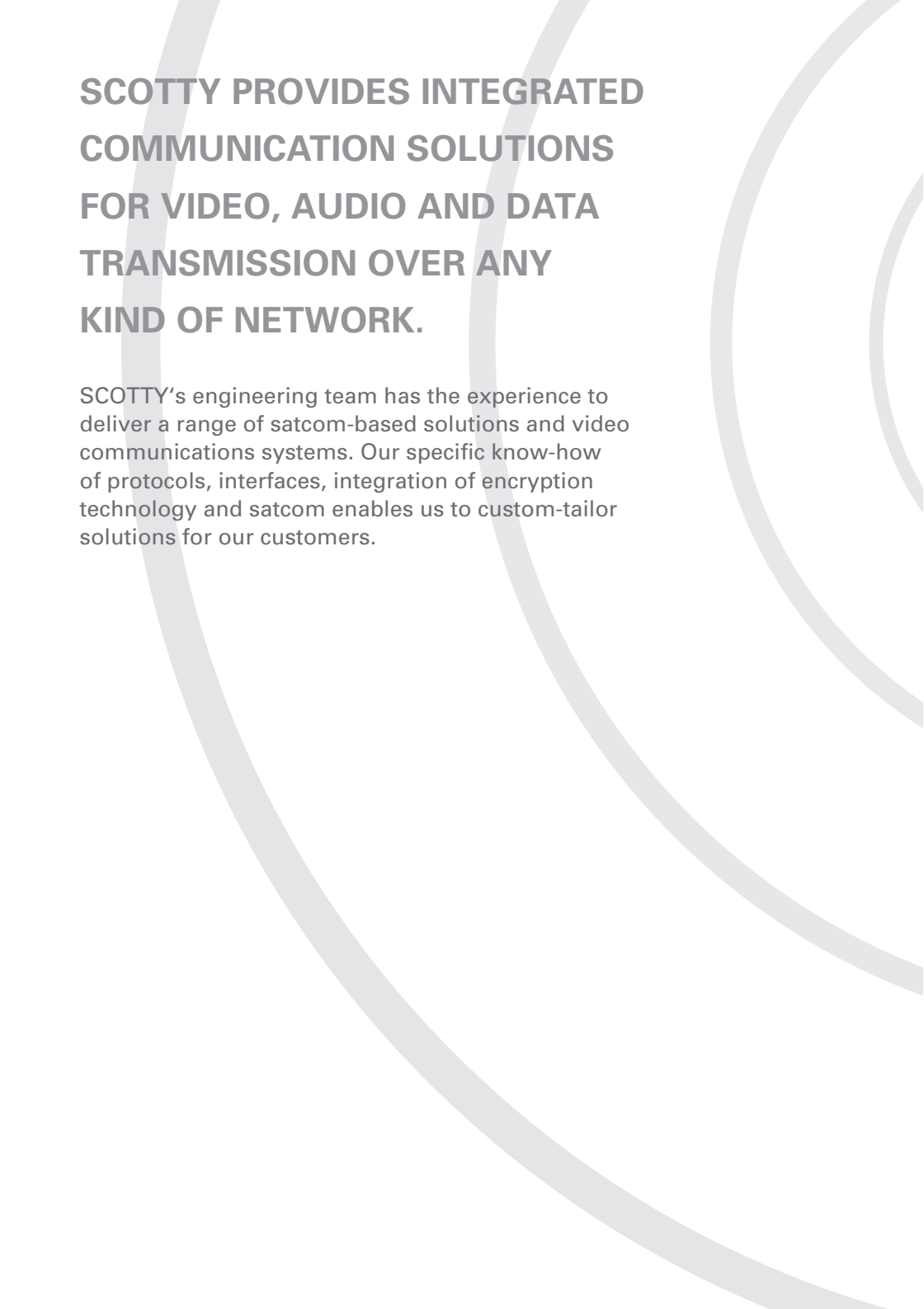




SCOTTY™

SCOTTY Group plc / Second Interim Report 2009

LOOK. LISTEN. COMMUNICATE.



