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PSION PLC

Results for the Twelve Months ended 31 December 2008

Psion PLC, the mobile computing company, today announces audited results for the twelve months to 31 December 2008.

	12 months to 31/12/08 £m	12 months to 31/12/07 £m
Revenue	199.4	199.7
Operating (loss) / profit	(8.8)	9.5
Operating margin	(4.4)%	4.7%
(Loss) / profit before tax	(7.6)	10.8
(Loss) / profit from continuing operations	(10.3)	7.0
Adjusted operating profit from continuing operations	6.0	10.5
Adjusted operating margin	3.0%	5.3%
Net cash	41.3	38.3
Net assets	210.4	176.7
Basic (Loss) / EPS	(8.6)p	5.6p
Diluted (Loss) / EPS	(8.6)p	5.6p
Adjusted basic EPS	2.6p	5.8p
Dividend	3.7p	3.6p

Summary

- Results were in line with the Board's expectations, given the difficult economic environment.
- Revenues in 2008 were £199.4m (2007: £199.7m). Sales in Europe, Middle East and Africa expressed in Euro were €152.2m (2007: €165.8m). Sales in the Americas were US\$ 115.2m (2007: US\$ 126.1m).
- Sales in Asia declined markedly. As previously announced, unauthorized transactions may have occurred in Japan, leading to litigation with a number of parties. Psion is defending these cases through litigation and counter-claims. The Group has raised provisions and incurred charges of £8.5m to date and has substantially reduced operations in Japan.

- Adjusted operating profit for the year was £6.0m (2007: £10.5m). After interest benefit of £1.2m, charges for share-based payments, exceptional charges and re-structuring costs of £14.3m, a pre-tax loss of £7.6m was recorded.
- There has been comprehensive change in the executive leadership of the Group, staff numbers have been reduced by 16% and costs have been materially reduced. As a result, the Group is on track to deliver £14-16m in 2009 cost savings by the end of Q1 2009, with slightly higher annualised savings. Further cost reduction actions are planned for the first half of 2009 to make further and more material reductions in operating expenses.
- The new product lines introduced in 2008, the Ikôn and the Neo, are beginning to ship in larger volumes, helped by better use of Third Party Channels (such as Value Added Resellers, Distributors, Systems Integrators). The fact that the Neo is a 'channel only' product gives clear evidence of our commitment to the Third Party Channel strategy.
- The Group's balance sheet has strengthened. After tax and dividends paid during the year, the Group's cash balance at the end of the year increased to £41.3m (2007: £38.3m). The Group has no debt.
- The Board recommends a final dividend of 2.5p (2007: 2.5p) making dividends of 3.7p for the year (2007: 3.6p), to be paid on 15 May 2009 to shareholders on the register on 14 April 2009.

John Conoley, Chief Executive, said:

"Psion has a strong balance sheet; it also has the organisation structure, skills, products and global relationships to prosper. However, we are operating against the backdrop of a long and deep economic downturn, where market visibility is extremely limited. Orders have reduced over the last five months and appear unlikely to rebound in the near future. The trading environment is evidently tough and the Group will need to work hard to deliver satisfactory outcomes for the year. Management is targeting positive cash flow and improved operating profits in spite of current conditions. The Board will continue to adapt the business to the emerging economic environment, demanding rapid improvement in process and driving additional cost reductions. As a result, I am confident that Psion will emerge from the current downturn stronger and more competitive."

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Notes to Editors

Psion (PON.L) is listed on the London stock market. Its operational business, Psion Teklogix, is a global provider of solutions for mobile computing and wireless data collection. The Group's products and services include rugged mobile hardware, secure wireless networks, robust software, professional services and exceptional support programs. Psion Teklogix is committed to helping its customers reap the benefits of new and emerging technologies, including image capture, voice recognition and RFID. With over three decades of industry experience, Psion Teklogix has customers in more than 80 countries around the world, and over 36 sales and support offices in 23 countries.

Chairman's Statement

In 2008 Psion embarked on a program of radical change. The Group's performance over five years demonstrates growth but unsatisfactory profit delivery characterised by returns on sales of less than 5%. The Board is driving a major re-structuring of the Group to enhance performance and provide profitable growth in the years ahead. To this end, there has been comprehensive change in the executive leadership of the Group and a management re-organisation targeted at functional lines of reporting and greater control. Costs have been reduced materially. In particular, staff numbers were reduced by 13% last year, with a further reduction of 3% by the end of March 2009.

While modest operating profits were achieved, restructuring costs and unauthorised transactions in Japan have led to provisions of £13.9m that result in losses for the year. The Group has substantial cash balances that have increased during the year.

As I warned might happen last year, the real economy has declined severely and particularly over the last four months of last year. Since year end, conditions have deteriorated further and it is likely that demand will be weak throughout the coming year.

It is important that we recognise the seriousness of world economic conditions that bear upon the Group. This is why we must focus on the long-term integrity of the Group, its shareholders and employment as a whole. In these circumstances, the process of cost reduction is set to continue through 2009. In the meantime, we have instituted a pay freeze and we will only pay bonuses for exceptional performance by the Group and the individual.

In spite of the tough economic environment, our new executive team has successfully carried out a major restructuring of the business. The Board is already clear that improved efficiency in operations and lower costs are being delivered.

Results and Dividend

Revenues in 2008 were £199.4m (2007: £199.7m). Sales in Europe, Middle East and Africa expressed in Euro were € 152.2m (2007: €165.8m). Sales in the Americas were US\$ 115.2m (2007: US\$ 126.1m), while sales in Asia declined from US\$45.9m to US\$ 29.7m.

Problems in Japan curtailed the growth of the Group in Asia. The Group reported in August and again in October that unrecorded and unauthorised transactions may have occurred in Japan leading to litigation with a number of parties. Psion is defending these cases through litigation and counter-claims. The Group has raised provisions and incurred charges of £8.5m to date which has been recorded as an exceptional item. Psion has substantially reduced its operations in Japan. Local management concerned and executives with overall responsibility for sales and controls in Japan have been released from the Group.

Adjusted operating profit for the year was £6.0m (2007: £10.5m). After interest benefit of £1.2m, charges for share-based payments, exceptional charges and restructuring costs of £14.3m, a pre-tax loss of £7.6m was recorded. The loss after tax was £10.3m.

The Group's balance sheet has strengthened. After tax and dividends paid during the year, the Group's cash balance at the end of the year increased to £ 41.3m (2007: £38.3m). The Group has no debt. Due to the fall of sterling and translation of reserves, total equity increased to £210.4m (2007: £176.7m). The Board recommends a maintained final dividend of 2.5p (2007: 2.5p) making a total of 3.7p for the year (2007: 3.6p).

During the year Sterling fell substantially against the Euro and the US dollar in which most of the Group's trading occurs. Shareholders are advised to interpret the reconciliation of profit and loss, cash flow and balance sheet numbers with care being mindful of the substantial movements in currency values.

Restructuring of Operations

At this time last year, I announced a change of leadership in the Group and indicated that the Group would embark on a program of change management. John Conoley was appointed as Chief Executive of the Group in April 2008 with the remit of enhancing the organisation, driving cultural change, adding to competitiveness and reducing costs. By the end of the year considerable progress had been made.

A key competitive advantage of Psion is the ability to address a global market and support clients with global operations. This has been delivered historically at the expense of duplication of functions in an overly autonomous field and country structure. The organisation of the Group has been restructured along simplified and strictly functional lines. In consequence it has been possible to reduce and refresh management. The Group is embarked on a lean approach to drive competitiveness with a reduction of 190 staff or 16% of the workforce in train. Excessive cost in the field is being reduced by the organisational changes described together with an expansion of our partner channels in the market. The re-organised field structure, in place since the end of last year, is operating effectively.

At the same time progress is being made in the logistics, supply and delivery of products to our customers. Inventory has increased during the year, partly due to the introduction of major product lines, Ikôn and Neo. Systems have been improved and it is expected that inventory will be reduced progressively during the coming year.

Finally, it is clear that improvements must be driven throughout the Group. It is essential that all management and staff are focused on the customer, aggressive in competing in the market, driven by the mutual interests of the team and the business and relentless in the pursuit of quality and innovation in all that is done. It is important too that conventional wisdoms and loose practice are challenged. This is why we seek a renewed culture of economy, efficiency and new insight.

Considerable progress has been made in implementing the changes I have described. There is still much more to achieve in 2009. With slumping economic conditions in the world, it has become all the more important to drive rapid improvement and increase efficiency and performance.

