# Cohort plc

Annual Report and Accounts 2017

Innovative technologies for defence markets

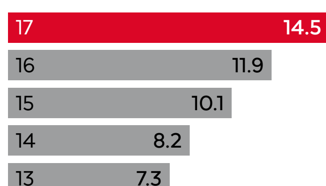
**Cohort** is the parent company of four innovative, agile and responsive businesses providing a wide range of services and products for British, Portuguese and international customers in defence and related markets.

## Financial highlights

### Adjusted operating profit (£m)[1]

£14.5m

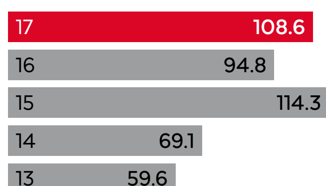
+21.8%




### Order intake (£m)

£108.6m

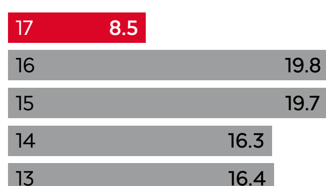
+14.5%




### Net funds (£m)

£8.5m

-57%




1 Excludes exceptional items, amortisation of other intangible assets and non-trading exchange differences, including marking forward exchange contracts to market.

## Operational highlights

- Performance benefited from the expanded portfolio of the Group
  - Strong initial contribution from EID and growth at MCL
  - Steady performance, but no growth, at MASS and SEA
  - Poor performance at SCS prior to its successful reorganisation at half year
- Strong order intake for the year of £108.6m (2016: £94.8m)
- Adjusted earnings per share increased 3%
- Dividend progression maintained at 18% for the year
- Remainder of MCL acquired, taking holding to 100% from 31 January 2017
- Net funds, as expected, lower than last year

Visit our website at **cohortplc.com** for up-to-the-minute news, announcements and investor information.

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Innovation in action

# Detecting threats with KraitArray™

SEA has made use of its knowledge and experience of larger diameter arrays to develop this highly adaptable product that provides impressive performance with reduced power consumption, weight, drag and cost when compared with traditional line and towed arrays. These benefits mean that KraitArray™ can be adapted and used for many platforms and applications.


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Read more about KraitArray™ and other SEA products from page 12

# Our mission:

To build and operate a group of companies applying advanced technology in defence, security and related markets and combining the innovation and responsiveness of smaller, independent businesses with the stability, shared knowledge, wider market access and lower funding costs of a listed group to provide enduring benefits to customers, employees and shareholders.

## Our businesses

We operate with a strong emphasis on technology, innovation and specialist expertise through our group of small to medium-sized businesses:

eid.pt

Revenue (£m)

£16.0m

for ten months

EID is a Portuguese high tech company with deep know-how and vast experience in the fields of electronics, tactical and naval communications, command and control.

The company focuses on the design, manufacture and supply of advanced, high performance equipment and systems, mainly for the worldwide defence community. EID is active globally, with customers in Europe, Africa, the Middle East, Asia Pacific and South America.

EID was founded in 1983 and is led by its Managing Director, António Marcos Lopes.

### Business areas

- Tactical Communications
- Naval Communications

mass.co.uk

Revenue (£m)

£32.5m

+1%

MASS is an electronic warfare operational support, cyber security, secure ICT networks and support to operations business serving customers primarily in defence and security markets.

MASS delivers tailored, integrated solutions that are critical to customers' ability to deliver effective operations. An intrinsic expertise in system engineering and project management enables MASS to deliver through-life capability in the form of high technology solutions, training and trusted managed services, underpinned by a contract research and development capability. MASS also utilises these capabilities to serve the government, business and education markets.

MASS was founded in 1983 and is led by its interim Managing Director, Chris Stanley.

### Business areas

- Electronic warfare operational support
- Secure networks
- Cyber security
- Digital forensics
- Training exercise management

marlboroughcomms.com

Revenue (£m)

£14.8m

+8%

MCL is a supplier of advanced electronic communications, information systems and signals intelligence technology to the defence and security sectors.

Working with partners, prime contractors and directly with the customer, MCL utilises an international network of specialist technology providers, combined with its own bespoke design, engineering and integration skills, to supply and support a diverse portfolio of C4IS and ISTAR capabilities.

MCL was founded in 1980 and is led by its Managing Director, Darren Allery.

### Business areas

- Electronic and communications signals intelligence
- Communication and information systems
- Tactical hearing protection
- Unmanned air systems and counter-UAS

sea.co.uk

Revenue (£m)

£44.4m

-9%

SEA is a major supplier of applied research, technology development, systems integration, specialist electronic systems, engineering and software design services to the defence and security markets.

Its engineering and project management skills include naval communications systems, maritime combat systems, through-life support, dismounted soldier systems, subsea engineering and traffic enforcement. Complementing its work for the UK Ministry of Defence, SEA is growing its business overseas and extending its expertise into adjacent markets, including offshore, railways and roads.

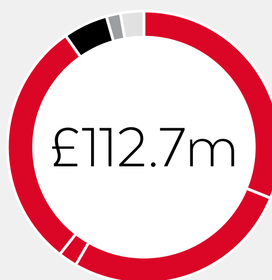
SEA was founded in 1988 and is led by its Managing Director, Steve Hill.

### Business areas

- Maritime combat systems
- Simulation and training
- Dismounted soldier systems
- Subsea engineering
- Traffic enforcement systems

Read more about our recent operational activities, strategy and business review from page 12

## Total revenue by market (£m)



| | |
|---|---|
| **Defence & Security** | **£101.9m** |
| Direct to UK MOD | £35.1m |
| Indirect to UK MOD[1] | £30.8m |
| Portuguese MOD | £2.4m |
| Export and other | £33.6m |
| **Transport** | **£5.9m** |
| **Offshore energy** | **£2.0m** |
| **Other commercial** | **£2.9m** |

1 Where the Group acts as a subcontractor or partner.

## Total revenue by capability (£m)

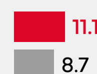
2017 | 2016

### Defence products and systems
EID MASS MCL SEA

The design, supply and support of such equipment, systems and its associated embedded software, as well as the integration of commercial 'off the shelf' equipment for specialist applications.

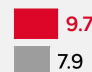
### Application software
EID MASS MCL SEA

The design and supply of specialist software systems such as MASS's work on Project SHEPHERD and SEA's work for its transport and defence customers.




### Secure networks
EID MASS MCL SEA

The provision of advice and system implementation to protect against cyber attack and other threats.

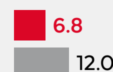



### Operational support
EID MASS MCL SEA

The provision of direct support to active operations which takes place at MASS through its Electronic Warfare Operational Support activities, and at SEA in defence and offshore energy.

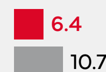
### Specialist expertise
EID MASS MCL SEA

The provision of expert individuals as part of a customer's team.



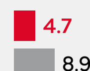

### Training
EID MASS MCL SEA

This includes formal, on-the-job and scenario-based training services. An example is MASS's provision of exercise-based training for the UK's Joint Forces Command.



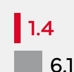

### Studies and analysis
EID MASS MCL SEA

Other self-contained studies, consultancy and analytical work such as SEA's work on the Protector UAV.




### Applied research
EID MASS MCL SEA

The management and execution of scientific investigation work aimed at specific objectives.



# Sustained strong business performance

## Highlights

- EID made a strong initial contribution for its first ten months in the Cohort Group
- Cohort achieved a record adjusted operating profit of £14.5m in 2017 (2016: £11.9m)
- MCL had a much stronger year on the back of delivery of Tactical Hearing Protection Systems for the British Army and good support activity
- The Board is recommending a final dividend of 4.9 pence per ordinary share (2016: 4.1 pence)

The Cohort businesses have strong and relevant capabilities, established positions on some key long-term UK MOD programmes, and a good pipeline of new opportunities.

As always, my thanks go to all staff within the businesses. Their hard work, skill and ability to deliver what the customer needs are what continues to drive the performance of our Group.

Cohort achieved a record adjusted operating profit of £14.5m in 2017 (2016: £11.9m). This result was driven primarily by a strong maiden contribution from EID and improved performance at MCL.

In the course of the year, we acquired a controlling stake in EID, took our ownership of MCL to 100% and restructured SCS by transferring its operating divisions to MASS and SEA. This was made necessary by a steep decline in demand from the UK MOD for some of SCS's services. The tighter UK market conditions also affected MASS and SEA, both of which saw a slight reduction in profit compared to 2015/16.

Order intake in the year was strong, particularly in the second half. The improved closing order book position taken together with orders received since the year end and a good pipeline of further prospects at all four businesses provide a solid base for 2017/18 and beyond.

### Key financials

In the year ended 30 April 2017, Cohort achieved revenue of £112.7m (2016: £112.6m), including £32.5m (2016: £32.0m) from MASS Consultants Limited (MASS), £44.4m (2016: £48.8m) from SEA (Group) Limited (SEA), £14.8m from Marlborough Communications Limited (MCL) (2016: £13.7m) and an initial contribution from EID of £16.0m for ten months. SCS's closing revenue was significantly down on last year's, reflecting the weaker trading performance which catalysed the decision to transfer its operating divisions to MASS and SEA with effect from 1 November 2016.

The Group's adjusted operating profit was £14.5m (2016: £11.9m). This included contributions from MASS of £5.9m (2016: £6.0m), SEA of £5.3m (2016: £5.4m), MCL of £2.1m (2016: £1.4m) and an initial contribution from EID of £4.2m for ten months. SCS reported a loss of just under £0.5m for the year on revenue of £5.0m (2016: £1.2m profit on revenue of £18.1m), following the effective termination of its trading at the half year point.

The MASS and SEA adjusted operating profits for the year included a contribution from the former SCS divisions of £0.5m and £0.3m respectively. This £0.8m of SCS-derived operating profit on £4.1m of revenue in the second half represented a marked improvement on the first half, much of it due to the restructuring programme. This has realised an annual saving of £1.6m from a total one-off restructuring cost of £2.6m, the latter including £1.0m in respect of an onerous lease on SCS's former operating site in Theale.

Cohort Group overheads were £2.5m (2016: £2.1m).

MASS, which remains the Group's largest contributor to profit, recorded a small reduction in profit on a slight increase in revenue. This result came from a combination of improved second half gross margin and the second half contribution of the SCS divisions, offset by increased overheads, including some one-off costs. SEA also fell slightly short of its 2016 performance, after taking account of the contribution from former SCS activities.

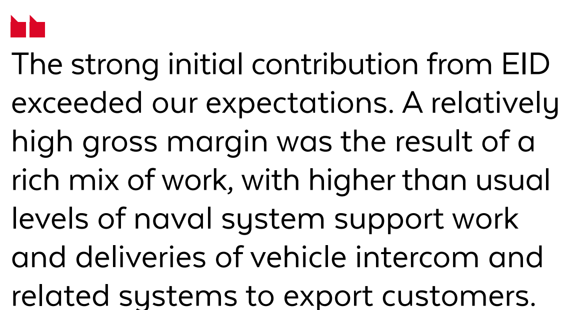
MCL had a much stronger year on the back of delivery of Tactical Hearing Protection Systems for the British Army and good support activity. The hearing protection work will continue in the coming year and the order book in this area has been enhanced by further orders for hearing protection systems for other UK military users.

The strong initial contribution from EID exceeded our expectations. A relatively high gross margin was the result of a rich mix of work, with higher than usual levels of naval system support work and deliveries of vehicle intercom and related systems to export customers. The fall in sterling against the euro following the Brexit referendum last June has further enhanced the value of EID's contribution.

The Group operating profit of £1.0m (2016: £5.2m) is stated after recognising amortisation of intangible assets of £11.3m (2016: £6.4m) and exceptional items of £2.7m. This latter figure includes the cost of the reorganisation of SCS (£2.6m), and acquisition costs associated with EID and completing the purchase of 100% of MCL (£0.1m combined). Net foreign exchange gains of £0.4m (2016: £0.5m) were also recognised. Profit before tax was £1.0m (2016: £5.3m) and profit after tax was £2.1m (2016: £5.4m).

Adjusted earnings per share (EPS) were 27.93 pence (2016: 27.18 pence). The adjusted EPS were based upon profit after tax, excluding amortisation of other intangible assets, net foreign exchange gains and exceptional items. Basic EPS were 9.09 pence (2016: 19.14 pence). The adjusted EPS included the benefit of releasing some tax contingency in respect of prior years, those tax years having been closed out. A similar tax impact was seen last year. When comparing the adjusted EPS with the one-off tax effects removed, the figure is 26.63 pence against 24.98 pence in 2016, an increase of 7%.

Order intake for the year at £108.6m (2016: £94.8m) was, as expected, higher than last year and combined with the acquired order book of EID, £23.1m, accounts for the higher closing order book of £136.5m. The net funds at the year end were, as expected, significantly down on 2016 at £8.5m (2016: £19.8m).




### Dividends

The Board is recommending a final dividend of 4.9 pence per ordinary share (2016: 4.1 pence), making a total dividend of 7.1 pence per ordinary share (2016: 6.0 pence) for the year, an 18% increase. This will be payable on 13 September 2017 to shareholders on the register at 18 August 2017, subject to approval at the Annual General Meeting on 7 September 2017.

### EID

EID made a strong initial contribution for its first ten months in the Cohort Group. An adjusted operating profit of £4.2m on £16.0m of revenue, a net margin of over 26%, was above our expectations.

This was a result of a higher level of support activity in its Naval division, attracting higher margins due to the level of EID labour content, and successful delivery of vehicle intercom and related products to various export customers.

The EID contribution was further boosted on translation by the weaker sterling to euro exchange rate following the Brexit referendum result of last June.

Looking ahead, we expect the mix of work at EID to return closer to its historical norm, with net margins expected to be below 20%.

EID's order intake since acquisition has been close to £19m and its order book has grown from the £23.1m acquired to a closing £27.6m. This provides strong underpinning for the coming year and with good prospects in both domestic and export markets, EID should grow its revenue in the coming year.

Although it has been slow, we have made progress on completing the next stage of the EID acquisition, with the aim for the Group to hold 80% of EID and the Portuguese Government the other 20%. The Group having acquired 56.89% in June 2016.

A shareholder agreement giving the Portuguese Government certain rights, most of which are typical for a minority shareholding, whilst ensuring Cohort has day-to-day management control over EID, has been agreed in principle between the two parties.

The transaction requires a formal notification to, and approval by, the Portuguese Competition Authority. This is in process and we expect to be able to announce the second stage of the EID acquisition in the coming months.

### MASS

MASS's adjusted operating profit of £5.9m (2016: £6.0m) was slightly behind last year. Its net margin decreased from 18.7% to 18.2% reflecting the inclusion of SCS's Training Support division in the second half and investment in building its secure IT and cyber work.

MASS's underlying performance, excluding the impact of SCS, was down on last year. This was due to slower order intake in export EWOS and a delay to the kick off of the Metropolitan Police Service's (MPS) digital forensics service, a contract secured towards the end of the year and for which MASS will provide a managed service to the MPS for the next nine years. There were also some additional one-off costs incurred during the year.

MASS's order book increased during the year. Order intake of £32.6m included significant order wins from the MPS (£8.6m) and a long-term support contract for the RAF's Sentry platform (£12.5m). MASS's closing order book also includes £6.1m of orders transferred from SCS in respect of its Training Support division. Its closing order book of £49.3m (2016: £41.7m) provides a good underpinning for 2017.

### MCL

MCL improved its adjusted operating profit to just under £2.1m (2016: £1.4m) on revenue of £14.8m (2016: £13.7m). The improved performance was a result of both higher revenue and improved mix with increased support activity, particularly in the second half of the year. The net margin increased from 10.7% to 13.9%. We expect the net margin to fall back to a historically lower percentage level in the coming year as revenue is boosted by delivery of a range of Hearing Protection Systems, which have a higher proportion of bought-in product.

The Group acquired the remaining non-controlling interest (49.999%) of MCL on 31 January 2017 for a consideration of just under £5.1m. A further £0.5m is payable as earn out in respect of MCL's closing order book at 30 April 2017 and just over £1.9m as the non-controlling shareholders' share of the surplus cash in the business as at 30 April 2017. These amounts are expected to be paid on or before 31 July 2017.

The further consideration paid, and to be paid, is in accordance with the original sale and purchase agreement of 9 July 2014.

MCL's contribution to the Group in the final quarter, when 100% owned, was just under £1.4m of adjusted operating profit on £5.0m of revenue, reflecting its typical strong second half performance, especially in providing support and spares to its deployed product base with the UK MOD.

MCL's order intake of over £23m included nearly £15m of hearing protection orders. Its closing order book of £15.5m along with around £6m of orders secured since the year end provide very good visibility for the coming year.

## SEA

SEA's underlying performance in the year varied considerably across its divisions.

SEA's adjusted operating profit of £5.3m (2016: £5.4m), which included a small contribution from the former SCS businesses in the second half, was on lower revenue of £44.4m (2016: £48.8m), delivering a net margin of 11.9% (2016: 11.2%).

There was a strong net contribution from its Maritime Division, especially in relation to submarine communications and launcher systems for export customers, which together more than offset a difficult development project which is now nearing completion.

SEA's range of ROADflow products also had a strong year with unit sales of 108 in 2016/17 bringing the total deployed to date to well over 400.

The improved closing order book position taken together with orders received since the year end and a good pipeline of further prospects at all four businesses provide a solid base for 2017/18 and beyond.

However, SEA's Research division suffered from a serious delay to the renewal of its soldier systems research programme, much of this due to budgetary issues at its customer DSTL. The impact of this was a fall in revenue from just over £8m in 2016 to less than £2m, accounting for the decrease in SEA's revenue overall.

The oil and gas business also suffered from a tight market although it saw improved margins as the balance of its work switched from replacement to repair.

Despite the fall in revenue, the net margin of SEA increased as a result of improved mix. The proportion of relatively high margin product sales increased and the business was able to retire some risk contingency on its major maritime projects, as the external communications and torpedo launcher systems both entered their production phases.

SEA secured just under £32m (2016: £36m) of orders in the year, the drop off being particularly noticeable in the Research division. SEA's order intake did include nearly £9m of orders for its transport products and services. The increased activity in SEA's transport business has brought an improvement in net margin. The SEA order book of £44.0m (2016: £55.6m) underpins almost half of SEA's expected revenue for 2017/18, and along with good order prospects gives us reasonable confidence that SEA will return to growth in the coming year.

## Cash

As expected, the net funds of the Group decreased by £11.3m from £19.8m to £8.5m. The £14.5m (2016: £11.9m) of adjusted operating profit, after an expected net working capital outflow and the cost of reorganisation at SCS, delivered £3.3m of operating cash inflow (2016: £8.5m inflow). This weaker cash performance was in part due to the reversal of the stronger than expected inflow in the final quarter of last year.

The operating cash inflow was utilised in paying tax, dividends and capital investment, a total outflow of £6.0m (2016: £4.9m), as well as acquiring 56.89% of EID (£4.0m, net of cash acquired) and the non-controlling interest in MCL (£5.1m).

The closing net funds were slightly below our expectations as some significant receipts (£3.5m) were received just after the year end.

Looking forward, we expect to pay out just over £2.5m on or before 31 July 2017 to complete the earn-out condition in respect of acquiring the non-controlling interest of MCL.

As already mentioned, we also expect to acquire a further 23% of EID taking our holding to 80%. This cost of €4.4m will be funded using the Group's debt facility, providing a natural hedge of euro debt against our euro-based assets in Portugal.

Despite these further committed acquisition outflows, the Group still expects to grow its net funds in the coming year.

## Board, management and staff

As always, my thanks go to all staff within the businesses. Their hard work, skill and ability to deliver what the customer needs are what continues to drive the performance of our Group.

I welcomed the staff of EID into the Group last year, the initial acquisition completing on the day of announcing our 2015/16 results. I would like to take this opportunity to thank them and their Managing Director, António Marcos Lopes, for a strong contribution to the Group in their first year, and for the positive way they have adapted to life in a UK-listed entity.

Andy Thomis and his senior executive colleagues have continued the dedicated and skilful work which has helped the Group to progress in the face of challenging trading conditions in parts of the defence market.

## Outlook

The political and economic context within which Cohort operates has not changed appreciably since last year. On the one hand the international and domestic security environment calls for greater resources to be devoted to defence and counter terrorism in the UK and many other countries. On the other hand the pressures on public expenditure in the UK are strong and this applies in varying degrees in many other markets, including Portugal.

As regards Brexit, defence trade has not been part of the single market and, in any case, our business from the UK into EU countries is currently small (£3.1m in 2017; £1.0m in 2016). We do not therefore anticipate any direct effects upon Cohort from the Brexit process. In the longer term there could be indirect effects, resulting from the broad economic and political

consequences of Brexit. Whether these will be favourable or unfavourable is not possible to say. The job of the Cohort Board is to manage our affairs so that our businesses prosper whatever the political and economic backdrop.

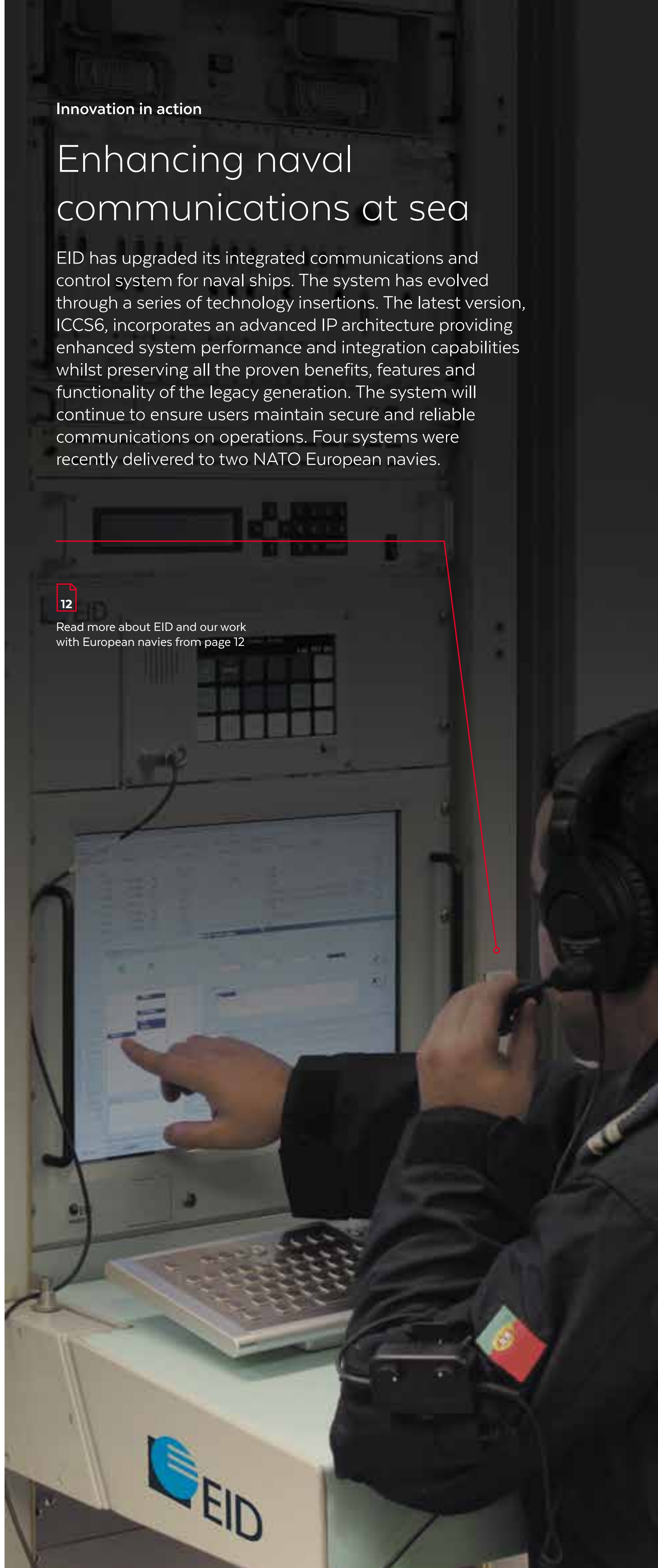
The closing order book of £136.5m (2016: £116.0m) provides a solid underpinning for the coming year. Although the UK defence market remains tight, the Cohort businesses have strong and relevant capabilities, established positions on some key long-term UK MOD programmes, and a good pipeline of new opportunities. Export prospects continue to strengthen although their timing is always unpredictable.

Outside defence, MASS continues to make progress with its cyber capability as underlined by its recent securing of a contract to deliver the Metropolitan Police's digital forensic service for the next nine years, a service we are working on extending to other police forces both in the UK and overseas. We are also encouraged by the progress in SEA's transport offering which achieved record sales of ROADflow units in the last year. We have already made progress on improving access to the new markets introduced to the Group by EID and expect, in due course, to convert some of these introductions into orders for the rest of the Group.

Our collective experience of defence business, size and decentralised management structure, which together enable us to make quick decisions, and our focus on niche product and service offering, for which demand is increasing both domestically and internationally, are the keys to this.

We continue to look for opportunities to augment organic growth through targeted acquisitions. Recent contract wins have given us a positive start to the year, and the Board considers that Cohort's order book and near-term prospects provide a good base for future progress.

**Nick Prest CBE**
Chairman




Innovation in action

## Enhancing naval communications at sea

EID has upgraded its integrated communications and control system for naval ships. The system has evolved through a series of technology insertions. The latest version, ICCS6, incorporates an advanced IP architecture providing enhanced system performance and integration capabilities whilst preserving all the proven benefits, features and functionality of the legacy generation. The system will continue to ensure users maintain secure and reliable communications on operations. Four systems were recently delivered to two NATO European navies.

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Read more about EID and our work with European navies from page 12

# Innovative, responsive and independent businesses combined with the benefits of a listed group

## Our business model

Autonomous, agile businesses combining niche technology with highly skilled and flexible people:

# Our acquisition approach

We believe that there are good businesses in the UK and overseas that would thrive under Cohort ownership, whether as standalone members of the Group or as "bolt-in" acquisitions to our existing subsidiaries.

### Standalone acquisitions

relate to businesses that have reached a stage of development where there will be mutual benefit in joining Cohort as a subsidiary.

### Bolt-in acquisitions

are businesses with capabilities and/or customer relationships that are closely aligned with and can be integrated into one of our existing subsidiaries.

# Bringing significant competitive advantages

Being part of the Cohort Group brings significant advantages to our businesses compared with operating independently:

### Agility

Cohort's management approach is to allow its subsidiary businesses a significant degree of operational autonomy in order to develop their potential fully, while providing light-touch but rigorous financial and strategic controls at Group level. Our experience is that our customers prefer to work with businesses where decision-making is streamlined and focused on solving their immediate problems.

### Strength

The Group's strong balance sheet gives customers the confidence to award large or long-term contracts that we are technically well able to execute but which might otherwise be perceived as risky. Our current three UK operating businesses, while remaining operationally independent, have close working relationships and are able to benefit from each other's technical capabilities, customer relationships and market knowledge.

### Market access

The Group's Directors have long experience of operating in the defence sector and have contacts and working relationships with senior customers in the UK and internationally which it would be hard for independent smaller businesses to establish.

12 Read more about the advantages of being part of Cohort Group in the Business review 12

## Our strategy

Three key strategic objectives form a strong base on which the Group seeks to improve profitability year on year whilst maintaining good shareholder relations:

## Organic growth

Consistently grow profits and cash generation organically through our subsidiaries.

### Delivered through

- A focus on trusted delivery to our customers.
- Encouraging innovation and responsiveness with a low cost base.
- Identifying and pursuing growth opportunities.

### What we did in 2016/17

- Increased organic export sales. Excluding EID, export sales in 2016/17 were £19m, some 4% higher than last year.
- New market growth business opportunity in digital forensics.
- Large order book provides a strong underpinning for the revenue in the coming year.

### Our priorities for 2017/18

- Continued organic growth through pursuing identified opportunities in UK and export defence markets and other market areas.
- Invest in future market growth opportunities in digital forensics, cyber and new naval systems.
- Facilitate cross-group communications and synergies.

## Acquisitions

Increase the profitability of the Group and access new markets through selective acquisitions.

### Delivered through

- Proactive engagement with businesses that can add value to the Group.
- Maintaining a strong acquisition team.
- Demonstrating a structure and culture that is attractive to potential sellers.

### What we did in 2016/17

- Acquired a controlling stake in EID.
- Took our ownership of MCL to 100%, the remainder (just under 50%) acquired for a further consideration of £5.1m on 31 January 2017.

### Our priorities for 2017/18

- Funding capacity is in place for further standalone and bolt-in acquisitions.
- We will acquire a further 23% of EID from the Portuguese Government on the same terms and price as the initial 57%, with the Portuguese Government retaining a 20% stake in EID.

## Maintain confidence

Ensure good corporate governance and sound risk management and communicate what we are doing to investors.

### Delivered through

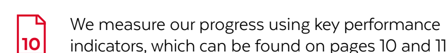
- A framework of financial control, strategy review, performance management and leadership development.
- Clear and consistent communication.
- An ability to act fast if problems arise.
- Developing high quality leadership teams and a high performance culture.

### What we did in 2016/17

- SEA and J+S reporting systems integrated to deliver improved efficiency.
- Completed the integration of the reporting and governance procedure for EID.
- Restructured SCS by transferring its operating divisions to MASS and SEA, resulting in a net annual cost saving of approximately £1.6m.

### Our priorities for 2017/18

- Refreshed website to be published.
- Expansion of the Leadership development programme to broaden the skills of some of our able technical people.
- Establish new HQ corporate marketing and HR roles.



We measure our progress using key performance indicators, which can be found on pages 10 and 11

# Measuring our progress

## Change in revenue

Changes in total Group revenue compared to the prior year.

–%

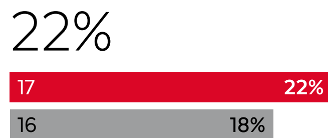
**Why is it measured?**
Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time.

**Comment**
The Group revenue was virtually unchanged from last year. Initial contribution from EID and growth at MCL was offset by reduced activity in SEA's Research division and a marked drop off in SCS's activity, requiring SCS's reorganisation at the half year point.

## Change in adjusted operating profit

Change in Group operating profit before amortisation of other intangible assets, marking forward exchange contracts to market, other non-trading foreign exchange differences and exceptional items.

22%



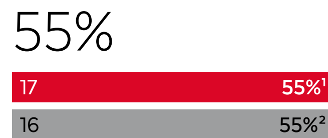

**Why is it measured?**
The adjusted operating profit trend provides an indication of whether additional revenue is being gained without profit margins being compromised and whether any acquisitions are value enhancing.

**Comment**
The increase in 2017 was a result of the initial contribution from EID and growth at MCL offsetting the underlying weaker performances at MASS and SEA and the SCS loss for the first half. The reorganisation of SCS mitigated a repeat of the loss in the second half.

## Order book visibility

Orders for the next financial year expected to be delivered as revenue, presented as a percentage of consensus market revenue forecasts for the year.

55%




**Why is it measured?**
Order book visibility, based upon expected revenue during the year to come, provides a measure of confidence in the likelihood of achievement of future forecasts.

**Comment**
The order book cover for the coming year is consistent with last year. The addition of EID with its longer-term order book, especially in naval systems, offsets the lower visibility in other growth areas in the Group, particularly cyber and transport. The shrinkage of the former SCS business following its reorganisation also improves visibility.

## Change in adjusted earnings per share

Annual change in earnings per share, before amortisation of other intangible assets, marking forward exchange contracts to market, other non-trading foreign exchange differences and exceptional items, all net of tax.

3%

**Why is it measured?**
Change in adjusted earnings per share is an absolute measure of the Board's management of the Group's return to shareholders net of tax and interest.

**Comment**
Small growth despite flat revenue performance. Strong initial performance from EID and growth at MCL offset in part by weaker performances elsewhere in the Group. The adverse effect of the mix of earnings where greater contributions from partly owned businesses offset the weaker performances in the remainder of the 100% owned Group combined with a lower tax charge on adjusted operating profit of approximately 11.6% (2016: 12.1%).

Excluding one-off tax items (£0.5m), the underlying adjusted earnings per share was 26.63 pence, 7% higher than the equivalent figure for 2016 of 24.98 pence (which excluded one-off tax items of £0.9m).

1 Cover on forecast 2018 revenue of £127.5m at 30 April 2017.

2 Cover on forecast 2017 revenue of £120.0m at 30 April 2016.

## Operating cash conversion

Net cash generated from operations (net of interest) before tax as compared to the profit before tax, excluding amortisation of other intangible assets.

27%

| Year | Value |
|---|---|
| 17 | 27% |
| 16 | 73% |

**Why is it measured?**
Operating cash conversion measures the ability of the Group to convert profit into cash.

**Comment**
As expected, the Group's operating cash conversion was weaker than last year. This was due to unwinding of a favourable working capital position at the end of last year in the first quarter of this year combined with some significant receipts (over £3m) slipping into the early part of 2017/18.

The Group does see year-to-year fluctuations depending on working capital levels at the end of its reporting periods, but in general cash conversion has been strong. The last four years' operating cash inflow of £36m compares with cumulative adjusted operating profit for the same period of £45m, with most of the difference between these figures arising in this financial year due to the timing of working capital.

Innovation in action

# Reducing congestion with ROADflow Motion

SEA has launched ROADflow Motion: the next generation of relocatable traffic enforcement camera technology. These cameras will enforce box junctions, bus lanes, banned turns and school keep-clears. They have been designed to reduce congestion and to increase pedestrian safety.

The new ROADflow Motion cameras will incorporate "all weather, all the time" camera technology, and a new type of automatic number plate recognition (ANPR) engine. Benefiting from new technology, the ROADflow Motion cameras are much smarter than their earlier cousins.

Read more about ROADflow Motion and other SEA products from page 12

Andrew Thomis, Chief Executive, and Simon Walther, Finance Director

# A good pipeline of prospects for continued progress

## Highlights

- The Group's adjusted operating profit of £14.5m (2016: £11.9m) on revenue of £112.7m (2016: £112.6m) was a net return of 12.9% (2016: 10.5%)
- MASS remains the strongest contributor to the Group's adjusted operating profit
- Following the acquisition of its 57% stake, Cohort took effective control and consolidated 100% of EID from 28 June 2016, recognising the minority interest in EID as appropriate
- Good growth at MCL
- SCS successfully reorganised

2016/17 has been another year of progress for Cohort, with a record level of adjusted operating profit.

## Operating review

2016/17 has been another year of progress for Cohort, with a record level of adjusted operating profit. Revenue was at a similar level to last year, reflecting tight market conditions for MASS, SCS and SEA offset by strong performances at MCL and EID. The closing order book of £136.5m along with a good pipeline of prospects provide a basis for further progress in the coming financial year.

The Group's adjusted operating profit of £14.5m (2016: £11.9m) on revenue of £112.7m (2016: £112.6m) was a net return of 12.9% (2016: 10.6%).

**Adjusted operating profit by subsidiary**:

| | Adjusted operating profit | | | Operating margin | |
|---|---|---|---|---|---|
| | **2017 £m** | 2016 £m | Change % | **2017 %** | 2016 % |
| EID | **4.2** | – | n/a | **26.4** | – |
| MASS | **5.9** | 6.0 | (2) | **18.2** | 18.7 |
| MCL | **2.1** | 1.4 | 50 | **13.9** | 10.2 |
| SCS | **(0.5)** | 1.2 | n/a | **–** | 6.6 |
| SEA | **5.3** | 5.4 | (2) | **11.9** | 11.1 |
| Central costs | **(2.5)** | (2.1) | (19) | **–** | – |
| | **14.5** | 11.9 | 22 | **12.9** | 10.6 |

The 2016/17 result includes an initial contribution from EID for ten months.

MASS and SEA reported results include a contribution from the former operating divisions of SCS which transferred to these businesses on 1 November 2016 when the SCS business was reorganised and its headquarters and support functions closed.

Taking into account the transfers from SCS and the impact of EID, the Group performance on a like for like basis was as follows:

| | 2017 Revenue as reported £m | 2017 Adjustment for the reorganisation of SCS £m | 2017 Like for like revenue £m | 2016 Revenue £m | Change % |
|---|---|---|---|---|---|
| MASS | **32.5** | **(2.6)** | **29.9** | 32.0 | (7) |
| MCL | **14.8** | **–** | **14.8** | 13.7 | 8 |
| SCS | **5.0** | **4.1** | **9.1** | 18.1 | (50) |
| SEA | **44.4** | **(1.5)** | **42.9** | 48.8 | (12) |
| Group as at the start of the year | **96.7** | **–** | **96.7** | 112.6 | (14) |
| EID | **16.0** | **–** | **16.0** | – | – |
| | **112.7** | **–** | **112.7** | 112.6 | – |

| | 2017 Adjusted operating profit/(loss) as reported £m | 2017 Adjustment for the reorganisation of SCS £m | 2017 Like for like adjusted operating profit £m | 2016 Adjusted operating profit £m | Change % |
|---|---|---|---|---|---|
| MASS | **5.9** | **(0.5)** | **5.4** | 6.0 | (10) |
| MCL | **2.1** | **–** | **2.1** | 1.4 | 50 |
| SCS | **(0.5)** | **0.8** | **0.3** | 1.2 | (75) |
| SEA | **5.3** | **(0.3)** | **5.0** | 5.4 | (7) |
| Central costs | **(2.5)** | **–** | **(2.5)** | (2.1) | (19) |
| Group as at the start of the year | **10.3** | **–** | **10.3** | 11.9 | (13) |
| EID | **4.2** | **–** | **4.2** | – | – |
| | **14.5** | **–** | **14.5** | 11.9 | 22 |

Elsewhere in this report, we comment on the reported result of each of the Group's businesses.

The above table highlights the initial contribution from EID, which was acquired earlier in the financial year, as well as the impact of the reorganisation of SCS.

As previously reported, SCS was reorganised at the end of the first half of this financial year, with its Training Support division transferring to MASS, and its Air Systems and Capability Development divisions to SEA.

The cost of this reorganisation was just under £2.6m, which included just over £1.0m in respect of an onerous lease on SCS's former operating facility at Theale, which expires in September 2021. The reorganisation involved the closure of SCS's headquarters and support functions and the annual saving to the Group is expected to be £1.6m.

The positive impact of this reorganisation on the Group's adjusted operating profit is shown in the above tables, with SCS's former businesses contributing £0.8m of adjusted operating profit on £4.1m of revenue in the second half compared with a loss of nearly £0.5m on £5.0m of revenue in the first half of the year.

Removing the SCS contribution from MASS and SEA, the like for like adjusted operating profits and revenue of these businesses were both down compared to 2016.

MASS remains the strongest contributor to the Group's adjusted operating profit. However, excluding the contribution from the businesses transferred from SCS, MASS saw a 7% drop in revenue, accompanied by a 10% drop in adjusted operating profit, the latter after one-off costs of £0.3m.

The cessation of some low margin activity accounted for most of the revenue drop at MASS. Despite this, the overall gross margin was maintained, but the bottom line was impacted by higher overheads. These were partly one-off in nature but also reflected investment in growing its cyber offering.

Similarly, excluding the contribution of the former SCS businesses, SEA's revenue fell by nearly £6m. Almost all of this was due to the contraction in its Research division following an extended delay to the renewal of its soldier system research programme by the customer DSTL.

The impact of this revenue shortfall on net margin was partly offset by higher margin sales in other areas of SEA, particularly launcher systems for overseas customers, and increased activity within our transport market.

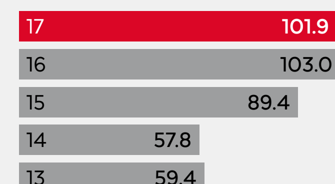
In contrast, MCL delivered strong adjusted operating profit growth of 50% on an 8% increase in revenue. This was mostly due to favourable mix with higher margin support work being delivered in the final quarter, which is historically the strongest period for MCL.

## Revenue share

### Defence & Security revenue (£m)

£101.9m

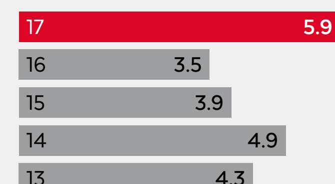
-1.1%




### Transport revenue (£m)

£5.9m

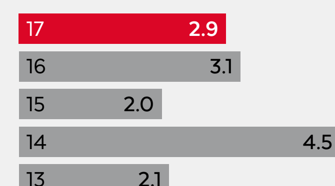
+68.6%




### Other commercial revenue (£m)

£2.9m

-6.5%



## Operating review continued

### Adjusted operating profit by subsidiary continued

The Group acquired the minority interest in MCL at the end of January 2017, and MCL's contribution after this date was very strong with £1.4m of adjusted operating profit on £5.0m of revenue.

EID's initial contribution to the Group, which was only for ten months, materially exceeded our expectations. The £4.2m of adjusted operating profit on £16.0m of revenue, a net return of over 26%, was unusually high. This was the result of a strong mix, including naval support work and the delivery of intercom and related products to export markets.

We do not expect to see such strong margins at EID in the future and although we are optimistic of achieving revenue growth in the coming year, the mix of work will change. This will reduce net margin percentages back to the level we would regard as normal for this business.

The increase in central costs was as expected and reflects the growth of the Group over the past year, particularly after absorbing its new overseas subsidiary EID.

Overall, excluding EID's contribution, the Group saw a 13% fall in adjusted operating profit on a 14% fall in revenue. This was mostly a result of the contraction seen at SEA and the difficulties experienced by SCS, especially in the first half.

### Operating strategy

Cohort currently operates as a group of four medium-sized businesses, operating primarily in defence and security markets, and with a strong emphasis on technology, innovation and specialist expertise:

- EID is a hi-tech company with more than 30 years' experience in the design, manufacture and support of advanced, high performance command, control and communications equipment for the global defence and security market. The Royal Navy is amongst the customers for its naval communications systems, as are the navies of Portugal, the Netherlands, Spain and Belgium. It has also supplied a number of other export customers; in total its products equip over 120 warships worldwide, and its army products have also enjoyed wide domestic and export success.

EID operates through two market-facing divisions:

- Naval Communications: integrated command, control and communications systems for warships and submarines; and
- Tactical Communications: radio, field and vehicle communication equipment and networking equipment.

These divisions are supported by an internal production and logistics unit. EID operates from an engineering facility near Lisbon, and has a regional office in Indonesia. It is led by its Managing Director, António Marcos Lopes.

- MASS is a business which enables customers to better protect, analyse and interpret data to provide valuable information. It is a leading international provider in the fields of electronic warfare (EW) and secure communications, including cyber security. Its products include the THURBON™ EW database and it provides EW operational support services to a number of customers in the UK and overseas. MASS has some unique capabilities that have enabled it to establish strong niche positions in these important areas of defence and security, as well as gaining an increasing reputation as a leading provider of secure networks, cyber protection and analysis to defence and other security services. Most recently it has been awarded a contract to provide digital forensics services to London's Metropolitan Police. MASS is also now the provider of training support and simulation to the UK's Joint Forces Command, a service the Group has provided for over 15 years. MASS was founded in 1983.
- MCL is a supplier of advanced electronic warfare, surveillance technologies and hearing protection systems to defence and security customers, mostly in the UK. It sources technologies from a global supplier network as well as developing and supplying its own solutions. MCL has a reputation for being flexible and agile in creating effective, mission deployable solutions for customers in the most challenging timeframes. MCL was founded in 1980 and is led by its Managing Director, Darren Allery.
- SEA specialises in providing systems engineering and specialist design solutions to government and industry. Its External Communications System is being provided for all of the Royal Navy's Astute Class submarines, and will ultimately be fitted to all of the RN's underwater fleet. It is also a supplier of systems and in-service support for the defence and offshore energy markets in the UK and overseas. Its products include sonar systems, torpedo launchers and other naval equipment. It provides a range of simulation-based training solutions and middleware to provide realistic training for complex environments. It also provides software and systems for the transport market, including the successful ROADflow traffic enforcement system. SEA is now the provider of military airworthiness and other technical support previously provided through SCS. SEA was founded in 1988 and is led by its Managing Director, Steve Hill.

Cohort's management approach is to allow its subsidiary businesses a significant degree of operational autonomy in order to develop their potential fully, while providing light-touch but rigorous financial and strategic controls at Group level. Our experience is that our customers prefer to work with businesses where decision-making is streamlined and focused on solving their immediate problems. This model provides us with a degree of competitive advantage over some larger rivals where the decision-making process can be more extended. It is also cost-effective as it avoids the need for additional layers of management involved in coordination activities and for a large headquarters team. And it is attractive to high calibre employees who find it more rewarding to be involved in decisions affecting the business, even at a relatively junior level, rather than being constrained to a narrow or purely technical role. This positions us well to supply systems and services to our customers where these attributes are highly valued.

Although the degree of autonomy our subsidiary businesses enjoy is high, and we believe that this is an effective operational strategy, we take a practical view of the best way forward when circumstances change. When the operational situation is such that a merger, restructuring or even sale is necessitated, we will act and have acted in the best interests of the wider Group and its shareholders. During the year, the reorganisation of SCS was such a case. Its operational divisions were performing profitable work but struggling to grow to a sufficient size to merit the retention of SCS's separate support functions. The closure of these support functions and the transfer of SCS's profitable operational divisions elsewhere in the Group was a necessary step which generated a much stronger second half performance from the reorganised business.

Within our markets we have sought to use our agility and innovation to identify niches where future prospects are attractive and where we have some sustainable competitive advantage.

Within our markets we have sought to use our agility and innovation to identify niches where future prospects are attractive and where we have some sustainable competitive advantage. These can be for products, services or high value one-off projects to design bespoke equipment or software. Examples include MASS's electronic warfare operational support offerings, SEA's External Communication System (ECS) for

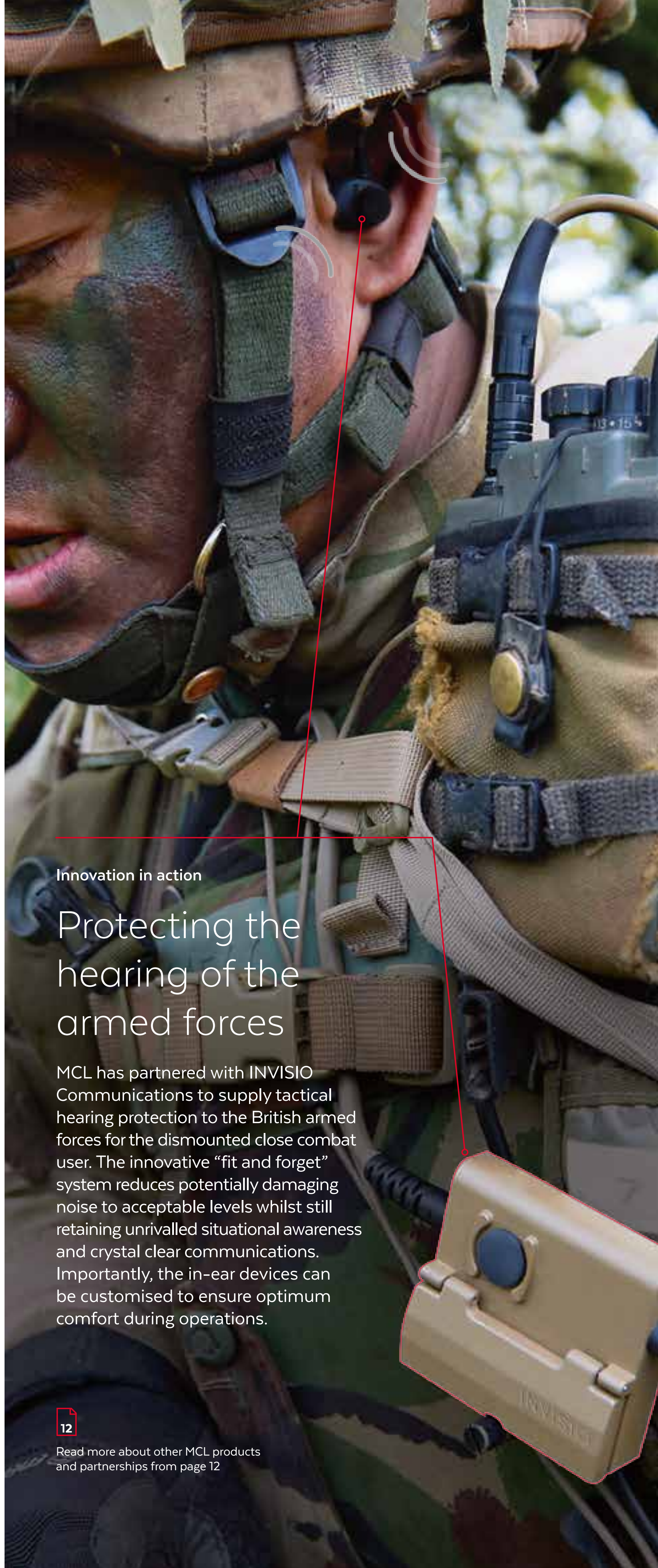
submarines and MCL's range of hearing protection systems. We have also been active in finding new customers for the capabilities we have developed, both in export markets and for non-defence purposes. During the recent year we have continued to widen the customer base for our network security offering and extended the application of our ROADflow product to address moving traffic offences, in particular yellow box junctions and banned right turns.

Being part of the Cohort Group brings advantages to our businesses compared with operating independently. The Group's strong balance sheet gives customers the confidence to award large or long-term contracts that we are technically well able to execute but which might otherwise be perceived as risky. Examples include MASS's £50m in-service support contract awarded in 2010, its recent win to support the Metropolitan Police Services' digital forensics provision for the next nine years, over £70m of contracts awarded to SEA so far for ECS across the UK's submarine platforms and MCL winning over £20m of orders to date for supply and support of hearing protection systems across a range of UK military users. The Group's Directors have long experience of operating in the defence sector and have contacts and working relationships with senior customers in the UK and internationally which it would be hard for independent smaller businesses to establish. Our current three UK operating businesses, while remaining operationally independent, have close working relationships and are able to benefit from each other's technical capabilities, customer relationships and market knowledge. We have made progress in the year on ensuring that EID fully participates in this collaborative approach and will continue to try and ensure access is widened to all of the Group's markets for all our services and products.

These strategies have allowed us to grow our profit at a time when UK defence expenditure, our largest source of revenue, has been tightly constrained. They have also generated long-term customer relationships and good opportunities that give us confidence that we can continue to prosper despite the difficult and unpredictable market conditions.

### Acquisitions

Alongside our organic growth strategy we continue to see opportunities to accelerate our growth by making further targeted acquisitions. We believe that there are good businesses in the UK and overseas that would thrive under Cohort ownership, whether as standalone members of the Group or as "bolt-in" acquisitions to our existing subsidiaries.



Innovation in action

## Protecting the hearing of the armed forces

MCL has partnered with INVISIO Communications to supply tactical hearing protection to the British armed forces for the dismounted close combat user. The innovative "fit and forget" system reduces potentially damaging noise to acceptable levels whilst still retaining unrivalled situational awareness and crystal clear communications. Importantly, the in-ear devices can be customised to ensure optimum comfort during operations.

12

Read more about other MCL products and partnerships from page 12

## Operating review continued

### Acquisitions continued

The most likely candidates for bolt-in acquisitions are businesses with capabilities and/or customer relationships that are closely linked to one of our existing subsidiaries. We would expect to integrate an acquired business of this nature fully within the relevant subsidiary. This could lead to both cost savings and benefits from shared access to markets and technologies. The J+S acquisition by SEA in 2014/15 is a good example of this.

For standalone acquisitions we are looking for agile, innovative businesses that have reached a stage of development where there will be mutual benefit in joining Cohort. It is likely that candidates will be operating in the defence and security markets either in the UK or internationally as that is where the Group can add most value. Growth prospects, sustainable competitive advantage and the ability to operate as part of a publicly quoted UK group will all be important. The acquisition of just over 50% of MCL in 2014/15 met these criteria, with the remainder of MCL (just under 50%) acquired for a further consideration of £5.1m on 31 January 2017, with a further £2.4m payable as an earn out on or before 31 July 2017.

As mentioned last year, the Group has added a fourth member of Cohort by acquiring just under 57% of EID. The total consideration paid for this was just under €11m (£8.9m). Subject to final approval of the Portuguese Government, the Group expects to acquire a further 23% of EID from the Government on the same terms and price as the initial 57% with the Portuguese Government retaining a 20% stake in EID. The second part of the acquisition of EID was originally expected to complete in the financial year ended 30 April 2017. Negotiation of a Shareholders' Agreement, satisfactory to a number of separate ministries and agencies of the Portuguese Government, has taken some time. A Portuguese Competition Authority clearance is also required. A formal notification to this independent authority is in the advanced stages of preparation and we expect to complete the second stage of the acquisition of EID, subject to approval, within the coming months.

Following the acquisition of its 57% stake, Cohort took effective control and consolidated 100% of EID from 28 June 2016, recognising the minority interest in EID as appropriate.

### Divisional review

EID

| | 2017 £m | 2016 £m |
|---|---|---|
| Revenue | **16.0** | — |
| Adjusted operating profit | **4.2** | — |
| Operating cash flow | **4.1** | — |

Above figures are for 100% of EID and for the ten months ended 30 April 2017.

EID provided a very strong initial contribution to the Group result for 2016/17. This exceeded our expectations in euro terms and was further enhanced by the actual exchange rate to convert the EID € based earnings to £ sterling being lower than budgeted, the acquisition completing just after the Brexit referendum of last June. The average weighted exchange rate for 2016/17 was €1.1745:£1.

The EID performance saw a significant level of higher margin naval support activity, for both domestic (Portuguese) and export customers.

The Tactical division, where it delivers mostly off-the-shelf EID designed and manufactured products, delivered on a significant contract for the Egyptian Army.

The combination of this support activity and higher volumes of export product deliveries drove an unusually high net margin of over 26%.

EID has secured nearly £19m of orders since joining the Group, which included over £8m from the Portuguese MOD and follow-on orders from Egypt of nearly £1.5m.

The closing order book of EID of £27.6m provides a good underpinning to the coming financial year and some very good prospects, especially in naval systems, are expected to add to this. We expect EID's revenue to grow in the coming year.

However, the mix of work at EID is expected to change in the coming year with lower levels of support activity. As a result, the net margin is expected to return to more historically normal levels.

### Divisional review

MASS

| | 2017 £m | 2016 £m |
|---|---|---|
| Revenue | **32.5** | 32.0 |
| Adjusted operating profit | **5.9** | 6.0 |
| Operating cash flow | **4.5** | 4.9 |

MASS had a mixed year with a slight decrease (2%) in adjusted operating profit on slightly higher revenue.

The MASS figures in 2017 included £0.5m of adjusted operating profit on £2.6m of revenue from SCS's former Training Support division, which transferred to MASS on 1 November 2016.

MASS's revenue was up slightly (2%) on last year with the transfer from SCS offsetting a reduction in MASS's existing business where a low margin, non-core service it had provided for many years was halted.

The adjusted operating profit of MASS was slightly down on last year with improved gross margin offset by an increase in overheads. This was partly a result of one-off costs, the balance being investment in business development and project support, particularly in the Cyber division.

As we indicated was likely last year, MASS's net margin decreased to 18.2% (2016: 18.7%). This was primarily due to the overhead increase.

During the year, MASS secured a number of significant contracts in the growth areas of secure information systems and cyber. This included the Metropolitan Police Services' (MPS) digital forensic managed service for nine years (£8.6m) and a ten-year secure information management service for the RAF's Sentry platform (£12.5m), the latter being an extension of existing work. MASS's order intake included over £8m of other renewals and extensions of existing work and we expect more of this in the coming year.

The MPS win is particularly pleasing and opens up a significant new market for both similar and new offerings to other UK police forces as well as overseas customers.

MASS's operating cash flow this year was slightly weaker than last year with a build-up of working capital at the end of the financial year linked to higher activity. MASS, as part of its cyber strategy, is currently investing in facility upgrades to enable it to offer a more comprehensive cyber service. This work completed at the end of 2016/17 and the resulting new facility will become operational in 2017.

After eight years as Managing Director of MASS, Ashley Lane left the business in June. We thank him for his contribution over this period and in his other senior roles at MASS, and we wish him well for the future.

MASS operated through the year with four divisions, adding the Training Support division as a fifth at the half year. For the coming 2017/18 financial year it expects to continue to operate through these five profit centres. The EWOS division provides MASS's EW capability, including the THURBON™ EW database, SHEPHERD (the provision of a system embodying THURBON™ to the UK MOD) and its EW managed service offerings in the UK and elsewhere. The Cyber Security division includes MASS's offerings of solutions and training to government security customers, including now the Metropolitan Police. The Secure Networks division includes MASS's secure network design, delivery and support, including information assurance services to commercial, defence and educational customers. The Strategic Systems division provides certain managed service and niche technical offerings to the UK MOD. The Training Support division provides training simulation and support to the UK's Joint Warfare Centre as well as similar high level command training to other UK and overseas customers.

MASS enters the current year with a strong order book and pipeline of opportunities, including exports, though the latter are always unpredictable in terms of timing.

## Divisional Review

MCL

| | 2017 £m | 2016 £m |
|---|---|---|
| Revenue | **14.8** | 13.7 |
| Adjusted operating profit | **2.1** | 1.4 |
| Operating cash flow | **0.5** | 0.5 |

The above figures are for 100% of MCL in both years.

MCL's increased revenue (8%) on last year was mostly from increased support services for the UK MOD, primarily in the land environment. Typically for MCL, much of this activity arose in the final quarter.

This support work, much of which involves utilising MCL's own people, is typically at higher margins than MCL's product sales where the bought-in content is much higher.

The increased revenue and especially favourable mix drove MCL's adjusted operating profit up by 50% compared to last year, £1.4m of it being delivered after Cohort's acquisition of the minority shareholding on 31 January 2017.

MCL secured a number of key orders in the year including a further £15m of hearing protection systems and other equipment development, production and support for specialist military users.

When we acquired MCL, back in July 2014, one of the primary objectives was to support MCL in building an order book and business with greater longevity and visibility. The 2017 closing order book of £15.5m (2016: £7.0m), along with further recent wins of around £6m, shows this objective of improved visibility and predictability is making progress. This gives us confidence that MCL will continue to grow in the coming year, although we expect margin percentages to be lower due to the level of bought-in content.

The positive, albeit small, operating cash flow was expected and reflects MCL's peak of activity at the end of the financial year.

Darren Allery, MCL's Managing Director, has led his team through the integration with Cohort. We are looking forward to continuing to work with the existing MCL team following the acquisition of the remaining management shareholders' stakes on 31 January 2017.

## Divisional review

SEA

| | 2017 £m | 2016 £m |
|---|---|---|
| Revenue | **44.4** | 48.8 |
| Adjusted operating profit | **5.3** | 5.4 |
| Operating cash flow | **(5.5)** | 2.7 |

SEA, led by its Managing Director, Steve Hill, has had a mixed year with growth in its transport business offset by a significant contraction in its research activities.

Continuing the trend of recent years, despite the reduced revenue the net margin of SEA increased from 11.1% to 11.9%. This is a result of the trend of the business towards more product sale, particularly in export markets, and a proportionate reduction in customer-funded development work.

This trend has been accompanied by a reduced predictability of the revenue stream, especially in the SEA's Software Solutions and Product division where the timeframe from order win to delivery is usually a few weeks to months. We expect to see this continue in the medium term whilst we await the next major stages of the UK submarine fleet's external communications system, the Vanguard class upgrade and the new Dreadnought class. In the meantime, SEA is actively seeking to expand its export business, especially in maritime markets.

SEA's maritime business remained steady with the expected decline in its UK submarine communications activity offset by increased delivery of torpedo launcher systems for export customers.

In SEA's Maritime division the UK submarine communications work has moved from design and testing of systems to delivery. We continue to have good levels of redesign and upgrade work whilst the engineering team await the next major activity on the Vanguard class in the near future.

The moving of the communications system from design to production has de-risked the programme allowing previously held risk contingency to be released.

The level of torpedo launcher activity, as expected, increased as we completed design and moved to the first production systems for two export customers. The level of this activity will be sustained for the coming year. The business is tracking opportunities to win further export orders with the potential to provide growth in 2018/19 and beyond.

Within the Maritime division, SEA suffered project losses on a one-off development project for a specialist sonar array, a contract inherited with the J+S business acquired in 2014. This programme is expected to conclude in 2017/18 and no further losses are envisaged.

SEA's Software, Simulation and Product division (SSP), which is dominated by our offering to the transport market, increased its revenue from just under £7m in 2015/16 to nearly £9m this year.

This growth was mostly from increased orders for enforcement systems in the UK and overseas, as well as an important follow-on order for Digital Traffic Enforcement Systems (DTES) at Transport for London. The initial upgrade work on DTES commenced in 2016/17.

The improved margins in the Maritime division and volume increase in SSP offset a marked deterioration in SEA's Research and Technical Services (RTS) division.

For some years, SEA has been a leading provider of research to the UK MOD in the areas of sonar, maritime and especially land. The former two areas continue to provide revenue streams for SEA, as well as providing expertise for its development of low profile sonar array systems, now being sold as the KraitArray™ to a number of customers around the world.

In the land domain, SEA has led a team of suppliers over a period of eight years on two major research programmes into Dismounted Soldier Systems. The last of those research programmes, Delivering Dismounted Effect (DDE), completed last year. A follow-on programme, known as the Dismounted Engine Room (DER), was expected but various internal and budget issues on the side of the customer, DSTL, have delayed it. The timing of DER remains uncertain and initial work is now likely to be delayed into 2018/19.

The impact of this delay resulted in revenue in SEA's Research division dropping significantly, from over £8m in 2015/16 to around £2m in 2016/17. This contraction accounts for most of the revenue fall seen at SEA.

