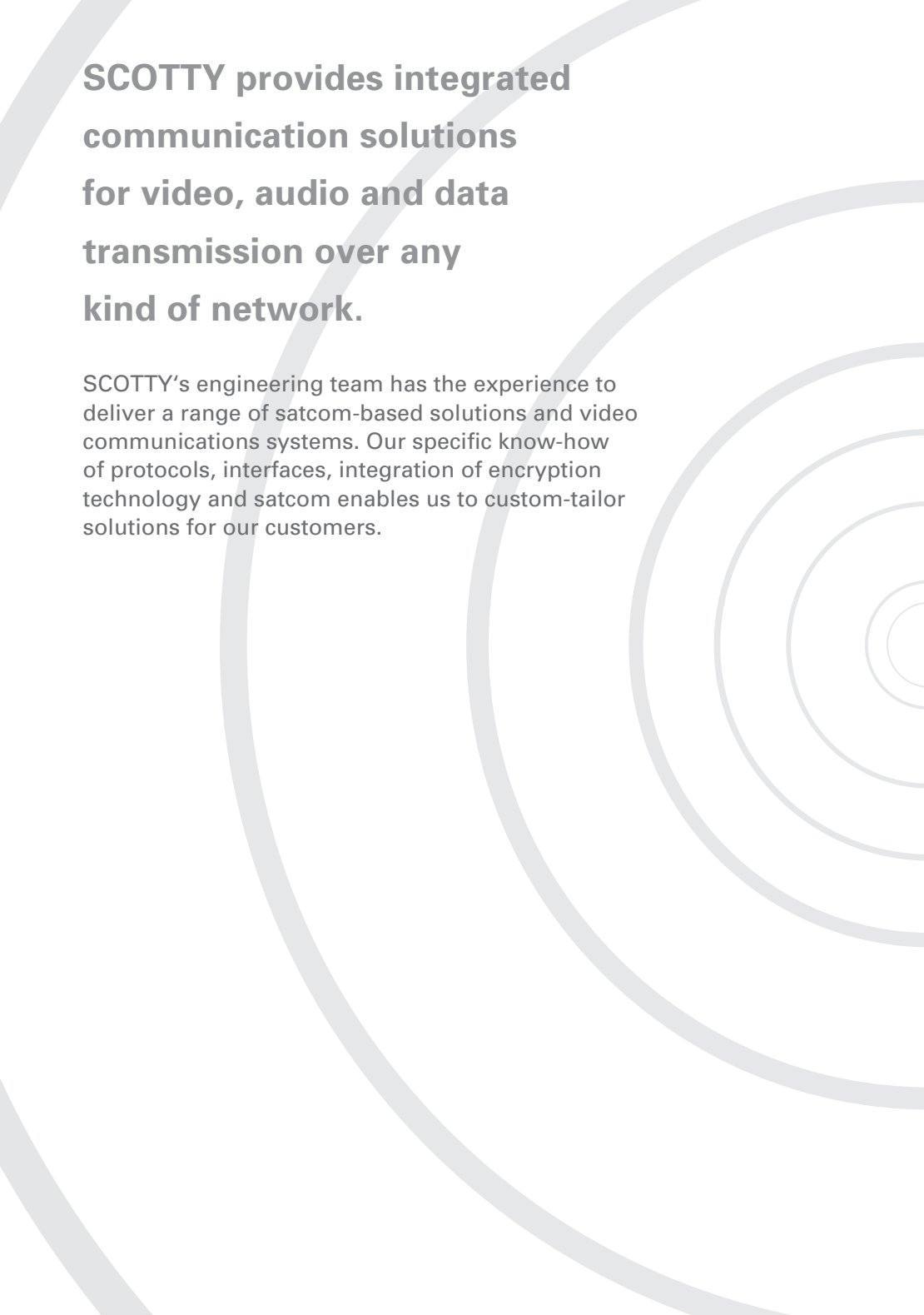




SCOTTY™

SCOTTY Group plc / Interim Report 2011

**LOOK. LISTEN.
COMMUNICATE.**

The background of the page features several concentric circles of varying radii, centered on the right side. The circles are drawn with thick, light gray lines, creating a sense of depth and movement. The largest circle is partially cut off by the left edge of the page, while smaller circles are more fully visible towards the right.

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 half-year results of SCOTTY Group plc for the six months to 30 June 2011.

Results and cash flow

For the half-year ended 30 June 2011 the Group recorded a pre-tax loss of £67,000 compared with a pre-tax loss of £568,000 in the half year to 30 June 2010.