Strategy and Markets

The function of business is to deliver goods and services to society. In our market model, this is in a competitive environment and success in the delivery of quality goods and services to customers is rewarded with returns to shareholders and employees. Economy in all is always a virtue and in current circumstances paramount. Our primary purpose is therefore to deliver the best products and services in the most efficient way to our customers. I have described the program of change and improvement in the efficiency of our operations. This alone is not enough. Innovation in our products and markets is also essential and to deliver this our marketing function is being enhanced and expanded.

The Ikôn product family is an example of such innovation though it has been delayed, in part, by the operational weaknesses I have described. By the end of the year, volume shipments were in progress that will build our markets in the coming years. The Group also introduced a further new product line, the Neo, targeted at low-cost volume markets in mobile information management. This product range has been well received and is beginning to ship in greater volumes.

We have a strong product portfolio at this time. However, with an eye on the medium-term, further new developments are also underway, targeting both new and existing markets.

In the organisational changes described, a key goal is to make our products and services to customers channel-friendly. It is the Group's policy to expand our distribution in a cost-effective way by working closely with partners in sales. These include distributors, software application providers, and system integrators.

In summary, we are aiming for a lean and cost-effective organisation, with the pursuit of quality the priority in all we do. This means having a workforce committed to our customer needs, market-driven innovative products and services, partnership in sales and also efficient and cost-effective operations.

Staff and Board

Our goals can only be delivered by strong leadership and a committed workforce in the Group. The Board has driven major change in this area.

John Conoley has been appointed Chief Executive to lead the business through this process. At the end of the reporting year, Fraser Park was appointed as Chief Financial Officer and took up his appointment in January of the current year. In May 2008, Andy Clegg moved from a non-executive to an executive role on the Psion Board as the Vice President, Supply Chain and Services. Andy has been a great servant to the Group over many years, joining Psion in 1983 as an Engineering Manager and later an Executive Director of the Group until 2003. He rejoined the Board as a non-executive director in October 2006.

A range of new management appointments has been made elsewhere in the organisation.

I thank Jacky Lecuivre, latterly President of Worldwide Sales, who has left the Group, for his endeavour and contribution over many years. Bill Jessup left the Group with effect from the end of February 2009, following the handover of responsibilities to Fraser Park. I thank Bill for his years of service and integrity. Having successfully completed the outsourcing of many of the Group's manufacturing operations and instituting improved processes in other functions, Michael Homer stepped down as Chief Operating Officer in May 2008. Finally, Ian McElroy has retired as a non-executive director with effect from the end of the reporting year. Ian was an invaluable colleague on the Board and we shall miss his sure advice. On behalf of the Board, my thanks go to him.

The Board of Directors has been refreshed with a new executive team. At the same time, a search process is currently underway to add new non-executive directors to the Board. This will also help the Group review its succession planning.

These changes demonstrate our commitment to a leaner and stronger business. As part of this process, it has been necessary to reduce our employee numbers. Our focus and culture are gaining in strength and I would like to thank all our staff for their commitment and their acceptance of substantial change. I believe that the Group has a talented and highly qualified staff, and their energy and drive, are key to our future.

Outlook

Psion has maintained a strong balance sheet as a counter to the inherent uncertainty and risks of technology markets, a policy that stands us in good stead in current circumstances. The world as a whole, and particularly the more industrialised world that accounts for our largest markets, is experiencing a severe recession, if not slump. There is now an unprecedented level of uncertainty in anticipating future events.

Orders have reduced over the last five months and are unlikely to rebound in the current year. The trading environment is evidently tough and the Group will need to work hard to deliver satisfactory outcomes for the year. Management is targeting positive cash flow and improved operating profits in spite of current conditions. The Board will continue to adapt the business to the emerging economic environment, demanding rapid improvement in process and driving additional cost reductions.

The current economic gloom, however, should not distract from Psion's qualities. The business has many strengths; in its history of innovation, in the quality of its people and its products, and in its ability to change and refresh itself. These strengths and the actions that we are taking will underwrite the future of Psion. With a strong balance sheet, a strong cash position and a resolute approach in the management of our operations, I believe we will weather the downturn and come out stronger when activity recovers, as inevitably it will.

Chief Executive Officer's Report

Introduction

Considerable change is already clearly evident at Psion this year. The company has defined a course and commenced a transition to improve its competitive position in 2009 and beyond. We have a solid base of people and skills and we enjoy strong global relationships with suppliers, customers and partners. The deep economic downturn will test every business and like others, we will be required to show vigilance and be fleet of foot to grasp opportunities to improve our profitability and cash generation.

I was appointed by the Board in April with a primary objective to improve profitability and operating cash generation and a clear mandate to introduce the fundamental change necessary to succeed. Significant progress has been made in the last nine months and I am confident of our plan, despite the tough economic climate in which we currently operate. We have enhanced our leadership team, simplified our reporting structure and we will see progressive improvement in margins as cost benefits come through from changes that we introduced in the second half of 2008.

Cost reduction and cash generation in the short term must be central outcomes of the plan. A number of significant initiatives will support these outcomes into the medium term and beyond. We must target higher growth markets, we must be more efficient, we must be innovative and anticipate market demand and it must be easy to do business with us. We must expand our channel network to facilitate cost effective high speed market access. Further, we must expand our outsourced manufacturing capability to reduce fixed costs, shorten lead times and improve quality. Plans are in place to address all of these goals and progress is already clearly in evidence in all of them.

The reaction of our staff during this period of change has been professional and enthusiastic. The reorganisation has required a great deal of hard work from many people and I would like to thank all my colleagues across the company and the Board for their ongoing support. We all need to recognise that market conditions will make this a tough year for us all and financial rewards will be harder to earn. By continuing to take action to meet market conditions we will be working in a more successful Psion, and we all want to do that.

The actions we have taken to improve profitability have not been solely focused on cost reduction. We have made good progress on repositioning Psion's brand, and enhancing the value proposition we sell to our customers. Please take a look at our refreshed website. We have greatly enhanced our positioning as you can now see from the website at www.pSIONteklogix.com. Our internal changes are, and will be, in support of the positioning which we will sell on. We see the mobile worker as a hero or heroine who holds their employers' brand in their hand, a brand we aim to enhance with great products. From their employer's point of view our products aim to turn blue collar workers into white collar workers with the extra productivity, customer service, cost saving and decision making opportunities that creates.

Company reorganisation

Over the course of 2008, we have reorganised the company in a fundamental way. The key change has been to move from what I would call a fragmented, rather than decentralised, organisation to a centrally coordinated structure.

The company had previously evolved organically over many years. Different countries had different structures, different processes, different operating cultures

and focused on different markets. This caused duplication, inefficiency and distraction which needed to be addressed in the search for greater profitability.

Our new structure has improved coordination of decision making, enabled standardisation of operating processes, and developed effective communication to enhance our business culture and harmonise our marketing activities.

One outcome of organisational redesign has to be that it becomes easier to do business with us. This is important in our offer to existing and new channel partners who will wish to focus on their own business and how Psion can facilitate it.

A natural consequence of reorganising has been the opportunity to reduce costs. A key part of this was through headcount reductions. The cost reductions initiated in Q4 2008 were substantially completed by 31 December 2008, reducing our cost base (cost of sale and operating expense) by £14-16m in 2009, with a slightly higher annualised benefit. Given the current economic uncertainty and limited visibility of future activity levels, we plan to take significant further action on costs in the first half 2009 to bring our break-even revenue down to £130-140m.

Management

During the year, we simplified Psion's senior management team. This now consists of:

- CFO, Fraser Park
- President, Worldwide Sales, Ron Caines
- Senior VP, Supply Chain and Services, Andy Clegg
- VP, Engineering, Mike Doyle
- VP, Marketing, Rob Vandervecht
- VP, General Counsel, Constance Crosby
- Director Human Resources Maija Michell
- VP, Finance, Dan Pearce

This structure has allowed us to become more efficient and accountable. I have looked to create greater single point accountability in order to better manage change and ensure improved delivery.

Our organisational design will continue to evolve and I am confident that, with less complexity and greater accountability, we will become more efficient and competitive as a result.

With better clarity it's been easy to define and reinvest in a number of key roles to enact and support our improvements. We now have a single global sales plan and a single global management incentive programme both of which are designed to reward at reasonable levels only when performance has been improved on key financial and operating metrics.

