interest bearing bank loans and bank overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges are accounted for on an accruals basis to the Income Statement using the effective interest method. Trade payables do not carry any interest and are stated at their nominal value.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance sheet date. The Group does not use hedge accounting for its forward foreign currency contracts.

The Group has used forward foreign currency contracts during the year to mitigate currency risk. However, the Group does not use these derivative financial instruments for speculative purposes.

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Principal risks and uncertainties facing the Group are set out in the Directors' Report on page 5 of these financial statements.

The Group makes estimates and assumptions about the future. The resulting accounting estimates seldom equal the related actual results. The estimates and assumptions that have a material risk to the carrying value of assets and liabilities within the next financial year are discussed below:

Defined benefit scheme

Details of the Group's defined benefit scheme are set out in notes 1(m) and 32 of these financial statements. The scheme has been accounted for in accordance with IAS 19 'Employee Benefits', but Delcam Plc has taken early adoption of IFRIC 14 and not recognised the defined benefit pension surplus for the year ended 31 December 2007. The main area of judgement is the valuation of the pension scheme liabilities, which represent the net present value of projected future pension payments. These calculations are performed by the scheme actuary, with whom the Directors have agreed the underlying assumptions to be applied. The key assumptions are rates of increase in pension benefits, mortality rates, inflation and the discount rate applied to produce the net present value. The discount rate is derived from the market rates on AA corporate bonds at the balance sheet date.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

2. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires an estimation of future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present values.

Recoverability of internally generated asset — research and development

During the year, management have considered the recoverability of the development expenditure of £567,000 on its balance sheet. The projects continue to progress satisfactorily and customer reaction has confirmed management's estimates of anticipated revenues from the projects. Management are confident that the carrying amount of the asset will be recoverable.

3. SEGMENTAL ANALYSIS

For management purposes, the Group is currently organised into four geographical operations and management consider the geographical segments to be its primary segmental information.

Geographical Segment

Continuing operations	2007			2006		
	Revenue £'000	Profit/(loss) £'000	Margin %	Revenue £'000	Profit/(loss) £'000	Margin %
Europe	14,789	1,677	11%	13,169	2,639	20%
Americas	7,887	(63)	(1%)	7,131	(439)	(6%)
Far East	5,708	92	2%	5,197	161	3%
Rest of world	1,323	(64)	(5%)	1,243	105	8%
	<u>29,707</u>	<u>1,642</u>	<u>6%</u>	<u>26,740</u>	<u>2,466</u>	<u>9%</u>
Share of associates results		3			66	
Net finance costs		503			260	
Taxation		(401)			(423)	
Profit after tax		<u>1,747</u>			<u>2,369</u>	

Geographical Segment

Geographical Segment	2007			2006		
	Assets £'000	Liabilities £'000	Net £'000	Assets £'000	Liabilities £'000	Net £'000
Europe	20,632	(6,291)	14,341	16,707	(7,951)	8,756
Americas	2,595	(2,576)	19	1,940	(1,839)	101
Far East	4,246	(1,955)	2,291	1,601	(1,476)	125
Rest of world	206	(58)	148	252	(37)	215
	<u>27,679</u>	<u>(10,880)</u>	<u>16,799</u>	<u>20,500</u>	<u>(11,303)</u>	<u>9,197</u>

Geographical Segment

Geographical Segment	2007		2006	
	Capital expenditure £'000	Depreciation/ amortisation £'000	Capital expenditure £'000	Depreciation/ amortisation £'000
Europe	1,019	721	1,796	554
Americas	40	40	70	34
Far East	531	79	89	59
Rest of the World	92	12	49	13
	<u>1,682</u>	<u>852</u>	<u>2,004</u>	<u>660</u>

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

3. SEGMENTAL ANALYSIS (continued)

Business segment

	2007	2006	2007	2006	2007	2006
	Revenue	Revenue	Total assets	Total assets	Capital expenditure	Capital expenditure
	£'000	£'000	£'000	£'000	£'000	£'000
Software	14,751	14,253	13,615	10,927	835	1,068
Maintenance	8,051	7,136	7,559	5,471	456	535
Services	4,055	2,748	3,807	2,107	230	206
Other	2,850	2,603	2,698	1,995	161	195
	<u>29,707</u>	<u>26,740</u>	<u>27,679</u>	<u>20,500</u>	<u>1,682</u>	<u>2,004</u>

4. PROFIT FOR THE YEAR

Continuing operations

Profit for the year is arrived at after charging/(crediting):

	2007	2006
	£'000	£'000
Cost of inventories recognised as an expense	211	54
Staff costs — (see note 6)	16,924	14,605
Impairment loss recognised on trade, receivables	731	823
Fair value loss/gain arising on derivative financial instruments (forward foreign currency contract)	288	—
Depreciation	687	577
Amortisation of intangible assets included within operating expenses	165	83
Loss/(profit) on disposal of tangible property, plant and equipment	18	(6)
Rentals under operating leases		
— Hire of plant and machinery	518	507
— Other	421	403
Research and development costs	7,361	7,184
Rental income	(188)	(187)
Government grants	<u>(8)</u>	<u>(8)</u>

Research and development costs of £466,000 (2006: £101,000) have been capitalised in addition to the amounts charged to the Income Statement above.

Auditors' Remuneration

	2007	2006
	£'000	£'000
Fees payable for the audit of the Company	30	25
Fees payable for the other Group company audits	15	12
Other services related to taxation including taxation compliance for the Company	<u>10</u>	<u>47</u>
	<u>55</u>	<u>84</u>

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

5(i). FINANCE INCOME

	2007	2006
	£'000	£'000
Bank deposit interest	220	49
Dividend income from investments	—	41
Interest income on financial assets	220	90
Defined benefit pension interest income (note 32)	418	282
	<u>638</u>	<u>372</u>

5(ii). FINANCE COST

	2007	2006
	£'000	£'000
Interest expense for borrowings at amortised cost	122	95
Interest expense for finance lease arrangements	13	17
Total interest cost for financial liabilities	<u>135</u>	<u>112</u>

5(iii). FINANCIAL RESULT BY CATEGORY OF FINANCIAL INSTRUMENT

	2007	2006
	£'000	£'000
Loans and receivables	220	90
Financial liabilities measured at amortised cost	(135)	(112)
Net result from financial assets and financial liabilities	<u>85</u>	<u>(22)</u>
Net amount reported in		
— Income statement	85	(22)
— Equity	—	—
	<u>—</u>	<u>—</u>

There are no financial assets classed as held for maturity or assets held for sale.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

6. STAFF COSTS

The average number of employees, including executive Directors:

	Group	
	2007	2006
	No.	No.
Development and production	151	149
Sales and distribution	244	214
Administration	82	75
	477	438

Staff costs, including executive Directors:

	Group	
	2007	2006
	£'000	£'000
Wages and salaries	14,487	12,338
Social security costs	1,643	1,515
Other pension costs (note 32)	749	740
Share-based payments	45	12
	16,924	14,605

Special contribution pension payments of £596,000 (2006: £270,000) were made to the defined benefit pension scheme during the year that were not charged to the Income Statement account.

7. DIRECTORS' REMUNERATION

Directors' emoluments

	2007	2006
	£'000	£'000
Fees	42	36
Directors' remuneration	384	386
Directors' emoluments*	426	422
Contributions to defined benefit pension scheme	33	33
	459	455

* Directors' emoluments above include taxable benefits.

	2007	2006
	£'000	£'000
Remuneration of highest paid Director (salary and taxable benefits)	99	101
Company contributions in respect of a defined benefit pension scheme	9	9
	108	110
Accrued annual pension benefits of highest paid Director at 31 December	53	50

1,229 share options were exercised by a Director during the year (2006: Nil) as set out in the Report of the Directors.

