Psion Interim Report

2010

customers trust partners ingenuity
openness customers trust partners
ingenuity openness customers trust

putting ingenuity
back to work

PSION'S CORE BUSINESS IS THE DESIGN, MANUFACTURE AND SUPPLY OF RUGGED, HANDHELD MOBILE AND VEHICLE-MOUNTED COMPUTING DEVICES, FOR BUSINESS TO BUSINESS MARKETS, DESIGNED TO IMPROVE BUSINESS EFFICIENCY AND PRODUCTIVITY FOR LEADING ENTERPRISES AROUND THE WORLD.

Contents

Our Values

Openness

- We're easy to do business with
- We're courageous and transparent in our way of working
- We create choice for our customers

Trust

- We all play a role in the success of our business and brand
- We work as a team with partners and not as a competitor
- Our decisions will earn us trust from our partners and customers

Collective Ingenuity

- We are inventive, clever and resourceful in solving problems
- We nurture ingenuity from all quarters of the world
- We never stop listening to, and learning from, our customers

Interim Management Report

John Hawkins
Chairman

Positioned for growth…

The first tangible benefits of our Open Source Mobility strategy are evident within these results and later this year will deliver two new products, derived from our new modular product platform. Since March, another cornerstone of the OSM strategy, our collaborative community at IngenuityWorking.com, has been especially successful with over 30,000 visitors a month and a total in excess of 1m visits to date. The unique insight we gain from this is already shaping our future product development.

Introduction

The results for the first half of the year demonstrate the continued progress that Psion is making, both in operational and financial terms. The Company has maintained a strong focus on costs while improving efficiency. It continues to balance the need to deliver satisfactory financial performance with the need to invest in the company's product portfolio for the medium and long-term. We have continued to invest in key areas of the business, in order to give Psion the best chance of exploiting any economic upturn, increasing its market share and establishing a platform for satisfactory, sustainable profit delivery.

The 10% depreciation in the average £ exchange rate against the Canadian $ has presented a considerable headwind in the first six months of 2010, as we have been at pains to point out. Furthermore, at 30 June 2010, the exchange rates between the £ and the Canadian $ and the £ and the US $ were 14% and 11% lower than 30 June 2009. While this had a marked effect on our financial forecasts for the second half, as previously disclosed, we carefully manage our trading and balance sheet exposures and will continue to do so. It is also worth noting that the strengthening of £ since 30 June 2010 is somewhat advantageous, although some of the benefit of £ strength against the Canadian and US $ is offset by £ strength against the €.

We will continue to monitor exchange rates closely in the second half of 2010, given the sensitivity of reported results to relatively small changes in exchange rates.

We are seeing a continued improvement in market conditions, and the Board remains confident that Psion is well placed to deliver strong growth in the years ahead, as a result of the actions we have taken to reposition the Company and to redesign its products and services.

The Board is grateful for everyone's continuing hard work in implementing our strategy of Open Source Mobility. This is evident in the manner in which all have embraced IngenuityWorking.com, our community website where we interact with our customers and partners. It is through their collective efforts that the launch of our modular product in the third quarter of 2010 remains on track and on budget, as do the launches of further modular products, CDMA wireless products for the US market and a lower-cost PDA product family.

Results

Revenues for the first half of 2010 were on budget at £84.7m (H1 2009: £84.5m).

An operating profit from continuing operations of £4.8m was recorded for the period (H1 2009: loss of £13.9m).

However, after deducting exceptional operating income of £0.5m and deducting share based payment credits of £0.4m, adjusted operating profits from continuing operations were £3.9m (2009: loss of £7.2m). Exceptional operating income is the net of ongoing costs relating to the previously disclosed legal situation in Japan and some residual costs from the restructuring programmes offset by further insurance recoveries against costs incurred in respect of Japan and a small gain on the sale of the Group's Dubai business. See note 3 for a more detailed summary.

After deducting net capitalisation of development expenditure, normalised operating profits from continuing operations were £0.7m (H1 2009: loss of £1.1m). Psion is capitalising expenditure incurred in the development of its modular technology platform, and will write this asset off over 4 years from the date that the first modular product is launched, expected to be in the third quarter of 2010.

