

THE EARLY 21<sup>ST</sup> CENTURY  
will be PROFOUNDLY CHANGED  
by the DIGITAL REVOLUTION.

➡ *Psion has a clear view of its role in the digital age. Psion focuses on mobile computing and data-communications. Psion's key competence is innovation. Successful companies like Psion continuously innovate and adapt to their changing environment to create new business opportunities.*

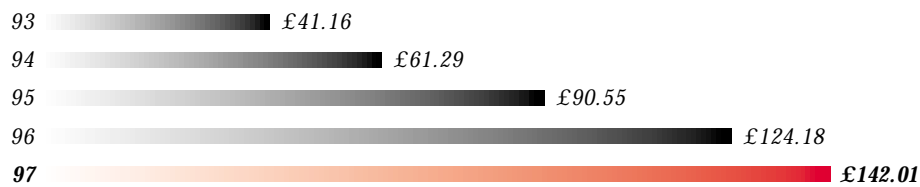
## FINANCIAL HIGHLIGHTS

For the Year Ended 31st December 1997

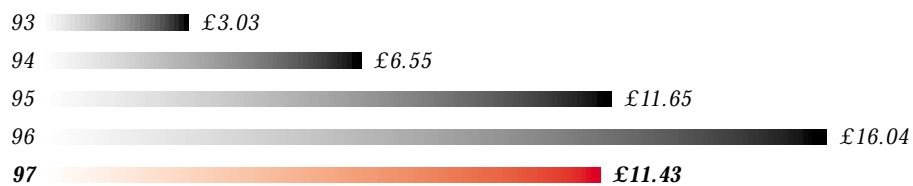
*In Thousands Except Per Share Amounts*

	1997	1996
<i>Turnover</i>	<b>£142,012</b>	£124,178
<i>Gross Profit</i>	<b>£50,804</b>	£50,389
<i>Profit Before Tax</i>	<b>£11,426</b>	£16,036
<i>Profit After Tax</i>	<b>£7,714</b>	£10,353
<i>Earnings Per Share</i>	<b>10.30p</b>	14.57p
<i>Dividends Per Share</i>	<b>2.50p</b>	2.25p
<i>Research and Development Expenditure</i>	<b>£10,934</b>	£7,731

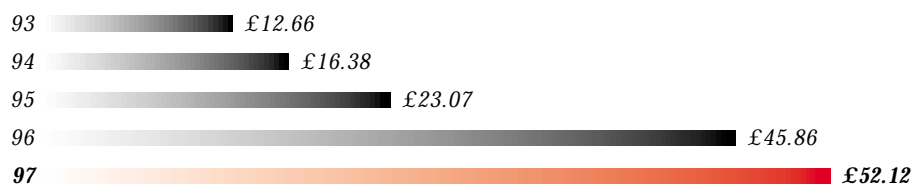
### TURNOVER *In £ millions*



### PROFIT BEFORE TAX *In £ millions*

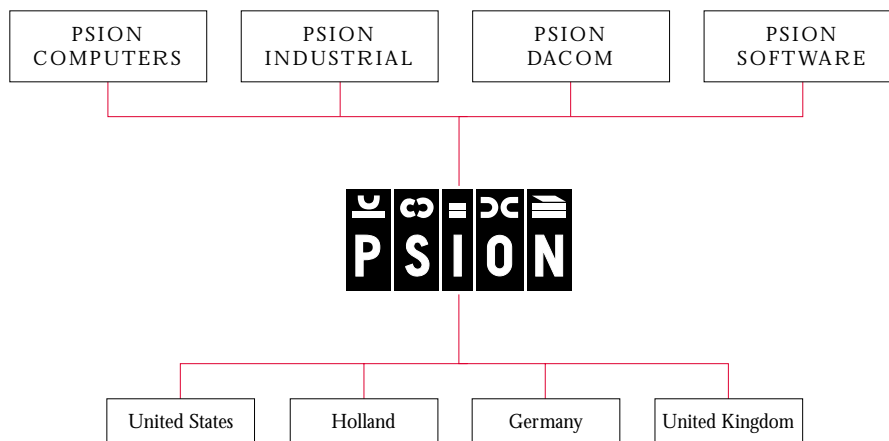


### NET ASSETS *In £ millions*



YOU PROBABLY KNOW PSION BEST AS  
A WORLD LEADER IN PALMTOP COMPUTING.  
BUT OUR BUSINESS IS MUCH BROADER.