SEA's Subsea division also had a tough year with revenue dropping by a third to £2m as the low oil price continued to hold back spending by oil producers in the North Sea. Despite this, the division largely maintained its profitability by a combination of some cost reduction, including redeploying staff to support SEA's Maritime division, and improved gross margin. The latter arose from an increase in the proportion of refurbishment and repair activity, reflecting the cost conscious approach in the oil and gas sector. Much of this work is done by SEA's staff, with lower bought-in content.

SEA absorbed the former SCS divisions of Capability Development and Air Systems. Together these made a positive contribution to SEA's second half performance, with £0.3m adjusted operating profit on £1.5m of revenue.

SEA's closing order book of £44.0m includes nearly £24m of revenue to be delivered in the coming financial year.

### Revenue by market and business

SEA continued to conduct its business through four market-facing divisions:

- Maritime division, including design, development, production and support of its naval communication systems, sonar, torpedo launch and other naval systems.
- Research and Technical Support division, including its capabilities in the land and research markets of defence. This absorbed the Capability Development division of SCS from 1 November 2016.

## Operating review continued

### Revenue by market and business continued

- Software Solutions and Product division, including SEA's transport work in the UK and overseas as well as other civil and non-maritime products, its training and simulation capabilities and other information systems. This absorbed the Air Systems division of SCS from 1 November 2016. During the coming year (2017/18) the Research & Technical Support division will be combined with the Software Solutions and Product division from 1 September 2017.
- Subsea Engineering division, developing and delivering SEA's activities in the offshore energy market, primarily oil and gas.

These four business development and delivery divisions have been supported by a single production facility at its Barnstaple site.

| | EID | | MASS | | MCL | | SCS | | SEA | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Defence and security | **16.0** | — | **30.7** | 30.1 | **14.7** | 13.6 | **4.9** | 17.9 | **35.6** | 41.4 |
| Transport | **—** | — | **—** | — | **—** | — | **—** | — | **5.9** | 3.5 |
| Offshore energy | **—** | — | **—** | — | **—** | — | **—** | — | **2.0** | 3.0 |
| Other commercial | **—** | — | **1.8** | 1.9 | **0.1** | 0.1 | **0.1** | 0.2 | **0.9** | 0.9 |
| | **16.0** | — | **32.5** | 32.0 | **14.8** | 13.7 | **5.0** | 18.1 | **44.4** | 48.8 |

The defence and security revenue is further broken down as follows:

| | EID | | MASS | | MCL | | SCS | | SEA | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| Direct to UK MOD | **—** | — | **14.4** | 13.1 | **12.5** | 11.1 | **2.4** | 10.7 | **5.8** | 11.6 |
| Indirect to UK MOD where the Group acts as a subcontractor or partner | **—** | — | **5.5** | 6.7 | **0.5** | 0.4 | **1.1** | 2.7 | **23.7** | 26.9 |
| Total to UK MOD | **—** | — | **19.9** | 19.8 | **13.0** | 11.5 | **3.5** | 13.4 | **29.5** | 38.5 |
| Portuguese MOD | **2.4** | — | **—** | — | **—** | — | **—** | — | **—** | — |
| Export and other | **13.6** | — | **10.8** | 10.3 | **1.7** | 2.1 | **1.4** | 4.5 | **6.1** | 2.9 |
| | **16.0** | — | **10.8** | 10.3 | **1.7** | 2.1 | **1.4** | 4.5 | **6.1** | 2.9 |
| | **16.0** | — | **30.7** | 30.1 | **14.7** | 13.6 | **4.9** | 17.9 | **35.6** | 41.4 |

### Revenue breakdown by capability

| | | **2017** | | 2016 | |
|---|---|---|---|---|---|
| | | **£m** | **%** | £m | % |
| Defence products | Defence products: the design, supply and support of such equipment and its associated embedded software, as well as the integration of commercial "off-the-shelf" equipment for specialist applications primarily by SEA, EID and MCL. | **63.6** | **56** | 47.0 | 42 |
| Application software | Application software: the design and supply of specialist software systems such as MASS's work on Project SHEPHERD and SEA's work for its transport and defence customers. | **11.1** | **10** | 8.7 | 8 |
| Secure networks | Secure networks: the provision of advice and system implementation to protect against cyber attack and other threats. MASS provides these services for a range of clients. | **9.7** | **9** | 7.9 | 7 |
| Operational support | Operational support: the provision of direct support to active operations which takes place at MASS through its Electronic Warfare operational support activities, and at SEA in defence and offshore energy. | **9.0** | **8** | 11.3 | 10 |
| Specialist expertise | Specialist expertise: the provision of expert individuals as part of a customer's team. Two of our businesses are active in this area, SEA and MASS. | **6.8** | **6** | 12.0 | 11 |
| Training | Training: this includes formal, on-the-job and scenario-based training services. An example is MASS's provision of exercise-based training for the UK's Joint Forces Command. | **6.4** | **6** | 10.7 | 9 |
| Studies and analysis | Studies and analysis: other self-contained studies, consultancy and analytical work such as SEA's work on the Protector UAV. | **4.7** | **4** | 8.9 | 8 |
| Applied research | Applied research: the management and execution of scientific investigation work aimed at specific objectives, mostly at SEA. | **1.4** | **1** | 6.1 | 5 |
| | | **112.7** | **100** | 112.6 | 100 |

| Group | | | |
|---|---|---|---|
| 2017 £m | % | 2016 £m | % |
| **101.9** | **90** | 103.0 | 91 |
| **5.9** | **5** | 3.5 | 3 |
| **2.0** | **2** | 3.0 | 3 |
| **2.9** | **3** | 3.1 | 3 |
| **112.7** | **100** | 112.6 | 100 |

| Group | | | |
|---|---|---|---|
| 2017 £m | % | 2016 £m | % |
| **35.1** | **31** | 46.5 | 41 |
| **30.8** | **27** | 36.7 | 32 |
| **65.9** | **58** | 83.2 | 73 |
| **2.4** | **2** | – | – |
| **33.6** | **30** | 19.8 | 18 |
| **36.0** | **32** | 19.8 | 18 |
| **101.9** | **90** | 103.0 | 91 |

Notable changes between 2016 and 2017 were:

- A significant growth in defence products, in absolute and percentage terms. A major factor in this was the acquisition of EID, whose output is almost 100% product. Other contributing factors included growth at MCL and SEA's naval product and support business and enforcement systems in transport.
- A fall in specialist expertise provision. This has been steadily declining over the last few years and the reorganisation of SCS and the cessation of some of this activity at MASS during the year contributed to a further significant drop.
- A fall in studies and analysis activity. Again, following the reorganisation of SCS, which was prompted by the loss of a significant piece of work in this capability area.
- A fall in applied research as the DDE project, which completed in 2015/16, has not yet been renewed.

We have maintained our capability breakdown analysis as for last year but with the Group's focus moving towards more product, software, secure information systems and cyber we are likely to revisit the capability analysis in 2017/18.

Innovation in action

## Delivering digital evidence to police forces

MASS will be providing a digital forensics managed service to the Metropolitan Police Service. MASS has a proven track record in the defence market managing complex technical disciplines within one managed service and has worked closely with UK policing organisations to develop a deep understanding of the challenges involved. The service will be a key enabler for the MPS in its drive to transform the way it delivers policing in all of the London communities it serves.

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Read more about MASS and our work with other organisations from page 12

### Our people

At the year end the Group had 811 (2016: 648) permanent employees as well as a number of people on fixed-term or task-specific contracts. Many of these are highly qualified engineers, mathematicians and scientists and, along with our management and support people, all make important contributions.

In the 2017 financial year in our Business Excellence Award scheme, the Gold Award went to the team from SEA for designing, testing and manufacturing a low profile sonar array, known as the KraitArray™. This array, which is only 16mm in diameter, is much lighter than the usual towed arrays deployed by navies around the world. We have already seen some significant sales of this product and prospects for further deployments, especially in combination with unmanned surface vehicles, are good.

The awards also gave an opportunity to celebrate some relatively unsung but important achievements by the Group's support staff.

Having completed the Group's first Leadership Development Scheme last year, the second Leadership Development Scheme commenced in 2016/17. The scheme is intended to hone the skills of the next generation of our senior leaders and is supported by the top management of both the operating businesses and the headquarters team. As well as developing individual skills and encouraging people to achieve their full potential, we see this as being a way to encourage the growth of informal networks across the Group, improving our ability to share information and work together more effectively. In addition, a scheme to broaden the skills of some of our able technical people was also launched in the year.

Cohort's largest customers are the UK armed forces, and the work we do helps them to carry out their vital task more effectively. This is a significant motivating factor for our people, many of whom are current reservists or former members of the armed forces themselves. Cohort is proud to have been an early signatory of the UK Armed Forces Corporate Covenant and as a Group we currently hold three Silver Awards under the Defence Employer Recognition Scheme.

Our people are frequently involved in fund-raising for armed forces charities, activities which we are pleased to support, in a modest way. Corporately, either directly or through matching employee efforts, the Group donated nearly £34,000 in 2016/17 (2015/16: £36,000), the majority to military charities including SSAFA and charities local to our businesses.

All of the Group's capabilities and customer relationships ultimately derive from our people, and such success as we have enjoyed is a result of their efforts. We would like to take this opportunity to express our thanks to all employees of Cohort and its businesses.

### Operational outlook

#### Order intake and order book

| | Order intake | | Order book | |
|---|---|---|---|---|
| | **2017 £m** | 2016 £m | **2017 £m** | 2016 £m |
| EID | **18.9** | — | **27.6** | — |
| MASS | **32.0** | 20.3 | **49.4** | 41.7 |
| MCL | **23.3** | 18.0 | **15.5** | 7.0 |
| SCS | **3.0** | 20.1 | **—** | 11.7 |
| SEA | **31.4** | 36.4 | **44.0** | 55.6 |
| | **108.6** | 94.8 | **136.5** | 116.0 |

Note: The closing order books of MASS and SEA as at 30 April 2017 include £8.2m and £1.5m respectively of order book transferred from SCS on its reorganisation on 1 November 2016.

The increase in the Group's order intake was due to the improved order intake at MASS and MCL as well as the introduction of EID.

As indicated at the interim report stage last December, SCS's order intake was significantly down on 2015/16 and when including the intake in its former divisions (now within MASS and SEA) was only around £4.0m in total for the year, considerably down on last year, although 2015/16 did include over £9m in respect of a two-year renewal of the JWC contract, the extension of which, for a further two years, is expected in 2017/18.

The Group's closing order book includes £23.1m of acquired order book with EID and a £1.5m increase in its value on revaluing the underlying EID euro order book at the closing exchange rate at 30 April 2017.

#### Delivery of the Group's order book into revenue

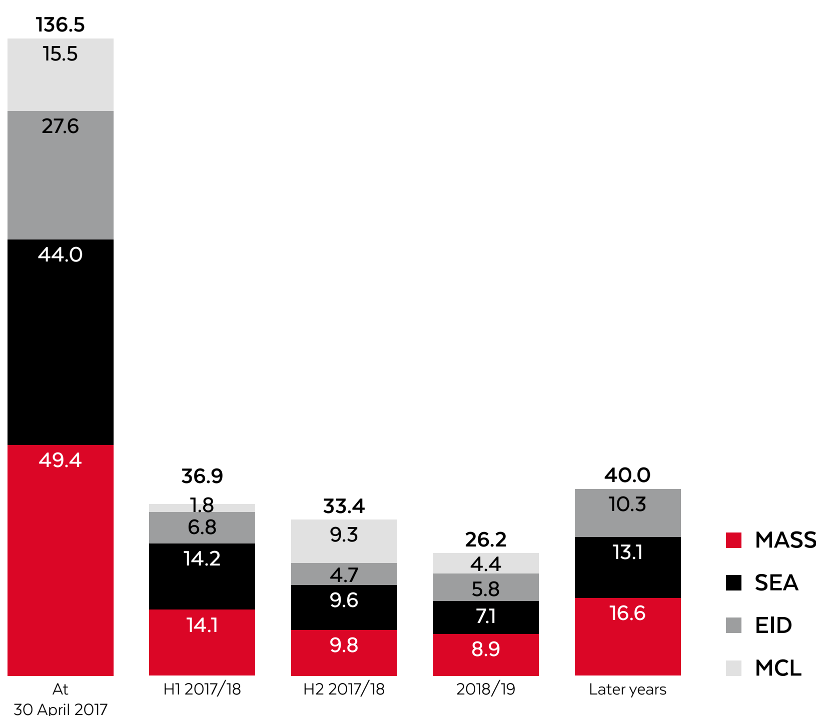
The table below shows the underpinning of future revenue from the current order book.

EID's order intake since acquisition last June was nearly £19m and included over £8m of orders from its domestic customer, the Portuguese MOD. The most important single element of this was an order of just over £6m for the next generation of communication equipment for the Portuguese Army.

The balance of order intake (£11m) was export, underlining EID's very good export record.

EID's underpinning for the coming year is good and prospects for its domestic customer and export opportunities support our view that its revenue will grow in the coming year.

### Delivery of the Group's order book into revenue (£m)



MASS's order intake of £32.0m included some key wins in markets that MASS has been working to grow over the last few years. A ten-year secure information management service for the RAF's Sentry platform was secured at £12.5m, building on MASS's existing support work for this customer. Late in the year, a nine-year managed service to run and support the Metropolitan Police Services' digital forensic programme at £8.6m was secured. This latter order, a significant win for MASS with a new customer in a growing market, utilises MASS's experience in running long-term technical managed service programmes. We are looking to expand this offering to other police and related security services in the UK and overseas.

MASS's closing order book of over £49m provides good underpinning for the coming year giving us optimism that MASS's revenue, including the former SCS division of Training Support, will grow.

In the near term, the majority of Cohort's business will continue to derive from the UK MOD, either directly or indirectly.

MCL had a very good year for order intake securing just over £23m to which a further £6m has been added since the start of the new financial year.

One of our objectives when acquiring MCL was to increase its order book visibility. The closing order book and recent wins give us confidence that it will continue to grow in the coming year.

SEA's order intake was down on last year and like its performance in 2016/17, was one of contrasts. Its SSP division, including transport products and services, had a very strong year, securing orders for over £13m. Defence, the core of SEA's business, was a mixed picture. Orders of nearly £12m were secured for maritime products and services, in contrast to research where order intake was only £3.0m, well below half the level of revenue in 2015/16 and with almost no orders secured in the area of Soldier Systems. We hope to see a pick-up in this area in 2017/18 but our expectation at present is that this will not return to the level of 2015/16.

The Subsea Engineering division of SEA continued to suffer from a tight market in 2016/17, although in the second half we did begin to see an improvement in monthly volumes of order wins.

SEA's closing order book of £44.0m provides reasonable underpinning for the coming year and along with some good prospects provides us with a reasonable expectation that SEA should show some growth compared to the current year.

In the near term, the majority of Cohort's business will continue to derive from the UK MOD, either directly or indirectly. The Government's Strategic Defence Review published in November 2015 gave high priority to a number of areas where the Group's capabilities are strong, including submarines, Special Forces, cyber and secure communications. It also brought a welcome increase in planned defence equipment spending originally set to begin in 2017/18. We do expect to see opportunities arising from this increase, but it is also clear that delays and cost growth are limiting the freedom of movement of the MOD and armed forces in acquiring new equipment. This tightness, coupled to a shortage of commercial staff and some problems with IT implementation, has resulted in unpredictable fluctuations between purchase commitments and cash controls in 2016/17. We expect this to continue into 2017/18.

We have continued to focus on growing our export business. Excluding EID, export sales in 2016/17 were £19m, some 4% higher than last year. Including EID, defence export sales (excluding EID's domestic market of Portugal) were nearly £32m, almost 30% of Group revenue, significantly higher than the 16% achieved in 2015/16. Correspondingly, our sales to the UK MOD, direct and indirect, reduced from 73% of revenue in 2016 to 58% in 2017.

The Group's non-defence revenue streams were also up by 10% compared to last year, with all of the growth coming from transport and in particular SEA's traffic enforcement products and services.

The oil and gas market continued to be difficult. Nevertheless, despite a fall in revenue from £3m to just under £2m, the Group's oil and gas business remained profitable with improved margins as a result of its mix of work.

The Group's defence and security business remains the significant majority of our business with 90% (2016: 91%) and will remain so going forward.

Looking forward, our order book and pipeline of prospects give us confidence that we will grow our revenue in the coming year.

### Funding resource and policy

The Group retains a robust financial position and continues to be cash generative enabling it to continue to invest in internal R&D and other value adding projects on a carefully considered basis as well as maintaining its progressive dividend policy.

The Group's cash position and its banking facility provide it with the resources to conduct its acquisition strategy.

RBS remains the Group's primary bank, especially for clearing purposes and day-to-day transactions.

In November 2015 the Group completed a tri-bank facility with Barclays, Lloyds and RBS.

The facility is a revolving credit facility for three years with an option to extend for up to a further two years. The amount is £25m with an option to extend by a further £10m to £35m.

The facility itself provides the Group with a flexible arrangement to draw down on for acquisitions and trading activities and as at 30 April 2017 the facility was drawn as follows:

| | Facility £m | Drawn £m |
|---|---|---|
| M&A loan | 10-15 | 3.5 |
| Overdraft | 3 | — |
| FX, bonding and other trade instruments | 7-12 | 0.9 |
| | 25 | 4.4 |

The above segmenting of the facility is approximate and there is scope to reallocate elements of the undrawn facility as necessary.

The three banks participate equally in the facility and it is the role of the Group treasury function to ensure that at any time the Group has available to it sufficient facilities to enable it to meet its requirements flexibly and efficiently.

The Group takes a prudent approach to treasury policy with its overriding objective being protection of capital. In implementing this policy, deposits are usually held with institutions with credit ratings of at least Baa2. Deposits are generally held on short (less than three months) duration to maturity on commencement. This matches the Group's cash resources with its internal 13-week cash forecasts, retaining flexibility whilst trying to ensure an acceptable return on its cash. Most of the Group's UK cash (that is not on short-term deposit) is managed through a set-off arrangement, enabling the most efficient use of the Group's cash from day to day, under the supervision of the Group's finance function.

### Funding resource and policy continued

MCL's cash balances were held with Barclays and were outside the above facility and offset arrangements. MCL's cash balances were absorbed into the Group's offset arrangement with RBS early in 2017/18.

The Group has retained its inherited bank relationship with Clydesdale in order for customer payments to be received where contractual terms or relationships make bank changes impractical. These accounts will be closed once they are no longer receiving deposits.

EID's bank facilities are managed locally with banks in Portugal. The cash is spread across a number of institutions to mitigate risk to the capital.

EID provides no security over its assets and its wide range of banks enable it to be well supported in executing export business.

The Group regularly reviews the ratings of the institutions with which it holds cash and always considers this when placing a new deposit.

The Group's return on net funds during the period was 0.0% to 0.75% (2016: 0.20% to 0.75%).

In addition to its cash resources, the Group has in issue 41.0m ordinary shares of 10 pence each. Of these shares 0.3m (2016: 0.7m) are owned by the Cohort plc Employee Benefit Trust (EBT), which waives its rights to dividends. In addition the Group has issued options over ordinary shares through Key Employee Share Option and SAYE schemes to the level of 1.7m at 30 April 2017 (2016: 1.8m).

The Group's exposure to foreign exchange risk arises from two sources:

1. the reporting of overseas subsidiaries' earnings and net assets in £ sterling; and
2. transactions in currencies other than our Group reporting currency (£) or subsidiary reporting currency where different (currently € at EID).

The first risk is a reporting rather than cash risk and we do not hedge the reporting of earnings.

In terms of reporting the assets, we have in place a natural hedge of borrowing in euros to acquire a euro asset (EID) but over time as the asset grows and the loan diminishes, this hedge will naturally wane.

We take a prudent approach to transactional foreign exchange risk requiring all significant sales and purchases to be hedged at the point in time when we consider the likelihood of the transaction to be certain, usually on contract award. We do not hedge account and mark these forward contracts to market at each reporting date, recognising any gain or loss in the income statement.

The Group, as in the past, has maintained its progressive dividend policy, increasing its dividend this year by 18% to a total dividend paid and payable of 7.1 pence per share.

The last five years' annual dividends, growth rate, earnings and cash cover are as follows:

| Year ended 30 April | Dividend paid and proposed Pence | Growth over previous year % | Earnings cover (based upon adjusted earnings per share) | Cash cover (based upon net cash generated from operations |
|---|---|---|---|---|
| **2017** | **7.1** | **18** | **3.9** | **0.2** |
| 2016 | 6.0 | 20 | 4.5 | 2.8 |
| 2015 | 5.0 | 19 | 4.1 | 9.2 |
| 2014 | 4.2 | 20 | 4.6 | 1.5 |
| 2013 | 3.5 | 21 | 5.1 | 2.9 |

The growth over recent years has moved the dividend from a relatively low base to a more normal level for an established cash-generative business.