Basic earnings per share were 3.1p (H1 2009: loss per share 10.9p) in the period and adjusted basic earnings per share from continuing operations were 2.5p (H1 2009: loss per share 6.9p).

Cash generated by operations was £2.0m (H1 2009: £8.1m). After restructuring costs, capital expenditure, tax, the currency impact on opening balances and the second interim dividend for 2009, cash absorbed since December 2009 was £5.8m, leaving a closing cash balance of £39.5m.

Inventory increased to £19.2m (December 2009: £18.4m) reflecting efforts to improve customer lead times and the effect of currency movements.

Improvements in working capital management are expected in the second half of the year.

Open Source Mobility Strategy

Following Psion's successful Change Programme, we have made considerable progress in implementing our plans to improve competitiveness by deploying 'Open Source Mobility' (OSM). OSM is our differentiation strategy that leverages our modular technology platform, and extends the benefits of modularity to our customers. The work we have undertaken in developing the underlying platform has had the desired effect of increasing the speed and reducing the cost of developing related products. It has also increased our portfolio of intellectual property, generating a marked increase in patent filings in the first half of 2010. Our first modular product will be launched in the third quarter of 2010, and subsequent products remain on track for subsequent release. We will launch the first of a lower cost PDA family in China in the fourth quarter of 2010. This will be a Psion branded offer, customised to local technology and ergonomic requirements, and will widen our addressable market in this important region and other emerging markets. We also remain on track and on budget in the development of CDMA wireless variants which will allow us to address the sizeable US market for users who require the ability to roam.

We continued to make good progress with our indirect channel strategy, with 52.7% of product revenues being delivered through distribution partners and value-added resellers. Indeed, sales through distribution partners increased from 26.8% of product revenues for the year ended 31 December 2009 to 32.1% in the six months ended 30 June 2010 with value added resellers accounting for 20.6% of product revenues in the period.

With good progress on operational effectiveness and leverage, and an order book up 14%, we expect sequential revenue growth in H2 2010 and believe that Psion is now well placed to deliver strong growth in 2011 and beyond.

We launched our open community, IngenuityWorking.com, in the first quarter of 2010 and it is proving to be a great success. We are at the forefront of deploying such an agile approach, and are seeing notable increases in its membership, the volume and quantity of interesting content, and the willingness of users to collaborate on a wide range of topics. One example is a recent request by our Chief Technology Officer, Mike Doyle, on the development of products that will use the Google developed Android operating system. Our partners have commented favourably on this community, and we will launch a partner solution offer (similar to an applications store) in the second half of 2010, providing them with profitable growth opportunities for hardware, software and service add-ons to Psion products.

We remain convinced that our OSM concept provides us with differentiation from our competitors. Our strategy of widening our addressable market and improving our operational excellence will deliver improved financial returns.

Dividends

The Board of Directors is increasing the interim dividend to 1.3p (2009: 1.2p) to be paid on 17 September 2010 to those shareholders on the register at close of business on 20 August 2010.

Board

We announced on 7 May 2010 that Mr. Toby Redshaw would join us with effect from 10 May 2010. Toby is currently Global Chief Information Officer at insurance group Aviva. He has previously held a range of management roles at companies including Motorola and Fedex Corporation. Toby has already made a strong contribution to the Board and has agreed to be Chairman of our recently formed Technology Committee to coordinate our process to evaluate and exploit emerging technologies.

Outlook

Psion continues to make good progress, both in terms of product development and constant currency financial performance. Having reduced our cost base, improved the positive operating leverage in our business and enhanced our channel sales activity, we are now bringing a range of new products to market. These are on time and on budget; they are also generating considerable customer interest ahead of shipping in volume.

Our order book is growing strongly and the order pipeline is also improving. The Board expects a moderate improvement in revenue in the second half, although exchange rates will continue to impact reported results. We remain confident of strong growth in 2011, based on anticipated demand for our new products, our improved North American offer and the rapidly expanding scope for selling through channel partners.