Products and channels

The use of Third Party Channels (such as Value Added Resellers, Distributors, Systems Integrators) to enhance our sales reach is key to our strategy. Future growth is highly dependent on high quality relationships with such partners. In late 2008, we began to work far more actively with our partners. They have welcomed an unambiguous commitment to a partner focused growth strategy. They will see a real difference in our company in 2009, and we want to earn a larger share of their business by becoming a great partner to them in turn.

A greatly improved supply chain will help make it easier to do business with us which is vital for Value Added Resellers and Distributors, as well as supporting our direct sales force. Our newest product, the Neo is a 'channel only' product, designed and launched with input from Channel partners. This now gives clear evidence of our commitment to the Third Party Channel strategy.

In 2008 we launched two new products: the Ikôn with its PDA form factor for wide area mobile markets, and Neo mentioned above, a striking entry level data capture

terminal. Neo appeared at the end of the year. Ikôn began appearing in customer pilots in the summer. The more popular variants of Ikôn started to ship in quantity at the end of the year. Both devices have been well received and I expect them to sell in increasing volumes during 2009.

In 2009, continuing investment in product innovation is a priority. We are a company that can make or save money for our customers in a recession. We are of course affected by the macro environment, but we should have a greater pull on constrained investment budgets than many types of IT project. I want us to go and take more share of what is spent.

We have a long history of product innovation. This remains key to our Brand and to competitiveness. In the Business to Business (B2B) segment we have begun to develop product families that are much more versatile with reduced development costs. While these developments will not deliver material levels of revenue in 2009, they are critical to Psion's medium-term objectives. Their launch will provide us with a significantly refreshed product portfolio, enabling us to be more competitive as markets begin to slowly recover. We also intend that our product strategy will provide an opportunity to further reduce our cost of sales through smarter design.

Supply chain

We continue to evolve our operations model based on the maximum use of electronic manufacturing service ("EMS") providers for products and accessories. It is expected that all the remaining large volume products will be transferred to this model during the next two years when Psion will retain only the essential "final touch" in the supply of products and services to customers.

We have already started to reinvest a portion of that saving in order to get at further efficiencies over time. This is partly in new specialist roles that suit our strategy, and in some rebalancing of our marketing and product strategies.

Of course, the other opportunity from getting the supply chain right is to increase operational cash generation through faster delivery as well as in reduced levels of inventory. Harder to measure, but very important, is the improving effect on sales through third party sales channels. Quite rightly, when they get an order they want to deliver it as quickly as possible either for service or cash reasons. There remains plenty of scope for performance improvement in customer and channel facing supply chain and we will target delivery of increased benefits in 2009.

Financial performance

The working capital opportunities I mention to do with supply chain are worth commenting on more broadly. Operational cash generation is a measurement of process quality and organisational structure. I will look to cash generation for evidence of improving processes, and smarter selling. Poor cash generation often indicates poor processes through the organisation and implies greater struggle and cost in satisfying customers. Good cash generation over 2009, especially given the economic backdrop, will help drive out cost in the medium term, and should point the way forward on profits.

The overall goal remains to drive higher profitability and operating cash generation with a lower cost structure. We will also continue to focus on gross margins however, and sales incentive plans have been standardised and implemented globally to support this objective from the start of 2009.

Conclusion

Psion is well known and well respected, both in the UK and internationally, for its long track record of innovation, growth and customer service. The company has a

sensible strategy in place, a solid and evolving product portfolio, an experienced and committed workforce, and a strong balance sheet with no borrowing. Together, this gives us a good platform to improve profitability and operating cash generation.

I expect that we will benefit from the actions taken in 2008 and those we plan to take in the first half of 2009, and the Group will be able to perform increasingly effectively during what will be an extended period of internal change and external economic uncertainty.

Business Review

Strategy

Psion's core business is the creation and supply of mobile hardware for industrial markets that is rugged, reliable, uses multiple wireless technologies and supports diverse peripherals.

Psion's mobile computers are part of solutions which deliver real-time access to enterprise data at the point of activity to improve business efficiency and productivity for leading enterprises around the world. Through the implementation of these solutions by business partners and customers, costs are reduced and productivity increased delivering a strong and speedy return on investment.

Our mobile computers include hand held devices and terminals mounted on vehicles such as forklift trucks. All are designed for tough and demanding environments. We have leading expertise in rugged hardware, integration, service and support. Products are designed for particular markets and applications. The principal design criteria include functionality, ruggedness, ergonomics and cost. Products are updated or replaced periodically, typically every 3-4 years.

High volume terminals are designed to be highly configurable through the use of modular components or customisable where the terminal may have parts specifically incorporated solely for a particular customer. Our ability to provide customers with a complete and distinct solution through hardware customisation and the inclusion of third party products, either directly or with our business partners, is one of the factors which differentiate us from our competitors.

Devices incorporate multiple ways of entering data – keyboards, touch-screens, laser scanners, imagers, cameras, imagers, and radio frequency identification readers. For specific applications, fingerprint readers and magnetic stripe readers are also included. Communication between the device and the enterprise system may include a combination of wi-fi, Bluetooth, narrow band radio and wide area radio technologies such as GPRS and UMTS. Certain terminals also include GPS positioning capability.

Psion serves customers with demand for enterprise mobile computing, predominantly in the supply chain and logistics markets. These customers need to enable their workers to be mobile within a campus environment. Examples are port operators, third-party logistics and warehouse companies, supermarket distribution operations and automotive spare parts distributors. The remaining business is with customers who need their workers to have greater mobility and to use wide area networks for data transmission. Examples include ticketing applications, field service, asset tracking and parcel or post delivery. In the medium-term, the growth opportunities are greater in markets based on wide area mobile communications which will increasingly be the focus of our market and product development activities.

Product innovation provides differentiation, barriers to entry from competition and potentially attractive gross margins. The Group drives innovation through its development resources and its market strategy. Psion's engineering team continues to adapt to the requirements of our customers and the marketplace. Our designs are the result of clear requirements defined by the sales, engineering and product marketing teams with input from channel partners and customers. The product development program has continued to evolve resulting in a reduction of time-to-market for our new designs.

As markets for mobile enterprise computing have matured, the channels to market have widened. We will continue to provide direct sales and support to key clients but we aim to expand the use of channel partners to address new market sectors and those where volumes can be consolidated profitably. This will allow lower sales-

related costs, greater competitiveness, faster access to new markets, reduced order-to-cash cycles, lower credit risk and improved financial returns.

Product costs continue to be vitally important to our competitive position and financial performance. Our objective is for our products to have the lowest cost while still supporting our market offering of customisable and configurable rugged hardware. To achieve this objective we now use the resources of electronic manufacturing service (“EMS”) providers for all of our in-house designed hardware products. The principal benefit of this strategy for Psion is that we profit from the purchasing power of EMS providers and their capability in design for manufacture without losing control of either the functional or ergonomic design of the product. We will only work with EMS providers that we are confident can deliver products that meet our demanding requirements for product reliability, quality, ruggedness and delivery performance. Our in-house supply chain will evolve from a focus on product manufacture to the final configuration and distribution of complete orders to customers. Significant improvements in the performance of the Group’s internal supply chain are targeted including cost reduction, quicker deliveries, quality improvements and reductions in working capital.

Customers need quick and reliable after sale service and support during the working life of their installation. Customers continue to use devices long after they have been replaced in the Group’s product portfolio. A key part of our strategy is to provide superior repair, maintenance and support through our network of service centres.

In summary, management will focus on the higher growth markets based on wide area networks; it will drive innovation in the core hardware products; and it will reduce the cost base of the Group by expanding its partner network. The goal is to drive higher profitability with a lower cost structure, and lower levels of working capital to improve profitability and cash generation.

OPERATIONAL REVIEW OF 2008

Operational Key Performance Indicators

	2008	2007	Compound 3 years
Total revenue growth	-0.2%	4.8%	5.8%
EMEA	5.2%	10.6%	7.1%
Americas	-1.3%	-14.0%	1.1%
Asia	-25.4%	63.3%	18.4%
Engineering costs to revenues	6.9%	6.4%	

Revenue growth

Sales operations are managed in three regions – EMEA (Europe, Middle East and Africa), the Americas and Asia. For Psion, the biggest sales territory is EMEA although the largest market is the Americas. In 2008, EMEA represented 60.5% of Group sales. Americas represented 31.3% with the balance of revenue coming from Asia.