	2007	2006
	No.	No.
Number of Directors who are members of a defined benefit pension scheme	4	4

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

8. TAXATION

	2007	2006
	£'000	£'000
Continuing operations		
Corporation Tax		
United Kingdom Corporation tax at 30% (2006: 30%) based on the profit for the year	200	—
Overseas taxation	128	75
Adjustment in respect of prior years	88	(125)
Total current tax (credit)/charge	416	(50)
Deferred taxation		
Origination or reversal of temporary differences (see note 23)	200	423
Prior year adjustment	(215)	50
Total tax charge	401	423
Reconciliation of current tax charge/(credit):		
	2007	2006
	£'000	£'000
Profit on ordinary activities before tax	2,148	2,792
Tax at 30% thereon	644	838
Explained by:		
Prior year adjustments deferred tax	(215)	50
Withholding tax not offset against tax losses	158	—
R&D tax credit	(313)	(293)
Permanent differences	80	(47)
Adjustment in respect of prior year	88	(125)
Impact of rate change	(41)	—
Total tax charge	401	423

9. DIVIDENDS

	2007	2006
	£'000	£'000
Interim paid		
2007 Interim of 1.25p per Ordinary share (2006: 1.2p per Ordinary share)	97	69
Final paid		
2006 Final of 3.8p per Ordinary share (2005: 3.4p per Ordinary share)	230	207
	327	276

The Directors recommend the payment of a final dividend for the year ended 31 December 2007 of 4.0 pence per share payable on 16 May 2008 to shareholders on the register as at 4 April 2008.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

10. EARNINGS PER ORDINARY SHARE

	2007 £'000	2006 £'000
Earnings:		
From continuing operations		
Profit after taxation and the minority interest	1,778	2,328
Average number of shares		
For basic earning per share	7,222,428	6,096,210
Dilutive effect of share options	—	159,000
No dilution in 2007 as shares are under water.		
For diluted earnings per share	7,222,428	6,255,210
Earnings per share — continuing operations		
Basic	24.6p	38.2p
Diluted	24.6p	37.2p

11. GOODWILL

	Group £'000	Company £'000
Cost and net book value		
At 1 January 2006	1,459	46
Additions	645	—
At 31 December 2006	2,104	46
Additions	155	—
At 31 December 2007	2,259	46

The addition to goodwill of £155,000 in 2007 relates to contingent deferred consideration payable on the Crispin and Partmaker acquisitions in 2006. The Directors consider that the carrying values of goodwill are supported by future cash income generation. Goodwill relates to the following cash-generating units expected to benefit from synergies of the combination.

Cash Generating Units ('CGU's')

	Group £'000	Company £'000
Cost		
Partmaker Inc	236	—
Crispin Limited	490	—
Delcam Spb	74	—
Delcam Holdings (USA) Inc (formerly called Engineering Geometry Systems)	1,327	—
Delcam Japan	86	—
Alcami	8	8
Norcam EEDI Lda	38	38
Carrying value of goodwill	2,259	46

Goodwill impairment

The Group tests annually for impairment, or more frequently if there are indicators that goodwill might 'be impaired'. The recoverable amounts of the cash generating units (CGU's) are determined from value in use calculations.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

11. GOODWILL (continued)

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes to selling prices and direct costs during the year.

Management estimate the discount rate of 6.5% using pre-tax rates that reflects current market assessment of the time value of money and the risks specific to the asset for which future cash flow estimates have not been adjusted. The growth rates have been based on cash flows taken from the CGU's approved business plan for the period 1 January 2008 to 31 December 2009 and extended thereafter at growth rates of 2.25% for 15 years. This rate does not exceed the average long term growth rate for the relevant markets.

After applying sensitivity analysis of the results, in particular for presumed growth rates, management believe that no impairment was required.

12. OTHER INTANGIBLE ASSETS

Group	Development costs £'000	Intellectual property £'000	Brand value/ customer lists £'000	Total £'000
Cost				
At 1 January 2006	—	—	—	—
Additions	101	1,475	150	1,726
At 31 December 2006	101	1,475	150	1,726
Additions	466	—	—	466
At 31 December 2007	567	1,475	150	2,192
Amortisation				
At 1 January 2006	—	—	—	—
Charge for the year	—	74	9	83
At 31 December 2006	—	74	9	83
Charge for the year	—	148	17	165
At 31 December 2007	—	222	26	248
Net book value				
At 31 December 2007	567	1,253	124	1,944
At 31 December 2006	101	1,401	141	1,643

The amortisation period is assessed over the assets estimated useful life:

Development costs	— over 3 years from date products go into production
Intellectual property	— over 10 years
Other intangible assets	— over 10 years

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

12. OTHER INTANGIBLE ASSETS (continued)

Company

Cost

At 1 January 2006

Additions

At 31 December 2006

Additions

At 31 December 2007

Amortisation

At 1 January 2006

Charge for the year

At 31 December 2006

Charge for the year

At 31 December 2007

Net book value

At 31 December 2007

At 31 December 2006

Development
costs
£'000

—

101

101

466

567

—

—

—

—

—

567

101

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

13. PROPERTY, PLANT AND EQUIPMENT

Group	Long leasehold buildings £'000	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2006	5,161	1,313	2,882	25	9,381
Additions	—	10	499	20	529
Disposals	—	(137)	(80)	(17)	(234)
Exchange differences	—	—	(96)	—	(96)
At 31 December 2006	5,161	1,186	3,205	28	9,580
Additions	469	789	424	—	1,682
Disposals	—	—	(644)	—	(644)
Reclassification	130	—	(130)	—	—
Exchange differences	29	—	114	—	143
At 31 December 2007	5,789	1,975	2,969	28	10,761
Depreciation					
At 1 January 2006	616	439	2,041	22	3,118
Charge for the year	103	108	361	5	577
Disposals	—	(137)	(75)	(15)	(227)
Exchange differences	—	—	(42)	—	(42)
At 31 December 2006	719	410	2,285	12	3,426
Charge for the year	115	120	447	5	687
Disposals	—	—	(626)	—	(626)
Reclassification	5	—	(5)	—	—
Exchange differences	2	—	86	—	88
At 31 December 2007	841	530	2,187	17	3,575
Net book value					
At 31 December 2007	4,948	1,445	782	11	7,186
At 31 December 2006	4,442	776	920	16	6,154

Group and Company

The net book value of the property, plant and equipment includes £1,302,000 (2006: £628,000) in respect of assets held under finance leases. Depreciation charged in the year on those assets amounted to £86,000 (2006: £73,000).

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company	Long leasehold buildings £'000	Plant and machinery £'000	Office equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2006	5,161	1,313	1,483	25	7,982
Additions	—	10	179	20	209
Disposals	—	(137)	—	(17)	(154)
At 31 December 2006	5,161	1,186	1,662	28	8,037
Additions	—	789	165	—	954
Disposals	—	—	(595)	—	(595)
At 31 December 2007	5,161	1,975	1,232	28	8,396
Accumulated depreciation					
At 1 January 2006	616	439	1,166	22	2,243
Charge for the year	103	108	186	5	402
Disposals	—	(137)	—	(15)	(152)
At 31 December 2006	719	410	1,352	12	2,493
Charge for the year	104	120	186	5	415
Disposals	—	—	(595)	—	(595)
At 31 December 2007	823	530	943	17	2,313
Net book value					
At 31 December 2007	4,338	1,445	289	11	6,083
At 31 December 2006	4,442	776	310	16	5,544

14. INTERESTS IN SUBSIDIARY UNDERTAKINGS

Company	Shares in Group undertakings £'000	Loans to Group undertakings £'000	Total £'000
Cost			
At 1 January 2006	2,001	—	2,001
Additions	475	1,717	2,192
Reclassification	7	—	7
At 31 December 2006	2,483	1,717	4,200
Additions	540	—	540
Repayments	—	(48)	(48)
At 31 December 2007	3,023	1,669	4,692
Provisions			
At 1 January 2006, 31 December 2006 and 2007	(751)	—	(751)
Net book value			
At 31 December 2007	2,272	1,669	3,941
At 31 December 2006	1,732	1,717	3,449

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

14. INTERESTS IN SUBSIDIARY UNDERTAKINGS (continued)

Provisions have been made against the cost of investments in overseas Group undertakings to impair the carrying value to the Company's share of the net assets of those subsidiaries. Where the subsidiary has net liabilities the carrying value of investments is restricted to zero.

The additions in 2007 relate to the additional contingent deferred consideration payable on Crispin of £205,000 and the associated costs of £40,000. Delcam has increased its investment in Delcam India by £250,000. In accordance with IFRIC 11, a share-based payments charge of £45,000 has been charged to the respective subsidiaries in which the employee benefit is derived, Delcam Holdings (USA) Inc., Partmaker and Crispin.