PSION SOFTWARE *develops and  
licenses operating systems for mobile digital products.*  
PSION INDUSTRIAL *designs, manufactures and supplies  
mobile computers for commercial and industrial applications.*  
PSION DACOM *makes PC Card products. Psion Dacom  
leads Europe in this technology and is one of the  
top four PC Card manufacturers in the world.*



YOU PROBABLY KNOW PSION AS A BRITISH  
COMPANY. BUT WE ARE A WORLDWIDE COMPANY.

PSION *has sales companies in the  
United States, in Holland, in Germany and in the UK.*  
PSION *has a worldwide distribution network which spans  
forty-five countries and five continents.*

## CHAIRMAN'S STATEMENT

1997 was a year of great change both for Psion and the wider IT industry. After a weak performance in the first half of the year, the Company's second half performance was much stronger. Psion benefited in particular from the high demand for the newly-launched Series 5. The Group's increasing diversity will provide the robustness and strength the Group needs to compete in international markets.

**RESULTS OVERVIEW** Profits in 1997 were held back by the strength of sterling which reduced sales by £12m and profits by £6m, and by the impact of major product introductions in our palmtop division. In addition, we increased our investment in research and development to £10.93m (1996 – £7.73m).

Sales for the year were £142.01m, a rise of 14% over 1996 (£124.18m). Pre-tax profits were £11.43m (1996 – £16.04m). The Directors recommend a final dividend of 1.8p (1996 – 1.6p), making a total of 2.5p (1996 – 2.25p), a rise of 11% and covered four times by earnings.

**REVIEW OF OPERATIONS** Psion's four product companies, Psion Computers, Psion Industrial, Psion Dacom and Psion Software, have each made substantial progress during the year. Despite the problems created by the strength of sterling, our international markets have grown rapidly. For the first time, non-UK business accounts for the majority of Psion's sales, both by value and by volume. This trend will continue, reflecting the global nature of our industry.

Psion Computers successfully introduced the Series 5, the first Psion product based on 32-bit technology. The Series 5 won wide acclaim and found instant success in the marketplace. Since the launch Psion Computers has shipped more than 200,000 units, establishing the Series 5 as the clear market leader.

Psion Dacom consolidated its position as Europe's leading supplier of PC Card communication products. Moreover, with its recent agreement to supply Dell Computers worldwide, the company has the opportunity to become a world leader in its industry.

Psion Industrial relocated to a new integrated office and manufacturing facility in Oxfordshire. With this new focus, the company has been successful in winning major contracts to supply mobile data-capture systems. Recent wins include London Underground in the UK, Mercedes in Germany, Finnair and the USA Today newspaper group in the United States.

Psion Software has demonstrated its quality and depth in both systems and applications through the Series 5 products. Two important third-party licensees were obtained in the year. Major third party licensing opportunities continue to arise, particularly in the emerging 'smart-phone' sector.

➡ Building a group of companies focused on the emerging markets for MOBILE

David Potter



**MANAGEMENT** Psion operates in competitive global markets, succeeding through the endeavour and skills of its employees. On behalf of the Board, I would like to express our appreciation to all Psion personnel for their commitment and resourcefulness.

We continue to work hard to broaden the experience on the Board and in senior management. During the year, Nicholas Myers was appointed to the position of Group Managing Director, with full operational responsibility for the Group. He has been well supported in this by the Managing Directors of the operating companies. I am also delighted to welcome Gareth Hughes as a main Board Director. Gareth has been Managing Director of Psion Dacom during the last three years and has led the outstanding growth and performance of that company.