Although the Group reports in Sterling, the performance of the sales regions is monitored in the dominant local currency (see section below analysing the impact of exchange rates in 2008). For EMEA it is Euros and for the Americas and Asia it is US Dollars. The sales for the last three years in the respective dominant currency are shown below:

EMEA	Americas	Asia
€m	US\$m	US\$m

2006	152.7	135.0	24.5
2007	165.8	126.1	45.9
2008	152.2	115.2	29.7

Following a period of several years when growth in EMEA has been acceptable, sales fell back in 2008 as the effect of recessionary conditions in many of our markets affected customers' buying decisions. Few contracts or projects have yet been cancelled but prospects are taking longer to convert than has been the historic norm, and there is limited visibility in our sales pipeline. We have been commenting on weak demand in the Americas since 2007. Weakness in this market is continuing. The Americas market tends to generate disproportionately high sales in the final quarter of the year. For example, in 2007 34.7% of sales in the Americas were in the fourth quarter. In 2008, the final quarter did not show the expected trend of higher sales. In Asia, sales fell back partly because of economic conditions and partly as a consequence of disputes with trading partners in Japan. This level of performance and the issues that were discovered in Japan are extremely disappointing.

We updated shareholders on the situation in Japan in August and again in October, and issued an interim management statement in November to highlight the impact of lower revenues and certain legal claims with trading partners. The reduction in overall activity levels has resulted in an ongoing review of our cost structure which, by the end of the first quarter of 2009 will have led to staff reductions of some 16%, with the prospect of further more material reductions to follow.

Engineering

Engineering expenses include both new product development and introduction, and the costs of sustaining the existing products such as technical support and product enhancement. In 2008 approximately 63% of the total engineering expenses related to new product development and introduction. This proportion is consistent with recent years, and demonstrates the Group's continuing commitment to improving its competitiveness, even in difficult trading conditions.

The major new product developments in 2008 were the Ikôn rugged PDA which was announced in October 2007 and the Neo entry-level hand held terminal announced in October 2008. The roll-out of Ikôn has been slower than we expected. We encountered some delay in the availability of the most popular variants and customers have been cautious in moving from pilots to full scale deployments, driven by the current difficult trading conditions. By the end of the year, volume shipments were in progress. Customer reaction to the Neo has been favourable. It is targeted at low-cost volume markets in mobile information management, and is primarily sold through our network of distributors and value added resellers. The first orders are now being received with initial shipments being made. Further new developments are also underway targeting both new and existing markets.

In addition to monitoring the progress on major product developments, the Board monitors the total spending on engineering. The Group's spending on engineering falls in the usual range for our industry of between 6% and 9% of revenues which should normally ensure that appropriate resources are being deployed to this essential activity. Psion remains committed to improving its competitiveness, and continued product innovation is a key aspect of the Group's strategy.

Supply chain and operations

Over the past two years the Group has been implementing a program of major change in materials management, planning, procurement and manufacturing. Substantial progress has been made, for example in demand planning and supplier management. However, we have not yet seen the full benefit in reduced inventories, faster deliveries and reduced costs.

We continue to move towards an operations model based on the maximum use of electronic manufacturing service (“EMS”) providers for products and accessories. By units, 67.3% of the Group’s terminals were supplied by EMS providers in 2008. By sales value the percentage was 48.7%. The remaining vehicle mount terminals will be transferred to EMS providers in early 2009. It is expected that the majority of remaining products will be transferred to this model by the end of 2009 (as will all new products) when Psion will retain only the essential “final touch” in the supply of products and services to customers. We will retain the capability to manufacture prototypes and special configurations.

FINANCIAL REVIEW OF 2008

Financial Key Performance Indicators

	2008	2007
Revenue	£199.4m	£199.7m
Gross margin	43.3%	40.7%
Operating margin (i)	3.0%	5.3%
Net working capital to revenue (ii)	19.2%	16.0%

(i) Operating profit excluding restructuring and impairment costs, share-based payment costs and the gain on sale of fixed assets held for resale.

(ii) Based on management reports of period end working capital as a percentage of the annualised revenues in the 3 months to the balance sheet date.

The Group’s financial performance has been greatly impacted by material movements in underlying trading currencies, more information on which is set out below.

Exchange rates in 2008

During 2008 there has been a material movement in the exchange rate of Sterling (the Group’s reporting currency) to the Euro, the US dollar and the Canadian dollar.

While exchange rates were fairly constant during the first half of the year, Sterling declined markedly in the second half. This affects the comparison of the income statement and balance sheet to prior years as the Group income statement and balance sheet consolidate transactions, assets and liabilities predominantly recorded in currencies other than Sterling. An average rate is used to translate items in the income statement but the balance sheet is translated at the year end rates. This means that the effect of movements in exchange rates in the income statement is different to the effect on the balance sheet. The results of each business are translated to Sterling each month at the average rate for the month, and the full year Sterling result for each business is the sum of the 12 months Sterling figures. This effectively results in a different rate of exchange for each business for each line of the Income Statement. As a guide, the average rates of the three main trading currencies against Sterling in 2007 and 2008, and the year end rates, have been as follows:

	Average			Year end for balance sheet		
	2008	2007	% change	2008	2007	% change
Euro to Sterling	1.2643	1.4618	-13.5%	1.0344	1.3615	-24.0%
US dollar to Sterling	1.8636	2.0050	-7.1%	1.4378	1.9906	-27.3%
Canadian dollar to Sterling	1.9636	2.1507	-8.7%	1.7749	1.9646	-9.7%

As can be seen in the above table, there are significant differences between the Euro to Sterling, and US dollar to Sterling average and year end rates, which should be noted when comparing reviewing the Group's primary financial statements.

Details of regional revenue in local currency are provided in the section on revenue trends above. Translating the 2007 revenue using exchange rates applicable in 2008 would have increased revenue by approximately £23.6m to £223.3m and translating adjusted operating profit at applicable 2008 rates would have increased adjusted operating profit by £0.8m to £11.3m.

Most assets and liabilities in the 2008 balance sheet include items denominated in overseas currencies. Goodwill is entirely recorded in US dollars and all movements in goodwill between balance sheet dates has been caused by exchange rate movements. The increase in assets and liabilities over 2008 includes a significant element attributable to exchange rate movements. The effects of exchange rate movements are eliminated in the cash flow statement as movements in the reporting currency of the subsidiary business are converted to Sterling at average rates which gives a different figure than a simple comparison of 2007 and 2008 Balance Sheet amounts. Some examples of the scale of the impact on working capital are given in the table below:

£000s	2008	2007 reported	2007 at 2008 rates
Inventory	37,087	23,166	29,753
Trade receivables	52,176	57,055	75,160
Trade payables	16,552	15,499	18,128

The Group purchases the majority of its components and supplies in US dollars as is customary practise in the electronics industry. Although the Group generates US dollars from revenue transactions these may not be sufficient to cover the requirement for US dollars in aggregate or as they fall due. The Group uses forward currency contracts to hedge short-term expected net positions. Differences between actual overseas currencies received and paid and the amount that was originally booked for the transactions results in translation differences which are booked as an expense net of related hedging transactions. In 2008 the total written off to the income statement was £0.8m.

Sales and margins

Further details of the geographic analysis of revenues are given in note 2. The table headed "External revenue by geographical market" is based on the geographic location of our customers. Our customers use local area networks for campus applications, especially in supply chain and logistics operations such as warehouses and ports and also wide area networks for mobile workers. As there is not always a clear dividing line between these markets, and some customers will have applications in both, we estimate our relative revenues by analysing revenues by product type. In 2008, sales of hardware products designed for the wide area mobile market represented 36.7% of total hardware revenues, up from 32.4% in 2007.

We sell products that we design ourselves and also third-party products such as printers or highly specialised tablet computers. Any change in mix between our products and third-party products affects average margins because we achieve a higher gross margin on our own products than on third-party products. We do not provide any further analysis of product margins as this is commercially sensitive. The proportion of hardware revenue represented by third-party products was 15.6% in 2008 compared to 17.0% in 2007.

Operating margin

In 2008 our operating margin before exceptional restructuring and impairment costs and the charge for share-based payments was 3.0% compared to 5.3% achieved in 2007. Total overhead expenses (before restructuring and impairment costs and share-based payment costs) increased by 13.0% in Sterling terms compared to 2007. Distribution expense, which includes the costs of the worldwide sales organisation, increased by 15.8% in 2008. Administrative expenses including Sterling denominated corporate expenses and engineering increased by 8.7%. While the majority of overhead expenses are incurred in the overseas operations of the Group principally denominated in Euros, US Dollars and Canadian Dollars, administrative expense does include Sterling denominated costs, which, in part, explains the lower percentage increase in administrative expense over 2007. Expressed in constant currency, distribution expenses have increased by 7.5% compared to 2007 and administrative expenses have decreased by 5.8%. (See section above on exchange rates in 2008.)