Group undertakings

The Company has shareholdings in the following companies:

Group undertaking	Shareholding	Country of incorporation/ Registration and operation
Delcam Trustees Limited (ESOP)	100%	England
Delcam Systems Limited	100%	England
Crispin Systems Limited	100%	England
Delcam Italia SRL	100%	Italy
Delcam Malaysia Sdn. Bhd	100%	Malaysia
Delcam International GmbH	100%	Germany
Delcam Japan Kabushiki Kaisya	100%	Japan
Delcam International Inc.	100%	Canada
Delcam France	100%	France
Delcam China	100%	China
Delcam Software (India) Private Limited	100%	India
Delcam Consulting & Technology Services Private Limited	100%	India
Delcam Consultancy Services Private Limited	100%	India
Delcam Holdings (USA) Inc.	100%	USA
Delcam Partmaker Limited	100%	England
Delcam Partmaker Inc	100%	USA
Delcam Spb	52%	Russia

Delcam Trustees Limited is a trust company (ESOP) set up on behalf of the Employees Benefit Trust. See further information as set out in note 27 of these financial statements. The ESOP is accounted for as an investment in own shares and is disclosed in shareholders' funds.

Delcam Systems Limited is a dormant company. Delcam Partmaker Limited owns the intellectual property rights over the Partmaker software and recharges the IP rights to its trading subsidiary Delcam Partmaker Inc. The other Group undertakings carry on the business of the supply of CAD/CAM systems to overseas markets.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

15. INTERESTS IN ASSOCIATES

	2007	2006
	£'000	£'000
Interests in associates		
Share of aggregated amounts relating to associates		
Total assets	1,943	1,873
Total liabilities	(1,169)	(1,035)
Exchange movements	(29)	(8)
Provisions	(56)	(56)
Interests	689	774
Share of revenues for the year	2,958	2,392
Share of (losses)/profits after tax	(52)	66
Profit on disposal of Delcam (North) Programming	55	—
Profit for the year	<u>3</u>	<u>66</u>

Associated undertakings

The Company has shareholdings in the following active companies, which have been accounted for on an equity basis:

Investment	Shareholding	Country of incorporation/ Registration and operation
Hankook Delcam	30%	Korea
Delcam Taiwan	24.45%	Taiwan
Delcam Desarrollo	25%	Spain
Norcam EEDI Lda	33%	Portugal
Delcam Thailand	45%	Thailand
Delcam URAL (Joint venture)	51%	Russia

Each of the associated undertakings carry on the business of agents supplying CAD/CAM systems to overseas markets. Delcam (North) Programming Services was sold during the year and resulted in a profit on disposal of £54,700. Delcam URAL is a joint venture arrangement and requires 70% of the voting rights to exercise control.

Related party transactions

During the year the Company undertook transactions during the course of normal trading with the following related parties, Group and associated undertakings:

	2007	2006
	£'000	£'000
Sales to Group undertakings	5,798	3,408
Sales to associated undertakings	1,790	1,907
Purchases from Group undertakings	1,978	672
Purchases from associated undertakings	<u>3</u>	<u>6</u>

The year end balances with related parties are included within note 18.

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

16. OTHER INVESTMENTS

Information relating to other investments

The investments listed below are not equity accounted for in the consolidation as the overall effect of their results on the Group is considered to be immaterial and they have therefore been included at historical cost.

Investment	Cost £'000	Share holding	Country of incorporation/ registration and operation
Delcam BRNO	—	33%	Czech Republic
Delimex Limited	—	50%	Bulgaria
Delcam Samara	—	34.5%	Russia
Iacam	—	25%	Spain
Delcam Dubai (Branch office)	9	100%	UAE
Delcam Benelux (Branch office)	12	100%	Netherlands
Delcam Moscow (Branch office)	5	100%	Russia
	<u>26</u>		

17. INVENTORIES

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Work in progress	299	89	299	89
Finished goods and goods for resale	122	121	117	110
	<u>421</u>	<u>210</u>	<u>416</u>	<u>199</u>

18. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade receivables	5,484	4,639	2,237	2,409
Amounts owed by subsidiary undertakings	—	—	3,048	3,029
Amounts owed by undertakings in which the Company has a participating interest	1,053	1,066	1,053	1,066
Other receivables	467	326	129	42
Prepayments and accrued income	433	732	294	268
	<u>7,437</u>	<u>6,763</u>	<u>6,761</u>	<u>6,814</u>

Trade receivables

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade receivables	6,540	5,665	2,911	3,157
Less allowance for doubtful debts	(1,056)	(1,026)	(674)	(748)
	<u>5,484</u>	<u>4,639</u>	<u>2,237</u>	<u>2,409</u>

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

18. TRADE AND OTHER RECEIVABLES (continued)

The average credit period taken on sales of goods is 67 days (2006: 63 days) in respect of the Group and 73 days (2006: 67 days) for the Company. No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, management charge interest on the outstanding balance, where the debt is considered significantly overdue, interest being charged at market rates.

The Group and Company has provided in full against all trade receivables over 180 days and 50% of all trade receivables over 120 days because historical experience is such that such trade receivables are generally difficult to recover after this period. Trade receivables between 30 and 120 days are individually assessed based on estimated recoverable amounts, determined by past experience.

Ageing of past due but not impaired receivables.

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
0-90 days	5,018	4,183	2,097	2,249
90-120 days	285	343	89	160
120-180 days	181	113	51	—
Total	<u>5,484</u>	<u>4,639</u>	<u>2,237</u>	<u>2,409</u>

Movement in Bad and doubtful debt provisions

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Movement in doubtful debts				
Balance brought forward at 1 January	1,026	1,033	748	905
Impairment loss recognised	731	823	456	684
Amounts recovered	<u>(701)</u>	<u>(830)</u>	<u>(530)</u>	<u>(841)</u>
Balance carried forward	<u>1,056</u>	<u>1,026</u>	<u>674</u>	<u>748</u>

The Directors believe that there is no further provision required in excess of the allowance for doubtful debts.

Included in the allowance for doubtful debts are individually impaired receivables. The ageing of impaired trade receivables:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
0-90 days	—	—	—	—
90-120 days	67	36	67	36
120+ days	989	990	607	712
	<u>1,056</u>	<u>1,026</u>	<u>674</u>	<u>748</u>

The Directors consider the carrying amount of trade and other receivables approximates their fair value.

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

19. RESTRICTED CASH

Group and Company

At 31 December 2007, included within Cash and cash equivalents and Other payables (note 20) is £706,436 (2006: £706,000) that relates to monies received by the Company for a grant in respect of a European project. This cash is restricted as the Group and Company has been nominated to administer the funds, which are to be distributed to several other independent partners. Therefore, this cash is not considered as part of the net owned funds of the Group and Company at 31 December 2007.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Trade payables	883	865	586	342
Other taxation and social security	559	568	298	376
Other payables	3,057	1,907	1,921	1,019
Accruals	780	585	276	373
	<u>5,279</u>	<u>3,925</u>	<u>3,081</u>	<u>2,110</u>

The payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 35 days (2006: 52 days). For most suppliers no interest is charged on the trade payables for the first 60 days of the date of the invoice. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe. The Directors consider that the carrying amount of trade payables approximates to their fair value.

21. BORROWINGS

Group and Company

Secured borrowings

	2007 £'000	2006 £'000
Bank overdraft	811	543
Bank loans	892	2,356
Finance leases	691	244
Total borrowings	<u>2,394</u>	<u>3,143</u>
Split:		
Current borrowings	941	1,244
Non current borrowings	1,453	1,899
	<u>2,394</u>	<u>3,143</u>
Finance lease obligations		
Amounts due for settlement within 1 year	162	84
Amounts due for settlement 2 to 5 years	471	178
Amounts due for settlement after 5 years	167	—
Less finance lease charges	(109)	(18)
	<u>691</u>	<u>244</u>

The bank overdraft is repayable on demand. The overdraft is secured by a fixed charge over the parent Company's property. The effective interest rate on the bank overdraft is 1% above bank base rate (2006: 1%). The bank loans carries interest at 1% above bank base rate and are secured on the assets of the Group and are repayable by 2010.

The finance lease carries interest at fixed rates and are secured on the assets to which they relate. The effective weighted average rate is 6.5% (2006: 5.28%).

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

22. DEFERRED INCOME

	Group		Company	
	2007 £'000	Restated 2006 £'000	2007 £'000	2006 £'000
Maintenance income — within one year	2,310	2,104	1,370	1,375
Maintenance income — more than one year	63	40	45	40
Other income — within one year	14	18	—	18
Other income — more than one year	—	80	—	80
	<u>2,387</u>	<u>2,242</u>	<u>1,415</u>	<u>1,513</u>
Current liabilities	2,324	2,122	1,370	1,393
Non current liabilities	<u>63</u>	<u>120</u>	<u>45</u>	<u>120</u>
	<u>2,387</u>	<u>2,242</u>	<u>1,415</u>	<u>1,513</u>

Deferred maintenance income represents amounts invoiced in advance in respect of contracts for the provision of software maintenance. Other deferred income represents grant income received.

The restatement to 2006 relates to an additional £295,000 of deferred maintenance income identified in the overseas operations.

23. DEFERRED TAX

The following are the major deferred tax assets and liabilities by the Group and the movements during the period.

Group and Company	Accelerated capital allowances £'000	Temporary differences £'000	Revaluation of building £'000	Defined benefit pension scheme £'000	Total £'000
At 1 January 2006	402	(131)	653	(1,163)	(239)
Charge to Income Statement	63	42	—	368	473
Charge to equity	—	—	(13)	416	403
At 31 December 2006	465	(89)	640	(379)	637
Charge to Income Statement	(369)	(50)	—	404	(15)
Charge to equity	—	—	(14)	(25)	(39)
At 31 December 2007	<u>96</u>	<u>(139)</u>	<u>626</u>	<u>—</u>	<u>583</u>

Certain deferred tax assets and liabilities have been offset. The following is the analysis of deferred tax balances (after offset) for financial reporting purposes.

Group and Company	2007 £'000	2006 £'000
Deferred tax assets	—	379
Deferred tax liabilities	<u>(583)</u>	<u>(1,016)</u>
	<u>(583)</u>	<u>(637)</u>

At the balance sheet date, the Group has no unused tax losses. The deferred tax asset in 2006 relates to the deferred tax on the defined benefit pension scheme liability.

There are no amounts of deferred tax unprovided at 31 December 2007 (2006: £nil).

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

24. EQUITY MINORITY INTERESTS

Group	£'000
At 1 January 2006	—
Deemed acquisition cost	74
Share of profit for the year	41
Difference on exchange	(12)
	<hr/>
At 31 December 2006	103
Share of loss for year	(31)
	<hr/>
At 31 December 2007	<u>72</u>

25. SHARE CAPITAL

Group and Company	2007	2006
Authorised	£'000	£'000
9,850,000 (2006: 7,750,000) Ordinary shares of 10p each	985	775
150,000 'C' Ordinary shares of 10p each	15	15
	<hr/>	<hr/>
	1,000	790
	<hr/>	<hr/>
Issued, called up, allotted and fully paid		
7,715,167 (2006: 6,096,210) Ordinary shares of 10p each	771	609
78,660 (2006: 78,660) 'C' Ordinary shares of 10p each	8	8
	<hr/>	<hr/>
	779	617
	<hr/>	<hr/>

The Company announced on 30 March 2007 that it placed 1,524,052 new Ordinary shares in the Company with Renishaw Plc, to raise approximately £6.1 million before expenses. The Company also increased the authorised share capital by the creation of 2,100,00 additional Ordinary shares of 10p each on the same date.

Delcam Trustees Limited, a 100% owned subsidiary Company, held 40,624 Ordinary shares and 78,660 'C' Ordinary shares at 31 December 2007. The 'C' Ordinary shares have no rights to vote, attend general meetings or any dividend.

26. SHARE-BASED PAYMENTS

The Group has appraised its share options granted on or after 7 November 2002 and not vested at 1 January 2006. The share options granted in January 2006, July 2006 and April 2007 were granted on conditions vesting over a period of three years. There are no performance conditions that apply to the options, other than continued employment.

For the share options, the fair value has been assessed, by applying the Black-Scholes option pricing model.

2006 share options — The model assumed volatility of 25.6% based on the last three years' weighted average share price of £2.85, expected dividend yield of 1.6%, and a risk free rate of 4.0%. The exercise price is £3.20 per share. On this basis, the fair value of the options at grant date is 131 pence per share and amounts to a charge of £29,000 in the Income Statement account.

2007 share options — The model assumed volatility of 22.9% based on the weighted average share price movements over the last three years, expected dividend yield of 1.7%, and a risk free rate of 4.6%. The option exercise price is £4.10 per share. On this basis, the fair value of the options at grant date is 142 pence per share and amounts to a charge of £16,000 in the Income Statement account. The share price at date of grant was £4.10.

The total charge in operating costs in the Income Statement for share-based payments for the year ended 31 December 2007 is £45,000 (2006: £12,000).

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

26. SHARE-BASED PAYMENTS (continued)

Under the Delcam Share option scheme the following share options are still outstanding:

Scheme	Date of grant	Option price £	Date first exercise	Expiry date	At 1	Exercised during year	Granted in year	At 31
					January 2007 Number			December 2007 Number
Approved	6 June 1997	1.68	June 2000	June 2007	94,905	(94,905)	—	—
Unapproved	1 Jan 2006	3.20	Jan 2009	Jan 2016	40,000	—	—	40,000
Unapproved	1 July 2006	3.20	July 2009	July 2016	25,000	—	—	25,000
Unapproved	1 April 2007	4.10	April 2010	April 2017	—	—	45,000	45,000
Weighted average exercise option price		3.57			159,905	(94,905)	45,000	110,000

27. INVESTMENT IN OWN SHARES

On 25 February 1997, the Company approved, adopted and established the Delcam Employee Benefit Trust (an ESOP Trust). A summary of the Trust Deed is as follows:

- It has been established that the original trustee is a company wholly owned and controlled by Delcam Plc and called Delcam Trustees Limited.
- A beneficiary of the Delcam Employee Benefit Trust is any person who at the material time is a bona fide employee, a former employee of any Group company, or the husband, wife, widow, widower or child (except child under 18 years of age) of any bona fide employee or former employee of a Group company, including executive Directors.
- Any Company within the Group may from time to time at its sole discretion transfer pay or credit sums of money to the Trustees to be held in the terms of the Delcam Employee Benefit Trust.
- The primary objectives of the Delcam Employee Benefit Trust are to hold the capital and income of the trust fund upon trust for all or such of the beneficiaries.

The Trustees may accumulate the income of the trust fund by investing it and may apply the income of the trust fund to or for the benefit of all beneficiaries as the Trustees may from time to time in their absolute discretion think fit.

During the year 10,000 shares were purchased by Delcam Trustees Limited. All shares held by the trust are under option to employees with dividends paid out to staff under the ESOP scheme rules. Costs are written off to the Income Statement account as incurred. The trust holds 40,624 (2006: 46,190) shares and 78,660 'C' Ordinary Shares (2006: 78,660) at 31 December 2007 at £296,685 (2006: £144,000). Delcam Trustees Limited has been consolidated in these financial statements.

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

28. STATEMENT OF CHANGES IN EQUITY

Group	Share capital account £'000	Share premium account £'000	Investment in own shares £'000	Capital reserves £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2006	617	1,983	(254)	9	1,526	2,474	6,355
Prior year adjustment	—	—	—	—	—	(295)	(295)
Restated at 1 January 2006	617	1,983	(254)	9	1,526	2,179	6,060
Profit for the year	—	—	—	—	—	2,328	2,328
Dividends paid	—	—	—	—	—	(276)	(276)
Exchange rate loss	—	—	—	—	—	(8)	(8)
Actuarial gains and losses	—	—	—	—	—	1,396	1,396
Deferred tax on pension deficit	—	—	—	—	—	(418)	(418)
Transfers	—	—	—	—	(31)	31	—
Investment in own shares (note 27)	—	—	110	—	—	(110)	—
Share-based payments	—	—	—	—	—	12	12
At 31 December 2006	617	1,983	(144)	9	1,495	5,134	9,094
Profit for the year	—	—	—	—	—	1,778	1,778
Dividends paid	—	—	—	—	—	(327)	(327)
Exchange rate difference	—	—	—	—	—	(71)	(71)
Actuarial gains and losses	—	—	—	—	—	1,661	1,661
De-recognition of pension surplus	—	—	—	—	—	(1,745)	(1,745)
Deferred tax	—	—	—	—	14	25	39
Transfers	—	—	—	—	(32)	32	—
Investment in own shares	—	—	(153)	—	—	153	—
Share-based payments	—	—	—	—	—	45	45
New share issue	162	6,091	—	—	—	—	6,253
At 31 December 2007	779	8,074	(297)	9	1,477	6,685	16,727

The prior year adjustment relates to additional deferred maintenance income identified on overseas operations of £295,000. Further information is set out in note 22 of these financial statements.

Retained earnings include:

	Share-based payments reserve £'000	Translation reserve £'000	Total £'000
Balance 1 January 2006	—	(4)	(4)
Loss on foreign currency translation	—	(8)	(8)
Share-based payments	12	—	12
Balance 31 December 2006	12	(12)	—
Loss on foreign currency translation	—	(71)	(71)
Share-based payment	45	—	45
Balance 31 December 2007	57	(83)	(26)

As permitted by Section 230 of the Companies Act 1985, the Income Statement account for the parent Company is not presented as part of these accounts. The parent Company's profit for the financial year amounted to £818,000 (2006: £2,139,000).