**SCOTTY PROVIDES INTEGRATED
COMMUNICATION SOLUTIONS
FOR VIDEO, AUDIO AND DATA
TRANSMISSION OVER ANY
KIND OF NETWORK.**

SCOTTY's engineering team has the experience to deliver a range of satcom-based solutions and video communications systems. Our specific know-how of protocols, interfaces, integration of encryption technology and satcom enables us to custom-tailor solutions for our customers.

CHAIRMAN'S STATEMENT

I am pleased to report the unaudited half-year results of SCOTTY Group plc for the six months to 31 July 2009. During the period under review the Group increased its trading profit compared with the previous six-month period and continued to broaden its sphere of activities in the government, military and aviation markets.

Change of accounting year end

On 27 July 2009 it was announced that the accounting reference date of the Company had been changed from 31 July to 31 December. This change has been effected to align the Company's financial year more closely with the contract cycle for certain of the Group's key European government customers. Accordingly, this report constitutes a second interim report for the 12 month period to 31 July 2009. As a result of this change, the Group's next Annual Report and audited financial statements will be for the 17 month period to 31 December 2009, to be published before 31 May 2010. Thereafter the Company will prepare six monthly reports to 30 June and annual reports to 31 December each year.

Results and cash flow

The result for the second half-year was an unaudited pre-tax profit of £239,000, compared with a pre-tax profit of £89,000 in the first half-year. The unaudited pre-tax profit for the full twelve months to 31 July 2009 was therefore £328,000. As previously highlighted this is lower than the corresponding period last year and reflects delays in the timing of some projects.

Turnover for the second half-year was £2,774,000, compared with £2,652,000 for the first half-year, bringing the turnover for the twelve months to 31 July 2009 to £5,426,000, compared with £6,789,000 last year. Gross profit reduced from £1,689,000 in the first half-year to £1,659,000 in the second half-year, giving a gross profit of £3,348,000 for the twelve months to 31 July 2009, compared with £4,604,000 last year. Gross margins were reduced from 67.8 per cent last year to 61.7 per cent for the twelve months to 31 July 2009, once again reflecting a lower proportion of higher-margin research and development revenue.

Administration expenses in the second half-year decreased to £1,679,000 from £1,859,000 in the first half. The total for the twelve months was £3,538,000, compared with £4,233,000 last year, partly reflecting the capitalisation of development costs in line with International Financial Reporting Standards and partly cost reductions in the Company's overseas offices.

After taking account of a net tax credit for the period, resulting from a reduction in Austrian deferred tax provisions, profit after tax increased from £66,000 in the first half year to £380,000 in this period. Earnings per share for the six months to 31 July 2009 were 1.88p compared with 0.33p in the first half, resulting in an earnings per share for the twelve month period of 2.21p, compared with 2.97p for the year ended 31 July 2008.

CHAIRMAN'S STATEMENT – CONTINUED

Your Directors do not recommend payment of a dividend at this stage in the Group's development.

Cash balances at 31 July 2009 amounted to £76,000, compared with £620,000 at 31 January 2009, as a significant proportion of the second half's revenue was invoiced in July and the invoices were not payable until after the period-end. I am pleased to report that since the period-end the Group has secured a credit facility of 500,000 Euros, fully backed by the Austrian Government's export funding agency, to provide additional working capital for the PV serial roll-out contract with Eurocopter.

Review of government aviation and military market

The conversion of new projects into firm orders has been slower than we expected in the current financial year, as a result of which the second half-year started relatively quietly. However, activity has increased significantly towards the end of the period.