It remains a key Group objective to increase operating margins to at least 10% of revenues.

Exceptional operating costs

During 2008 the board has been restructured and a major cost reduction plan has been implemented. The Group announced a significant manpower reduction in November 2008, further details of which can be found in the Chief Executive's Report. The total cost of these restructurings charged to the Income Statement in 2008 was £5.4m, of which £2.4m was spent after the year end.

As a consequence of the dispute with trading partners in Japan as announced in August 2008 and updated in October 2008, the Board has made a provision against certain amounts in respect of which recovery from those partners is uncertain. As a consequence of ongoing investigations, and to ensure that a prudent approach is adopted, certain items of revenue previously recognised in the first half of 2008 have been reversed as there is sufficient uncertainty over whether the amounts originally reported were authorised transactions. This has resulted in a £0.9m impact to gross profit reported for the 6 months to June 2008. The total charge included in exceptional operating costs, which also includes investigation and legal costs incurred to the year end, is £8.5m. The total effect on reported results remains similar to that previously announced in August and October 2008. Further details of the dispute are given in note 10.

Investment income

Interest income on bank deposits was £1.4m in 2008 compared to £1.5m in 2007, and finance costs were £0.2m in 2008 compared to £0.2m in 2007.

Taxation

The Group's tax charge on continuing operations was £2.7m (2007 – £3.8m) and represented 28.5% of the loss before taxation (2007 – 34.9% of the profit before taxation). The Group's tax charge reflects the tax rates that are applicable in the territories where the Group generates taxable profits and differences in the timing of items being recognised for accounting and tax purposes. The Group benefits from research and development tax credits in Canada and has tax losses in certain territories which are normally only available for set off against future taxable profits in the same jurisdiction. Further details of the tax charge are in note 6.

Loss per share

Basic loss per share in 2008 was 8.58p (2007 – earnings 5.60p) and diluted loss per share was 8.58p (2007 – earnings 5.56p). For continuing operations only, basic loss per share in 2008 was 7.34p (2007 – earnings 5.04p) and diluted loss per share was 7.33p (2007 – earnings 5.00p). The Board believes that a better appreciation of the continuing operations of the Group is given by adjusting for profits relating to property disposals, the charge for share-based payments and exceptional operating costs. Adjusted basic earnings per share on this basis were 2.58p (2007 – 5.76p).

Cash flow

The Group generated an operating cash flow of £1.2m (2007 - £15.0m) including a cash inflow of £5.7m relating to working capital (2007 – £0.1m inflow).

Working capital movements in the cash flow statement are calculated by applying an average rate of exchange to the underlying movements.

The principal KPI to monitor working capital is the ratio of net working capital (inventories plus debtors less creditors but excluding any corporation tax balances) to revenues (annualised revenues for the 3 months to the period end). During the year, the KPI increased to peak at 25.3% in August and fell back to 19.2% at the end of the year (2007 – 16.1%).

Capital expenditure, excluding £1.5m of finance leases, was £3.2m (2007 – £4.9m), mainly relating to IT systems and tooling, compared with a depreciation and amortisation charge of £5.0m (2007 – £4.5m).

Net cash of £6.6m was generated through the sale of the Group's interest in surplus property.

The Group had net cash balances of £41.3m at the end of 2008 (2007 – £38.3m). The Board intends to maintain a strong balance sheet, an ongoing focus on improving operating cash generation and continues to review the appropriateness of the Group's capital structure in the light of risks and opportunities.

Pensions

The Group operates defined contribution schemes, where the Group contributes a pre-determined amount proportionate to the salaries of participating employees to the schemes.

Treasury risk management

The principal treasury risks to the Group arise from exchange rate and interest rate fluctuations. The Board has approved policies for managing risks, which are reviewed on a regular basis, including the use of financial instruments, principally forward exchange contracts. No transactions of a speculative nature are undertaken.

The principal transactional foreign currency exposures are to Euro and US Dollar revenues and Euro, US and Canadian Dollar costs. The Group hedges certain net foreign currency cash flows relating to transactions in accordance with policies set by the Board. The Group does not hedge the foreign exchange exposure arising on translation of net investments in or assets and liabilities of overseas subsidiaries.

Funds in excess of short-term requirements are invested in a combination of deposit accounts, term deposits and managed liquidity funds with maturities up to 12 months. The majority of the Group's surplus funds are deposited in Sterling. Deposits are only

placed with counterparties that have a strong credit rating which have been approved by the board and the Group's exposure to any one counterparty is limited to £10.0m (2007 - £10.0m).

Fixed Assets

Information relating to changes in fixed assets is given in notes 15 and 16 to the financial statements.

Supplier Statement Policy

It is the Group's policy to settle terms of payment with suppliers when agreeing the terms of each transaction and to abide by those terms. As at 31 December 2008 the number of days of annual purchases represented by the year end trade creditors amounted to 45 days (2007 – 42 days) for the Group and 30 days (2007 – 30 days) for the Company.

Risks and Uncertainties

The Group is subject to risks and uncertainties relating to its future business which might affect the financial performance of the Group. The Board has implemented systems to identify risks, to assess them and to ensure that reasonable mitigation plans are in place. The Board is paying particular attention to the operational risks and uncertainties of current recessionary conditions in many of the Group's markets. In addition to generic risks that affect all businesses such as the business investment cycle, the Board has identified the following principal risks and uncertainties:

Business transition

The business has been transforming its product supply and distribution activities including planning, manufacturing, procurement and selling to lower volume customers. Psion is planning the evolution of its sales activities to reduce costs and improve operational effectiveness and working capital management by making greater use of EMS providers and channel partners. This transformation is ongoing, and although continued progress was made in 2008, is likely to take some years to complete and may not be wholly successful. The implementation of change will be closely monitored by the Board.

Rapidly changing technology

The Group may be affected by step changes in technology or by rapid market acceptance of new technology solutions which may render its current products and solutions obsolete or uncompetitive. Psion minimises this risk by monitoring competitor activity and the evolving requirements of customers but it may not anticipate all changes or may have insufficient resources to keep pace with developments.

Psion's ability to continue to provide products and solutions that compete effectively depends on its ability to develop and successfully commercialise new products. The process of development involves inherent uncertainties until the product is proven and bringing a new product to the market is a complex process that requires careful execution and often, regulatory approvals.

The Board monitors all significant product developments to ensure that costs are controlled, that the resources being devoted to the project are adequate and that it is on time. Special attention is given to the achievement of the product cost target.

Use of EMS providers

Psion uses EMS providers to supply products, either in complete or substantially complete form. While this brings substantial benefits in lower costs, reduced working capital and more rapid new product introduction, the concentration of supply may increase the risk to the Group if there is a major interruption of supply from one of our chosen partners.

Psion has outsourced component manufacture for many years and has successfully outsourced the complete production of the WorkaboutPro, 8515 and Ikon. The planning and procurement functions have been strengthened to deal with more extensive use of EMS providers and relevant insurance cover has been extended.

Supply chain

The Group's products are complex devices which must perform to their specifications, often in arduous environments. Products may contain many hundreds of components each of which must be specified and designed into the product even if the product is supplied as a complete device from an EMS provider. Some components are only available from a single supplier who may have IP protection preventing development of alternatives. Failure to adequately manage the Group's supply chain could lead to adverse financial consequences. For example, if internal forecasting processes are not robust, Psion may have to purchase excess component inventories from suppliers in anticipation of future business needs.

The Group depends on a number of key suppliers (including EMS providers) for products and components. Interruptions of supply, through the financial weakness of the supplier or for other reasons could have a material effect on revenue until alternative sources of supply are found.

The VP Supply Chain and Service is responsible for the Group's supply chain operations. The Board receives regular reports on all aspects of the supply chain which enable it to monitor this risk.

Regulations

The Group operates in markets and industries that are subject to specific regulations that govern the way that its business must be conducted. Recent examples include regulations on the use of certain substances in electronic products and the disposal of waste electronic equipment. Such regulations could adversely affect profit by increasing the costs of the Group either permanently or during the period of transition to the new regulations.

Local country managers, the Group's internal legal counsel and the engineering department all monitor relevant new regulations to ensure that the Group complies with its obligations wherever it operates.

Market competitors

Psion participates in the Automatic Information and Data Capture industry in the segment providing rugged mobile computers. Market surveys show Psion as the third largest business in this market in which there are many competitors around the world. Products are available that compete directly or indirectly with Psion's products. Industry consolidation and new entrants – more likely in the less rugged category – may adversely change the competitive environment.