John Hawkins
Chairman

Condensed Consolidated Statement of Comprehensive Income

FOR THE SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

	Notes	**6 months ended 30.6.10 £000s**	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
CONTINUING OPERATIONS				
Revenue	2	**84,703**	84,500	170,042
Cost of sales		**(51,220)**	(57,436)	(106,357)
GROSS PROFIT		**33,483**	27,064	63,685
Distribution costs		**(17,394)**	(18,727)	(36,354)
Administrative expenses		**(11,755)**	(15,459)	(24,966)
Exceptional operating credit / (costs)	3	**461**	(6,796)	(5,420)
Total administrative expenses		**(11,294)**	(22,255)	(30,386)
OPERATING PROFIT / (LOSS)	2	**4,795**	(13,918)	(3,055)
Investment income		**69**	159	207
Finance costs		**(68)**	(63)	(138)
PROFIT / (LOSS) BEFORE TAX		**4,796**	(13,822)	(2,986)
Tax	4	**(392)**	(1,382)	(4,769)
PROFIT / (LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS		**4,404**	(15,204)	(7,755)
DISCONTINUED OPERATIONS				
(Loss) / profit for the period from discontinued operations	5	**(64)**	(94)	603
PROFIT / (LOSS) FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**4,340**	(15,298)	(7,152)
OTHER COMPREHENSIVE INCOME				
Exchange gain / (loss) on translation of goodwill in foreign operations		**7,828**	(14,049)	(12,134)
Exchange loss on translation of foreign operations		**(16)**	(9,402)	(7,937)
TOTAL COMPREHENSIVE INCOME		**12,152**	(38,749)	(27,223)
EARNINGS PER SHARE				
From continuing operations				
Basic	7	**3.13p**	(10.82p)	(5.52p)
Diluted	7	**3.13p**	(10.82p)	(5.52p)
From continuing and discontinued operations				
Basic	7	**3.09p**	(10.88p)	(5.09p)
Diluted	7	**3.09p**	(10.88p)	(5.09p)

Condensed Consolidated Balance Sheet

AS AT 30 JUNE 2010 – UNAUDITED

	30.6.10 £000s	30.6.09 £000s	31.12.09 £000s
NON-CURRENT ASSETS			
Goodwill	**107,726**	97,897	99,898
Other intangible assets	**10,108**	1,502	5,527
Property, plant and equipment	**9,955**	9,526	9,932
Prepayments	**602**	–	645
Deferred tax assets	**6,728**	10,024	6,863
	135,119	118,949	122,865
CURRENT ASSETS			
Inventories	**19,215**	17,468	18,430
Trade and other receivables	**43,360**	39,577	45,644
Current tax assets	**1,709**	1,594	3,653
Cash and cash equivalents	**39,471**	39,944	45,268
Derivative financial instruments	**8**	11	–
	103,763	98,594	112,995
TOTAL ASSETS	**238,882**	217,543	235,860
CURRENT LIABILITIES			
Trade and other payables	**(45,321)**	(38,970)	(48,718)
Retirement benefit obligations	**(99)**	(18)	(7)
Tax liabilities	**(1,635)**	(2,259)	(2,167)
Obligations under finance leases	**(258)**	(405)	(236)
Derivative financial instruments	**–**	–	(14)
Provisions	**(1,383)**	(1,859)	(2,227)
	(48,696)	(43,511)	(53,369)
NON-CURRENT LIABILITIES			
Tax liabilities	**(197)**	(1,279)	(575)
Deferred tax liabilities	**(819)**	–	(888)
Obligations under finance leases	**(1,033)**	(583)	(946)
Provisions	**(2,468)**	(4,051)	(2,496)
	(4,517)	(5,913)	(4,905)
TOTAL LIABILITIES	**(53,213)**	(49,424)	(58,274)
NET ASSETS	**185,669**	168,119	177,586
EQUITY			
Share capital	**21,086**	21,085	21,086
Share premium	**15,597**	15,590	15,597
Capital reserve	**98,703**	98,703	98,703
Translation reserve	**26,468**	15,276	18,656
Retained earnings	**23,815**	17,465	23,544
TOTAL EQUITY	**185,669**	168,119	177,586