I am pleased to announce the nomination of Mr J. Barrie Morgans to the Board as a Non-Executive Director. Barrie is a previous Chairman, Chief Executive and Financial Director of IBM UK PLC and brings great experience to the Board. Last October, Peter Norman left the Group after serving on the Board of Psion for twelve years. During that period the Group grew more than thirty-fold and, on behalf of shareholders, I thank Peter for his significant contribution. In May of 1998, Sir Ian Morrow will retire from the Board after twelve years as the senior Non-Executive Director. Sir Ian's contribution has been outstanding. I would like to thank him, both personally and on behalf of the Board, for his wisdom and friendship.

## DIGITAL INFORMATION PRODUCTS

**STRATEGY** Over the years, Psion has built substantial assets in its brand, marketing, technology, international distribution and in developing mobile digital markets. We believe there will be a substantial expansion in the markets for general computer products and for dedicated information appliances such as organisers, cellular phones and digital audio products.

Our strategy is to build a horizontal group of companies addressing mobile digital markets. At present we have four companies which focus on palmtop computers, data-communications, industrial terminals and embedded software applications and systems. Your Board intends to continue this process by expanding the Group through organic growth, strategic partnerships and by acquisition.

**OUTLOOK** The opportunity is for growth in all our markets. We have expanded our position internationally and by market sector. In the data-communication and industrial businesses, new contracts will drive growth. We are well positioned with competitive products in the important and growing palmtop market.

Given our growing markets, we continue to invest and plan for the longer term with confidence. However, with the continuing rapid change in palmtop markets, the Board remains cautious on the immediate outlook.

## FINANCIAL REVIEW

**RESULTS** Psion's 1997 financial performance reflects a year of transition for the Group. Revenues increased by 14% to £142.01m (1996 – £124.18m) and the gross margin was 36% (1996 – 41%). Profits before tax were £11.43m, down from £16.04m in 1996. The results were affected by the introduction of a new generation of products based on 32-bit technology and by the strength of sterling. Investment in research and development was increased by 41% to £10.93m (1996 – £7.73).

The Group's trading performance in the middle part of the year was disrupted by retailers destocking ahead of the launch of the Series 5. The Series 5 was well received and in the last quarter of the year trading was strong in all markets.

The strength of sterling adversely affected the Group's profitability. On a constant currency basis, using the Group's average exchange rates during 1996 and 1997, revenue growth would have been 24% rather than 14% and profit before tax approximately £6m higher than reported.

Despite sterling's strength, overseas sales exceeded 50% of revenues for the first time to reach 55% of Group revenues (1996 – 49%). The performance in Continental Europe was excellent with growth of 29% to £54.58m (1996 – £42.30m). Sales in North America recovered strongly from a weak first half and in the second half sales were 53% ahead of the equivalent period in 1996.

### ➔ Increasing research and development spend and record capital expenditure highlights

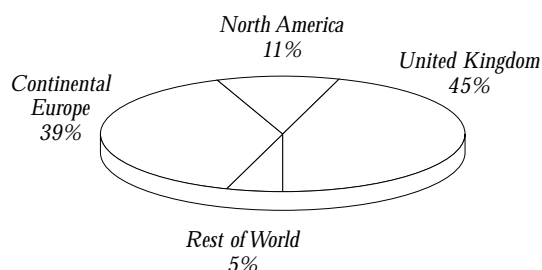
1997 Year £ millions	Actual exchange rates	Growth	Constant exchange rates	Growth
Turnover	142.01	+14%	154.40	+24%
Profit before tax	11.43	-29%	17.50	+9%