The VP Marketing has the responsibility to monitor market developments. However, the industry practice is to develop new products confidentially and only announce new products shortly before they are commercially available. We seek to develop new products based on a deep understanding of our customers' requirements and thus mitigate this risk. In addition, our ability to customise products will facilitate our

entry into emerging markets such as that for hand held computers in security applications.

Intellectual property

In recent years the number of patents being applied for by, and granted to, technology companies has increased dramatically. From time to time the Group has received claims from organisations claiming infringement of their intellectual property rights. Psion does not knowingly infringe intellectual property rights and claims are often without foundation. Psion has succeeded in settling or defending past claims at limited cost but it may face additional claims in the future. It is no longer possible to obtain insurance against accidental infringement.

Before introducing new products we review relevant existing intellectual property rights but such reviews can never give absolute assurance that a third-party's intellectual property will not be infringed.

Financial risks

The principal financial risk facing the Group relates to movements in exchange rates. The Group derives most of its revenues from currencies other than Sterling, principally Euro and US Dollars. Expenses are denominated principally in US Dollars, Euro and Canadian Dollars. Fluctuations in exchange rates between these currencies relative to Sterling may cause fluctuations in the financial results of the Group as the results of overseas operations are translated into Sterling for consolidation. The Group does not hedge the foreign exchange exposure arising on net investments in or assets and liabilities of overseas subsidiaries. The Group does hedge certain net foreign currency cash flows relating to transactions in accordance with policies set by the Board.

The most economically sensitive exchange rate is the Euro against the US Dollar. Through its sales in the Euro zone, the Group generates surplus Euros after deducting Euro denominated expenses. Although a large amount of revenues are directly or indirectly in US Dollars this is insufficient to offset US dollar costs for overheads and component and product supplies paid for in US Dollars.

The Group is exposed to the potential insolvency of key customers, value added resellers or distributors and of the banks with which it deposits surplus funds. The board monitors the credit standing of all such relationships.

General economic risks

The economic and trading environment has been extremely volatile since the second half of 2008. Bank lending has significantly reduced, and this has impacted the global economy as capital and consumer spending has been reduced, sending the global economy into recession. Many erstwhile leading banks have sought protection through mergers with competitors and through participation in government-sponsored schemes to inject liquidity in the market, and provide insurance against the impact on their balance sheet stability of so-called "toxic" assets.

The Group has an extended geographic presence, necessitating a large number of local banking relationships, and local cash holdings. While the Group operates a cash sweeping system, and has adopted a treasury policy designed to ensure that it is not over-exposed to any one particular bank failure (and that policy has been tightened in 2008 as noted above), the risk remains that such a failure could adversely impact the Group's assets.

As has also been noted above, the recessionary trading environment has had a significant impact on many previously financially stable businesses. While the Group

seeks to minimise the risk of being adversely affected by the failure of a supplier, a value-added reseller or a customer, the volatility of trading and its impact on our trading partners represents a potential risk to the business.

Lastly, the current economic conditions have generated a heightened risk of fraud across all sectors of the economy, as evidenced by recent and substantial events that have generated much press coverage. While the group has implemented a wide-ranging system of control designed to minimise the risk of fraud, there remains a heightened risk that general economic conditions place higher levels of stress on individuals, that can lead to fraudulent activity.

Consolidated Income Statement for the year ended 31 December 2008

	<i>Notes</i>	2008 £000s	2007 £000s
Continuing operations			
Revenue	2	199,364	199,740
Cost of sales		(113,010)	(118,452)
GROSS PROFIT		86,354	81,288
Other income	3	804	-
Distribution costs		(50,738)	(43,815)
Administrative expenses		(30,142)	(27,735)
Exceptional operating costs	4	(15,084)	(284)
Total administrative expenses		(45,226)	(28,019)
OPERATING (LOSS) / PROFIT	5	(8,806)	9,454
Investment income		1,371	1,545
Finance costs		(187)	(207)
(LOSS) / PROFIT BEFORE TAX		(7,622)	10,792
Tax	6	(2,665)	(3,756)
(LOSS) / PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		(10,287)	7,036
Discontinued operations			
(Loss) / profit for the year from discontinued operations	7	(1,745)	776
(LOSS) / PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		(12,032)	7,812
EARNINGS PER SHARE			
From continuing operations			
Basic	9	(7.34p)	5.04p
Diluted	9	(7.33p)	5.00p
From continuing and discontinued operations			
Basic	9	(8.58p)	5.60p
Diluted	9	(8.58p)	5.56p

Consolidated Balance Sheet At 31 December 2008

	2008 £000s	2007 £000s
NON-CURRENT ASSETS		
Goodwill	112,032	81,030
Other intangible assets	1,821	2,184
Property, plant and equipment	11,206	7,781
Deferred tax assets	10,944	9,642
	136,003	100,637
CURRENT ASSETS		
Inventories	37,087	23,166
Trade and other receivables	57,651	61,871
Current tax assets	1,883	209
Cash and cash equivalents	41,281	38,316
	137,902	123,562
Non-current assets held for sale	-	5,827
TOTAL ASSETS	273,905	230,026
CURRENT LIABILITIES		
Trade and other payables	(50,137)	(42,337)
Retirement benefit obligation	(234)	(235)
Tax liabilities	(2,365)	(2,068)
Obligations under finance leases	(314)	(608)
Derivative financial instruments	(678)	(132)
Provisions	(2,501)	(2,230)
	(56,229)	(47,610)
NON-CURRENT LIABILITIES		
Tax liabilities	(1,602)	(1,285)
Deferred tax liabilities	-	(930)
Obligations under finance leases	(1,258)	(150)
Provisions	(4,417)	(3,394)
	(7,277)	(5,759)
TOTAL LIABILITIES	(63,506)	(53,369)
NET ASSETS	210,399	176,657
EQUITY		
Share capital	21,081	20,945
Share premium account	15,581	14,677
Capital reserve	98,703	98,703
Translation reserve	38,727	(10,611)
Retained earnings	36,307	52,943
TOTAL EQUITY	210,399	176,657

Consolidated Statement of Changes in Equity At 31 December 2008

	2008 £000s	2007 £000s
SHARE CAPITAL		
Balance at start of year	20,945	20,910
Exercise of equity share options	136	35
Balance at end of year	<u>21,081</u>	<u>20,945</u>
SHARE PREMIUM		
Balance at start of year	14,677	14,417
Exercise of equity share options	904	260
Balance at end of year	<u>15,581</u>	<u>14,677</u>
CAPITAL RESERVE		
Balance at start and end of year	<u>98,703</u>	<u>98,703</u>
TRANSLATION RESERVE		
Balance at start of year	(10,611)	(11,234)
Exchange difference on translation of goodwill in foreign operations	31,002	(1,314)
Exchange difference on translation of foreign operations	18,336	1,937
Balance at end of year	<u>38,727</u>	<u>(10,611)</u>
RETAINED EARNINGS		
Balance at start of year	52,943	48,965
Profit for the year	(12,032)	7,812
Recognition of share based payment expense	573	774
Dividends (note 8)	(5,177)	(4,608)
Balance at end of year	<u>36,307</u>	<u>52,943</u>
TOTAL		
Balance at start of year	176,657	171,761
Exercise of equity share options	1,040	295
Exchange difference on translation of goodwill in foreign operations	31,002	(1,314)
Exchange difference on translation of foreign operations	18,336	1,937
Profit for the year	(12,032)	7,812
Recognition of share based payment expense	573	774
Dividends (note 8)	(5,177)	(4,608)
Balance at end of year	<u>210,399</u>	<u>176,657</u>