The period saw the successful completion of the research and development phase of the PV contract for Eurocopter, culminating in delivery of three systems to equip two helicopters for the flight test and qualification programme. Confirmation of the serial roll-out phase of this project was announced in June, worth approximately 8.3 million Euros, with deliveries spread over the three calendar years 2009 to 2011. Work is currently underway on procurement and assembly of the equipment for the 2009 deliveries. The majority of these are anticipated for November and December, but some early deliveries were made in July.

July also saw the Company invoicing for the early stages of a further upgrade programme for Eurocopter's CH-53 GS helicopters, the Personnel Recovery System (PLS), to enable the location and rescue of ground-based personnel in emergency situations. We also invoiced additional aero-certified systems for other customers.

Outlook

Since 31 July 2009 we have announced three projects that demonstrate further extensions of SCOTTY's proven data and video communication skills for new applications. They also provide further examples of our ability to adapt our technology to provide customised solutions in a very short space of time.

First, we announced in August the signature of a Reseller Agreement with Stevens Aviation Inc of South Carolina, USA, a leading aviation systems integrator for jet and turbo-prop aircraft manufacturers in the USA. This agreement is to market and install the Company's aero-certified beyond-line-of-sight communications and surveillance systems for government and civilian customers in the USA. We have received an initial purchase order from Stevens under this agreement, with a value of US\$300,000, for engineering and installation of our video surveillance equipment on one aircraft in mid-September 2009. This is the first order received by the Company for its aero-certified systems in North America.

CHAIRMAN'S STATEMENT – CONTINUED

Second, we announced in September that we had received purchase orders worth approximately 700,000 Euros for videoconferencing equipment for the German Armed Forces. These comprise conference room installations, multipoint videoconferencing equipment for German Army mission control centres and remote telemedicine support for the German Navy.

Third, we announced on 23 October that we had received a contract worth 1.0 million Euros from Eurocopter, for key positioning and communication equipment for Eurocopter's Personnel Location System (PLS) for German Army helicopters. The system is designed to enable the exact location of military personnel in the field to be monitored remotely by specially equipped helicopters, thus enabling the personnel to be located accurately and recovered where necessary.

As we commented in our trading update in June, the potential for new projects continues to broaden, with a further increase in the portfolio of projects advancing through the planning and negotiation phases, prior to being converted into firm orders. We also stated that the timing of these projects has been difficult to predict and this remains the case. Whilst in many cases this is typical of long-term contracts in the defence and aerospace sectors, nonetheless we have observed some further delays in government decision-making processes, caused by the effects of the global recession. Whilst this is frustrating for ourselves and also for our shareholders, whom I would like to thank for their patient support, we are given comfort that these are a delay in timings rather than cancelled orders.

On a positive note and as highlighted in our first Interim Report in April, we are seeing some defence projects being given a fast track approach by their governments, often influenced by political considerations. Our swift response to customer needs, and resulting short turnaround times, means that some projects have started contributing to our turnover within weeks of approval, or even identification.

In summary, since our first half-year results in April, we have made further significant progress in broadening both our customer base and the range of applications where our systems can play an important role. SCOTTY has also further strengthened its reputation for providing a high level of responsive and effective service to its customers and on behalf of the Board I would like to thank our staff for their dedication and high standards of professionalism.

Rt Hon Lord Trefgarne PC

Chairman

26 October 2009

CONSOLIDATED INCOME STATEMENT

for the half year ended 31 July 2009

	<i>Half year ended 31 July 2009 (unaudited) £000</i>	<i>Half year ended 31 January 2009 (unaudited) £000</i>	<i>Year ended 31 July 2008 (audited) £000</i>
Revenue	2,774	2,652	6,789
Cost of sales	(1,115)	(963)	(2,185)
Gross profit	1,659	1,689	4,604
Administration expenses	(1,679)	(1,859)	(4,233)
Other operating income	265	262	569
Operating profit	245	92	940
Finance costs	(6)	(3)	(13)
Profit before tax	239	89	927
Income tax credit/(charge)	141	(23)	(326)
Profit for the period	380	66	601
Earnings per share (basic and diluted)	3 1.88p	0.33p	2.97p