Turnover for the half-year to 30 June 2011 was £2,114,000, compared with £1,707,000 for the corresponding period last year and gross profit in the period under review improved from £892,000 to £1,350,000 in volume terms and from 52 per cent to 64 per cent. Administration expenses for the six months to 30 June 2011 were £1,683,000 compared with £1,718,000 in the six months to 30 June 2010. Other income, mainly representing rent from the sub-lease on the Group's property in Bristol, amounted to £284,000, similar to the corresponding period last year.

The Board are not recommending payment of a dividend at this stage in the Group's development.

Cash balances at 30 June 2011 were £504,000, compared with £165,000 at 30 June 2010 and £228,000 at 31 December 2010. Bank borrowings reduced from £336,000 at 31 December 2010 to £274,000 at 30 June 2011.

On 16 June 2011 the Company increased its capital by means of a share placing of 7,500,000 shares at a placing price of 8 pence per share, taken up by my own investment company and by other members of present and past management, raising £600,000. The placing price represented a premium of 78 per cent above the mid-market closing price of 4.5 pence on 15 June 2011, which reflected our confidence in the Group's future potential.

Review of government aviation and military market

The first half-year saw revenue from the continued roll-out of aero-certified Beyond Line of Sight (BLOS) communications systems for Eurocopter under the PV contract, which lasts until 2013. The timing of orders for the contracted units for 2011 has turned out to be less evenly spread over the year than expected, with the result that the first half saw four systems delivered out of a total of fifteen systems contracted for 2011, the balance of which is expected to benefit the second half year. In addition the Company supplied three further Personnel Location System (PLS) units, developed for Eurocopter as described more fully in previous reports.

Revenue from the German Army for maintenance and upgrades of mobile communications equipment supplied in earlier years continued to provide a healthy revenue stream which plays a valuable part in smoothing the fluctuations in our month-to-month revenue.

CHAIRMAN'S STATEMENT – CONTINUED

The resurgence of interest in our aero-certified BLOS systems for the Diamond DA42 fixed-wing aircraft, reported in our Annual Report in June, continues. During the half-year we delivered the remaining Euros 1m of our contract with Diamond for an Asian government and further work for the same destination is currently under negotiation.

As part of our strategy to expand the operating platforms for SCOTTY systems, the half-year also saw successful airborne trials on the Tecnam MMA aircraft.

Corporate affairs

As previously reported, our EGM on 5 April 2011 set in place the strategy of converting SCOTTY Group plc to a European company (Societas Europaea or "SE") and transferring its domicile to Austria, with the objective of reducing the Company's cost base and increasing the Group's tax efficiency, as well as aligning the domicile more closely with the Group's centre of operations.

The first steps on this road were taken at the AGM on 28 June 2011, when shareholders approved the necessary reduction of capital, which was subsequently approved by the High Court in July. This involved reducing the nominal value of the Company's shares from 5 pence to 0.1 pence per share and cancelling the deferred shares and share premium account, thus eliminating the Company's deficit on retained earnings.

The next step is the conversion to the SE itself and shareholders will be aware that an EGM has been convened for Tuesday 27 September 2011. At this meeting the resolutions required to effect this conversion will be put to shareholders, together with additional resolutions to carry out the further capital reconstruction required to convert the share capital to Euro-denominated shares with a nominal value of Euro 1 per share. Details of these resolutions and an explanation for them are contained in the Notice of Meeting sent to shareholders on 2 September 2011.

Outlook

We are making sound progress in consolidating our market position as a supplier of specialist integrated communication systems for video, audio and data transmission and expanding our revenue streams in aero, land and maritime applications. Since the half-year-end, our trading has started to see the predicted acceleration in the rate of delivery of PV systems for Eurocopter contracted for 2011. Also, negotiations are at an advanced stage for the supply of additional aero-certified systems for several Diamond customers and for other government organisations, though as always it is difficult to be precise as to what proportion of this revenue will benefit the fourth quarter of 2011.

Turning to SCOTTY mobile land-based systems, our maintenance revenue stream for the German Army continues. We also recently announced a contract with a European government worth Euros 1.4 million for the supply of three vehicular

CHAIRMAN'S STATEMENT – CONTINUED

video-satcom workstations for army reconnaissance, the first time our systems have been incorporated in military road vehicles. The system uses SCOTTY's latest integrated video and satellite communications technology, together with new antenna and modem technology from its partner Cobham SATCOM. One system is due for delivery this financial year and the remainder in 2012.

Our drive to reduce ongoing overheads continues. In recent months the size of the Board has reduced from six to four directors, office and staff costs have been reduced at our US office in Atlanta and our UK office in Bracknell closed at the end of July, with our UK-based directors now working from home.

As reported above, the strategy of converting the Group's holding company to an SE and then moving the corporate seat to Austria is on course, which should see a further reduction in overheads next year. In the meantime, the one-off costs of this conversion will inevitably impact this year's profitability.

We reported in June that the sub-tenants of our leasehold property in Bristol had given notice of their intention to terminate their sub-lease in March 2012. Negotiations are in progress with the sub-tenants and also the freeholders of the property, with a view to achieving a mutually satisfactory outcome.

Finally, a significant part of the Board's ongoing strategy is to achieve additional growth through synergistic acquisitions and other strategic relationships. The Board is now actively pursuing suitable opportunities in this context and is considering a further fundraising in due course to finance this strategy.

I would like to thank our shareholders and professional advisers for the support I have experienced since becoming your Chairman in April. There is still much work to do, but I believe we are already making sound progress towards achieving our goals and I would also like to thank our staff for the significant part they are playing in helping to make this happen.

Dr Ernst Wustinger
Chairman

27 September 2011

CONSOLIDATED INCOME STATEMENT

for the half year ended 30 June 2011

	<i>Half year ended 30 June 2011 (unaudited) £000</i>	<i>Half year ended 30 June 2010 (unaudited) £000</i>	<i>Year ended 31 December 2010 (audited) £000</i>
<i>Note</i>			
Revenue	2,114	1,707	4,921
Cost of sales	(764)	(815)	(2,219)
Gross profit	1,350	892	2,702
Administration expenses	(1,683)	(1,718)	(3,092)
Other operating income	284	266	556
Operating (loss)/profit	(49)	(560)	166
Other gains and losses	–	–	(2,561)
Finance costs	(18)	(8)	(19)
Loss before tax	(67)	(568)	(2,414)
Income tax (charge)/credit	(110)	15	113
Loss for the period	(177)	(553)	(2,301)
Loss per share (basic and diluted)	2 (0.85p)	(2.74p)	(11.38p)

The above results all derive from continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED INCOME AND EXPENSE

for the half year ended 30 June 2011

	<i>Half year ended 30 June 2011 (unaudited) £000</i>	<i>Half year ended 30 June 2010 (unaudited) £000</i>	<i>Year ended 31 December 2010 (audited) £000</i>
Currency translation differences on foreign currency investments	(113)	(222)	240
Loss for the period	(177)	(553)	(2,301)
Total recognised income and expense for the period	(290)	(775)	(2,061)

CONSOLIDATED BALANCE SHEET

at 30 June 2011

	30 June 2011 (unaudited) £000	30 June 2010 (unaudited) £000	31 December 2010 (audited) £000
<i>Note</i>			
Non-current assets			
Goodwill	3,500	6,000	3,500
Other intangible assets	1,576	1,164	1,299
Property, plant and equipment	177	197	159
Investments	188	188	188
	5,441	7,549	5,146
Current assets			
Inventories	767	723	701
Trade and other receivables	994	1,046	2,139
Cash and cash equivalents	504	165	228
	2,265	1,934	3,068
Total assets	7,706	9,483	8,214
Current liabilities			
Trade and other payables	(1,630)	(2,037)	(2,059)
Current tax liabilities	(8)	(3)	(483)
Obligations under finance leases	(30)	(31)	(24)
Borrowings	(274)	(250)	(336)
	(1,942)	(2,321)	(2,902)
Net current assets	323	(387)	166
Non-current liabilities			
Deferred tax liabilities	(128)	(142)	(15)
Long term provisions	(105)	(104)	(92)
Obligations under finance leases	(25)	(17)	(9)
	(258)	(263)	(116)
Total liabilities	(2,200)	(2,584)	(3,018)
Net assets	5,506	6,899	5,196
Capital and reserves			
Called up share capital	10,481	10,106	10,106
Share premium account	37,610	37,385	37,385
Capital redemption reserve	183	183	183
Share option valuation reserve	100	100	100
Profit and loss account	(42,868)	(40,875)	(42,578)
Total shareholders' funds	5,506	6,899	5,196