Consolidated Cash Flow Statement for the year ended 31 December 2008

	2008	2007
	£000s	£000s
(LOSS)/PROFIT FOR THE YEAR	(12,032)	7,812
Adjustments for:		
Investment income	(1,371)	(1,545)
Finance costs	379	399
Gain on sale of non-current asset previously held for sale	(804)	-
Tax charge	2,665	2,956
Depreciation of property, plant and equipment	3,883	3,415
Amortisation of other intangible assets	1,155	1,101
Share-based payment expense	573	774
Loss on disposal of property, plant and equipment	88	331
Loss on disposal of intangible assets	-	108
Increase in provisions	1,067	38
Cash impact of discontinued operations	(121)	(454)
Operating cash flow before movements in working capital	(4,518)	14,935
(Increase)/decrease in inventories	(6,924)	4,007
Decrease/(increase) in receivables	14,457	(6,173)
(Decrease)/increase in payables	(1,851)	2,239
Cash generated by operations	1,164	15,008
Tax received	1,092	206
Tax paid	(5,902)	(4,859)
Interest paid	(189)	(370)
NET CASH FLOW (USED IN) / FROM OPERATING ACTIVITIES	(3,835)	9,985
INVESTING ACTIVITIES		
Interest received	1,619	1,538
Net proceeds on disposal of non-current asset previously held for sale	6,632	-
Proceeds on disposal of property, plant and equipment	47	-
Purchases of intangible assets	(480)	(827)
Purchases of property, plant and equipment	(2,656)	(4,121)
NET CASH FROM / (USED IN) INVESTING ACTIVITIES	5,162	(3,410)
FINANCING ACTIVITIES		
Dividends paid	(5,177)	(4,608)
Repayment of obligations under finance leases	(861)	(317)
Proceeds from issue of new shares	1,040	295
NET CASH USED IN FINANCING ACTIVITIES	(4,998)	(4,630)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(3,671)	1,945
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,316	35,772
Effects of foreign exchange rate changes	6,636	599
CASH AND CASH EQUIVALENTS AT END OF YEAR	41,281	38,316

NOTES TO THE PRELIMINARY ANNOUNCEMENT

1. Basis of preparation

The preliminary results have been prepared under the historical cost convention. Whilst the information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full financial statements that comply with IFRS in April 2009.

The financial information in the preliminary announcement does not constitute the Group's statutory financial statements for the years ended 31 December 2008 or 2007, but has been extracted from the Group's 2008 financial statements and, as such, does not contain all information required to be disclosed in the financial statements prepared in accordance with IFRS. Statutory financial statements for 2007 have been delivered to the Registrar of Companies and those for 2008 will be delivered following the Annual General Meeting. The auditors have reported on these financial statements; their reports were unqualified and did not contain a statement under section 237 (2) or (3) of the Companies Act 1985, but their report on the 2008 financial statements drew attention to a matter related to Japan (see note 10) by way of emphasis.

The preliminary announcement is prepared on the basis of the accounting policies set out in previous annual financial statements.

The preliminary announcement was approved by the Board of Directors on 4 March 2009.

2. Segmental analysis

The Group is managed on a geographical basis. The geographical segments are the basis on which the Group reports its primary segment information.

	Total sales	2008 Inter-segment sales	External sales	Total sales	2007 Inter-segment sales	External sales
	£000s	£000s	£000s	£000s	£000s	£000s
USA	46,871	(408)	46,463	49,688	(407)	49,281
Canada	102,458	(83,655)	18,803	96,796	(78,400)	18,396
Mexico and Latin America	4,036	(530)	3,506	2,072	(27)	2,045
United Kingdom	14,337	(2,129)	12,208	17,241	(3,674)	13,567
France	88,562	(48,944)	39,618	77,841	(39,664)	38,177
Germany	20,954	(302)	20,652	19,685	(142)	19,543
Rest of Continental Europe	39,560	(309)	39,251	33,287	(691)	32,596
Japan	2,652	-	2,652	11,912	-	11,912
Asia	10,658	(1,497)	9,161	7,587	(1,175)	6,412
Rest of World	7,142	(92)	7,050	7,909	(98)	7,811
Total revenue from continuing operations	337,230	(137,866)	199,364	324,018	(124,278)	199,740

Inter-segment sales are recorded at prevailing market prices

Results	2008	2007
	£000s	£000s
USA	(618)	924
Canada	(1,176)	2,632
Mexico and Latin America	38	146
United Kingdom	389	643
France	7,472	5,412
Germany	1,193	431
Rest of Continental Europe	2,139	633
Japan	(987)	1,533
Asia	753	280
Rest of World	(125)	(193)
Segment results from continuing operations	9,078	12,441
Unallocated corporate expenses (see note below)	(3,604)	(2,703)
Other income	804	-
Exceptional operating costs	(15,084)	(284)
Operating profit from continuing operations	(8,806)	9,454
Investment income	1,371	1,545
Finance costs	(187)	(207)
Profit before tax	(7,622)	10,792
Tax	(2,665)	(3,756)
Profit for the year from continuing operations	(10,287)	7,036

Unallocated corporate expenses include a charge of £573,000 (2007 - £774,000) in respect of share-based payments which is classified as an administrative expenses.

2. Segmental analysis (continued)

External revenue by geographical market

	2008	2007
	£000s	£000s
USA	46,889	50,939
Canada	5,819	4,616
Mexico and Latin America	9,787	7,746
United Kingdom	11,154	13,614
France	38,311	36,453
Germany	20,566	19,543
Rest of Continental Europe	40,501	34,982
Japan	2,652	11,912
Asia	6,750	9,904
Rest of World	16,935	10,031
Total revenue from continuing operations	199,364	199,740

Other information

	2008		2007	
	Capital additions	Depreciation and amortisation	Capital additions	Depreciation and amortisation
	£000s	£000s	£000s	£000s
USA	224	411	748	380
Canada	3,465	3,363	3,038	3,049
Mexico and Latin America	76	31	91	17
United Kingdom	83	115	145	194
France	133	264	220	162
Germany	195	232	109	201
Rest of Continental Europe	212	307	519	236
Japan	76	45	52	34
Asia	140	165	92	48
Rest of World	59	105	174	195
Total for continuing operations	4,663	5,038	5,188	4,516

Balance sheet

	Assets	Liabilities	Assets	Liabilities
	£000s	£000s	£000s	£000s
USA	19,737	(11,837)	20,597	(9,272)
Canada	154,385	(15,928)	107,900	(17,252)
Mexico and Latin America	2,745	(496)	1,207	(86)
United Kingdom	3,289	(4,940)	11,383	(5,459)
France	23,054	(12,378)	17,797	(10,146)
Germany	5,154	(2,400)	6,372	(1,367)
Rest of Continental Europe	12,195	(5,452)	14,236	(3,947)
Japan	3,029	(2,639)	5,616	(1,617)
Asia	5,030	(1,236)	1,947	135
Rest of World	3,125	(600)	3,852	(536)
Total for continuing operations	231,743	(57,906)	190,907	(49,547)
Discontinued operations	881	(5,600)	803	(3,822)
Cash	41,281	-	38,316	-
	273,905	(63,506)	230,026	(53,369)

Cash is not allocated by geographical segment as financing of the operations is determined centrally.

3. Other income

	2008	2007
	£000s	£000s
Gain on sale of asset previously held for sale	804	-

The sale of the Group's leasehold interest in a property at Park Crescent, London, which was treated as a non-current asset held for sale in the December 2007 accounts, was completed on 30 April 2008.

4. Exceptional operating costs

	2008	2007
	£000s	£000s
Restructuring costs (a)	5,439	284
Japanese costs (b)	8,451	-
Board changes (c)	1,194	-
	15,084	284

- (a) A redundancy programme in various countries was undertaken to balance costs and revenues.
- (b) Provision for the costs relating to unauthorised trade in the Japanese business, as per the announcement made on 12 August 2008 and further updated on 7 October 2008, together with associated investigation and other related costs of defending claims made on the Japanese business. See note 10 for more detail behind this charge.
- (c) Costs incurred in restructuring the Board.

Of the amounts charged to the Income Statement for redundancies, payments of £2,383,000 were made after the year end, and of the amount charged to the Income Statement for Board changes, £30,000 was paid after the year end. There were no outstanding cash sums due to be paid against the other classes of exceptional operating costs after the year end.