The above results all derive from continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE

for the half year ended 31 July 2009

	<i>Half year ended 31 July 2009 (unaudited) £000</i>	<i>Half year ended 31 January 2009 (unaudited) £000</i>	<i>Year ended 31 July 2008 (audited) £000</i>
Currency translation differences on foreign currency investments	(108)	194	479
Profit for the period	380	66	601
Total recognised income and expense for the period	272	260	1,080

CONSOLIDATED BALANCE SHEET

at 31 July 2009

	31 July 2009 <i>(unaudited)</i> £000	31 January 2009 <i>(unaudited)</i> £000	31 July 2008 <i>(audited)</i> £000
	Note		
Non-current assets			
Goodwill	6,000	6,000	6,000
Other intangible assets	441	267	75
Property, plant and equipment	189	189	192
Investments	188	188	188
	<u>6,818</u>	<u>6,644</u>	<u>6,455</u>
Current assets			
Inventories	801	756	630
Trade and other receivables	2,453	1,194	2,053
Cash and cash equivalents	76	620	569
	<u>3,330</u>	<u>2,570</u>	<u>3,252</u>
Total assets	<u>10,148</u>	<u>9,214</u>	<u>9,707</u>
Current liabilities			
Trade and other payables	(2,385)	(1,518)	(2,305)
Current tax liabilities	(183)	(148)	(96)
Obligations under finance leases	(35)	(37)	(41)
	<u>(2,603)</u>	<u>(1,703)</u>	<u>(2,442)</u>
Net current assets	<u>727</u>	<u>867</u>	<u>810</u>
Non-current liabilities			
Deferred tax liabilities	(204)	(407)	(436)
Long term provisions	(98)	(103)	(83)
Accruals and deferred income	(4)	(12)	(9)
Obligations under finance leases	(17)	(39)	(47)
	<u>(323)</u>	<u>(561)</u>	<u>(575)</u>
Total liabilities	<u>(2,926)</u>	<u>(2,264)</u>	<u>(3,017)</u>
Net assets	<u>7,222</u>	<u>6,950</u>	<u>6,690</u>
Capital and reserves			
Called up share capital	10,106	10,106	10,106
Share premium account	37,385	37,385	37,385
Capital redemption reserve	183	183	183
Share option valuation reserve	100	100	100
Profit and loss account	(40,552)	(40,824)	(41,084)
Total shareholders' funds	4 <u>7,222</u>	<u>6,950</u>	<u>6,690</u>

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 31 July 2009

	<i>Half year ended 31 July 2009 (unaudited) £000</i>	<i>Half year ended 31 January 2009 (unaudited) £000</i>	<i>Year ended 31 July 2008 (audited) £000</i>
Net cash from operating activities	(155)	114	75
Additions to property, plant and equipment	(71)	(65)	(177)
Additions to intangible assets	(186)	(193)	(24)
Proceeds on disposal of property, plant and equipment	–	13	9
Net cash used in investing activities	(257)	(245)	(192)
Other financing cash flows (net)	(24)	(12)	79
Net cash used in financing activities	(24)	(12)	79
Net decrease in cash and cash equivalents	(436)	(143)	(38)
Cash and cash equivalents at start of period	620	569	128
Effect of foreign exchange rate changes	(108)	194	479
Cash and cash equivalents at end of period	76	620	569

	<i>Half year ended 31 July 2009 (unaudited) £000</i>	<i>Half year ended 31 January 2009 (unaudited) £000</i>	<i>Year ended 31 July 2008 (audited) £000</i>
Reconciliation of profit for the period to net cash from operating activities			
Profit for the period	380	66	601
Amortisation of intangible assets	12	1	18
Depreciation of property, plant and equipment	67	50	188
Loss on disposal of property, plant and equipment	4	5	–
IFRS 2 share-based payments charge	–	–	50
Increase in inventories	(45)	(126)	(248)
(Increase)/decrease in trade and other receivables	(1,259)	859	(714)
Increase/(decrease) in trade and other payables	686	(741)	180
Net cash from operating activities	(155)	114	75

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. CHANGE OF ACCOUNTING REFERENCE DATE

The Group's accounting reference date has been changed from 31 July to 31 December. As a result, the next audited financial statements will be for the 17 month period ending 31 December 2009. The Group has therefore published these financial statements for the half-year from 1 February 2009 to 31 July 2009 as a second Interim Report for 2009.