Condensed Consolidated Statement of Changes in Equity

FOR THE SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
SHARE CAPITAL			
Balance at start of period	**21,086**	21,081	21,081
Exercise of equity share options	**–**	4	5
Balance at end of period	**21,086**	21,085	21,086
SHARE PREMIUM			
Balance at start of period	**15,597**	15,581	15,581
Exercise of equity share options	**–**	9	16
Balance at end of period	**15,597**	15,590	15,597
CAPITAL RESERVE			
Balance at start and end of period	**98,703**	98,703	98,703
TRANSLATION RESERVE			
Balance at start of period	**18,656**	38,727	38,727
Exchange difference on translation of goodwill in foreign operations	**7,828**	(14,049)	(12,134)
Exchange difference on translation of foreign operations	**(16)**	(9,402)	(7,937)
Balance at end of period	**26,468**	15,276	18,656
RETAINED EARNINGS			
Balance at start of period	**23,544**	36,307	36,307
Profit / (loss) for the period	**4,340**	(15,298)	(7,152)
Recognition of share-based payment credit	**(414)**	(31)	(411)
Dividends (note 6)	**(3,655)**	(3,513)	(5,200)
Balance at end of period	**23,815**	17,465	23,544
TOTAL			
Balance at start of period	**177,586**	210,399	210,399
Exercise of equity share options	**–**	13	21
Exchange difference on translation of goodwill in foreign operations	**7,828**	(14,049)	(12,134)
Exchange difference on translation of foreign operations	**(16)**	(9,402)	(7,937)
Profit / (loss) for the period	**4,340**	(15,298)	(7,152)
Recognition of share-based payment credit	**(414)**	(31)	(411)
Dividends (note 6)	**(3,655)**	(3,513)	(5,200)
Balance at end of period	**185,669**	168,119	177,586

Condensed Consolidated Cash Flow Statement

FOR THE SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
PROFIT / (LOSS) FOR THE PERIOD	**4,340**	(15,298)	(7,152)
Adjustments for:			
Investment income	**(69)**	(159)	(207)
Finance costs	**68**	63	325
Tax charge	**392**	1,382	4,769
Depreciation of property, plant and equipment	**1,384**	1,942	3,511
Amortisation of other intangible assets	**483**	599	1,270
Share-based payment credit	**(414)**	(31)	(411)
(Gain) / loss on disposal of property, plant and equipment	**(146)**	98	210
Loss on disposal of intangible assets	**–**	10	10
Decrease in provisions	**(91)**	(2,446)	(1,399)
Cash impact of discontinued operations	**(795)**	(611)	(856)
Operating cash flows before movements in working capital	**5,152**	(14,451)	70
(Increase) / decrease in inventories	**(784)**	17,049	16,741
Decrease in receivables	**2,325**	12,909	5,149
Decrease in payables	**(4,653)**	(7,367)	(177)
Cash generated by operations	**2,040**	8,140	21,783
Tax received	**2,343**	636	829
Tax paid	**(1,450)**	(2,045)	(4,144)
Interest paid	**(68)**	(64)	(138)
NET CASH FROM OPERATING ACTIVITIES	**2,865**	6,667	18,330
INVESTING ACTIVITIES			
Interest received	**65**	159	216
Proceeds on disposal of property, plant and equipment	**154**	28	145
Purchases of intangible assets	**(4,228)**	(483)	(4,739)
Purchases of property, plant and equipment	**(417)**	(1,130)	(2,352)
Disposal of subsidiary undertaking, net of cash disposed	**(63)**	–	–
NET CASH USED IN INVESTING ACTIVITIES	**(4,489)**	(1,426)	(6,730)
FINANCING ACTIVITIES			
Dividends paid (note 6)	**(3,655)**	(3,513)	(5,200)
Repayment of obligations under finance leases	**(376)**	(517)	(568)
Proceeds from issue of new shares	**–**	13	21
NET CASH USED IN FINANCING ACTIVITIES	**(4,031)**	(4,017)	(5,747)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(5,655)**	1,224	5,853
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**45,268**	41,281	41,281
Effect of foreign exchange rate changes	**(142)**	(2,561)	(1,866)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**39,471**	39,944	45,268

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

1. GENERAL INFORMATION

Reporting entity

Psion PLC ("the Company") is a company incorporated in Great Britain under the Companies Act 2006 ("the Act"). The principal activities of the Group are providing enterprise mobile computing solutions, integration services and product support and maintenance to customers worldwide. The Company's registered office address is 48 Charlotte Street, London, W1T 2NS, United Kingdom.