5. Reconciliation of adjusted operating profit from operating (loss)/profit from continuing operations

	2008	2007
	£000s	£000s
Operating (loss)/profit from continuing operations	(8,806)	9,454
Other income	(804)	-
Share-based payment expense	573	774
Exceptional operating costs	15,084	284
Adjusted operating profit from continuing operations	6,047	10,512

6. Tax

	Continuing operations		Discontinued operations		Total	
	2008 £000s	2007 £000s	2008 £000s	2007 £000s	2008 £000s	2007 £000s
Current tax	3,299	3,600	-	(800)	3,299	2,800
Deferred tax	(634)	156	-	-	(634)	156
Tax charge/(credit) for the year	<u>2,665</u>	<u>3,756</u>	<u>-</u>	<u>(800)</u>	<u>2,665</u>	<u>2,956</u>

The UK corporation tax is calculated at 28.5% (2007- 30%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge/(credit) for the year can be reconciled to the profit per the Income Statement as follows:

	2008 £000s	2008 %	2007 £000s	2007 %
(Loss) / profit before tax				
continuing operations	(7,622)		10,792	
discontinued operations	(1,745)		(24)	
	<u>(9,367)</u>		<u>10,768</u>	
Tax at the domestic tax rate of 28.5% (2007 - 30%)	(2,667)	28.5	3,230	30.0
Tax effect of expenses / (income) that are not deductible / (taxable) in determining taxable profit	679	(7.3)	(1,713)	(15.9)
Tax effect of utilisation of tax losses	(2,029)	21.7	(380)	(3.5)
Losses carried forward	7,252	(77.4)	875	8.1
Losses unavailable due to cessation of trade	497	(5.3)	60	0.6
Timing differences	1,101	(11.8)	1,184	11.0
Overseas withholding tax	167	(1.8)	367	3.4
Double tax relief	(144)	1.5	(307)	(2.9)
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,032)	21.7	398	3.7
Prior year adjustments	(159)	1.7	42	0.4
	<u>2,665</u>	<u>(28.5)</u>	<u>3,756</u>	<u>34.9</u>
Tax refund on discontinued operations (note 7)	-	-	(800)	(7.4)
Tax charge and effective tax rate for the year	<u>2,665</u>	<u>(28.5)</u>	<u>2,956</u>	<u>27.5</u>

7. Discontinued operations

The results for the year from the discontinued operations, which all relate to the UK, are analysed as follows:

	<i>Note</i>	2008 £000s	2007 £000s
(Deficit)/surplus on closure of discontinued operations	(a)	(1,553)	168
Finance costs			
Unwinding of discount on provisions	(a)	(192)	(192)
		(1,745)	(24)
Release of tax provision	(b)	-	800
		(1,745)	776

a) Digital

The (deficit)/surplus on closure and the unwinding of discount on provisions are associated with continuing property obligations of Psion Digital Limited that was wound down in 2001. The prime reason for the increase in the provision during the year is that two tenants went into administration (one during the year and one just after the year end). Consequently the provisions against those properties have been increased to reflect the changed circumstances.

b) Tax

During 2007 the Group reached an agreement with local tax authorities on the tax treatment of an old outstanding matter relating to discontinued operations and released a provision for tax potentially payable which was no longer required.

8. Dividends

	2008 £000s	2007 £000s
Amounts recognised as distributions to equity holders in the year:		
Paid final dividend for the prior year of 2.5p (2007 - 2.2p) per share	3,491	3,072
Paid interim dividend for the current year of 1.2p (2007 - 1.1p)	1,686	1,536
	5,177	4,608
Proposed final dividend for the year ended 31 December 2008 of 2.5p per share	3,513	
Final dividend for the year ended 31 December 2007 of 2.5p per share		3,491

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. If approved the dividend will be paid on 15 May 2009 to shareholders registered on 14 April 2009. There will be no tax consequences for the Group from payment of the final dividend.

9. (Loss) / earnings per share

	2008	2007
	Number	Number
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	140,163,122	139,550,084
Dilutive effect of potential ordinary shares:		
Share options	104,892	1,058,375
Weighted average number of ordinary shares for the purposes of diluted earnings per share	140,268,014	140,608,459

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

FROM CONTINUING AND DISCONTINUED OPERATIONS

	£000s	£000s
(Loss) / earnings		
(Loss) / earnings for the purposes of basic and diluted earnings per share being net (loss)/profit attributable to equity holders of the parent	(12,032)	7,812
(Loss) / earnings per share for continuing and discontinued operations	Pence	Pence
Basic (loss) / earnings per share	(8.58)	5.60
Diluted (loss) / earnings per share	(8.58)	5.56

FROM CONTINUING OPERATIONS

	£000s	£000s
(Loss) / earnings		
(Loss) / profit for the year attributable to equity holders of the parent	(12,032)	7,812
Add / (deduct) loss / (profit) for the year from discontinued operations	1,745	(776)
(Loss) / earnings for the purposes of basic and diluted earnings per share from continuing operations	(10,287)	7,036
(Loss) / earnings per share from continuing operations	Pence	Pence
Basic (loss) / earnings per share	(7.34)	5.04
Diluted (loss) / earnings per share	(7.33)	5.00

Adjusted earnings from continuing operations are calculated as follows:

	£000s	£000s
Net profit from continuing operations attributable to equity holders of the parent	(10,287)	7,036
Adjustment to exclude non-recurring restructuring costs net of tax	14,140	223
Adjustment to excluded gain on sale of non-current assets previously held for sale	(804)	-
Adjustment to exclude share-based payment expense net of tax	573	774
Adjusted earnings from continuing operations for the purpose of basic and diluted earnings per share	3,622	8,033

9. (Loss) / earnings per share (continued)

Adjusted earnings per share from continuing operations	Pence	Pence
Adjusted basic earnings per share	<u>2.58</u>	<u>5.76</u>
Adjusted diluted earnings per share	<u>2.58</u>	<u>5.71</u>
FROM DISCONTINUED OPERATIONS	£000s	£000s
(Loss) / earnings		
(Loss) / earnings from discontinued operations	<u>(1,745)</u>	<u>776</u>
(Loss) / earnings per share from discontinued operations	Pence	Pence
Basic (loss) / earnings per share	<u>(1.24)</u>	<u>0.56</u>
Diluted (loss) / earnings per share	<u>(1.24)</u>	<u>0.56</u>

10. Japan

In August 2008 the Group announced that it had engaged forensic consultants to investigate claims amounting to JPY2,106m (£16.2m at year end rates) from trading partners of our Japanese subsidiary Psion Teklogix KK ("PTKK") relating to unauthorised trade and a guarantee of a third party's trading obligations. The claims which relate to events in 2008 are unsubstantiated and the company denies liability and is resisting the claims vigorously. The investigation of these claims is ongoing.

In October 2008 the Group announced that one of the parties making a claim had started an action in the Japanese courts and that a number of trading parties who owe money to PTKK are refusing to make payment to PTKK who may have to take legal action to recover the sums due to it. It also announced that it intends to take action to recover any unwarranted payments made to trading partners and to enforce any other rights against other parties arising from the disputed transactions. Certain inventory not recorded in the books of PTKK has been taken into possession, but no value has been recognised in the financial statements.

The various actions described above are continuing. It is not expected that the disputes will be settled in the near future.

In the accounts for 2008 the revenue booked in the 6 months to 30 June 2008 for certain of the transactions in dispute, now judged to be uncertain, amounting to £7.0m has been reversed, and the related amounts previously reported as cost of sales are now treated as exceptional operating costs as recovery is not anticipated from those suppliers. Full provision has been made against the balance of the receivables in dispute amounting to £0.6m. In accordance with the accounting policy for impairment of assets this has been treated as an expense. No provision has been made for amounts being claimed by the third-parties. The company continues to deny liability and it is not possible to estimate the amount of any probable outflow of resources that will arise as a result of the claims. It is not possible to estimate how long it will take to resolve the claims and outstanding receivables. Accordingly, no provision has been made for future legal and related costs as it is not possible to make a reliable estimate of them. Inventory now in the possession of Psion has not been recognised in the accounts.

Costs incurred to the end of December in investigating the claims, legal fees, additional travel costs and reorganisation costs of the Japanese office amount to a further £1.7m. It is not possible to judge at the present time what the future costs relating to the investigation, including legal fees, will be. Future costs incurred will continue to be disclosed separately within exceptional operating costs.

11. Analysis of financial highlights

	2008			2007		
	Continuing £000s	Discontinued £000s	Total £000s	Continuing £000s	Discontinued £000s	Total £000s
Turnover	199,364	-	199,364	199,740	-	199,740

Operating (loss)/profit	(8,806)	(1,553)	(10,359)	9,454	168	9,622
(Loss)/profit before tax	(7,622)	(1,745)	(9,367)	10,792	(24)	10,768

12. Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review. The financial position of the Group, its cash flows and liquidity position are also described in the Business Review

The Group has in excess of £41m of cash, a strong, debt free balance sheet, and an increasingly rigorous approach to operations and working capital management, having moved to a more centralised functional organisation structure in 2008, and having enhanced controls and authorisation approval limits. The Board will continue to adapt the business to the emerging economic environment, having reduced headcount by some 16% through actions initiated in the fourth quarter of 2008. Further, more material cost reductions are planned for the first half of 2009, and actions to improve operating cash generation are ongoing. As a consequence, the directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After reviewing the forecast cash flow and working capital requirements, including the most up to date information available on the trading dispute in Japan as disclosed in note 10, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts