

SCOTTY Group SE

Robert Graf Platz 1
7000 Eisenstadt, Austria

Business Report Year 2015 and Trading Update

1. Course of business and financial status report

1.1. Course of Business

This report concentrates on the results of SCOTTY Group Austria GmbH because during the year under review, only they performed business activities. For this reason, the figures in the management report of SCOTTY Group SE have to some extent been expanded by those of SCOTTY Group Austria GmbH.

Operationally, SCOTTY Group SE carries out the financial controlling, the accounting, and the allocation of the internal IT infrastructure.

Regarding the subsidiary SCOTTY Group Austria GmbH, activities include the following:

SCOTTY Group Austria GmbH is active in the area of development and production of satellite based telecommunication and video communication systems.

Sales planning in 2015 predicted a total turnover of 5,083,000 Euros which ultimately was almost achieved with 5,028,966.74 Euros. Total turnover comprised of 4,914,533.86 Euros generated by SCOTTY Group Austria GmbH and 114,432.88 Euros by SCOTTY Group SE.

The breakdown of the total 2015 turnover into strategic business segments is:

Aero Projects	59.9 %
Maritime Projects	11.5 %
Land / Mobile Projects	28.6 %

The 2015 turnover picture was shaped by the fact that the German Armed Forces ordered very late in the year, resulting in approximately 50% of the total turnover appearing in the last quarter.

2. Financial Performance Indicators

2.1. Financial Results and Profitability SCOTTY Group SE:

	2014 in TEUR	2015 in TEUR	Change to 2014 in %
Annual net income	-143	1.185	+ 928,7 %
Personnel expenses	336	344	+ 2,4 %
Other expenses	147	268	+ 82,3 %

For this annual statement, a new company valuation certification was commissioned to appraise the shares of SCOTTY Group Austria GmbH. This appraisal report provides for 3,936.000 Euros (formerly 2,500,000 Euros) as the current value of the shares of this subsidiary. Consequently, revenues of 1,432 thousand Euros resulting from the appreciation of financial assets have been included in the 2015 annual report.

On the 29th of September, as a result of a governing board's decision, SCOTTY Group SE's share of SCOTTY Group Europe Ltd. was sold. In this Share Purchase Agreement the vendor (SCOTTY Group SE) renounced collecting shareholder loans and all liabilities occurring before, and on, the September 30 deadline. The waiver of SCOTTY Group Austria GmbH's debts by SCOTTY Group SE is reflected in the 2015 Annual Report with a write-off of liabilities of 84 thousand Euros and explains the majority of the increased other expenses.

2.2. Operating Results and Earnings of SCOTTY Group Austria GmbH:

	2014 in TEUR	2015 in TEUR	Change to 2014 in %
Annual net income	- 118	443	+ 475,4 %
Personnel expenses	1.423	1.504	+ 5,7 %
Other expenses	1.166	1.209	+ 3,7 %

The annual net profit amounts to 443 thousand Euros. This is mostly explained by distinctly increased turnover, namely from 3,545 thousand Euros in the year 2014 to 4,915 thousand Euros in the year 2015 – an increase of 38.65%.

Compared to the previous year, personnel costs rose 5.7% and other expenses 3.7%.

2.3. Financial Status:

SCOTTY Group SE:

The level of liquid funds has not changed from the previous year.

The 300,000 GDP loan taken from the Steirischer Technologie- und Wachstumsfonds Beteiligungen GmbH had already been covered in 2014 by a long term (10 year) 350 thousand Euros loan facility at the firm's local bank. By the 31st of December, 2015 this debt amounted to 315 thousand Euros.

SCOTTY Group Austria Gesellschaft m.b.H.:

The change in the level of liquid funds compared to the previous year amounts to +329 thousand Euros.

Because of the late orders and the delay of approximately 50% of the year's turnover to the last quarter of 2015, the overall financial situation of 2015, especially in the 3rd and 4th quarters, was considerably tight.

In order to ensure financing, the firm's local bank granted an overdraft limit of 300 thousand Euros collateralized by a letter of guarantee from the SCOTTY Group SE.

2.4. Financial standing:

SCOTTY Group SE:

	2014 in TEUR	2015 in TEUR	Veränderung zu 2014 in %
Equity	1.025	2.212	+ 115,8 %
Untaxed reserves	3	1	- 66,7%
Debt	1.496	1.877	+ 25,5 %
Total capital employed	2.524	4.090	+ 62,0 %

The increase in equity is a result of the net profit in the amount of 1,187 thousand Euros.

The increase in debt compared to 2014 stems largely from an increase in intercompany payables to SCOTTY Group Austria GmbH in the amount of 409 thousand Euros.

SCOTTY Group Austria GmbH:

	2014 in TEUR	2015 in TEUR	Veränderung zu 2014 in %
Equity	1.035	1.479	+ 42,9 %
Untaxed reserves	11	10	- 9,09 %
Debt	2.216	2.076	- 6,3 %
Total capital employed	3.262	3.566	+ 9,3 %

The increase in equity comes from a net profit of 445 thousand Euros.