The condensed set of consolidated financial statements of the Group as at, and for the six months ended, 30 June 2010 comprises those of the Company and all its subsidiaries. The condensed set of consolidated financial statements has neither been audited nor reviewed by the auditors, and neither were the comparative figures for the six months ended 30 June 2009. The information for the year ended 31 December 2009 does not constitute statutory accounts as defined in s434 of the Act. A copy of the statutory accounts for that year has been filed with the Registrar of Companies. The auditors' report on those financial statements was unqualified, but it did include a reference to uncertainty relating to ongoing litigation in Japan, to which the auditors drew attention by way of emphasis without qualifying the report. Note 9 gives an update on the situation in Japan. The auditors' report did not contain a statement under section 498 (2) or 498 (3) of the Act.

Statement of compliance

The condensed set of consolidated financial statements has been prepared in accordance with IAS 34 – "Interim Financial Reporting" as adopted by the European Union. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at, and for the year ended, 31 December 2009.

Significant accounting policies

The accounting policies applied and presentation and methods of computation followed by the Group in the condensed set of consolidated financial statements are the same as those applied in the Group's consolidated financial statements for the year ended 31 December 2009, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Copies of the December 2009 Annual Report and Accounts are available from the Secretary at the registered office.

Basis of preparation

The condensed set of consolidated financial statements has been prepared on the going concern basis. The Directors have taken into account cash flow projections, the current strength of the Balance Sheet (in particular the cash resources of the Group) and the most up to date information on the trading dispute in Japan in reaching their conclusion that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Estimates

The preparation of the condensed set of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, income and expense. The estimates are made taking account of all relevant information available but there can be no certainty that actual future results will match the estimates.

The critical judgement areas in preparing this condensed set of consolidated financial statements are the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2009, i.e. the valuation of goodwill, the calculation of the deferred tax asset, the assessment of third party claims in Japan and the treatment of receivable amounts in that country as further described in note 9. The further areas where significant estimates have to be made are in the provisions for warranty costs, bad debts, slow moving inventory and onerous lease costs.

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

2. SEGMENTAL ANALYSIS

The Group is managed on a geographical basis. The geographical segments are the basis on which the Group reports its results within its internal reporting to the Chief Executive Officer and the Board for the purposes of resource allocation and assessment of segmental performance.

Revenue by geographical origin

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
USA	**14,393**	18,217	36,576
Canada	**48,795**	9,394	24,959
Other	**1,767**	1,108	2,044
Americas	**64,955**	28,719	63,579
France	**2,755**	21,030	39,713
Germany	**3,023**	6,772	16,251
United Kingdom	**11**	4,748	8,233
Rest of Continental Europe	**7,021**	15,415	28,880
Other	**2,466**	3,579	6,068
EMEA	**15,276**	51,544	99,145
Asia and Australasia	**4,472**	4,237	7,318
Total revenue from continuing operations	**84,703**	84,500	170,042

As a result of the restructuring of the European operations most of the external sales to customers within Europe are now made by Psion Teklogix Inc. in Canada.

Revenue by geographical market

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
USA	**16,926**	19,058	41,173
Canada	**3,144**	1,331	2,768
Other	**5,973**	3,458	9,097
Americas	**26,043**	23,847	53,038
France	**17,531**	20,183	37,801
Germany	**8,276**	6,709	15,926
United Kingdom	**5,053**	4,777	9,090
Rest of Continental Europe	**16,607**	18,436	35,039
Other	**3,750**	3,921	7,095
EMEA	**51,217**	54,026	104,951
Asia and Australasia	**7,443**	6,627	12,053
Total revenue from continuing operations	**84,703**	84,500	170,042

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

2. SEGMENTAL ANALYSIS (continued)

Results

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
USA	**(1,661)**	(2,304)	(2,448)
Canada	**4,915**	(3,087)	1,957
Other	**(79)**	(437)	(34)
Americas	**3,175**	(5,828)	(525)
France	**625**	(40)	1,433
Germany	**257**	320	821
United Kingdom	**340**	21	759
Rest of Continental Europe	**580**	729	2,718
Other	**49**	572	381
EMEA	**1,851**	1,602	6,112
Asia and Australasia	**293**	399	1,410
Segment results from continuing operations	**5,319**	(3,827)	6,997
Unallocated corporate expenses (see note below)	**(985)**	(3,295)	(4,632)
Exceptional operating income / (costs)	**461**	(6,796)	(5,420)
Operating profit / (loss) from continuing operations	**4,795**	(13,918)	(3,055)
Investment income	**69**	159	207
Finance costs	**(68)**	(63)	(138)
Profit / (loss) before tax	**4,796**	(13,822)	(2,986)
Tax	**(392)**	(1,382)	(4,769)
Profit / (loss) for the period from continuing operations	**4,404**	(15,204)	(7,755)

Unallocated corporate expenses include a credit of £414,000 (June 2009 – credit of £31,000, December 2009 – credit of £411,000) in respect of share-based payments which is classified as an administrative expense.

The accounting policies of the reportable segments are the same as the Group's accounting policies which are described in the Group's 2009 Annual Report and Accounts. Segment result represents the profit earned by each segment without allocation of central administration costs including directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the Group's Chief Executive for the purposes of resource allocation and assessment of segment performance.

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

3. EXCEPTIONAL OPERATING CREDIT / (COSTS)

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
Restructuring costs (a)	**(79)**	(4,043)	(4,466)
Japanese credit / (costs) (b)	**452**	(2,300)	(412)
Gain on sale of Dubai business	**88**	–	–
Board changes (c)	**–**	(453)	(542)
	461	(6,796)	(5,420)

(a) A redundancy programme in various countries undertaken to realign costs in light of revenue reductions.
(b) Provision for the costs relating to unauthorised trade in the Japanese business, as previously announced, offset by insurance proceeds after the period end covering a portion of fees incurred to date. See note 9 for a detailed update of the position since the publication of the Annual Report and Accounts for the year ended 31 December 2009.
(c) Costs incurred in restructuring the Board.

4. TAX CHARGE

The estimate of the weighted average annual corporation tax rate on continuing operations results expected for the year is a 14.8% charge (2009 – 10.0%). The actual charge for the 6 months to 30 June 2010 is lower than this forecast rate due to prior year adjustments.

5. DISCONTINUED OPERATIONS

The results for the period from the discontinued operations are analysed as follows:

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
Release of provisions relating to discontinued operations	**–**	–	790
Finance costs			
Unwinding of discount on provisions	**(64)**	(94)	(187)
	(64)	(94)	603

The results from discontinued operations all relate to the UK.

The release of provisions and the unwinding of discount on provisions are associated with continuing property obligations of Psion Digital Limited which was wound down in 2001.

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

6. DIVIDENDS

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
Amounts recognised as distributions to equity holders in the period:			
Paid second interim dividend for the year ended 31 December 2009 of 2.6p (2009 – final 2008 dividend – 2.5p) per share	**3,655**	3,513	3,513
Paid interim dividend for 2009 of 1.2p per share	**–**	–	1,687
	3,655	3,513	5,200
Proposed interim dividend for the year ended 31 December 2010 of 1.3p (2009 – 1.2p) per share	**1,827**	1,687	
Second interim dividend declared for the year ended 31 December 2009 of 2.6p per share			3,655

The proposed dividends and second interim dividend are not included in liabilities in the Balance Sheet at 30 June 2010, 30 June 2009 or 31 December 2009.

The interim dividend for the year ended 31 December 2010 was approved by the Board on 12 August 2010 (2009 – 13 August 2009) and will be paid on 17 September 2010 to shareholders on the register at 20 August 2010.

7. EARNINGS / (LOSS) PER SHARE

	6 months ended 30.6.10 Number	6 months ended 30.6.09 Number	Year ended 31.12.09 Number
Number of shares			
Weighted average number of ordinary shares for the purposes of basic earnings per share	**140,572,826**	140,541,643	140,556,248
Dilutive effect of potential ordinary shares:			
Share options	**67,118**	2,905	23,438
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**140,639,944**	140,544,548	140,579,686

The denominators above are used for the purposes of calculating basic and diluted earnings per share.