Looking forward the Group plans to maintain a policy of growing its dividend each year but we expect the rate of growth to reduce over the coming years to align more closely with the earnings growth of the Group.

The Group's cash generation in 2016/17 was, as had been expected, weaker than last year. In summary, the Group's cash performance was as follows:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Adjusted operating profit | **14.5** | 11.9 |
| Depreciation and other non-cash operating movements | **1.4** | 1.5 |
| Working capital movement | **(11.2)** | (4.4) |
| | **4.7** | 9.0 |
| Acquisition of EID (net of cash required) | **(4.0)** | (0.7) |
| Acquisition of the minority of MCL (49.999%) | **(5.1)** | — |
| Reorganisation of SCS | **(1.3)** | — |
| Tax, dividends, capital expenditure, interest, loans and investments | **(5.6)** | (8.2) |
| (Decrease)/increase in net funds | **(11.3)** | 0.1 |

As signalled last year, we experienced a significant decrease in net funds in 2016/17. This outflow was mostly due to the acquisitions of MCL and EID but also an increase in working capital following a very strong inflow in the final quarter of 2015/16. This outflow was slightly worse than expected due to the delay to some significant receipts, £3.5m of which were received shortly after the year end.

The lower cash outflow in tax, dividends, etc. was due to lower investment in Cohort's own shares by the EBT on a net inflow of £0.5m (2016: outflow of £3.2m). Looking forward, we retain the flexibility to use newly issued shares as well as EBT shares to satisfy employee share options.

The Group's customer base of governments, major prime contractors and international agencies makes its debtor risk low. The year-end debtor days in sales were 42 days (2016: 31 days). This calculation is based upon dividing the revenue by month, working backwards from April, into the trade debtor's balance (excluding unbilled income and work in progress) at the year end. This is a more appropriate measure than calculating based upon the annual revenue as it takes into account the heavy weighting of the Group's revenue in the last quarter of each year. The increase in debtor days is a reflection of the high level of trading in the final quarter across the Group, especially at MASS, MCL and SEA and the inclusion of EID, which typically has longer credit periods granted to its customers.

## Tax

The Group's tax credit for the year ended 30 April 2017 of £1,144,000 (2016: credit of £54,000) was at an effective credit rate of 119% (2016: credit rate of 1.0%) of profit before tax. This includes a current year corporation tax charge of £2,444,000 (2016: £1,935,000), a prior year corporation tax credit of £845,000 (2016: credit of £368,000) and a deferred tax credit of £2,743,000 (2016: £1,621,000).

The current tax rate (including deferred tax) on profit before tax is lower than the standard rate (calculated at 19.92%; 2016: 20.00%), primarily due to recognition of research and development (R&D) credits in the current year (£0.4m) and statutory deductions on the exercise of share options by employees (£0.2m). The Group will continue to recognise its R&D tax credit in the tax line, in accordance with IAS 12, whilst its subsidiary statutory accounts now make use of the R&D expenditure credit (RDEC), recognising the tax credit in their operating costs.

The Group's overall tax rate was below the standard corporation tax rate of 19.92% (2016: 20.00%). The reduction is due to the reasons given above for the current year's rate and, in addition, a prior year tax credit in respect of the release of earlier year R&D tax credit provisions where tax years have now closed, and further tax allowable expenditure in respect of J+S prior to its acquisition by the Group. Both of these are regarded as one-off tax items. Looking forward, the Group's effective current tax rate for both 2017/18 and 2018/19 is estimated at 15%, taking account of the reduction in headline tax rates and assuming that the R&D tax credit regime remains unchanged from its current level and scope. The Group maintains a cautious approach to previous R&D tax credit claims for tax periods that are still open, currently 2015/16 and 2016/17.

## Exceptional items

The majority of the £2.7m exceptional cost in the year (just under £2.6m) was in respect of the reorganisation of SCS. The major elements were an onerous lease at SCS's former operating facility at Theale (£1.0m), redundancy and related costs (£1.0m) and fixed asset write offs and transition costs to integrate the former operating divisions of SCS into MASS and SEA. The exceptional items also included further costs of the acquisition of EID (£80,000) and completion of the acquisition of the minority of MCL (£47,000).

## Adjusted earnings per share

The adjusted earnings per share (EPS) of 27.93 pence (2016: 27.18 pence) is reported in addition to the basic earnings per share and excludes the effect of amortisation of intangible assets, exchange movement on marking forward exchange contracts to market, revaluing the cash set aside to acquire EID and exceptional items, all net of tax.

The adjusted earnings per share excludes the non-controlling interest of both EID and MCL, the latter up to 31 January 2017. This accounts for the difference between the 22% growth in adjusted operating profit and the 3% growth in the adjusted earnings per share. The reconciliation is as follows:

| | Adjusted operating profit £m | Adjusted earnings per share pence |
|---|---|---|
| Year ended 30 April 2016 | 11.9 | 27.18 |
| EID adjusted operating profit and earnings impact (57% owned for period from 28 June 2016 to 30 April 2017) | 4.2 | 4.60 |
| Growth in MCL adjusted operating profit and earnings impact (50% owned until 31 January 2017 and then 100% from then onwards) | 0.7 | 0.70 |
| 100% owned businesses throughout the year ended 30 April 2017 | (2.3) | (4.55) |
| **Year ended 30 April 2017** | **14.5** | **27.93** |
| Increase from 2016 to 2017 | 22% | 3% |

The adjustments to the basic EPS in respect of the exchange movements and other intangible asset amortisation of EID and MCL only reflect that proportion of the adjustment that is applicable to the equity holders of the parent, analysed as follows:

| | Adjustment to adjusted operating profit £000 | Applicable tax adjustment £000 | Adjustment to adjusted earnings per share (net of tax) £000 | |
|---|---|---|---|---|
| Exceptional items | 2,697 | (512) | 2,185 | |
| Exchange gain on marking forward contracts to market value and revaluing EID cash held for acquisition to market value at acquisition date (2016: year end) | (430) | 86 | (344) | |
| Amortisation of other intangible assets: | | | | |
| J+S | 1,686 | (337) | 1,349 | |
| MCL | 2,126 | (425) | 1,701 | *note 1* |
| EID | 3,511 | (788) | 2,723 | *note 2* |
| | 9,590 | (1,976) | 7,614 | |

Note 1: This adjustment is at 50% of the adjustment to adjusted operating profit, reflecting the share appropriate to the equity holdings of the parent up to 31 January 2017 when the non-controlling interest was acquired in full.

Note 2: This adjustment is at ~56.7% of the adjustment to the adjusted operating profit, reflecting the share appropriate to the equity holding of the parent.

As reported in the Chairman's statement, the adjusted earnings per share includes some one-off tax credits of £0.5m (2016: £0.9m) which when taken into account reduces the adjusted earnings per share by 1.30 pence to 26.63 pence (2016: 24.98 pence), 7% higher than last year's equivalent figure.

### Financial estimates and judgements

In preparing the Annual Report and Accounts of Cohort plc for 2017, a number of financial estimates and judgements have been made including:

#### Revenue recognition on fixed-price contracts

The judgement applied in recognising revenue on a fixed-price contract is made by reference to the cost incurred, including contingency for risk and the demonstrable progress made on delivering key stages (often referred to as milestones) of the contract. The Group uses best estimates in applying this judgement and where uncertainty of progress on a stage exists, revenue is not recognised for that stage.

The Group's customer base of governments, major prime contractors and international agencies makes its debtor risk low.

#### Cost contingency on fixed-price contracts

In addition to the judgement applied to revenue recognition, the cost of delivering a contract to a particular stage represents the actual costs incurred and committed plus an estimate of cost contingency for risk still present in the contract at that stage. This cost contingency takes account of the stage that the contract has reached and any judgement and uncertainty remaining to deliver the remainder of the contract. It is usual for these cost contingencies to reduce as the contract progresses and risk and uncertainty reduces.

#### Goodwill and other intangible assets

The Group has recognised goodwill and other intangible assets in respect of the acquisition of EID, MASS (including Abacus EW), MCL and SEA (including J+S). The other intangible assets are in respect of contracts acquired, intellectual property rights and specific opportunities and in each case are amortised over the expected life of the earnings associated with the other intangible asset acquired. The goodwill, which is not subject to amortisation but to annual impairment testing, arises from the intangible elements of the acquired businesses for which either the value or life is not readily derived. This includes, but is not limited to, reputation, contacts and market synergies with existing Group members. The goodwill relating to the acquisitions of EID, MASS (including Abacus EW), MCL and SEA (including J+S) has been tested for impairment as at 30 April 2017. In all four cases there was no impairment.

The Group performs significant research and development work for third parties for which tax credits are claimed. As this is performed for third parties no intangible asset is recognised. Where the Group performs its own research and development an intangible asset is only recognised where it meets the criteria of IAS 38 'Intangible Assets'.

#### Provisions

The Group makes estimates of provisions for existing commitments arising from past events. In estimating these provisions, the Group makes judgements as to the quantity and likelihood of the liability arising. Certain provisions require more judgement than others. In particular warranty provisions and contract loss provisions have to take account of future outcomes arising from past deliveries of products and services. In estimating these provisions, the Group makes use of management experience, precedents and specific contract and customer issues.

### Accounting policies

There were no significant changes in accounting policies applying to the Group for the year ended 30 April 2017.

### Additional financial reporting disclosure

As in the past, the Group makes reference to additional financial reporting over and above that required by IFRS, specifically:

#### Adjusted operating profit

The adjusted operating profit is presented to reflect the trading profit of the Group and excludes amortisation of other intangible assets, exchange differences on marking forward exchange contracts to market and on revaluing cash set aside for acquiring EID and exceptional items. This enables the Group to present its trading performance in a consistent manner year on year. The adjusted operating profit is stated after charging the cost of share-based payments of £221,000 (2016: £197,000) which is allocated to each business in proportion to its employee participation in the Group's share option schemes. The segmental analysis (see note 1) is disclosed for each business after deducting the cost of share-based payments.

The exchange adjustment on marking forward exchange contracts to market at the year end is a requirement of IFRS and has no economic impact upon the Group's performance or assets and liabilities.

**Andrew Thomis**
Chief Executive Officer

**Simon Walther**
Finance Director

# Market risks

## Customers

### Nature of risk

The Group's single most important customer remains the UK MOD. £35.1m of revenue came directly from this source in 2017 (2016: £46.5m), 31% (2016: 41%) of Group revenue. In addition, £30.8m (2016: £36.7m) of Group revenue, 27% (2016: 32%), was sourced ultimately from the UK MOD but received via other contractors. With the Government running a significant budget deficit and the current uncertainties arising from Brexit there is a risk that further controls on defence expenditure could be introduced, which could have an impact on the Group's ability to win new work or could result in termination of its existing contracts. Any event that affected the Group's reputation with the UK MOD could put this revenue at risk.

### Mitigation and progress

The decrease in the proportion of its revenue to its ultimate primary customer in 2017 compared with 2016 reflects the impact of the acquisition of EID, which had no revenue with the UK MOD in the current year, and also growth in export defence, cyber (security services) and transport. It also reflects the expected decrease in activity on the Royal Navy Submarine programmes as we move from design to production on the Astute class. Further reduction came from an unexpected tightening of SEA's research business and the drop off in the former SCS business' activity.

Despite the fall in UK MOD revenue, the Group's revenue in other growth areas did increase. Export defence sales increased from £18.3m (16%) in 2016 to £32.0m (28%) in 2017, in part boosted by the acquisition of EID. In acquiring EID we also added Portugal as a home market with £2.4m (2%) of revenue in 2017 (2016: £Nil). Non-defence sales (which include security) slightly increased to £12.4m (11%) from £11.3m (10%), with transport, in particular road enforcement systems, offsetting a decline in oil and gas revenues.

£33.9m (2016: £41.0m), 30% (2016: 36%) of Group revenue, representing 51% (2016: 49%) of revenue derived from the UK MOD, was in relation to the Astute and other submarine programmes, nuclear deterrent programmes and operational naval support, all of which have been confirmed as high priority areas following the Government's Strategic Defence and Security Review.

# Operational risks

## Suppliers

### Nature of risk

As is typical in the defence sector, the Group is reliant on certain key suppliers for specific elements of its technical and product offerings. This reliance is long term, with product duration in this sector often being tens of years.

### Mitigation and progress

This risk is managed through close liaison with suppliers, good project management and having contingency plans to go to alternative suppliers or bring work in house.

The long-term life of many defence products requires a regular review of product life and capability and the Group supports the customer in this respect through funded ongoing product support and re-life tasks.

# Operational risks continued

## Operations

### Nature of risk

(EID, MASS and SEA)
The subsidiary trading and business risks are similar in the cases of EID, MASS and SEA.

i. Bid risk – the businesses bid on contracts where the scope of work may not be well or fully defined by the customer.

ii. Fixed-price contracts – these are often of a long-term nature (greater than 12 months) and typically include delivery of hardware and software.

iii. Due to the nature of their niche technical skills requirement, EID, MASS and SEA have a fixed level of core software and hardware engineering and technical expertise.

MASS and SEA have both absorbed elements of the former SCS business. These absorbed areas, as highlighted in the past, have a mix of short and long-term order duration and require a flexible approach to using core staff (employees) and non-core staff (contractors) and the utilisation of staff is a key performance indicator.

### Mitigation and progress

This is typical in defence and is managed through bid/no bid reviews at the appropriate level using experienced personnel, including the Cohort Executive and Board.

These projects are managed by dedicated project management teams, monthly reviews by the subsidiary board and regular interaction with the customer and key suppliers. Revenue and cost are recognised taking account of risk and estimated cost at completion (including any contingency).

This cost base is carefully monitored at budget time and by rolling quarterly forecasts to identify any potential risk of low utilisation, and thus under-recovery of cost, or overutilisation leading to the inability to meet customer commitments.

The risk is mitigated, in the short term, by the use of subcontractor staff. In the long term, a programme of skills assessment and training is in place to ensure continued flexibility of the engineering resource.

The reorganisation of SCS has enabled the Group to mitigate the risk of low staff utilisation and short-term revenue visibility by utilising existing SEA and MASS staff and some of the revenue streams where visibility was very unpredictable no longer being sought.

### Nature of risk

(MCL)
MCL's revenue visibility is short at typically three to six months. This carries risk to staff utilisation and predictability of revenue and profit.

### Mitigation and progress

MCL's staff levels are low (2017: 28) and the people employed are flexible and possess multiple skills enabling them to take on design, integration and support tasks across the full range of MCL's product offering. MCL, in joining the Cohort Group, has a strategy to improve its visibility by securing longer-term contracts, utilising the Group's size and financial stability. This has been demonstrated this year where MCL's closing order book provides nearly 50% of the coming year's revenue target.

## Managed service contracts

### Nature of risk

The Group (through two of its subsidiaries, MASS and SEA) operates a number of off-site managed service contracts. These contracts are long term in nature (typically five years at commencement) and are managed through dedicated site project managers. The contracts are fixed price in terms of revenue with opportunities for additional tasks enhancing volume and return.

### Mitigation and progress

The Group carefully manages the partnership with its customer and supplier base in all these cases to ensure the customer receives value for money and skilled Group staff providing a dedicated, flexible and responsive approach. The primary risk to these managed service contracts is termination, which is mitigated by the partnering approach adopted by the Group and our close engagement with the customer to ensure customer requirements remain paramount at all times.

## Partners

### Nature of risk

The Group, especially in the defence sector, often secures business through teaming and partnering with other suppliers and this is often a requirement of securing work with the UK MOD in order to ensure the end customer receives the best solution. This creates a risk that the Group's revenue or profit will be affected by poor performance of a partner business.

### Mitigation and progress

The Group takes an active part in these arrangements and, through regular (usually monthly) project review meetings and other communication, ensures that the team (including our partners) delivers as a whole to the customer and to the needs of the individual team members.

# Strategic risks

## Acquisitions

### Nature of risk

The buying (and selling) of businesses is a risk in respect of value, distraction, integration and ongoing obligations and undertakings.

### Mitigation and progress

The Group's acquisition risk is mitigated as far as practicable by the acquisition process being managed at the Cohort Board level, making use of appropriate external expertise and resources as and when required.

# Financial risks

## Treasury

### Nature of risk

Cash and bank deposits are held as follows:

| | 2017 £'000 | 2016 £'000 | Moody's credit rating of bank as at 14 June 2017 |
|---|---|---|---|
| Royal Bank of Scotland Plc | **581** | 14,845 | A3 |
| Barclays Bank plc | **2,983** | 205 | A1 |
| Lloyds Bank plc | **483** | — | A1 |
| Clydesdale Bank | **60** | 104 | Baa2 |
| Novo Bank | **31** | 7,955 | Caa2 |
| Santander Bank | **1,441** | — | Ba1 |
| BCP Bank | **5,438** | — | Ba2 |
| CGD Bank | **841** | — | B1 |
| Other banks and cash | **159** | — | |
| | **12,017** | 23,109 | |

In November 2015 the Group completed a new tri-bank facility with Barclays, Lloyds and RBS. RBS remains the Group's primary bank, especially for clearing purposes and day-to-day transactions. The facility is a revolving credit facility for three years with an option to extend for up to a further two years. The amount is £25m with an option to extend by a further £10m to £35m. The facility itself provides the Group with a flexible arrangement to draw down on for acquisitions and trading activities.

This facility is available to all of the Group's entities (excluding EID) through an offset arrangement. MCL entered into the facility following the acquisition of the non-controlling interest. The current facility expires in November 2018, although the Group has an option to extend it for a further two years.

The facility is secured against all of the Group's UK businesses (and assets) and includes the Group's shares in EID. EID has facilities with local banks in Portugal, none of which have security over its assets. These facilities are for clearing bank purposes, foreign exchange contracts, guarantees and letters of credit.

A risk for the Group is ensuring that its pools of cash and facilities, both in the UK and Portugal, are adequate for local needs.

Under the Facility Agreement, the Group is required to meet certain banking covenants every quarter. There is a risk that the Group does not meet some or all of the covenants and that the facility is amended or cancelled as a consequence.

### Mitigation and progress

The Group takes a very prudent approach to the management of its financial instruments, which are described in note 19. The Group's cash is usually held with at least Ba2 rated institutions (including Portugal) and on deposits usually not exceeding three months. This ensures a very low risk to capital and a reasonable balance of liquidity against interest earned on cash deposits.

The Group regularly reviews the ratings and other relevant factors in respect of the banks with which it deposits its cash and on each and every occasion that a short-term deposit is placed.

The Group has regular (at least quarterly) meetings with its bank to discuss operational and other business issues.

The Group prepares a three-month cash forecast every other week to ensure that cash in the UK and Portugal is sufficient for local needs. The shareholder agreement in respect of EID will enable dividends to be paid from EID to the UK.

The Group regularly monitors its covenant position and considers the impact of proposed transactions vis-à-vis the banking covenants to ensure that they are not breached. It also has regular meetings with its banking providers to ensure that any potential issues or risks are identified and communicated early to ensure that any implications for covenants can be addressed and avoid any adverse changes or restrictions to the Group's facilities.

# Financial risks continued

## Currency risk

### Nature of risk

The Group has contracts with overseas customers and suppliers requiring payment or receipt in currencies other than £ sterling (in the UK) and euro (in Portugal).

The Group's exposure to credit risk at 30 April 2017 in respect of financial derivatives (forward foreign exchange contracts) was £2.5m of payable and £1.6m of receivable (2016: £0.8m of payable).

The financial derivatives at 30 April 2017 were all held with RBS, Lloyds and Barclays (30 April 2016: RBS, Lloyds and Barclays). These are disclosed in detail in note 19 to the financial statements.

### Mitigation and progress

The Group manages its exposure to currency risk by using forward foreign currency exchange contracts. The level of forward cover is determined contract by contract, taking into account the net currency exposure to receipts and purchases. Forward contracts are only put in place when customer contracts are deemed highly probable. The Group does not enter into speculative forward exchange contracts. The Group's primary exposure is to the US$ through MCL, which purchases a number of products in the United States, and SEA with sales in the United States. The Group's exposure to the fluctuation in currency in respect of its reporting subsidiaries, which have a reporting currency other than sterling as their base currency, is not hedged.

## Revenue

### Nature of risk

The Group has risk in respect of:

i. milestone and acceptance failure on projects; and

ii. unrecoverable trade debts.

The recognition of revenue is discussed at length in the Accounting policies (page 77) and Critical accounting judgements (pages 78 and 79) and as such may from time to time have a degree of risk.

The 2017 bad debt charge was £7,000 (2016: £Nil) on Group revenue of £112.7m (2016: £112.6m).

Financial assets exposed to credit risk at 30 April:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Trade receivables | **22.5** | 18.3 |
| Other receivables | **15.3** | 9.7 |
| Cash and bank deposits | **12.0** | 23.1 |

### Mitigation and progress

The Group takes a prudent approach to revenue and credit risk, and any work done at risk is minimal, authorised at the appropriate level and reviewed on a monthly basis.

The Group uses project control processes and regularly reviews project progress to ensure recognition of revenue takes account of external milestones and customer acceptance as well as the internal costs incurred.

The calibre of the Group's customers and the control processes in respect of revenue capture and invoicing ensures minimal bad debts.

The Group also uses letters of credit and other methods of payment guarantee, including customer advances, especially in respect of overseas customers, to ensure any export debt risk is minimised.

Significant debt receivable in foreign currency is hedged using forward exchange contracts which are entered into when contracts are deemed effective.

The risk to the major debtor of the Group, as a government department, is considered very low.

## Corporate governance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## Nick Prest CBE ■ ■

### Chairman

**Term of office**
Nick became Chairman of Cohort on flotation in March 2006.

**Background and experience**
After graduating from Oxford in 1974 Nick joined the UK MOD. In 1982 Nick moved to Alvis, the defence contractor, undertaking a variety of roles before becoming Chief Executive in 1989 and Chairman and Chief Executive in 1996. Nick left Alvis following its acquisition by BAE Systems in 2004, by which time the company had become a leading international business in military land systems.

Nick was also Chairman of Aveva Group plc from 2006 until 2012.

**External appointments**
In addition to being Chairman of Cohort, Nick is also Chairman of Shephard Group, a privately owned media company specialising in defence and aerospace.

## Andrew Thomis ■

### Chief Executive

**Term of office**
Andrew took over as Chief Executive of Cohort in May 2009.

**Background and experience**
Andrew graduated with an M.Eng degree in Electrical and Electronic Engineering from Imperial College London in 1987. He spent nine years in science, technology and policy roles in the UK MOD. He left in 1996 and, after a period working with public and private sector clients at Capita plc's management consultancy arm, he joined Alvis in a role covering strategy, M&A and business development. Following the acquisition of Alvis by BAE Systems in 2004, he worked with Nick Prest and Stanley Carter on the creation of Cohort plc, acting as Finance Director during the flotation and subsequently Corporate Development Director. From 2007 to 2009 he was Managing Director of MASS.

## Simon Walther ■

### Finance Director and Company Secretary

**Term of office**
Simon joined Cohort as Finance Director in May 2006.

**Background and experience**
After graduating with a BSc in Toxicology and Pharmacology from University College London, Simon went on to qualify as a Chartered Accountant with Touche Ross in 1992. Simon moved to the Peninsular and Oriental Steam Navigation Company (P&O) in 1993 where he was appointed a Chief Accountant for P&O European Ferries in 1995. He has 20 years' industry-relevant experience, with previous senior finance roles at Alvis and BAE Systems.

■ Member of the Cohort plc Board of Directors

■ Member of the Remuneration & Appointments Committee

■ Member of the Audit Committee

## Executive Management 2016/17

## Stanley Carter

### Non-executive Director

#### Term of office
Stanley has been with Cohort since its formation, initially as its Chief Executive before holding the office of Co-Chairman from 2009 until 2015.

#### Background and experience
Stanley jointly founded Cohort with Nick Prest in 2006 with SCS as the launch vehicle on flotation. Prior to that he was Managing Director of SCS, which he founded in 1992 on leaving the Regular Army. During his military service as a Royal Artillery Officer he held a wide range of posts in the MOD, including with the central staff, in procurement and at government research establishments, as well as representing the UK on NATO technical committees. He received an award for the invention of a missile launcher from the UK MOD. He has degrees in Technology and Behavioural Science from Loughborough University and the Open University respectively, and an MSc in Information Systems from the Royal Military College of Science.

## Jeff Perrin

### Independent Non-executive Director

#### Term of office
Jeff joined the Board of Cohort on 1 July 2015 and became Chairman of the Audit Committee following the AGM on 22 September 2015.

#### Background and experience
A chartered certified accountant, Jeff has held a number of senior financial positions including roles within Unilever, Oriflame, and the defence businesses of GEC and Radstone Technology Plc. In the latter company, he was also Chief Executive for four years until his departure a year after its acquisition by the General Electric Company in 2006.

#### External appointments
Jeff is also Chairman of the private equity-backed defence company Chess Technologies Ltd, a position he has held since 2008.

## Sir Robert Walmsley KCB, FREng

### Independent Non-executive Director and Senior Independent Director

#### Term of office
Sir Robert joined the Board of Cohort on flotation in March 2006. He is Chairman of the Remuneration & Appointments Committee.

#### Background and experience
Sir Robert served in the Royal Navy from leaving school until his final appointment as a Vice Admiral. After retiring from the Navy, he was appointed as Chief of Defence Procurement for the UK MOD, occupying that position from 1996 until 2003. He served on the British Energy board from 2003 until 2009 and until 2012 was a senior adviser at Morgan Stanley International and Chairman of the Major Projects Association. From 2004 until 2015, he served on the board of General Dynamics Corporation in the United States.

#### External appointments
Sir Robert is on the board of Ultra Electronic Holdings plc and holds a number of other advisory roles in the defence and energy sectors. Since 2013 he has been the independent Chairman of the Department for Work and Pensions' Universal Credit programme and since 2014 he has been a Crown Representative within the Crown Commercial Service.

## António Marcos Lopes

### Managing Director of EID

#### Term of office
António was appointed as Managing Director of EID in July 2016.

#### Background and experience
António graduated from the University of Lisbon as an electronics and telecommunications engineer in 1977, immediately joining the Portuguese Navy as an officer. At the same time, he was Assistant Professor of Mathematics at the University of Economics in Lisbon. António joined EID 35 years ago, as a research and development engineer. He assumed the leadership of the Naval Communications Division in 1996 and was appointed to the board of directors in 2000 as an Executive Director of the company. He was appointed Managing Director in July 2016 following Cohort's acquisition of EID.

From 2001 to 2003 António was a Non-executive Director of STE, Serviços de Telecomunicações e Electrónica, S.A. and from 2001 to 2010 he was a member of the board of directors of NEC Portugal – Telecomunicações e Sistemas S.A.

## Chris Stanley

### Interim Managing Director of MASS

#### Term of office
Chris was appointed as Interim Managing Director of MASS in April 2017.

#### Background and experience
After graduating from the University of Leicester with a BSc in Astrophysics and obtaining a master's degree in Microwave Solid State Physics from the University of Portsmouth, Chris started his career designing radar systems and antennas for Racal Defence before spending six years developing radar and IR countermeasures for the RAF at the Electronic Warfare Operational Support Establishment. Chris then spent four years as the Mathematical Modelling Group Manager at GEC Avionics, designing and developing advanced radar systems. During this time he also gained an MBA from Henley Management College.

Chris managed and directed the Technical Services business unit within the VT Group before moving to MASS in December 2007 as Director of the EWOS division and most recently filling the position of Managing Director at MASS.

## Darren Allery

### Managing Director of MCL

#### Term of office
Darren became Managing Director of MCL in March 2009.

#### Background and experience
Darren has over ten years' senior managerial experience in the international defence sector. He began his career in 1985 at MEL as an Electronics Engineer. In 1990, he moved to MCL as a Support Engineer, primarily supporting electronic warfare equipment, specialising in ELINT. His roles at MCL have included Support Engineer, Support Manager, EW Sales Manager and Business Development Director.

## Stephen Hill

### Managing Director of SEA

#### Term of office
Stephen was appointed as Managing Director of SEA in March 2011.

#### Background and experience
Stephen has over 15 years' senior managerial experience, predominantly in the international aerospace and defence sector. He began his career in 1983 at GEC-Marconi as an Electronics Engineer, eventually becoming Business Director, with responsibility for the Land Systems electro-optics business at Basildon. In 2000, he moved to Thales, where his roles included Managing Director of the Air Operations business at Wells and Vice President with responsibility for the UK Air Systems Division. Prior to joining the Cohort Group, he was Chief Executive of CircleBath, a venture capital-backed private hospital in Bath. Stephen has a first class honours degree in Electrical and Electronic Engineering and a master's in Engineering Project Management, and is a qualified Chartered Director.

# Managing the Group in a flexible and effective manner

It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets, major items of expenditure, major contract bids, acquisitions and disposal.

## Introduction

As an AIM-quoted company, Cohort plc is not required to comply with the UK Corporate Governance Code (the Code). Nevertheless, the Board welcomes the clarity provided by the code and seeks to comply wherever this is appropriate for its size and complexity. This Corporate Governance report complies with the 2013 Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies (the QCA Code).

## The Board

As at 30 April 2017, the Board of Directors comprised the Chairman, Nick Prest CBE; two Executive Directors, Andrew Thomis and Simon Walther; and three Non-executive Directors, Stanley Carter, Jeff Perrin and Sir Robert Walmsley.

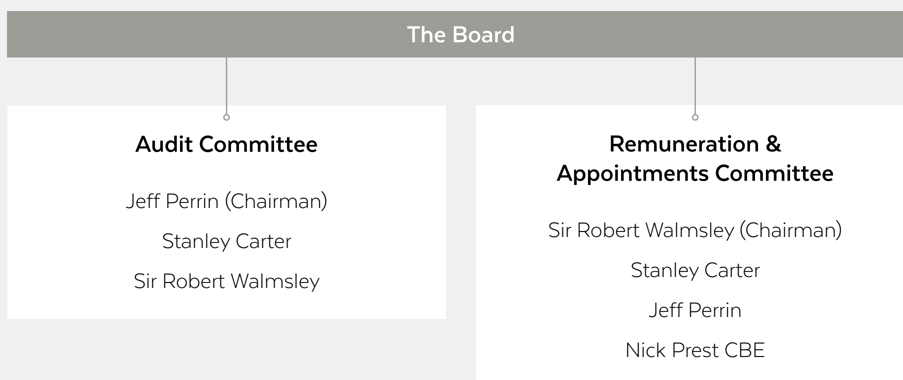
The Board has determined that Sir Robert Walmsley and Jeff Perrin are independent. In Sir Robert's case the Board has specifically considered his length of service on the Board and determined that in terms of interest, perspective and judgement he remains independent. The Board is therefore compliant with the QCA Code in having two independent Non-executive Directors. Sir Robert Walmsley has been designated as the Senior Independent Director. Sir Robert supports the Chairman in the delivery of the Board's objectives. Sir Robert is available to all shareholders should they have any concerns if the normal channels of Chairman, Chief Executive and Finance Director have failed to resolve them, or for which contact is inappropriate.

The Board meets most months and receives a monthly Board pack comprising individual reports from each of the Executive Directors and the subsidiary Managing Directors, together with any other material necessary for the Board to hold fully informed discussions to discharge its duties, including the review of Company strategy to ensure this aligns with creating shareholder value. It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets, major items of expenditure, major contract bids, acquisitions and disposal.

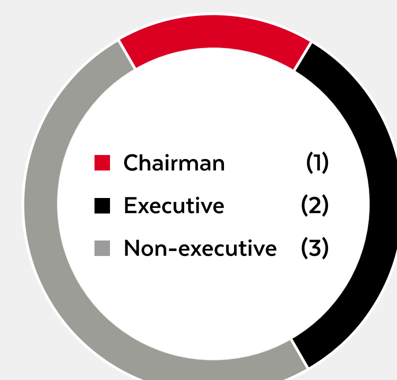
All Directors retire by rotation and are subject to election by shareholders at least once every three years. The Board has recently undertaken a formal evaluation of its performance. The results were broadly satisfactory. Some proposals for minor changes in the way the Board operates emerged from the evaluation and these will be considered and, where appropriate, implemented in the current year.

## Governance structure

### Corporate structure




### Board composition



## Board Committees

The Board has established two Committees: Audit and Remuneration & Appointments, each having written terms of reference.

## Attendance at Board and Committee meetings

Board and Committee meetings are scheduled in advance for each calendar year. Additional meetings are arranged as necessary including meetings with subsidiary Managing Directors to review strategic and financial plans. The scheduled Board and Committee meetings and attendance during the year ended 30 April 2017 were as follows:

| | Board (7 formal meetings) | Audit Committee (3 meetings) | Remuneration & Appointments Committee (2 meetings) |
|---|---|---|---|
| N Prest CBE (Chairman) | ■■■■■■■ | – | ■■ |
| S Carter (Non-executive Director) | ■■■■■■■ | ■■■ | ■■ |
| Sir Robert Walmsley (Non-executive Director) | ■■■■■■■ | ■■■ | ■■ |
| J Perrin (Non-executive Director) | ■■■■■■■ | ■■■ | ■■ |
| A Thomis (Chief Executive) | ■■■■■■■ | – | – |
| S Walther (Finance Director and Company Secretary) | ■■■■■■■ | – | – |

## Auditor's remuneration

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company and consolidated accounts | **20** | 22 |
| Fees payable to the Company's auditor for the audit of the Company's subsidiaries | **135** | 121 |
| Total audit fees | **155** | 143 |
| Interim review fee | **19** | 14 |
| Fee in respect of due diligence on the acquisition of EID | **–** | 53 |
| Other non-audit fees | **–** | 5 |
| Total non-audit fees | **19** | 72 |
| Total fees paid to the auditor and its associates | **174** | 215 |
| Charged to profit for the year | **174** | 215 |

## Audit Committee

The Audit Committee comprises the three Non-executive Directors and is scheduled to meet at least three times a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply financial reporting under IFRS, the Companies Act 2006 and the internal control requirements of the QCA Code, whilst maintaining an appropriate relationship with the independent auditor of the Group.

Jeff Perrin is Chairman of the Audit Committee having a relevant background. The current terms of reference of the Audit Committee were reviewed and updated in June 2017.

## Audit Committee consideration of the financial statements

In making its recommendation that the financial statements be approved by the Board, the Audit Committee has taken account of the following significant issues and judgement areas:

## Areas of judgement

### Revenue recognition on fixed-price contracts

The judgement applied in recognising revenue on a fixed-price contract is made by reference to the cost incurred, including contingency for risk and the demonstrable progress made on delivering key stages (often referred to as milestones) of the contract. The Group uses best estimates in applying this judgement and where uncertainty of progress on a stage exists, revenue is not recognised for that stage.

### Cost contingency on fixed-price contracts

In addition to the judgement applied to revenue recognition, the cost of delivering a contract to a particular stage represents the actual costs incurred and committed, plus an estimate of cost contingency for risk still present in the contract at that stage. This cost contingency takes account of the stage that the contract has reached and any judgement and uncertainty remaining to deliver the remainder of the contract. It is usual for these cost contingencies to reduce as the contract progresses and risk and uncertainty reduces.

### Goodwill and other intangible assets

The Group has recognised goodwill and other intangible assets in respect of the acquisitions of MASS (including Abacus EW), SEA (including J+S), MCL and EID. The other intangible assets are in respect of contracts acquired, intellectual property rights and specific opportunities and in each case are amortised over the expected life of the earnings associated with the other intangible asset acquired. The goodwill, which is not subject to amortisation but to annual impairment testing, arises from the intangible elements of the acquired businesses for which either the value or life is not readily derived. This includes, but is not limited to, reputation, customer relations, contacts and market synergies with existing Group members. The goodwill relating to the acquisitions of MASS (including Abacus EW), SEA (including J+S), MCL and EID has been tested for impairment as at 30 April 2017. In each case there was no impairment. The impairment test for the goodwill in respect of SEA is more sensitive, with no impairment at the Group's post-tax weighted average cost of capital (WACC) of 11.0% (2016: 10.2%) but the goodwill of SEA would become impaired if the Group's post-tax WACC increases to nearly 17%. The Group's 2017 post-tax WACC of 11.0% is higher than the 2016 equivalent of 10.2%, which reflects higher equity risk and volatility in the share price of Cohort plc. The Group's pre-tax WACC is 15.1% (2016: 14.1%).

SEA's goodwill is more sensitive to impairment due to it currently having lower future operating cash inflows.

## Provisions

The Group makes estimates of provisions for existing commitments arising from past events. In estimating these provisions, the Group makes judgements as to the quantity and likelihood of the liability arising. Certain provisions require more judgement than others. In particular, warranty provisions and contract loss provisions have to take account of future outcomes arising from past deliveries of products and services. In estimating these provisions, the Group makes use of management experience, precedents and specific contract and customer issues.

## Accounting policies

There were no significant changes in accounting policies applying to the Group for the year ended 30 April 2017. EID, which was acquired on 27 June 2016, adopted the Group's accounting policies from that date with any policy alignments reflected in the fair value accounting exercise.

## Alternative performance measures (APM)

The Group reports a number of APMs which are not in accordance with the reporting requirements of IFRS. The Audit Committee has reviewed these during the year ended 30 April 2017 to ensure they are appropriate and that in each case:

- the reason for their use is clearly explained;
- they are reconciled to IFRS; and
- they are not given prominence over the equivalent IFRS figure.

The most important APM's reported by the Group are as follows:

### Adjusted operating profit

This is used by the Group to report what the Board considers is its trading profit in a consistent manner, year on year, to provide the readers of the accounts with a consistent comparative. This is derived from operating profit/(loss) as reported under IFRS by excluding amortisation of other intangible assets, most of which arises on acquisition of subsidiaries and exceptional items, including acquisitions costs and reorganisations and foreign exchange movements from non-trading activities, and marking forward exchange contracts to market value.

The reconciliation of operating profit (IFRS) to adjusted operating profit is shown in the Consolidated income statement (page 43).

### Adjusted earnings per share

Based upon the adjusted operating profit after taking account of tax applying to adjusted operating profit and interest to enable the Group to report an earnings per share figure based upon what the Board considers is a more appropriate and comparable earnings basis.

This is reconciled to the headline (IFRS) earnings per share in note 9 on page 54.

### Order intake and order book

These measures are not covered by IFRS. The Board considers them critical APMs as they provide readers of the accounts with an indication of how much business the Group is winning and how much of its future revenue is on contract to be delivered.

The Group only reports contracted orders (including purchase orders) in its order intake and order book and does not include any value attributable to frameworks or other contracting mechanisms unless confirmed by a legally enforceable contract or purchase order.

The delivery of the order book in future periods is shown on page 20 and provides the Board with one of the key components in its going concern assessment.

There are a few other APMs reported which are highlighted elsewhere in this report.

## Independent auditor

The independent auditor liaises with the Audit Committee regarding work to be undertaken and complies with the Ethical Standards for Auditors issued by the Auditing Practices Board. Prior to commencing its audit work, the independent auditor confirmed in writing the nature of any non-audit work carried out on behalf of the Group and the safeguards in place to ensure its independence and objectivity; any in-year proposals for non-audit work are subject to prior approval by the Audit Committee.

The independent auditor presented its audit plan to the Audit Committee prior to the Audit Committee meeting held in March 2017. The plan was reviewed and approved at that meeting with specific areas of focus by the independent auditor discussed in detail for the ensuing audit.

The independent auditor (KPMG LLP) was appointed in March 2010. The current audit engagement partner has been in place since the audit for the year ended 30 April 2015.

The analysis of KPMG LLP (2016: KPMG LLP) remuneration is shown in the table on page 33.

Fees payable to KPMG LLP and its associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis only.

## Whistle-blowing

The Group has formal arrangements in place to facilitate whistle-blowing by employees through a contract with a third-party service provider. If any call is made to this third party, either the Chief Executive or the Senior Independent Director is notified promptly of the fact and the content of the call, so that appropriate action can be taken.

## Remuneration & Appointments Committee

The Remuneration & Appointments Committee comprises the Company Chairman and the Non-executive Directors and is scheduled to meet at least twice a year. The role of the Remuneration & Appointments Committee is to:

- establish a formal and transparent policy on Executive remuneration and to set remuneration packages for individual Executive Directors (and such other senior employees as the Board may determine);
- assess the performance of the individual Executive Directors (and such other senior employees as the Board may determine) against these packages and determine the related remuneration;
- undertake the role, in conjunction with the Chief Executive, of proposing individuals to the Board for such appointments as the Board may from time to time request; and
- undertake any other tasks appropriate to the Committee requested by the Board.

Sir Robert Walmsley is Chairman of the Remuneration & Appointments Committee.

## Management of the Group and its subsidiary undertakings

The management of the Group and subsidiary undertakings is as follows:

### Group management

- The Cohort Board will meet at least seven times per calendar year, in addition to business and strategic reviews which are not recorded as formal Board meetings.
- The Group Executive Committee will meet at least four times per calendar year, comprising Cohort Executive Directors and subsidiary Managing Directors.

### Subsidiary management

- There are monthly Executive Management meetings involving the senior management of each subsidiary. Cohort Executive Directors attend subsidiary Executive Management meetings on a regular basis.

## Shareholder relations

The Company places a great deal of importance on communication with all shareholders. The Company meets with its institutional shareholders and analysts as appropriate and uses the AGM to encourage communication with private shareholders. In addition, the Company uses the Annual Report and Accounts, the Interim Report, the website (www.cohortplc.com), social media, webcasts and email news alerts to provide further information to shareholders. The Company receives feedback from its institutional shareholders, via its Nomad, on a regular basis.

## Internal control and risk management

The Board has overall responsibility for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the Audit Committee reviews the effectiveness of these systems. This is achieved primarily by considering the risks potentially affecting the Group and from discussions with the external auditor.

The Board is not aware of any significant failings or weaknesses in the system of internal control.

On the recommendation of the Audit Committee, the Board has determined that an internal audit function is not required due to the small size of the Cohort administrative function and the high level of Director review and authorisation of transactions. The Board will keep this matter under review as the Group develops.

A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. In addition, the Group conducts quarterly re-forecasts. The Group's results, as compared against budget and the latest quarterly forecast, are reported to the Board on a monthly basis and discussed in detail at each meeting of the Board.

The subsidiary balance sheets are reviewed in detail on a quarterly basis by the Cohort Finance Director.

### Anti-bribery

The Group has an anti-bribery policy and each of its businesses has implemented that policy and adequate procedures described by the Bribery Act 2010 (the Act) to prevent bribery. Each business within the Group reports annually to the Board on its compliance with the policy and procedures. The Cohort Chief Executive is the Board member responsible for the Group's compliance. As part of its procedures, the Group has implemented training in respect of compliance with the Act for its employees.

The Group's anti-bribery policy is reviewed at least every two years or more often if necessary. The policy was last reviewed and updated in June 2017.

### Modern slavery

The Group has an anti-slavery policy to address the aspects of modern slavery as set out in the Modern Slavery Act 2015 (the MSA). In accordance with the requirements of the MSA, the Group and each UK member of the Group have published a statement on their respective websites setting out the steps the Group and they have taken to ensure that slavery and human trafficking are not taking place in their respective businesses and supply chains. A copy of the statement can be found in the Corporate Governance section of the Cohort website (www.cohortplc.com). The Group's Portuguese subsidiary, EID, has in place an anti-slavery policy which is aligned with the Group's policy.

The Group's anti-slavery policy was first adopted in April 2016 and will be reviewed at least every two years or more often as necessary.

### Cyber risk

The Group has a Security Policy Framework which covers physical and cyber security of its assets, employees and information, including third-party information, as well as business continuity and disaster recovery procedures. Each business within the Group reports annually to the Board on the applicability of and its compliance with the Group's Security Policy Framework.

The Group's Security Policy Framework is frequently reviewed, taking account of best practice and requirements in government and industry, and was last updated in March 2016.

## Directors' report

### Introduction

The Directors present their report and the audited financial statements (pages 43 to 79) of Cohort plc for the year ended 30 April 2017. Cohort plc is a company incorporated in and operating from England. Its registered address is 2 Waterside Drive, Arlington Business Park, Theale, Reading RG7 4SW. The Corporate Governance report set out on pages 32 to 35 forms part of this report.

### Principal activities

The principal activity of the Company is that of a holding company. The principal activities of the Group are described in our business and capabilities report on pages 8 and 9.

The Chairman's statement is included in the Overview section on pages 4 to 7.

### Dividends

The Directors recommend a final dividend of 4.90 pence (2016: 4.10 pence) per 10 pence ordinary share which, subject to shareholder approval, is due to be paid on 13 September 2017 to ordinary shareholders on the register on 18 August 2017. Together with the interim dividend of 2.20 pence paid on 1 March 2017, the full dividend for the year will be 7.10 pence (2016: 6.00 pence), an increase of 18% over last year.

### Table 1: Information in respect of the Directors of the Company

| Disclosure | Report | Pages |
|---|---|---|
| Directors who served throughout the year | Remuneration & Appointments Committee report | 37 to 39 |
| Directors retiring by rotation | Remuneration & Appointments Committee report | 37 to 39 |
| Directors' biographies | Board of Directors and Executive Management | 30 and 31 |
| Directors' interests | Remuneration & Appointments Committee report | 37 to 39 |
| Directors' share options | Remuneration & Appointments Committee report | 37 to 39 |

### Table 2: Substantial shareholdings and voting rights

| | Percentage of voting rights and issued share capital % | Number of ordinary shares | Nature of holding |
|---|---|---|---|
| S Carter | 22.23 | 9,105,718 | Direct |
| Schroders | 14.59 | 5,977,496 | Direct |
| Hargreave Hale Ltd stockbrokers | 10.21 | 4,182,973 | Direct |
| BlackRock Inc. | 5.34 | 2,187,628 | Direct |
| N Prest CBE | 5.07 | 2,076,738 | Direct |

### Research and development

During the year ended 30 April 2017 the Group expenditure on research and development, both on behalf of customers and the Group's own private venture expenditure, was £7.9m (2016: £5.3m).

## Going concern
The Group's financial statements have been prepared on the going concern basis. The reasons for this are set out on page 72 of the accounting policies.

## Capital structure
Details of issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 20. The Company has one class of ordinary shares, each of which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 21. The Trustee of the Cohort Employee Benefit Trust (EBT) (see note 22) abstains from voting on the Company's shares held on trust and these shares do not receive any dividend.

At 30 April 2017, the EBT held 315,248 Cohort plc ordinary shares, 0.77% of the issued share capital (2016: 755,743; 1.8%). The maximum number held at any time in the year ended 30 April 2017 was 784,743, 1.92% of the issued share capital. Shares in Cohort plc are acquired and disposed of by the EBT for the purposes of satisfying employee share option and restricted share schemes, details of which are shown in note 22.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the QCA Code, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Corporate Governance report on pages 32 to 35.

Under its Articles of Association, the Company has authority to issue up to half of its issued shares as new ordinary shares. This approximates to 20.5m shares at 30 April 2017.

There are also a number of other agreements that take effect, alter or terminate upon a change of control of the Company, such as: commercial contracts; bank facility agreements; property lease arrangements; and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid, other than those disclosed in the Remuneration & Appointments Committee report on pages 37 to 39.

## International Financial Reporting Standards (IFRS)
The Group and parent company's reported results for the year ended 30 April 2017 are prepared in accordance with IFRS as adopted by the EU.

## Directors
The Group maintains appropriate insurance cover in respect of legal actions against the Directors, as well as against material loss or claims against the Group, and reviews the adequacy of the cover regularly.

Details of information in respect of the Directors of the Company are referenced in Table 1 on page 35.

## Fixed assets
There is no material difference between the book value and current open market value of the Group's interests in land and buildings.

## Employee consultation
The Group organises staff communications locally through its subsidiary undertakings as well as delivering an annual strategy presentation to all the Group's employees at the main sites of employment. The media used for organised communications includes the Group intranet, local intranets, in-house magazines, staff bulletins, presentations and copies of press releases. In addition, regular staff meetings are held and notices are published containing information about matters of interest within the Group and its subsidiaries.

## Disabled employees
The policy of the Group is to offer the same opportunities to disabled people as to all others in respect of recruitment and career advancement, provided their disability does not prevent them from carrying out their required duties. Employees who become disabled will, wherever possible, be retained, rehabilitated and, where necessary, retrained.

## Donations
During the year ended 30 April 2017 the Group made charitable donations of £33,949 (2016: £36,255), mainly in respect of military and local charities. The Group made no political donations during the year (2016: £Nil).

## Substantial shareholdings
The Company has been notified as at 7 June 2017, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the voting rights of substantial shareholders of the Company as shown in Table 2 on page 35.

## Re-appointment of auditor
A resolution to re-appoint KPMG LLP as auditor will be proposed at the AGM.

The Directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the Directors has confirmed that they have taken all the steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Approved by the Board of Directors on 29 June 2017 and signed on its behalf by:

**Simon Walther**
Company Secretary

## Introduction

The Remuneration & Appointments Committee of the Board is, inter alia, responsible for considering Directors' remuneration packages and making recommendations to the Board.

## Remuneration policy

Remuneration packages are designed to be competitive and to incentivise and reward good performance.

Executive Directors receive salary, medical cover and pension contributions as well as annual cash bonuses, shares and share options. As from 1 May 2017, each Executive Director will also receive an annual medical.

## Service contracts of the Executive Directors who served in the year

Andrew Thomis and Simon Walther have service agreements with the Company which can be cancelled by either party giving six months' notice at any time or 12 months' notice in the event of losing office as a consequence of a change of control arising as a result of any person or persons acquiring more than 50% of the voting rights at a general meeting of the Company.

## Pensions

During the year ended 30 April 2017, the Group made contributions to a stakeholder pension scheme (a defined contribution scheme) at a rate of 10% of any Executive Director's contribution plus 3% of the Executive Director's salary per annum to the same scheme.

## Directors' interests

| | **At 30 April 2017 Number of 10p ordinary shares** | At 30 April 2016 Number of 10p ordinary shares |
|---|---|---|
| S Carter | **9,105,718** | 9,105,718 |
| N Prest CBE | **2,076,738** | 2,076,738 |
| J Perrin | **4,000** | 4,000 |
| A Thomis | **115,588** | 100,000 |
| Sir Robert Walmsley | **30,000** | 30,000 |
| S Walther | **103,974** | 88,039 |

## Directors' interests in the equity of Cohort plc

The Directors in office during the year under review and their interests in the equity of the Company are shown in the table above. The changes in the Executive Directors' equity interests in the Company between 30 April 2016 and 30 April 2017 are analysed as follows:

| | A Thomis | S Walther |
|---|---|---|
| At 30 April 2016 | 100,000 | 88,039 |
| Shares awarded under Restricted Share scheme | 12,007 | 9,515 |
| Cohort plc shares purchased through Cohort plc SAYE scheme | 2,330 | 5,825 |
| Automatic dividend reinvestment in shares (within an ISA and/or a SIPP), net of shares sold to settle transfer | 1,251 | 595 |
| **At 30 April 2017** | **115,588** | **103,974** |

The Executive's shareholdings at 30 April 2017 represent 214% of Andrew Thomis' and 245% of Simon Walther's annual salaries respectively (at 30 April 2016 the respective levels were 180% and 200%) and are based upon the market price of Cohort plc shares at those respective dates: £4.250 at 30 April 2017 and £3.825 at 30 April 2016.

Of the above shareholdings at 30 April 2017, 19,095 (2016: 20,579) of Andrew Thomis' and 15,294 (2016: 16,936) of Simon Walther's are held on trust by the EBT as part of the Restricted Share scheme and do not receive a dividend.

There was no change in the interests of the other Directors. None of the Chairman's or the Non-executive Directors' shareholdings are held as part of the Restricted Share scheme (2016: nil).

## Performance incentives

The Cohort Executive Directors' incentive scheme was agreed by the Board on 19 June 2013 following a recommendation from the Remuneration & Appointments Committee. This scheme has applied for the year ended 30 April 2017 and will also apply for the year ended 30 April 2018.

The incentive scheme comprises two elements:

### 1. In-year performance

The bonus payable to the Cohort Executive Directors in respect of each and every year will be based upon performance compared to budget for adjusted operating profit and operating cash flow and will be payable up to a maximum of 15% of salary.

### 2. Long-term performance

The Cohort Executive Directors will be eligible to receive the following based upon achieving annualised profit growth targets:

i. Up to 20% of salary as a cash bonus.

ii. Up to 20% of salary as Restricted Shares. This is calculated as the number of shares under the Restricted Share scheme at the average share price for the respective year.

From 1 May 2016, a further 10% of salary over and above the 20% shown in i. and ii. is payable either as cash or Restricted Shares under the long-term performance scheme.

iii. A discretionary award of up to 20% of salary as share options (calculated as the number of shares under option at the market price on the day of grant).

These rewards are payable for the year ended 30 April 2017 on a linear basis from zero to 20% (plus up to a further 10% as cash or Restricted Shares, at the Executive's choice) of salary as the compound annual growth rate in adjusted profit before interest and tax per share (after excluding non-controlling interests) over a rolling four-year period starting 1 May 2013 goes from zero to 10%.

Full beneficial ownership of Restricted Shares (including voting and dividend rights) will accrue to the recipients in stages over a three-year period from the date of award. Recipients may only sell Restricted Shares with the approval of the Chairman of the Remuneration & Appointments Committee while they remain in employment with the Company. Income tax and National Insurance payable in relation to Restricted Shares is borne by the Company.

The Committee considers that this long-term incentive plan aligns the objectives of the Executive Directors with the shareholders. The Committee retains discretionary powers in respect of awarding future annual cash bonuses in excess of 45% of annual salary to the Executive Directors where circumstances warrant it.

### Performance incentives continued

#### 2. Long-term performance continued

At the Remuneration & Appointments Committee meeting held on 23 May 2017, the following awards were made to the Executive Directors:

i. A cash bonus of £127,172 was payable to the Executive Directors for the year ended 30 April 2017 (2016: £119,637).

ii. Restricted Shares under the Restricted Share scheme were approved as follows:

| | In respect of the year ended 30 April 2017 | | In respect of the year ended 30 April 2016 | |
|---|---|---|---|---|
| | Actual number of shares | Estimated value of shares £ | Actual number of shares | Actual value of shares £ |
| A Thomis | 18,254 | 69,000 | 12,007 | 40,824 |
| S Walther | 14,286 | 54,000 | 9,515 | 32,351 |
| | 32,540 | 123,000 | 21,522 | 73,175 |

The value of the Restricted Shares awarded were at 30% of salary for the year ended 30 April 2017 (20% for the year ended 30 April 2016).

The total estimated value received by the Executive Directors in respect of the Restricted Share scheme, including income tax and employee NIC was £232,076 in respect of the year ended 30 April 2017 (2016: £131,366). The Restricted Shares in respect of the year ended 30 April 2016 were approved at the Remuneration & Appointments Committee meeting of 1 June 2016 and were awarded on 15 August 2016. The Restricted Shares in respect of the year ended 30 April 2017 are expected to be awarded in August 2017 following the end of the close period. The actual number of shares is based on the average mid-market share price for the year ended 30 April 2017 (378.0 pence). The total estimated value is based on this average share price and the prevailing tax rates. For the year ended 30 April 2016, the share price used to calculate the award of Restricted Shares was the closing price on the business day preceding (12 August 2016) the date of the award, 340 pence.

iii. Ordinary shares under option granted during the year ended 30 April 2017 and outstanding at 30 April 2017 were as shown in Table 1 (opposite).

The mid-market price of Cohort plc 10 pence ordinary shares at 30 April 2017 was 425.0 pence (2016: 382.5 pence); the lowest and highest market prices in the year were 289.5 pence and 462.5 pence respectively.

No bonuses are payable or share options awardable to the Non-executive Directors. Cash bonus schemes for other senior management of the subsidiary companies have been established for the year ended 30 April 2017, with a similar framework to that of the Cohort Executive Directors, with varying levels of percentage of salary, none exceeding 45%, subject to the discretion of the Committee.

The Group has the right to recover from the Cohort Executive Directors and the senior management of the subsidiary companies any cash bonus paid or shares received in respect of a reporting period where a material adverse restatement is made.

### Chairman and Non-executive Directors

Both Nick Prest CBE and Sir Robert Walmsley were appointed in February 2006. Stanley Carter was appointed Non-executive Director of Cohort plc on 22 September 2015 following his decision to step down as Co-Chairman on the same date. Jeff Perrin was appointed Non-executive Director on 1 July 2015. These appointments can be terminated upon three months' notice being given by either party.

Sir Robert Walmsley is due to retire by rotation and, being eligible, offers himself for re-election at the forthcoming AGM on 7 September 2017.

### Directors' remuneration

Details of Directors' remuneration are set out in Table 2 below.

Salaries for Andrew Thomis and Simon Walther have been increased to £240,000 and £187,800 per annum respectively for the year ended 30 April 2018. The fees payable to the Chairman and the Non-executive Directors (see Table 2) for the year ended 30 April 2018 are unchanged from last year.

### Table 1: Directors' share options

| | At 1 May 2016 or date of appointment Number | Granted Number | Exercised Number | Lapsed/ forfeited Number | **At 30 April 2017 Number** | Date of grant | Date from which option can be exercised | Exercise period Years |
|---|---|---|---|---|---|---|---|---|
| **A Thomis** | | | | | | | | |
| **Cohort plc 2006 share option scheme (approved)** | | | | | | | | |
| – Option price of £1.975 per share | 15,189 | – | – | – | **15,189** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| **Cohort plc 2006 share option scheme (unapproved)** | | | | | | | | |
| – Option price of £1.675 per share | 24,250 | – | – | – | **24,250** | 9 Aug 2013 | 10 Aug 2016 | 7 |
| – Option price of £1.975 per share | 4,153 | – | – | – | **4,153** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| – Option price of £3.725 per share | 10,470 | – | – | – | **10,470** | 20 Aug 2015 | 21 Aug 2018 | 7 |
| – Option price of £3.400 per share | – | 12,471 | – | – | **12,471** | 15 Aug 2016 | 16 Aug 2019 | 7 |
| **Save as you earn (SAYE) scheme** | | | | | | | | |
| – Option price of £1.545 per share | 2,330 | – | (2,330) | – | **–** | 13 Aug 2013 | 1 Sep 2016 | |
| – Option price of £2.075 per share | 2,602 | – | – | – | **2,602** | 11 Aug 2014 | 1 Sep 2017 | |
| – Option price of £3.380 per share | 2,300 | – | – | – | **2,300** | 14 Aug 2015 | 1 Sep 2018 | |
| – Option price of £3.550 per share | – | 1,176 | – | – | **1,176** | 29 Aug 2016 | 1 Sep 2019 | |
| | 61,294 | 13,647 | (2,330) | – | **72,611** | | | |
| **S Walther** | | | | | | | | |
| **Cohort plc 2006 share option scheme (approved)** | | | | | | | | |
| – Option price of £1.975 per share | 15,189 | – | – | – | **15,189** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| **Cohort plc 2006 share option scheme (unapproved)** | | | | | | | | |
| – Option price of £0.835 per share | 55,172 | – | – | – | **55,172** | 23 Jul 2010 | 24 Jul 2013 | 7 |
| – Option price of £0.915 per share | 30,252 | – | – | – | **30,252** | 26 Jul 2011 | 27 Jul 2014 | 7 |
| – Option price of £1.165 per share | 65,000 | – | – | – | **65,000** | 2 Aug 2012 | 3 Aug 2015 | 7 |
| – Option price of £1.675 per share | 21,750 | – | – | – | **21,750** | 9 Aug 2013 | 10 Aug 2016 | 7 |
| – Option price of £1.975 per share | 406 | – | – | – | **406** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| – Option price of £3.725 per share | 8,483 | – | – | – | **8,483** | 20 Aug 2015 | 21 Aug 2018 | 7 |
| – Option price of £3.400 per share | – | 9,882 | – | – | **9,882** | 15 Aug 2016 | 16 Aug 2019 | 7 |
| **Save as you earn (SAYE) scheme** | | | | | | | | |
| – Option price of £1.545 per share | 5,825 | – | (5,825) | – | **–** | 13 Aug 2013 | 1 Sep 2016 | |
| – Option price of £2.075 per share | 867 | – | – | – | **867** | 11 Aug 2014 | 1 Sep 2017 | |
| – Option price of £3.380 per share | 468 | – | – | – | **468** | 14 Aug 2015 | 1 Sep 2018 | |
| – Option price of £3.550 per share | – | 1,287 | – | – | **1,287** | 29 Aug 2016 | 1 Sep 2019 | |
| | 203,412 | 11,169 | (5,825) | – | **208,756** | | | |

There are no performance conditions applying to any of the share option schemes above. The price paid for all share options in the above schemes was nil pence.

Simon Walther exercised 5,825 share options held under the Cohort plc SAYE scheme on 1 September 2016 when the mid-market price of Cohort plc ordinary shares was 305.0 pence per share. All shares were retained.

Andrew Thomis exercised 2,330 share options held under the Cohort plc SAYE scheme on 31 October 2016 when the mid-market price of Cohort plc ordinary shares was 345.0 per share. All shares were retained.

### Table 2: Directors' remuneration

| | **Salary 2017 £** | **Bonus 2017 £** | **Restricted Share awards 2017 £** | **Benefits in kind 2017 £** | **Emoluments 2017 £** | **Pension contributions 2017 £** | **Total 2017 £** | Total 2016 £ |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| A Thomis | **230,000** | **71,340** | **130,189** | **656** | **432,185** | **8,883** | **441,068** | 367,888 |
| S Walther | **180,000** | **55,832** | **101,887** | **656** | **338,375** | **7,155** | **345,530** | 291,496 |
| **Non-executive Directors** | | | | | | | | |
| N Prest | **90,000** | **–** | **–** | **–** | **90,000** | **–** | **90,000** | 90,000 |
| S Carter | **45,000** | **–** | **–** | **–** | **45,000** | **–** | **45,000** | 45,000 |
| J Perrin | **45,000** | **–** | **–** | **–** | **45,000** | **–** | **45,000** | 37,500 |
| Sir Robert Walmsley | **45,000** | **–** | **–** | **–** | **45,000** | **–** | **45,000** | 45,000 |
| **Total** | **635,000** | **127,172** | **232,076** | **1,312** | **995,560** | **16,038** | **1,011,598** | 876,884 |

The Restricted Share awards include tax and employee NIC.