MARINA WYATT *Financial Director* 4th March 1998

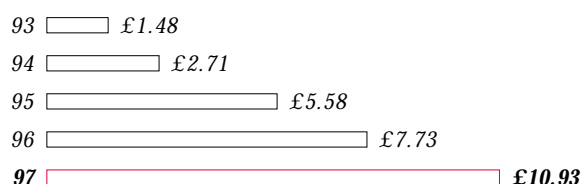
Marina Wyatt



*Turnover by Destination 1997*



*Research & Development Expenditure  
£ millions*



## our commitment to INVESTING FOR THE FUTURE

**BALANCE SHEET, INVESTMENT AND CASH** Net Assets were £52.12m at the end of the year (1996 – £45.86m). Cash generation in the second half was good with more than £10m generated from trading. Cash balances at year end were £22.40m (1996 – £26.47m) and the balance sheet is ungeared except for £0.91m of finance lease liabilities (1996 – £2.10m). During the year £10.37m (1996 – £8.86m) was invested in fixed assets, including a new manufacturing facility in Oxfordshire and additional surface mount assembly lines at each of Psion's three factories.

Expenditure on research and development increased by 41% to £10.93m (1996 – £7.73m), representing 7.7% of turnover (1996 – 6.2%). This investment is vital to Psion's ability to innovate and grow. A significant element of this investment is currently being made in Psion Software's development of software platforms and applications.

**TREASURY, TAX AND EPS** Psion sells into overseas markets and the purchases of the majority of its components are affected by foreign exchange rates. The Group's exposure to foreign exchange fluctuations is reduced because the Group both buys and sells in overseas markets. Nevertheless, as demonstrated above, sterling's strength had a significant impact on 1997's performance. The Board's policy is to seek to minimise its foreign exchange risks through entering into forward exchange contracts. The results of overseas subsidiaries are translated at average exchange rates for the year. This translation exposure is not hedged as a matter of policy.

The fall in the Group's tax rate from 35.4% in 1996 to 32.5% in 1997 arose from the reduction in the UK corporation tax rate and the utilisation of overseas tax losses.

Earnings per share were 10.30p for the year (1996 – 14.57p). We have proposed an increase in the final dividend to 1.8p, taking the total dividend for the year to 2.5p (1996 – 2.25p). The dividend is covered 4.1 times by earnings.

**ACCOUNTING POLICIES** Accounting policies applied during the year were consistent with those applied in 1996. During 1997 we introduced long term contract accounting to accommodate the third party licensee contracts entered into by Psion Software. This policy is explained in more detail on page 32 and resulted in long term contract revenues of £0.68m (1996 – £nil) being recorded in the year.

**OUTLOOK** Psion enters 1998 in a good financial position from which to address the challenges and opportunities which lie ahead.

## OPERATIONAL REVIEW

**OVERVIEW** 1997 was the first full year in which Psion's four product companies have been fully operational after the Group's reorganisation in mid-1996. Each product company focuses on a specific market segment: Psion Computers on palmtop computers, Psion Industrial on handheld computers for industrial and commercial applications, Psion Dacom on mobile network products and Psion Software on operating systems and application software. All the companies made good progress towards developing greater focus on their respective markets. The new organisational structure will also help improve operational effectiveness, especially in supply chain management and distribution logistics. The operations of each product company are outlined in more detail in subsequent pages.

**TRADING REVIEW** The key 1997 event for Psion Computers was the introduction of the Series 5, the first in a range of new palmtop computers based on 32-bit technology. The Series 5 was well received in all markets and demand was buoyant. However, the introduction of the Series 5 in June disrupted the distribution channels for Psion Computers' existing products and significantly affected the company's second and third quarter financial performance.

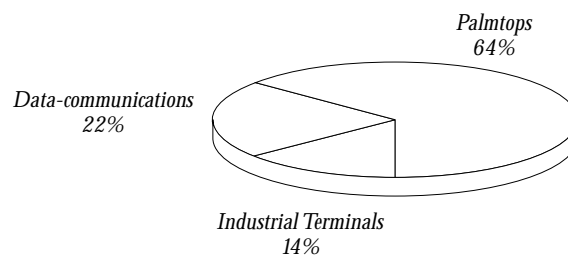
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➔ Psion companies market innovative products which integrate design and technological

NICHOLAS MYERS *Managing Director* 4th March 1998



*Sales by Product Group 1997*





# excellence to MEET THE USER'S NEEDS

Psion Dacom had a successful year with substantial growth in PC Card modem sales, up by 38%. Psion Dacom contributed 22% of Psion's 1997 revenues, increasing from 18% in 1996. Psion Dacom's business is increasingly international, a trend which will continue in 1998. In November 1997 Psion Dacom was appointed as a worldwide supplier of 56k PC Card modems to Dell Computers, the world's third largest PC supplier.