CONSOLIDATED CASH FLOW STATEMENT

for the half year ended 30 June 2011

	<i>Half year ended 30 June 2011 (unaudited) £000</i>	<i>Half year ended 30 June 2010 (unaudited) £000</i>	<i>Year ended 31 December 2010 (audited) £000</i>
Net cash from operating activities	(153)	158	106
Purchase of property, plant and equipment	(80)	(7)	(8)
Proceeds on disposal of property, plant and equipment	–	–	86
Net cash used in investing activities	(80)	(7)	78
Share placing	600	–	–
Other financing cash flows (net)	22	(31)	(46)
Net cash used in financing activities	622	(31)	(46)
Net increase in cash and cash equivalents	389	120	138
Cash and cash equivalents at start of period	228	267	267
Effect of foreign exchange rate changes	(113)	(222)	(177)
Cash and cash equivalents at end of period	504	165	228
	<i>Half year ended 30 June 2011 (unaudited) £000</i>	<i>Half year ended 30 June 2010 (unaudited) £000</i>	<i>Year ended 31 December 2010 (audited) £000</i>
Reconciliation of loss for the period to net cash from operating activities			
Loss for the period	(177)	(553)	(2,301)
Additions to intangible assets	(382)	(282)	(661)
Goodwill impairment charge	–	–	2,500
Amortisation of intangible assets	105	119	273
Depreciation of property, plant and equipment	62	61	98
Loss on disposal of property, plant and equipment	–	–	6
(Increase)/decrease in inventories	(66)	(13)	9
Decrease/(increase) in trade and other receivables	1,145	348	(745)
(Decrease)/increase in trade and other payables	(778)	509	872
(Decrease)/increase in borrowings	(62)	(31)	55
Net cash from operating activities	(153)	158	106

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the half year ended 30 June 2011

	<i>Half year ended 30 June 2011 (unaudited)</i>						<i>Half year</i>	<i>Year</i>
	<i>Called up share capital £000</i>	<i>Share premium account £000</i>	<i>Capital redemption reserve £000</i>	<i>Share option valuation reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total 30 June 2011 £000</i>	<i>ended 30 June 2010 £000 (unaudited)</i>	<i>ended 31 December 2010 £000 (audited)</i>
At start of period	10,106	37,385	183	100	(42,578)	5,196	7,674	7,674
Share placing in period	375	225	–	–	–	600	–	–
Exchange losses	–	–	–	–	(113)	(113)	(222)	(177)
Loss for the period	–	–	–	–	(177)	(177)	(553)	(2,301)
At end of period	<u>10,481</u>	<u>37,610</u>	<u>183</u>	<u>100</u>	<u>(42,868)</u>	<u>5,506</u>	<u>6,899</u>	<u>5,196</u>

On 16 June 2011 the Company's share capital increased as a result of a placing of 7,500,000 ordinary shares of 5 pence each at a placing price of 8 pence per share.

Since the period-end the High Court has approved a reduction of capital, as a result of which the nominal value of each ordinary share has been reduced from 5 pence to 0.1 pence, and the deferred shares and share premium account have been cancelled. The reduction has been applied to eliminating the Company's negative retained earnings.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. 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 December 2010.

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 December 2010 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 30 June 2010 are taken from the Company's Interim Report for 2010.

NOTES TO THE INTERIM FINANCIAL STATEMENTS – CONTINUED

2. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit or loss after taxation for the period and the weighted average number of shares in issue during the period. Following a share placing of 7,500,000 shares, the Company's issued share capital increased from 20,212,937 shares to 27,712,937 shares on 16 June 2011, resulting in a weighted average of 20,834,484 shares for the half year ended 30 June 2011. 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.

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

	Half year ended 30 June 2011 (unaudited) £000	<i>Half year ended 30 June 2010 (unaudited) £000</i>	<i>Year ended 31 December 2010 (audited) £000</i>
Loss attributable to ordinary shareholders	(177)	(553)	(2,301)
	Number	<i>Number</i>	<i>Number</i>
Weighted average number of shares (see note above)	20,834,484	20,212,937	20,212,937
Loss per share (pence)	(0.85p)	(2.74p)	(11.38p)

3. DISTRIBUTION OF INTERIM REPORT

Copies of this Interim Report are being sent to shareholders. Further copies are available from SCOTTY Group plc, PO Box 189, Cranbrook, TN17 9DW, United Kingdom.

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K Kerschhat (Chief Executive Officer)
H F Edmonds, FCA (Finance Director)
F B Smart, FCA (Non-executive Director)

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H F Edmonds, FCA

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