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

28. STATEMENT OF CHANGES IN EQUITY (continued)

Company	Share capital account £'000	Share premium account £'000	Capital reserves £'000	Revaluation reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2006	617	1,983	9	1,526	2,090	6,225
Profit for the year	—	—	—	—	2,139	2,139
Dividends paid	—	—	—	—	(276)	(276)
Actuarial gains and losses	—	—	—	—	1,396	1,396
Deferred tax on pension deficit	—	—	—	—	(418)	(418)
Transfers	—	—	—	(31)	31	—
Share-based payments	—	—	—	—	12	12
At 31 December 2006	617	1,983	9	1,495	4,974	9,078
Profit for the year	—	—	—	—	818	818
Dividends paid	—	—	—	—	(327)	(327)
Actuarial gains and losses	—	—	—	—	1,661	1,661
De-recognition of pension surplus	—	—	—	—	(1,745)	(1,745)
Deferred tax	—	—	—	14	25	39
Transfers	—	—	—	(32)	32	—
New share issue	162	6,091	—	—	—	6,253
At 31 December 2007	779	8,074	9	1,477	5,438	15,777

Company Retained earnings include reserves:

	Share-based payments £'000
Balance 1 January 2006	—
Share-based payments	12
Balance 31 December 2006 and 31 December 2007	12

29. FINANCIAL COMMITMENTS

Capital commitments

At 31 December 2007 the Group and Company had capital commitments of £nil (2006: £nil).

Operating lease commitments

At 31 December 2007 the Group and Company had total commitments under non-cancellable other operating leases as set out below:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Land and buildings				
Within one year	432	446	65	65
Within two to five years	1,396	1,418	258	258
After five years	5,060	5,179	4,902	4,967
	<u>6,888</u>	<u>7,043</u>	<u>5,225</u>	<u>5,290</u>

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

29. FINANCIAL COMMITMENTS

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Other leases				
Within one year	516	512	213	208
Within two to five years	1,278	1,283	537	519
	<u>1,794</u>	<u>1,795</u>	<u>750</u>	<u>727</u>

30. NOTES TO THE CASHFLOW STATEMENT

30(a). Reconciliation of operating profit to operating cash flows:

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Operating profit	1,642	2,466	527	2,221
Depreciation	687	577	415	402
Amortisation of intangible assets	165	83	—	—
Release of government grants	(8)	(8)	(8)	(8)
Share based payments	45	12	—	12
Profit/(loss) on sale of property, plant and equipment	18	(6)	—	(6)
Operating cash flow before working capital movements	2,549	3,124	934	2,621
Increase in inventories	(211)	(42)	(217)	(54)
(Increase)/decrease in trade and other receivables	(674)	(638)	53	(173)
Increase in trade and other payables	1,449	426	657	98
Cash generated by operations	3,113	2,870	1,427	2,492
Additional pension contributions (note 6)	(596)	(270)	(596)	(270)
Cash flows from operating activities	<u>2,517</u>	<u>2,600</u>	<u>831</u>	<u>2,222</u>

30(b). Finance income

	Group		Company	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Interest received	220	49	190	34
Return on investments	—	41	—	41
	<u>220</u>	<u>90</u>	<u>190</u>	<u>75</u>

30(c). Finance Costs

Interest paid	(122)	(95)	(58)	(79)
Interest element of finance lease rental payments	(13)	(17)	(13)	(12)
	<u>(135)</u>	<u>(112)</u>	<u>(71)</u>	<u>(91)</u>

31. ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS IN 2006

There were no acquisitions in 2007. An update on the business combinations in 2006 is given in the information below:

Partmaker Inc

On 1 July 2006, the Company acquired the share capital of Delcam Partmaker Limited, a Company registered in England. Delcam Partmaker acquired the entire share capital of Partmaker Inc a Company registered in the USA. Partmaker Inc then acquired trade and net assets from International Manufacturing Computer Services Inc., which included £1.475 million of intellectual property rights in the Partmaker software. The Company is a CAM software specialist registered in the USA.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

31. ACQUISITIONS OF SUBSIDIARY UNDERTAKINGS IN 2006 (continued)

Fair value adjustments to the provisional fair value of assets at 31 December 2006, include brand value of £80,000 and customer list value of £70,000. The fair value of net assets at 31 December 2007 is £1.631 million, which resulted in the recognition of goodwill of £286,000 at 31 December 2006. The consideration payable of £1.917 million included a provision at 31 December 2006 of £200,000 for deferred consideration payable dependent on certain performance conditions being achieved for the year ended 31 December 2007. The actual amount of deferred consideration payable is estimated to be £150,000, which results in a reduction in goodwill of £50,000 to £236,000 on the acquisition of Partmaker Inc.

Crispin Systems Limited

On 27 December 2006, the Company acquired the entire issued share capital of Crispin Systems Limited. The Company is a CAM software specialist registered in the UK. The fair value of net assets acquired amounted to £190,000. The consideration paid of £475,000 resulted in £285,000 of goodwill recognised at 31 December 2006. The Company has achieved certain performance conditions, which requires Delcam Plc to pay additional deferred consideration. A provision for the additional deferred consideration of £205,000 has been made at 31 December 2007 in respect of this acquisition, resulting in a similar adjustment to increase the goodwill on this acquisition.

32. PENSIONS

The Group and Company operate a defined benefit scheme called the Delcam Retirement Benefits Scheme ("the Scheme"). The current service cost charged to the Income Statement account for the pension scheme amounted to £520,000 (2006: £481,000). Actual contributions paid in the year were £1,116,000 (2006: £751,000). In addition, contributions of £160,000 (2006: £187,000) were paid in respect of overseas state pension scheme contributions.

The Company also operates a defined contribution scheme. Contributions of £69,000 (2006: £72,000) were paid during the year. There was £30,000 of contributions outstanding at the year-end for all schemes (2006: £Nil).

A qualified independent actuary performed an IAS 19 valuation at 31 December 2007, which forms the basis of the disclosures below. The Projected Unit credit valuation method has been used.

	2007 £'000	2006 £'000
Balance sheet items		
Value of Scheme assets	21,834	19,213
Value of Scheme liabilities	<u>(20,089)</u>	<u>(20,143)</u>
Surplus/(deficit) in the scheme	<u>1,745</u>	<u>(930)</u>

The Company has adopted IFRIC 14 early and not recognised the pension surplus for the year ended 31 December 2007.

The assets in the Scheme and the expected rates of return were:

	Expected rate of return 2007 % pa		Expected rate of return 2006 % pa	
		2007 £'000		2006 £'000
Equities	7.4%	21,809	7.6%	19,203
Cash	<u>3.25%</u>	<u>25</u>	<u>3.25%</u>	<u>10</u>
Total market value of assets	<u>7.4%</u>	<u>21,834</u>	<u>7.6%</u>	<u>19,213</u>

The overall expected return on scheme assets is determined by the weighted average return of all pension scheme assets.

The actual return on pension plan assets for the year ended 31 December 2007 is £1,340,000 (2006: £2,161,000). The Scheme assets equate to the fair value of assets.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

32. PENSIONS (continued)

An analysis of the amount which has been charged to administration expenses in operating profit is as follows:

	2007	2006
	£'000	£'000
Current service cost	<u>520</u>	<u>481</u>

An analysis of the amount which has been (credited)/charged to finance income is as follows:

	2007	2006
	£'000	£'000
Interest on pension scheme liabilities	1,082	925
Expected return on pension scheme assets	<u>(1,500)</u>	<u>(1,207)</u>
Finance income	<u>(418)</u>	<u>(282)</u>
Overall income statement charge	<u>102</u>	<u>199</u>

Movement in the present value of defined benefit obligations were as follows:

	2007	2006
	£'000	£'000
At 1 January	(20,143)	(18,886)
Current service cost	(520)	(481)
Finance cost	(1,082)	(925)
Actuarial gains and losses	1,821	442
Benefits paid	<u>(165)</u>	<u>(293)</u>
At 31 December	<u>(20,089)</u>	<u>(20,143)</u>

Movements in the fair value of the Scheme assets were as follows:

	2007	2006
	£'000	£'000
At 1 January	19,213	16,008
Expected return on Scheme assets	1,500	1,207
Actuarial gains and losses	(160)	954
Contributions from Employer	1,116	751
Contributions from Scheme members	330	586
Benefits paid	<u>(165)</u>	<u>(293)</u>
At 31 December	<u>21,834</u>	<u>19,213</u>

An analysis of the amounts which have been recognised in the Statement of Recognised Income and Expenditure ('SORIE') is as follows:

	2007	2006
	£'000	£'000
Actual return less expected return on Pension Scheme assets	(160)	954
Experience gains arising on Pension Scheme Liabilities	118	165
Changes in financial assumptions underlying Pension Scheme Liabilities	<u>1,703</u>	<u>277</u>
Actuarial gain/(loss) recognised in the SORIE	<u>1,661</u>	<u>1,396</u>

The cumulative amount of actuarial gains and losses recognised in the SORIE since the date of transition, 1 January 2006 is £3,057,000 (2006: £1,396,000).