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

7. EARNINGS / (LOSS) PER SHARE (continued)

FROM CONTINUING AND DISCONTINUED OPERATIONS

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
Earnings / (loss)			
Earnings / (loss) for the purposes of basic and diluted earnings per share being net profit / (loss) attributable to equity holders of the parent	**4,340**	(15,298)	(7,152)
	Pence	Pence	Pence
Earnings / (loss) per share from continuing and discontinued operations			
Basic earnings / (loss) per share	**3.09**	(10.88)	(5.09)
Diluted earnings / (loss) per share	**3.09**	(10.88)	(5.09)

FROM CONTINUING OPERATIONS

	£000s	£000s	£000s
Earnings / (loss)			
Earnings / (loss) for the period attributable to equity holders of the parent	**4,340**	(15,298)	(7,152)
Add loss / (deduct gain) for the period from discontinued operations	**64**	94	(603)
Earnings / (loss) for the purposes of basic and diluted earnings per share from continuing operations	**4,404**	(15,204)	(7,755)
	Pence	Pence	Pence
Earnings / (loss) per share from continuing operations			
Basic earnings / (loss) per share	**3.13**	(10.82)	(5.52)
Diluted earnings / (loss) per share	**3.13**	(10.82)	(5.52)

NOTES TO THE INTERIM FINANCIAL STATEMENTS

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

7. EARNINGS / (LOSS) PER SHARE (continued)

Adjusted earnings / (loss) from continuing operations are calculated as follows:

	6 months ended 30.6.10 £000s	6 months ended 30.6.09 £000s	Year ended 31.12.09 £000s
Net earnings / (loss) from continuing operations attributable to equity holders of the parent	**4,404**	(15,204)	(7,755)
Adjustments to exclude exceptional operating costs net of tax	**(487)**	5,556	3,698
Adjustment to exclude share-based payment credit net of tax	**(414)**	(31)	(411)
Adjusted earnings / (loss) from continuing operations for the purpose of basic and diluted earnings per share	**3,503**	(9,679)	(4,468)

	Pence	Pence	Pence
Adjusted earnings / (loss) per share from continuing operations			
Adjusted basic earnings / (loss) per share	**2.49**	(6.89)	(3.18)
Adjusted diluted earnings / (loss) per share	**2.49**	(6.89)	(3.18)

The adjusted loss for the 6 months ended 30 June 2009 has been recalculated based on the policy adopted at 31 December 2009 concerning the write down of inventory at 30 June 2009 which was treated as exceptional in calculating adjusted earnings at 30 June 2009, but as normal cost of sales at December 2009.

FROM DISCONTINUED OPERATIONS

	£000s	£000s	£000s
(Loss) / earnings			
(Loss) / earnings from discontinued operations	**(64)**	(94)	603

	Pence	Pence	Pence
(Loss) / earnings per share from discontinued operations			
Basic (loss) / earnings per share	**(0.05)**	(0.07)	0.43
Diluted (loss) / earnings per share	**(0.05)**	(0.07)	0.43

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

8. CONTINGENT LIABILITIES

From time to time the Group is exposed to claims of alleged infringement of agreements and patents which, where believed to be invalid, the Group vigorously defends. Provision for costs is made when the likelihood of a case proceeding is adjudged as probable unless such costs cannot be reasonably estimated. Disclosure is made of potentially material matters where, on the basis of legal advice, an adverse outcome cannot currently be judged as remote.

9. JAPAN

We have previously reported that a material fraud has been perpetrated on the Group in Japan. Legal proceedings and out of court discussions arising from this have been ongoing through the first half of 2010. We continue to deny full liability against the court actions, and will continue to pursue any further actions necessary to defend our position vigorously. Certain of the smaller claims have been settled at amounts lower than that included in our estimate of contingent liabilities disclosed at 31 December 2009.

Offsetting the costs to date we received, as disclosed at 31 December 2009, a £2.5m insurance settlement after the December 2009 year end. Subsequent to 30 June 2010 period end we received a further insurance settlement of US$1.44m which was credited to exceptional costs in the Condensed Consolidated Income Statement.

The total outstanding contingent liability is estimated at JPY 1.946bn (£14.6m) (December 2009 JPY 1.960bn (£13.6m).

10. RELATED PARTY TRANSACTIONS

Transactions between companies within the Group, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Other than remuneration and dividends on their shareholdings there were no material transactions with the directors.

11. RISKS AND UNCERTAINTIES

Psion's business and share price may be affected by a number of risks, not all of which are in our control.

The principal risks which were identified at the time of the last Annual Report and Accounts and relevant mitigating factors have not changed since the year end and detailed explanations can be found in the Annual Report and Accounts 2009 on pages 25 to 26. The Board are not aware of any significant new risks which will impact on the second half of 2010.