The reduction in debt was mainly due to the fact that the company did not overdraft their account and thus reducing liabilities to banks.

The financial status up to December 31, 2015 was as follows:

SCOTTY Group SE:

Equity:	TEUR 2.212	(VJ: TEUR 1.025)
Equity ratio:	54,1 %	(VJ: 40,6 %)
Debt to equity ratio:	84,9 %	(VJ: 146,0 %)

SCOTTY Group Austria Gesellschaft m.b.H.:

Equity:	TEUR 1.479	(VJ: TEUR 1.035)
Equity ratio:	41,8 %	(VJ: 31,7 %)
Debt to equity ratio:	140,4 %	(VJ: 214,1 %)

3. Significant events of the fiscal year:

- **Sale of SCOTTY Group Europe Ltd.**

On the 29th of September, as a result of the governing board's decision, SCOTTY Group SE's stake in SCOTTY Group Europe Ltd. was sold. In this Share Purchase Agreement, the vendor (SCOTTY Group SE) renounced collecting shareholder loans and all liabilities having occurred on, and before the September 30 deadline. The waiver of SCOTTY Group Austria GmbH's debts by SCOTTY Group SE is reflected in the 2015 Annual Report with a write-off of receivables of 84 thousand Euros and explains the majority of the increased miscellaneous expenses.

- **Amendments of the statutes**

At the extraordinary general meeting of November 3, 2015, the Statutes were changed. In particular, the following points were altered: paragraph 3 (publications), paragraph 4 (share capital, shares), paragraph 5 (share certificates, information disclosure), paragraph 6 to 19 and paragraph 21 (constitution and organization of the firm), paragraph 24 (financial statements), and paragraph 25 (dividends).

- **Changes in the company structure**

As a result of the amendments to the Statutes, a one-tier system with a governing board was converted to a dual system. This was especially desirable because while the two-tier system can be based on established legal practice as well as in legislation with the relevant Supreme Court case rulings, the one-tier system has remained the exception in

continental European civil law and has not acquired any practical relevance in the Austrian legal system and jurisprudence.

During the extraordinary general meeting, Mr. DI Kurt Kerschhat and Mr. Manfred Scharsinger-Traubmann MA were confirmed as directors of SCOTTY Group SE.

The following were appointed as supervisory board members:

Dr. Hanspeter Sauerzopf

Chairman

Dr. Thomas Jordan

Supervisory Board Deputy Chairman

Mag. Michael Bieber

Board member

Mag. Herwig Pirzl

Board member

Hugh Edmonds

Board member until March 31, 2016

4. Events of particular importance after the end of the fiscal year

SCOTTY Group SE:

- **Transfer of Marketing and Sales to the SCOTTY Group SE**

At the Supervisory Board meeting of 27 January 2016, while approving the 2016 budget, it was decided that Marketing and Sales of SCOTTY Group Austria GmbH would be transferred to SCOTTY Group SE. Consequently, effective as of March 1, 2016, all Marketing and Sales employees were moved to SCOTTY Group SE. These services are billed to SCOTTY Group Austria GmbH at standard market values of management fees and trademark royalties.

SCOTTY Group Austria Gesellschaft mbH.:

- **Aeronautical maintenance operations**

Since March 30, 2016, SCOTTY Group Austria GmbH holds a certification to perform military airborne equipment maintenance as audited and awarded by the Aviation Office of the Bundeswehr. A further aeronautical manufacturing and design certification is being sought for September 2016.

- **Valuation appraisal**

As part of preparing the financial statements of 2015, the company Austin, BFP was commissioned to write a company valuation certificate for SCOTTY Group Austria GmbH. As a basis for this assessment, a detailed business plan for the years 2016-2018 was created and reviewed for credibility. In order to determine the value of the company the figures starting from 2018 were used in "perpetuity".

The appraisal certificate provides for an updated value of the SCOTTY Group Austria GmbH at 3,936.000 Euros (previously 2,500,000 Euros). Income from the re-valuation of financial assets in the amount of 1,432 thousand Euros are thus included in the net results of 2015.

5. Research and development:

In the 2015 financial year 8 developers and 3 customization-employees were engaged in the different fields of research and development within the SCOTTY Group.

The development of the latest generation of products for HD video transmission is almost complete and in total, more than 1.5 million Euros have been invested. There is therefore no longer a development risk with only the implementation of the SCOTTY Mobile and Pro Desk yet to be finalized. Furthermore, the next major development step is not expected before 2019.

- Development of the HD580 video codec as a foundation of the new SCOTTY platforms has been completed (FFG funding project I).
- SCP (SCOTTY Communication Platform) has been developed for the aviation industry and fully qualified.
- Bluebox (maritime market) has been completed.
- Development of the new Promin is finished.
- Development of the new ProDesk will be completed in the second quarter of 2016.
- Development of a new SCOTTY Mobile will be completed in the second quarter of 2016.

- Development of a modem for a Thuraya satellite aeronautical system in cooperation with the partner Cobham Satcom (Omnipluss Ltd, South Africa) is underway.