The estimate of Employers Contributions expected to be paid to the pension plan for the year ending 31 December 2008 is £540,000.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

32. PENSIONS (continued)

	2007	2006
Actuarial assumptions		
Discount rate	5.6%	5.29%
Expected salary escalation (excluding merit increases)	3.25%	3.25%
RPI increases in pensions in payment	3.25%	3.25%
Inflation	3.25%	3.25%
Expected return on scheme assets	7.4%	7.6%

Mortality assumptions

Investigations have been carried out into the mortality experience of the Group's defined benefit scheme. This investigation concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The Group uses PA 92 (year of birth) which assumes life expectancies on retirement at age 65 to be on average 20 years for a male and 23 years for a female retiring today:

History of experience gains and losses

	2007	2006
Difference between the expected and actual return on scheme assets:		
Amount £000	(160)	954
Percentage of scheme assets	1%	5%
Experience gains and losses on scheme liabilities:		
Amount £000	118	165
Percentage of the present value of the scheme liabilities	1%	1%
Total amount recognised in statement of total recognised gains and losses:		
Amount £000	1,661	1,396
Percentage of the present value of the scheme liabilities	8%	7%

33. FINANCIAL INSTRUMENTS

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in noted 28.

Categories of financial instruments

	Carrying value	
	2007	2006
	£'000	£'000
Financial assets		
Fair value through Income Statement (FVTPL)	—	—
Trade and other receivables — held as loans and receivables	7,437	6,763
Held-to-maturity investments	—	—
Cash and cash equivalents	7,717	2,447
Available for sale financial assets	—	—
	15,154	9,210

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL INSTRUMENTS (continued)

	Carrying value	
	2007	2006
	£'000	£'000
Financial liabilities		
Fair value through Income Statement (FVTPL) — derivative instrument —		
forward currency contract not recognised for hedge accounting	288	—
Trade and other payables — held at amortised cost	4,991	3,925
Derivative instruments in designated hedge accounting	—	—
Borrowings at amortised cost (note 21)	2,394	3,143
	<u>7,673</u>	<u>7,068</u>

Financial risk management objectives

Management monitor and manage the financial risks relating to the operations of the Group through internal risk reports. These risks include currency risk, interest rate risk, credit risk, liquidity risk and cash flow interest rate risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to reduce these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide guidance on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. Whilst the Group enters into forward currency contracts during the year to mitigate foreign currency risk, it does not apply hedge accounting.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates particularly in US dollars, Japanese yen and Euro and interest rates. The Group enters into a derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk including:

- forward foreign exchange contracts to hedge the exchange rate risk arising on the export of goods overseas in Euro and US dollar;
- use of fixed interest rates on its long term borrowings.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies in US dollar, Euro and Japanese yen. Hence, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amounts of the Group's foreign currency denominated monetary financial assets and monetary financial liabilities at the reporting date are as follows:

	Financial liabilities		Financial assets	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Euro	3,288	1,999	3,746	3,051
US dollar	203	240	6,310	2,746
JPN Yen	944	1,190	192	538
Sterling	2,833	3,332	3,580	1,742
Canadian Dollar	25	49	352	211
Indian Rupee	259	175	662	610
Malaysian Ringgits	17	17	71	146
China Yuan Renminbi	104	66	241	166
	<u>7,673</u>	<u>7,068</u>	<u>15,154</u>	<u>9,210</u>

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL INSTRUMENTS (continued)

Foreign currency sensitivity analysis

The Group is mainly exposed to the US dollar currency movements.

The following table details the Group's sensitivity to a 10% increase and decrease in Sterling against the relevant foreign currencies.

	Euro currency impact		US dollar currency impact	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Profit or loss	434	345	734	672

Forward foreign exchange contracts

It is the policy of the Group to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts. The Group also enters into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions out to six months. The Group does not hedge account for the forward currency exchange contracts. As at 31 December 2007, the aggregate amount of loss under forward foreign exchange contracts to these anticipated future sales transactions is £288,000 (2006: £nil).

Interest rate risk

Delcam's policy is to minimise interest rate cash flow risk exposure on long term financing. Longer term borrowings are therefore at fixed rates. If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank overdrafts attract interest at floating rates) were to change in interest rates by + or — 1% the impact on the results in the Income Statement account and equity would be an increase/decrease of £69,000.

The Group has access to financing facilities, the total unused amount is £1.25 million at the balance sheet date (2006: £889,000). The Group expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

Credit risk

This is discussed in detail in note 18 of these financial statements.

Liquidity risk

Delcam manages its liquidity by carefully monitoring its debt payments for long term financial liabilities. Delcam maintains cash and cash equivalents to meet its liquidity requirements for up to 30 day periods.

The Group's liabilities have contractual maturities as summarised below:

	31 December 2007			
	Current		Non-current	
	Within 6 months	6–12 months	1 to 5 years	Over 5 years
Bank overdraft and loans	649	162	892	—
Finance lease obligations	71	59	402	159
Trade and other payables	4,991	—	—	—
Derivatives	157	131	—	—
	5,868	352	1,294	159

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

33. FINANCIAL INSTRUMENTS (continued)

	31 December 2006			
	Current		Non-current	
	Within 6 months	6–12 months	1 to 5 years	Over 5 years
Bank overdraft and loans	856	313	1,730	—
Finance lease obligations	37	38	169	—
Trade and other payables	3,925	—	—	—
Derivatives	—	—	—	—
	<u>4,818</u>	<u>351</u>	<u>1,899</u>	<u>—</u>

Fair values

The fair values of financial assets and liabilities are determined as follows:

- Foreign currency forward contracts are measured using quoted forward exchange rules and yield curves derived quoted from the bank. The Group does not hedge account.
- Fair values of other non-derivative financial assets and liabilities are determined in accordance with discounted cash flow analysis or from current market rates.

The carrying value and fair value of the financial assets and financial liabilities are considered to be the same.

34. EXPLANATION OF TRANSITION TO IFRS (GROUP AND PARENT COMPANY)

The reconciliation of equity at 1 January 2006 (date of transition to IFRS) and at 31 December 2006 (date of last UK GAAP financial statements), together with a reconciliation of the UK GAAP profit for the year ended 31 December 2006, are included below to enable a comparison to be made between 31 December 2006 UK GAAP and IFRS figures.

The changes as a result of the transition to IFRS are described below.

a) Pensions

Accounting for pensions in accordance with IAS 19 requires that the pension liability and related deferred tax asset to be disclosed separately. Accordingly the pension obligation of £930,000 at 31 December 2006 (1 January 2006: £2,878,000) and its related deferred tax asset of £379,000 (1 January 2006: £1,163,000) has been presented under non-current assets.

b) Intangible assets

IAS 38 requires that development expenditure should be capitalised and amortised over the life of the development project. Management expect the development projects to have a useful economic life of three years when it becomes commercially viable. This has resulted in an increase in operating profits of £101,000 for the year to 31 December 2006, with a transfer of costs to intangible assets. In addition, other intangible assets acquired on business combinations of £150,000 are set out in note c below.

c) Goodwill

IFRS 3 prohibits the amortisation of goodwill, which is subject to annual impairment reviews. Goodwill is stated in the opening balance sheet at 1 January 2006 at its UK GAAP carrying value of £1,459,000 with subsequent amortisation reversed. The impact on operating profit is a credit of £169,000 for the year ended 31 December 2006.

The standard also requires identifiable intangible assets arising on acquisition to be capitalised at fair value and amortised over their useful economic lives. Brand value and customer lists with a value of £150,000 arising on the acquisition of Delcam Partmaker Limited and Partmaker Inc have been reclassified from goodwill to other intangible assets and are being amortised over their useful lives. This results in an amortisation charge to the Group income statement of £9,000 for the year ended 31 December 2006.

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

34. EXPLANATION OF TRANSITION TO IFRS (GROUP AND PARENT COMPANY) (continued)

d) Tax

In accordance with IAS 12 provision has been made for deferred tax on revalued property asset. This was not required under UK GAAP. The increase in the deferred tax liability and subsequent adjustment to the revaluation reserve of £654,000 at 1 January 2006 and £640,000 at 31 December 2006.

An adjustment to the deferred tax charge is being made for non-qualifying buildings and property revaluations. In respect of property revaluations an equivalent credit is made to the revaluation reserve.

The total adjustment to deferred tax is an increase in the deferred tax liability of £968,000 at 31 December 2006 (1 January 2006: £924,000) and a reversal of the deferred tax asset of £67,000 shown in trade and other receivables at 1 January 2006.

e) Share based payments and other reserve

The share based payments reserve of £12,000 and other reserve foreign currency reserves of £9,000 have been reclassified as retained earnings.

f) Holiday pay accrual

The Group and Company have accrued £104,000 and £57,000 respectively for a holiday pay accrual in accordance with IAS 19 "Employee benefits" for the year 1 January 2006. At 31 December 2006, the Group's holiday pay accrual remains at £104,000, but the parent Company holiday pay accrual is £66,000 resulting in a £9,000 charge to the Income statement.

g) Deferred income

A reclassification has been made to show deferred income of £120,000 as amounts owing greater than one year as a non-current liability.

h) Share of associates profits

The share of associates is gross of tax under UK GAAP. On transition to IFRS, the share of associates' profit is shown net of tax and an adjustment of £31,000 tax has been made.

i) Income Statement account

The UK GAAP accounts for the year ended 31 December 2006 shows an Income Statement reserve of £5,579,000. As discussed in notes 22 and 29 of these financial statements, a prior year adjustment reduces the Income Statement reserve by £295,000 in respect of additional deferred maintenance income recognised on overseas entities.

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

34. EXPLANATION OF TRANSITION TO IFRS (GROUP AND PARENT COMPANY) (continued)

Income statement for the year to 31 December 2006

	UK GAAP £'000	Group Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Company Effect of transition to IFRS £'000	IFRS £'000
Continuing operations						
Sales	26,740	—	26,740	17,199	—	17,199
Cost of sales (note b)	(9,636)	101	(9,535)	(8,433)	101	(8,332)
Gross profit	17,104	101	17,205	8,766	101	8,867
Administrative expenses (note c and f)	(9,097)	160	(8,937)	(3,716)	(3)	(3,719)
Distribution costs	(5,989)	—	(5,989)	(3,114)	—	(3,114)
Other operating income	187	—	187	187	—	187
Operating profit	2,205	261	2,466	2,123	98	2,221
Share of associates' profit (h)	97	(31)	66	—	—	—
Finance income	372	—	372	266	—	266
Finance cost	(112)	—	(112)	—	—	—
Profit before tax	2,562	230	2,792	2,389	98	2,487
Tax (note d)	(477)	54	(423)	(371)	23	(348)
Profit for the period from continuing operations	2,085	284	2,369	2,018	121	2,139

Notes to the Financial Statements (continued)

YEAR ENDED 31 DECEMBER 2007

34. EXPLANATION OF TRANSITION TO IFRS (GROUP AND PARENT COMPANY) (continued)

Reconciliation of Equity at 1 January 2006

	UK GAAP £'000	Group Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Company Effect of transition to IFRS £'000	IFRS £'000
Non-current assets						
Goodwill	1,459	—	1,459	46	—	46
Property, plant & equipment	6,263	—	6,263	5,739	—	5,739
Interests in subsidiaries/associates	856	—	856	1,445	—	1,445
Deferred tax asset (note a)	—	1,163	1,163	—	1,163	1,163
	8,578	1,163	9,741	7,230	1,163	8,393
Current assets						
Inventories	168	—	168	145	—	145
Trade and other receivables (note d)	6,051	(67)	5,984	6,708	(67)	6,641
Cash and cash equivalents	1,910	—	1,910	1,000	—	1,000
	8,129	(67)	8,062	7,853	(67)	7,786
Total assets	16,707	1,096	17,803	15,083	1,096	16,179
Current liabilities						
Trade and other payables (note f)	(3,599)	(104)	(3,703)	(2,336)	(57)	(2,393)
Current tax liabilities	(210)	—	(210)	(210)	—	(210)
Borrowings	(1,467)	—	(1,467)	(1,466)	—	(1,466)
Deferred income	(1,965)	—	(1,965)	(1,487)	—	(1,487)
	(7,241)	(104)	(7,345)	(5,499)	(57)	(5,556)
Non-current liabilities						
Retirement benefit obligation (note a)	(1,715)	(1,163)	(2,878)	(1,715)	(1,163)	(2,878)
Deferred tax liabilities (note d)	—	(924)	(924)	—	(924)	(924)
Borrowings	(596)	—	(596)	(596)	—	(596)
	(2,311)	(2,087)	(4,398)	(2,311)	(2,087)	(4,398)
Total liabilities	(9,552)	(2,191)	(11,743)	(7,810)	(2,144)	(9,954)
Net assets	7,155	(1,095)	6,060	7,273	(1,048)	6,225
Equity						
Called-up share capital	617	—	617	617	—	617
Share premium	1,983	—	1,983	1,983	—	1,983
Investment in own shares	(254)	—	(254)	—	—	—
Revaluation reserve (note d)	2,180	(654)	1,526	2,180	(654)	1,526
Capital reserve	9	—	9	9	—	9
Other reserve (note e)	(4)	4	—	—	—	—
Income Statement account (note i)	2,624	(445)	2,179	2,484	(394)	2,090
Total equity	7,155	(1,095)	6,060	7,273	(1,048)	6,225

Notes to the Financial Statements (continued)

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YEAR ENDED 31 DECEMBER 2007

34. EXPLANATION OF TRANSITION TO IFRS (GROUP AND PARENT COMPANY) (continued)

Reconciliation of Equity at 31 December 2006

	UK GAAP £'000	Group Effect of transition to IFRS £'000	IFRS £'000	UK GAAP £'000	Company Effect of transition to IFRS £'000	IFRS £'000
Non-current assets						
Goodwill (note c)	2,085	19	2,104	40	6	46
Other intangible assets (note b & c)	1,401	242	1,643	—	101	101
Property, plant and equipment	6,154	—	6,154	5,544	—	5,544
Interests in subsidiaries/associates	800	—	800	3,671	—	3,671
Deferred tax asset (note a)	—	379	379	—	379	379
	10,440	640	11,080	9,255	486	9,741
Current assets						
Inventories	210	—	210	199	—	199
Trade and other receivables	6,763	—	6,763	6,814	—	6,814
Cash and cash equivalents	2,447	—	2,447	1,057	—	1,057
	9,420	—	9,420	8,070	—	8,070
Total assets	19,860	640	20,500	17,325	486	17,811
Current liabilities						
Trade and other payables (note f)	(3,821)	(104)	(3,925)	(2,044)	(66)	(2,110)
Current tax liabilities	(47)	—	(47)	(21)	—	(21)
Borrowings	(1,244)	—	(1,244)	(1,244)	—	(1,244)
Deferred income (note g)	(2,242)	120	(2,122)	(1,513)	120	(1,393)
	(7,354)	16	(7,338)	(4,822)	54	(4,768)
Non-current liabilities						
Retirement benefit obligation (note a)	(551)	(379)	(930)	(551)	(379)	(930)
Deferred tax liabilities (note d)	(48)	(968)	(1,016)	(48)	(968)	(1,016)
Borrowings	(1,899)	—	(1,899)	(1,899)	—	(1,899)
Deferred income (note g)	—	(120)	(120)	—	(120)	(120)
	(2,498)	(1,467)	(3,965)	(2,498)	(1,467)	(3,965)
Total liabilities	(9,852)	(1,451)	(11,303)	(7,320)	(1,413)	(8,733)
Net assets	10,008	(811)	9,197	10,005	(927)	9,078
Equity						
Called-up share capital	617	—	617	617	—	617
Share premium	1,983	—	1,983	1,983	—	1,983
Investment in own shares	(144)	—	(144)	—	—	—
Revaluation reserve (note d)	2,135	(640)	1,495	2,135	(640)	1,495
Capital reserve	9	—	9	9	—	9
Share based payments (note e)	12	(12)	—	12	(12)	—
Other reserve (note e)	9	(9)	—	—	—	—
Income Statement account (note i)	5,284	(150)	5,134	5,249	(275)	4,974
Equity shareholders funds	9,905	(811)	9,094	10,005	(927)	9,078
Equity minority interests	103	—	103	—	—	—
Total equity	10,008	(811)	9,197	10,005	(927)	9,078

Notice of Meeting

Notice is hereby given that the Annual General Meeting of Delcam Plc will be held at Delcam Plc, Small Heath Business Park, on 9 May 2008 at 3.00 pm for the following purposes:

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AS ORDINARY BUSINESS

1. To receive the report of the Directors and financial statements for the year ended 31 December 2007.
2. To approve a final dividend on the Ordinary shares of 4.0p per share for the year ended 31 December 2007.
3. To elect SM Hobbs and BJ Simpson as Directors of the Company.
4. To re-elect HRO Humphreys and CP Martell, who retire by rotation, as Directors of the Company.
5. To reappoint the auditors, Grant Thornton, and to authorise the Directors to fix their remuneration.