In the first half of 1997 Psion Industrial relocated and staffed a new integrated factory and office facility in Oxfordshire. Despite this disruption, sales were sustained at £19.32m (1996 – £19.64m). New additions to the range included Workabout models with integrated barcode readers and laser scanners. These extensions to the Workabout range have opened the growing automatic identification markets to the company for the first time.

Psion Software has successfully licensed its EPOC32 platform to major multinational companies. In September 1997, Philips was publicly announced as an EPOC32 licensee. Philips intend to use EPOC32 in a range of 'smart-phone' products. Smart-phones are mobile telephones with data capabilities such as e-mail, faxing, and web browsing. Announcements about further licensees will be made in due course. Future revenues from third party licensees depend on the timing of product introductions.

**RESEARCH AND DEVELOPMENT** Psion's long term success depends on the Group's ability to deliver new and innovative products. To achieve this, each product company has its own research and development function. In 1997, the Group expanded the resources dedicated to research and development. Significant resources were channelled to Psion Software to support the continuing development and customisation of EPOC32 for Group product companies and for new third party licensees. By the end of 1997 the number of research and development personnel in the Group had risen to some 270 people.

**MANUFACTURING** During 1997 Psion increased its manufacturing capacity significantly. Psion Industrial's new factory commenced production in the summer and new Surface Mount Assembly lines were added at Psion Computers and Psion Dacom, bringing the Group's total capacity to six Surface Mount Assembly lines in three factories.

**1998 OUTLOOK** During 1998 the product companies will continue to focus on their core markets by developing products and services that extend and enhance their product ranges. The increase in the depth and diversity of the Group's business has strengthened its position ready for the challenges and opportunities which lie ahead.

## PRODUCT COMPANY REVIEW

# Psion Computers

**1997 REVIEWED** 1997 was a successful year for Psion Computers with over 400,000 computers sold worldwide. With the launch of the Series 5 in June 1997, Psion Computers made the transition from 16-bit to a new generation of 32-bit technology. The Series 5 gives the mobile professional unprecedented computing power in a handheld form. While the Series 5 is independently effective, it readily connects to the PC and inter-operates with a wide range of PC applications. The Series 3 range, with over 1 million units shipped, continues to evolve as a value-line palmtop computer for consumer markets, whilst the Siena is marketed as a high end organiser. All Psion products share the qualities of innovative design, simplicity of use, fitness for purpose and charm.

The Series 5 was an immediate success, reaping media accolades both for the excellence of its hardware design as well as for the depth and sophistication of its software. Early demand outstripped initial production volumes, although this position improved as volumes rose through the year. During the first half of 1997 the imminent introduction of Series 5 affected demand for the existing Series 3 and Siena products. During the second half of the year, sales recovered as the market recognised the Series 5 as a complementary extension of Psion's existing product range rather than as a replacement for the Series 3.

Despite the market turbulence caused by the first products based on Microsoft's Windows CE, overseas sales were excellent. Encouragingly, sales into non-Psion company countries rose especially strongly, even in territories where the Series 5 was not available. In 1997, more than a third of Psion Computers' sales were to these countries.

**1998 OUTLOOK** Psion Computers enters 1998 with many opportunities in a growing market with a range of market-leading, competitively priced products which will continue to set the standard for handheld products. The Company will maintain and enhance its competitiveness through new product introductions, incremental improvements to the existing 32-bit and 16-bit product ranges, and a competitive pricing policy.

CHARLES DAVIES *Managing Director*