6. Expected evolution of the company:

SCOTTY Group SE:

The 2016 budget provides for an increase in personnel costs to strengthen strategic marketing and sales. External consultancy costs will be further reduced. Due to the establishment of the de-minimis limit, no SCOTTY Group company is expected to obtain any de-minimis-rule assistance in the years 2015 and 2016.

SCOTTY Group Austria Gesellschaft m.b.H.:

Compared to 2015, the 2016 forecast foresees a significant increase in sales to 6.4 million Euros. This forecast is based on existing contracts and those under negotiation with a probability of more than 70% success. Based on the individual projects planned for 2016, the proportionate cost of material 36.6% (2015) will rise to 43.2% in the year 2016.

Although the development of the SCP is now complete, higher development costs attributed mainly to the development of the Thuraya satellite aeronautical systems will incur in 2016.

Regarding personnel costs, planned strengthening of operations (production, documentation) will increase costs.

7. Risk analysis:

SCOTTY Group Austria Gesellschaft m.b.H.:

Management has defined and assessed the risks of the company through a general risk analysis. Through existing controls and processes, the early identification of potential risks and the planning and mobilization of appropriate measures to prevent or limit the adverse effects of risk are ensured.

In accordance to the provisions of the aviation quality management system EN-9100/2009, an appropriate risk analysis process was implemented in the company.

7.1 Market risk and clientele:

- SCOTTY's current clientele is very disproportionately comprised of government customers. This leads to a certain creditworthiness advantage, but can also create significant challenges in planning and distribution throughout the year. For example, in 2015, 50% of SCOTTY's sales were in the last quarter.
- In 2015 and 2016, 70% of turnover resulted from sales with the German Government (especially the Bundeswehr) – this is of course an excellent reference but suggests a high dependency on one customer.
- The predicted amount of aero equipment sales to the German Air Force in the years 2016 to 2018 is not sustainable and must be compensated by other orders.
- **Increased focus on the non-government sector - Aero**

SCOTTY has the opportunity to develop, and to consequently supply on an exclusive basis, a complete Satcom system ("Thuraya Aeronautical System") for the satellite communications provider Thuraya for non-government use such as VIP business jets. This opportunity would create a second pillar in SCOTTY's aero offering. This non-government activity would comprise of SCOTTY supplying the entire system with its own modem and an antenna with amplifier manufactured by the company Cobham (South Africa). The timing and size of this new business would compensate for the lack of high aero equipment turnover with Germany expected after 2018.
- **Increased focus on the non-government sector - Maritime**

The demand for satellite-supported communications in shipping is constantly increasing not only because of the growing number of freight containers and tankers, but also due to the new attractive offering and opportunities provided by the Thuraya satellite maritime system whose aim is to significantly reduce operating costs and make applications affordable to ship owners and others in the maritime business:

 - Crew Welfare (enabling the crew to chat online, etc. during long voyages)
 - Remote Office (communication and data exchange with the shipping company, customers, government authorities, and others.)
 - Telemedicine (HD video and vital signs connectivity from the ship to medical specialists)
 - Remote maintenance (virtual on-board presence of land-based experts to solve problems)
 - Surveillance (fulfilling the requirements of the international maritime authorities to protect against internal and external piracy)

7.2 Currency exchange risk:

SCOTTY Group SE:

Because the majority of operations is carried out in Euros, the risk of losses from exchange rate volatility is estimated to be low. Because the British Pound loan was replaced by a Euro loan from the firm's local bank, the exchange rate risk affecting interest payments has been eliminated. By selling the subsidiary SCOTTY Group Europe Ltd. (UK), only the intercompany accounts with SCOTTY Satcom Technologies Inc. (USA) are subject to price fluctuations.

SCOTTY Group Austria Gesellschaft m.b.H.:

The majority of the operations is carried out in Euros. For this reason, the risk of losses from exchange rate volatility is low. Due to the short time between order and delivery, price risks associated with sales contracts in foreign currencies can be calculated and hedged.

7.3 Cashflow risk:

SCOTTY Group SE:

Predictability has been increased by securing the British pound loan in 2014 with a ten-year loan at the firm's local bank in Euros with a reasonable, fixed long-term repayment agreement.

SCOTTY Group Austria Gesellschaft m.b.H.:

To limit liquidity risk, cash flow is planned in detail at regular intervals and strategy is continuously evaluated against the actual situation. This process is done at least once a week. Through strict receivables management, the risk of bad debts is minimized. To ensure the ability to finance, an overdraft limit in the amount of 300 thousand Euros was approved by the firm's local bank, secured by a letter of guarantee from SCOTTY Group SE.

A positive net profit and a positive cash surplus are forecasted in the 2016 budget. This is based on both existing contracts and contracts in negotiation with a 70% or higher probability of success. As an accompanying measure, an effective cost management system is supporting improved liquidity. Assuming that the 2016 budget is realized, all liabilities will be effectively serviced.

Eisenstadt, Austria May 23, 2016