2. BASIS OF PREPARATION

These financial statements, which are neither audited nor reviewed, have been prepared under accounting policies consistent with International Financial Reporting Standards ("IFRS"), as set out in the Group's Annual Report for the year ended 31 July 2008. The financial information in this statement does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006.

The Directors have formed a judgement, at the time of approving the interim financial statements, that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the financial statements.

The financial statements of the overseas subsidiary companies are translated into sterling at the closing rate of exchange and the differences arising on the opening net investment and on inter-company loans, at the closing rate, are taken directly to reserves.

The comparative figures for the year ended 31 July 2008 are an abridged version of the Group's published financial statements which were prepared in accordance with IFRS, and have been filed with the Registrar of Companies. They received an unqualified audit report, did not contain reference to matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006. The comparative figures for the half-year ended 31 January 2009 are taken from the Company's first Interim Report for 2009.

3. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit after taxation for the period and the weighted average number of shares in issue during the period.

None of the share options give rise to a dilution in the loss per share due to the current level of the Company's share price. As a result, the basic and diluted earnings per share are the same.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – CONTINUED

3. EARNINGS PER SHARE – CONTINUED

The profit for the period and the weighted average number of shares used in the calculations are set out below:

	<i>Half year ended 31 July 2009 (unaudited) £000</i>	<i>Half year ended 31 January 2009 (unaudited) £000</i>	<i>Year ended 31 July 2008 (audited) £000</i>
Profit attributable to ordinary shareholders	380	66	601
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Weighted average number of shares	20,212,937	20,212,937	20,212,937
Earnings per share (pence)	1.88p	0.33p	2.97p

On 12 September 2008 the Company effected a share consolidation, in which one new ordinary share of 50p was issued for every fifty old ordinary shares of 1p held by shareholders at the close of business on 11 September 2008. The number of shares shown above has been adjusted for the 2008 figures, to reflect this consolidation.

4. COMBINED RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS AND STATEMENT OF MOVEMENTS IN RESERVES

	<i>Half year ended 31 July 2009 (unaudited)</i>					<i>Half year ended 31 January 2009 (unaudited) £000</i>	<i>Year ended 31 July 2008 (audited) £000</i>
	<i>Called up share capital £000</i>	<i>Share premium redemption account £000</i>	<i>Capital reserve £000</i>	<i>Share option valuation reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total 31 July 2009 £000</i>	
At start of period	10,106	37,385	183	100	(40,824)	6,950	5,560
Exchange (losses)/gains	-	-	-	-	(108)	(108)	479
IFRS 2 share-based payment charge for current year	-	-	-	-	-	-	50
Profit for the period	-	-	-	-	380	380	601
At end of period	10,106	37,385	183	100	(40,552)	7,222	6,690

5. DISTRIBUTION OF INTERIM REPORT

Copies of this Interim Report are being sent to shareholders. Further copies are available from the Company's United Kingdom office at Building A, Trinity Court, Wokingham Road, Bracknell, Berkshire RG42 1PL, and on the Company's website (www.scottysgroup.com).

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS	Rt Hon Lord Trefgarne PC (Chairman) Dr H P Sauerzopf (Non-executive Director) K Kerschat (Chief Executive Officer) H F Edmonds, FCA (Finance Director) F B Smart, FCA (Non-executive Director) Dr E Wustinger (Non-executive Director)
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