AS SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions as Special Resolutions:

6. That the Company is, pursuant to section 166 of the Companies Act 1985, hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of ordinary shares of 10p ("Ordinary shares") each in the capital of the Company provided that:
 - (i) the maximum number of ordinary shares hereby authorised to be purchased is 771,516 (representing 10% of the Company's issued ordinary share capital);
 - (ii) the minimum price which may be paid for an ordinary share is 10p per ordinary share (exclusive of any applicable taxes and expenses);
 - (iii) the maximum price (exclusive of any applicable taxes and expenses) which may be paid for an ordinary share is not more than 5% above the average of the market values for an ordinary share published by the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased;
 - (iv) the authority hereby conferred shall expire on the earlier of the next AGM or 18 months from the dated of this AGM; and
 - (v) the Company may make a contract to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority and may make a purchase of ordinary shares in pursuance of any such contract.
7. That the Directors be and they are hereby empowered pursuant to Section 95(1) of the Companies Act 1985 to exercise all powers of the Company to allot equity securities of the Company (as defined in Section 94 of that Act) for cash as if Section 89(1) of the Companies Act 1985 did not apply to such allotment provided that the power hereby conferred shall be limited to:
 - (i) the allotment of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares and the holders of any other shares or securities of the Company which by their terms are entitled to participate in such rights issue where the equity securities allotted are in proportion (as nearly as may be) to, on a record date fixed by the Directors, the respective number of shares held by such shareholders; and
 - (ii) the allotment (otherwise than pursuant to paragraph (i) above) wholly for cash of equity securities up to an aggregate nominal amount of £38,575 (approximately 5% of the issued Ordinary Share capital of the Company) and unless previously renewed, revoked or varied such power shall expire on the earlier of 15 months from the date on which this Resolution is passed and the conclusion of the Annual General Meeting falling in 2009, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.

-
8. That the Directors are generally and unconditionally authorised pursuant to the provisions of section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities as defined by such section provided that:
- (i) The maximum nominal amount of such securities that may be allotted under this authority (within the meaning of that section) is £213,483;
 - (ii) This authority, unless it is (prior to its expiry) duly revoked or is renewed, expire at the Annual General Meeting of the Company to be held in 2009 or 15 months from the date of passing of this Resolution (whichever shall occur first) save that the Company may, before such expiry, make an offer or agreement which will or may require relevant securities to be allotted after such expiry and the Directors of the Company may allot relevant securities in pursuance of such offer or agreement as if the power conferred hereby had not yet expired; and
 - (iii) Provided also that the authority granted by this Resolution is in substitution for any authority to allot relevant securities previously granted to the Directors (to the extent that it remains in force) is hereby revoked.

By Order of the Board

K SINGH

Secretary

Talbot Way
Small Heath Business Park
Birmingham
B10 0HJ
28 March 2008

Notes:

1. A member of the Company entitled to attend and vote at the meeting may appoint a proxy to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. To be valid, Forms of Proxy must be lodged at the Company's registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA not less than 48 hours before the meeting. By signing and returning a Form of Proxy, a shareholder will not be precluded from attending and voting in person should he or she so wish.
2. The register of Directors' interests maintained pursuant to Section 325 of the Act and copies of the contracts of service of Directors will be available for inspection at the registered office of the Company during usual business hours from the date of this notice until the date of the Annual General Meeting and at the meeting itself.



OFFICE USE

Accepted

Shares

Form of Proxy

I/We

(Name in Block Capitals)

of

being (a) member(s) of Delcam Plc, HEREBY APPOINT the Chairman of the Meeting or

..... as my/our proxy to vote for me/us and on my/our behalf

at the Annual General Meeting of the Company to be held on 9 May 2008 and at any adjournment thereof and direct him/her to vote on the resolutions set out in the Notice of Meeting as indicated below.

SIGNED this day of 2008 Signature

Please indicate with an X in the spaces below how you wish your votes to be cast. Unless otherwise indicated, the proxy will vote or abstain as he/she thinks fit.

	Ordinary Business	For	Against
1	To receive and adopt the report of the Directors and the financial statements for the year ended 31 December 2007, together with the report of the auditors.		
2	To approve a final dividend on the Ordinary shares of 4.0p per share for the year ended 31 December 2007.		
3	To elect SM Hobbs and BJ Simpson as Directors of the Company.		
4	To re-elect Mr HRO Humphreys and CP Martell, who retire by rotation, as Directors of the Company.		
5	To reappoint the auditors and to authorise the Directors to fix their remuneration.		
	Special Business		
6	To authorise the purchase of own shares.		
7	To disapply Section 89 of the Companies Act 1985 in respect of pre-emption rights.		
8	To authorise the Directors to issue shares other than for cash		

NOTES

1. A member may appoint a proxy of his/her own choice (who need not be a member of the Company). If such an appointment is made, the words "the Chairman of the Meeting or" should be deleted and the name and address of the person appointed as proxy should be inserted in the space provided.
2. Any alteration in this Form of Proxy should be initialled.
3. Completion and return of the Form of Proxy will not preclude a member from attending and voting at the Meeting should he/she subsequently decide to do so.
4. If the appointor is a Corporation this Form of Proxy must be under its Common Seal, or under the hand of some officer of the Corporation duly authorised in writing in that behalf.
5. To be valid, this Form of Proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's Registrars, Neville Registrars Limited, Neville House, 18 Laurel Lane, Halesowen, West Midlands, B63 3DA, not less than 48 hours before the Meeting.
6. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s). Seniority will be determined by the order in which the names stand in the Register of members in respect of the joint holding.

Second fold

BUSINESS REPLY SERVICE
Licence No. BM3865

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Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
B63 3DA

First fold

Third fold
and tuck in flap opposite



The Delcam stand at Intermould in Korea



A delegation of leading Korean industrialists visited Delcam in Birmingham during May



Sir Anthony Brenton, KCMG, British Ambassador, presented the awards to winners in Delcam's 9th annual competition for Russian University students



More than 100 leading industrialists and journalists attended Delcam's Asian Technical Summit in Japan



Delcam's stand at the Control exhibition in Germany helped promote PowerINSPECT sales



Mr. Timothy Barrow, British Ambassador to the Ukraine, at the opening of the Delcam Training Centre at Kiev National Technical University. This is the eighth Centre to be opened in a programme between Delcam and the Zaporizha University



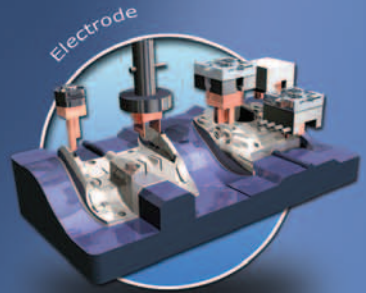
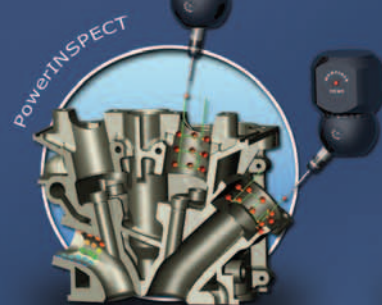
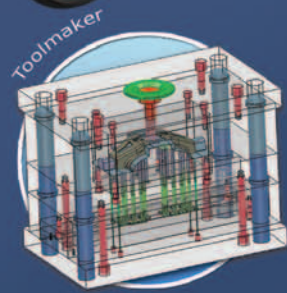
Delcam's stand at Industrie in France

Delcam





Complete CAD/CAM Solutions



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