Successful delivery of the first products developed on our modular technology platform is the key strategic milestone for the second half of 2010. While the response from customers and partners involved in our extensive field trial process has been positive, the risk remains that modular products fail to meet customer, partner and revenue expectations once they are released to the general market.

A summary of the key risks is provided below.

Market risks

Our products are high value items which are capital in nature for our customers. Continuing adverse macro-economic conditions may cause our customers to defer or cancel expenditure and as a result we may not achieve our revenue and earnings forecasts.

The Group faces strong competition in the markets in which it operates. Our ability to compete effectively depends on, among other things, the pricing of equipment and services, the quality of our products and customer service, development of new and enhanced products and services, the reach and quality of our sales and distribution channels and capital resources. Our products may become commoditised over time, reducing margins, and our efforts to develop and differentiate our products and services may not be successful.

We are dependent on electronic manufacturing outsource companies for the manufacture of substantially all of our current products and on a small number of suppliers for key components for our products. Any failure or inability of these companies to continue to supply us could adversely affect our business. Our supply chain is complex, and use of third-party suppliers and service providers could adversely affect our product quality, delivery schedules or customer satisfaction, any of which could have an adverse effect on our financial results.

Notes to the Interim Financial Statements

SIX MONTHS ENDED 30 JUNE 2010 – UNAUDITED

11. RISKS AND UNCERTAINTIES (continued)

We operate in an industry where intellectual property is a key asset. A failure to adequately protect our intellectual property, or in expanding our intellectual property portfolio, could damage our revenues and limit our growth prospects. Additionally, we may face claims from other parties alleging patent infringement which, if successful, may require us to pay royalties or to stop selling our products.

Our cash flows, revenue and earnings are exposed to currency exchange rate fluctuations. Our international sales are typically quoted, billed and collected in the customer's local currency, a significant proportion of which is denominated in Euros, but our product costs are largely denominated in U.S. Dollars, Canadian Dollars and Chinese Yuan. Therefore, our margins are exposed to changes in foreign exchange rates. When appropriate, we may attempt to limit our exposure to exchange rate changes by entering into short-term currency exchange contracts. There is no assurance that we will hedge or will be able to hedge such foreign currency exchange risk or that our hedges will be successful. Additionally, we are exposed to translation risk as we report in Sterling but the majority of our revenues and costs are denominated in currencies other than Sterling. Consequently, our reported results are subject to volatility as a result of foreign exchange movements.

Regulatory risks

Global regulation and regulatory compliance, including environmental, technological and standards setting regulations, may limit our sales or increase our costs, which could adversely impact our revenues and results of operations. We are subject to domestic and international technical and environmental standards and regulations that govern or influence the design, components or operation of our products. Such standards and regulations may also require us to pay for specified collection, recycling, treatment and disposal of past and future covered products. Changes in standards and regulations may be introduced at any time and with little or no time to bring products into compliance with the revised technical standard or regulation.

Technology risks

We operate in a sector characterised by rapidly changing technology. If we do not anticipate and respond to such changes in technology and to changes in customer demands as a result of technological advance, we may lose market share and our competitiveness may reduce.

We have implemented a change programme, which includes restructuring our operations and changing the way in which the Group develops its products. If our modular approach to product development fails to work, or we fail to meet development timescales or we generate too narrow a product portfolio to address growing and profitable market niches, the expected benefits from our change programme may not be realised.

Responsibility Statement

The Directors confirm that to the best of their knowledge:

- The condensed set of consolidated interim financial statements has been prepared in accordance with IAS 34 – "Interim Financial Reporting" as adopted by the European Union;

- The Interim Results include a fair review of the information required by:

  (a) DTR 4.2.7R of the Disclosure and Transparency Rules of the Financial Services Authority, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements and a description of the principal risks and uncertainties for the remaining six months of the year, and

  (b) DTR 4.2.8R of the Disclosure and Transparency Rules of the Financial Services Authority, being:

    i. related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the Group during that period, and

    ii. any changes in the related party transactions described in the financial statements for the year ended and as at 31 December 2009.

Approved by the Board on 12 August 2010 and signed on its behalf by:

John Hawkins
Chairman

Fraser Park
Chief Financial Officer

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