# Statement of Directors' responsibilities

## in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual Report, the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM rules of the London Stock Exchange, they have prepared the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law, and have elected to prepare the parent company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and which enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board on 29 June 2017.

**Andrew Thomis**
Chief Executive Officer

**Simon Walther**
Finance Director

## Financial statements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We have audited the financial statements of Cohort plc for the year ended 30 April 2017 set out on pages 43 to 79. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

## Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 April 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**Andrew Campbell-Orde (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
**Chartered Accountants**
Arlington Business Park
Theale
Reading
RG7 4SD

## Consolidated income statement
for the year ended 30 April 2017

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| **Revenue** | 1 | **112,651** | 112,577 |
| Cost of sales | | **(73,676)** | (79,061) |
| **Gross profit** | | **38,975** | 33,516 |
| Administrative expenses | | **(38,012)** | (28,270) |
| **Operating profit** | 1 | **963** | 5,246 |
| Comprising: | | | |
| Adjusted operating profit | 1 | **14,489** | 11,902 |
| Amortisation of other intangible assets (included in administrative expenses) | 10 | **(11,259)** | (6,379) |
| Credit on marking forward exchange contracts to market value at the year end (included in cost of sales) | 19 | **171** | 7 |
| Foreign exchange gain on marking cash held for purchase of EID to market value at the acquisition date (28 June 2016/year end) (included in administrative expenses) | | **259** | 537 |
| **Exceptional items** | | | |
| Cost of acquisition of EID (included in administrative expenses) | 30 | **(80)** | (821) |
| Cost of acquisition of MCL (included in administrative expenses) | 31 | **(47)** | — |
| Reorganisation of SCS | 4 | **(2,570)** | — |
| | | **963** | 5,246 |
| Finance income | 5 | **47** | 68 |
| Finance costs | 6 | **(46)** | (4) |
| **Profit before tax** | | **964** | 5,310 |
| Income tax credit | 7 | **1,144** | 54 |
| **Profit for the year** | 3 | **2,108** | 5,364 |
| Attributable to: | | | |
| Equity shareholders of the parent | | **3,672** | 7,775 |
| Non-controlling interests | | **(1,564)** | (2,411) |
| | | **2,108** | 5,364 |

| Earnings per share | | Pence | Pence |
|---|---|---|---|
| Basic | 9 | **9.09** | 19.14 |
| Diluted | 9 | **8.97** | 18.78 |

All profit for the year is derived from continuing operations.

The accompanying notes form part of the financial statements.

## Consolidated statement of comprehensive income

for the year ended 30 April 2017

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Profit for the year | **2,108** | 5,364 |
| Foreign currency translation differences on net assets of EID, net of loan used to finance acquisition | **95** | – |
| Other comprehensive income for the period, net of tax | **95** | – |
| Total comprehensive income for the year | **2,203** | 5,364 |
| Attributable to: | | |
| Equity shareholders of the parent | **3,959** | 7,775 |
| Non-controlling interests | **(1,756)** | (2,411) |
| | **2,203** | 5,364 |

## Consolidated statement of changes in equity
for the year ended 30 April 2017

| Group | Share capital £'000 | Share premium account £'000 | Own shares £'000 | Share option reserve £'000 | Other reserves £'000 | Retained earnings £'000 | Total £'000 | Non-controlling interests £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to the equity shareholders of the parent | | | | | | | | |
| At 1 May 2015 | 4,096 | 29,657 | (835) | 403 | (12,500) | 33,805 | 54,626 | 8,221 | 62,847 |
| Profit for the year | – | – | – | – | – | 7,775 | 7,775 | (2,411) | 5,364 |
| **Transactions with owners of Group and non-controlling interests, recognised directly in equity** | | | | | | | | | |
| Equity dividends | – | – | – | – | – | (2,158) | (2,158) | – | (2,158) |
| Vesting of Restricted Shares | – | – | – | – | – | 76 | 76 | – | 76 |
| Own shares purchased | – | – | (4,162) | – | – | – | (4,162) | – | (4,162) |
| Own shares sold | – | – | 914 | – | – | – | 914 | – | 914 |
| Net loss on selling own shares | – | – | 1,348 | – | – | (1,348) | – | – | – |
| Share-based payments | – | – | – | 197 | – | – | 197 | – | 197 |
| Deferred tax adjustment in respect of share-based payments | – | – | – | 711 | – | – | 711 | – | 711 |
| Transfer of share option reserve on vesting of options | – | – | – | (244) | – | 244 | – | – | – |
| Change in option for acquiring non-controlling interest in MCL | – | – | – | – | 7,000 | – | 7,000 | – | 7,000 |
| At 30 April 2016 | 4,096 | 29,657 | (2,735) | 1,067 | (5,500) | 38,394 | 64,979 | 5,810 | 70,789 |
| Profit for the year | – | – | – | – | – | 3,672 | 3,672 | (1,564) | 2,108 |
| Other comprehensive income for the year | – | – | – | – | – | 287 | 287 | (192) | 95 |
| Total comprehensive income for the year | – | – | – | – | – | 3,959 | 3,959 | (1,756) | 2,203 |
| **Transactions with owners of Group and non-controlling interests, recognised directly in equity** | | | | | | | | | |
| Equity dividends | – | – | – | – | – | (2,544) | (2,544) | – | (2,544) |
| Vesting of Restricted Shares | – | – | – | – | – | 117 | 117 | – | 117 |
| Own shares purchased | – | – | (109) | – | – | – | (109) | – | (109) |
| Own shares sold | – | – | 583 | – | – | – | 583 | – | 583 |
| Net loss on selling own shares | – | – | 1,119 | – | – | (1,119) | – | – | – |
| Share-based payments | – | – | – | 221 | – | – | 221 | – | 221 |
| Deferred tax adjustment in respect of share-based payments | – | – | – | (336) | – | – | (336) | – | (336) |
| Transfer of share option reserve on vesting of options | – | – | – | (169) | – | 169 | – | – | – |
| Non-controlling interest introduced on acquisition of EID | – | – | – | – | – | – | – | 5,115 | 5,115 |
| Effect of acquisition of non-controlling interest in MCL | – | – | – | – | 5,035 | (2,075) | 2,960 | (5,011) | (2,051) |
| **At 30 April 2017** | **4,096** | **29,657** | **(1,142)** | **783** | **(465)** | **36,901** | **69,830** | **4,158** | **73,988** |

The accompanying notes form part of the financial statements.

## Company statement of changes in equity

for the year ended 30 April 2017

| Company | Share capital £'000 | Share premium account £'000 | Own shares £'000 | Share option reserve £'000 | Other reserves £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 1 May 2015 | 4,096 | 29,657 | (835) | 403 | (12,500) | 8,484 | 29,305 |
| Profit for the year | — | — | — | — | — | 6,788 | 6,788 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | |
| Equity dividends | — | — | — | — | — | (2,158) | (2,158) |
| Vesting of Restricted Shares | — | — | — | — | — | 76 | 76 |
| Own shares purchased | — | — | (4,162) | — | — | — | (4,162) |
| Own shares sold | — | — | 914 | — | — | — | 914 |
| Net loss on selling own shares | — | — | 1,348 | — | — | (1,348) | — |
| Share-based payments | — | — | — | 197 | — | — | 197 |
| Deferred tax adjustment in respect of share-based payments | — | — | — | 711 | — | — | 711 |
| Transfer of share option reserve on vesting of options | — | — | — | (244) | — | 50 | (194) |
| Change in option for acquiring non-controlling interest in MCL | — | — | — | — | 7,000 | — | 7,000 |
| **Total contributions by and distributions to owners of the Company** | — | — | (1,900) | 664 | 7,000 | 3,408 | 9,172 |
| At 30 April 2016 | 4,096 | 29,657 | (2,735) | 1,067 | (5,500) | 11,892 | 38,477 |
| Profit for the year | — | — | — | — | — | 4,071 | 4,071 |
| **Transactions with owners of the Company, recognised directly in equity** | | | | | | | |
| Equity dividends | — | — | — | — | — | (2,544) | (2,544) |
| Vesting of Restricted Shares | — | — | — | — | — | 117 | 117 |
| Own shares purchased | — | — | (109) | — | — | — | (109) |
| Own shares sold | — | — | 583 | — | — | — | 583 |
| Net loss on selling own shares | — | — | 1,119 | — | — | (1,119) | — |
| Share-based payments | — | — | — | 221 | — | — | 221 |
| Deferred tax adjustment in respect of share-based payments | — | — | — | (336) | — | — | (336) |
| Transfer of share option reserve on vesting of options | — | — | — | (169) | — | 35 | (134) |
| Effect of acquisition of non-controlling interest in MCL | — | — | — | — | 5,035 | — | 5,035 |
| **Total contributions by and distributions to owners of the Company** | — | — | 1,593 | (284) | 5,035 | 560 | 6,904 |
| **At 30 April 2017** | **4,096** | **29,657** | **(1,142)** | **783** | **(465)** | **12,452** | **45,381** |

The reserves of the Group and the Company are described in note 23.

The accompanying notes form part of the financial statements.

## Consolidated and Company statement of financial position

as at 30 April 2017

| | Notes | Group | | Company | |
|---|---|---|---|---|---|
| | | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 10 | **39,156** | 36,961 | **—** | — |
| Other intangible assets | 10 | **11,480** | 12,492 | **—** | — |
| Property, plant and equipment | 11 | **9,938** | 10,227 | **68** | 15 |
| Investment in subsidiaries | 12 | **—** | — | **69,494** | 61,643 |
| Deferred tax asset | 18 | **833** | 818 | **159** | 147 |
| | | **61,407** | 60,498 | **69,721** | 61,805 |
| **Current assets** | | | | | |
| Inventories | 13 | **5,296** | 2,036 | **—** | — |
| Trade and other receivables | 14 | **38,010** | 28,000 | **257** | 789 |
| Derivative financial instruments (shown in note 19) | | **148** | — | **—** | — |
| Cash and cash equivalents | | **12,017** | 23,109 | **—** | — |
| | | **55,471** | 53,145 | **257** | 789 |
| **Total assets** | | **116,878** | 113,643 | **69,978** | 62,594 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 15 | **(34,285)** | (30,223) | **(3,859)** | (2,061) |
| Current tax liabilities | | **—** | (570) | **—** | — |
| Derivative financial instruments | 19 | **—** | (31) | **—** | — |
| Bank borrowings | 16 | **(3,540)** | (3,297) | **(20,273)** | (16,556) |
| Provisions | 17 | **(1,377)** | (499) | **—** | — |
| Other creditors | 31 | **(465)** | (5,500) | **(465)** | (5,500) |
| | | **(39,667)** | (40,120) | **(24,597)** | (24,117) |
| **Non-current liabilities** | | | | | |
| Deferred tax liability | 18 | **(2,483)** | (2,727) | **—** | — |
| Bank borrowings | 16 | **(5)** | (7) | **—** | — |
| Provisions | 17 | **(735)** | — | **—** | — |
| | | **(3,223)** | (2,734) | **—** | — |
| **Total liabilities** | | **(42,890)** | (42,854) | **(24,597)** | (24,117) |
| **Net assets** | | **73,988** | 70,789 | **45,381** | 38,477 |
| **Equity** | | | | | |
| Share capital | 20 | **4,096** | 4,096 | **4,096** | 4,096 |
| Share premium account | | **29,657** | 29,657 | **29,657** | 29,657 |
| Own shares | 22 | **(1,142)** | (2,735) | **(1,142)** | (2,735) |
| Share option reserve | | **783** | 1,067 | **783** | 1,067 |
| Other reserves: option for acquiring non-controlling interest in MCL | 31 | **(465)** | (5,500) | **(465)** | (5,500) |
| Retained earnings | | **36,901** | 38,394 | **12,452** | 11,892 |
| **Total equity attributable to the equity shareholders of the parent** | | **69,830** | 64,979 | **45,381** | 38,477 |
| **Non-controlling interests** | | **4,158** | 5,810 | **—** | — |
| **Total equity** | | **73,988** | 70,789 | **45,381** | 38,477 |

The accompanying notes form part of the financial statements.

The financial statements on pages 43 to 79 were approved by the Board of Directors and authorised for issue on 29 June 2017 and are signed on its behalf by:

**Andrew Thomis**
Chief Executive

**Simon Walther**
Finance Director

**Company number**
05684823

| | Notes | Group 2017 £'000 | Group 2016 £'000 | Company 2017 £'000 | Company 2016 £'000 |
|---|---|---|---|---|---|
| Net cash from operating activities | 24a | **659** | 6,718 | **4,070** | 5,535 |
| **Cash flow from investing activities** | | | | | |
| Interest received | | **47** | 68 | **37** | 62 |
| Purchases of property, plant and equipment | 11 | **(875)** | (980) | **(66)** | (15) |
| Acquisition of EID | 30 | **(4,045)** | (744) | **—** | — |
| Investment in Thunderwaves S.A. (holding company in Portugal for EID) | | **—** | — | **(624)** | (8,699) |
| Acquisition of MCL | 31 | **(5,080)** | — | **(5,080)** | — |
| Capital contribution to SCS | 12 | **—** | — | **—** | (1,000) |
| Net cash used in investing activities | | **(9,953)** | (1,656) | **(5,733)** | (9,652) |
| **Cash flow from financing activities** | | | | | |
| Dividends paid | 8 | **(2,544)** | (2,158) | **(2,544)** | (2,158) |
| Purchase of own shares | 22 | **(109)** | (4,162) | **(109)** | (4,162) |
| Sale of own shares | 22 | **583** | 914 | **583** | 914 |
| Drawdown of borrowings | 16 | **—** | 3,302 | **—** | 3,302 |
| Repayment of borrowings | 16 | **(3)** | (3) | **—** | — |
| Net cash used in financing activities | | **(2,073)** | (2,107) | **(2,070)** | (2,104) |
| Net (decrease)/increase in cash and cash equivalents | | **(11,367)** | 2,955 | **(3,733)** | (6,221) |
| Represented by: | | | | | |
| Cash and cash equivalents and short-term borrowings brought forward | | **23,109** | 19,701 | **(13,263)** | (7,033) |
| Cash flow | | **(11,367)** | 2,955 | **(3,733)** | (6,221) |
| Exchange | | **275** | 453 | **259** | (9) |
| Cash and cash equivalents and short-term borrowings carried forward | 24b | **12,017** | 23,109 | **(16,737)** | (13,263) |

The accompanying notes form part of the financial statements.

## 1. Segmental analysis

For management and reporting purposes, the Group, during the year ended 30 April 2017, operated through its five trading subsidiaries: EID, MASS, MCL, SCS and SEA. SCS was reorganised on 1 November 2016 and ceased to report figures separately, with its former operating divisions reporting as part of MASS and SEA from that date. These subsidiaries are the basis on which the Company reports its primary business segment information in accordance with IFRS 8.

The principal activities of the subsidiaries are described in the Strategic report (pages 2 to 28).

Business segment information about these subsidiaries is presented below:

| 2017 | EID £'000 | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Eliminations £'000 | Group £'000 |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| External revenue | 16,023 | 32,476 | 14,761 | 5,001 | 44,390 | – | 112,651 |
| Inter-segment revenue | – | 179 | – | 33 | 29 | (241) | – |
| | 16,023 | 32,655 | 14,761 | 5,034 | 44,419 | (241) | 112,651 |
| **Segment adjusted operating profit/(loss)** | 4,234 | 5,908 | 2,053 | (455) | 5,294 | – | 17,034 |
| Unallocated corporate expenses | – | – | – | – | – | – | (2,545) |
| **Adjusted operating profit** | 4,234 | 5,908 | 2,053 | (455) | 5,294 | – | 14,489 |
| Credit/(charge) on marking forward exchange contracts to market value at the year end | – | – | 55 | (8) | 124 | – | 171 |
| Foreign exchange gain on marking cash held for purchase of EID to market value at the year end | – | – | – | – | – | – | 259 |
| Costs of acquisition of EID | – | – | – | – | – | – | (80) |
| Costs of acquisition of MCL | – | – | – | – | – | – | (47) |
| Reorganisation of SCS | – | (200) | – | (2,315) | (55) | – | (2,570) |
| Amortisation of other intangible assets | (6,171) | – | (3,402) | – | (1,686) | – | (11,259) |
| **Operating profit/(loss)** | (1,937) | 5,708 | (1,294) | (2,778) | 3,677 | – | 963 |
| Finance income (net of cost) | 2 | 1 | 7 | – | (3) | – | 1 |
| Profit/(loss) before tax | (1,935) | 5,709 | (1,287) | (2,778) | 3,674 | – | 964 |
| Income tax credit | | | | | | | 1,144 |
| Profit after tax | | | | | | | 2,108 |

All are UK operations with the exception of EID, which is based in Portugal. All operations are continuing. Inter-segment sales are charged at arm's length rates.

Unallocated corporate expenses are the costs of the Cohort plc head office including the remuneration of the Cohort plc Board.

| Other information | EID £'000 | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Central £'000 | Group £'000 |
|---|---|---|---|---|---|---|---|
| Capital additions | 86 | 231 | 61 | 82 | 349 | 66 | 875 |
| Depreciation | 105 | 61 | 74 | 95 | 859 | 13 | 1,207 |

| Balance sheet | EID £'000 | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Eliminations £'000 | Group £'000 |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Segment assets | 7,212 | 13,466 | 3,301 | 655 | 28,689 | (183) | 53,140 |
| Goodwill and other intangible assets | 6,271 | 12,500 | 7,258 | – | 24,606 | – | 50,635 |
| Current tax assets | | | | | | | 253 |
| Deferred tax asset | | | | | | | 833 |
| Cash | | | | | | | 12,017 |
| Consolidated total assets | 13,483 | 25,966 | 10,559 | 655 | 53,295 | | 116,878 |
| **Liabilities** | | | | | | | |
| Segment liabilities | (7,056) | (9,324) | (2,043) | (1,881) | (13,461) | (3,097) | (36,862) |
| Deferred tax liability | | | | | | | (2,483) |
| Bank borrowings | | | | | | | (3,545) |
| Consolidated total liabilities | (7,056) | (9,324) | (2,043) | (1,881) | (13,461) | | (42,890) |

The above figures include 100% of MCL. The non-controlling interest (49.999%) is reported separately in the income statement and reserves up to 31 January 2017 when the non-controlling interest of MCL was acquired in full. 56.89% of EID was acquired on 28 June 2016 and a further 0.02% before 30 April 2017. The above figures include 100% of EID from 28 June 2016. The non-controlling interest (43.09% to 43.11%) is reported separately in the income statement and revenues.

### 1. Segmental analysis continued

| 2016 | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Eliminations £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External revenue | 31,998 | 13,709 | 18,097 | 48,773 | — | 112,577 |
| Inter-segment revenue | 92 | — | 51 | — | (143) | — |
| | 32,090 | 13,709 | 18,148 | 48,773 | (143) | 112,577 |
| **Segment adjusted operating profit** | 5,956 | 1,404 | 1,250 | 5,442 | — | 14,052 |
| Unallocated corporate expenses | — | — | — | — | — | (2,150) |
| **Adjusted operating profit** | 5,956 | 1,404 | 1,250 | 5,442 | — | 11,902 |
| Credit/(charge) on marking forward exchange contracts to market value at the year end | — | 37 | — | (30) | — | 7 |
| Foreign exchange gain on marking cash held for purchase of EID to market value at the year end | — | — | — | — | — | 537 |
| Costs of acquisition of EID | — | — | — | — | — | (821) |
| Amortisation of other intangible assets | — | (5,192) | — | (1,187) | — | (6,379) |
| **Operating profit/(loss)** | 5,956 | (3,751) | 1,250 | 4,225 | — | 5,246 |
| Finance income (net of cost) | — | 6 | — | (4) | — | 64 |
| Profit/(loss) before tax | 5,956 | (3,745) | 1,250 | 4,221 | — | 5,310 |
| Income tax credit | | | | | | 54 |
| Profit after tax | | | | | | 5,364 |

All are UK operations and all are continuing. Inter-segment sales are charged at arm's length rates.

Unallocated corporate expenses are the costs of the Cohort plc head office including the remuneration of the Cohort plc Board.

| Other information | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Central £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| Capital additions | — | 117 | 49 | 799 | 15 | 980 |
| Depreciation | 84 | 70 | 179 | 751 | 6 | 1,090 |

| Balance sheet | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Eliminations £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Segment assets | 10,007 | 2,755 | 3,563 | 23,357 | 581 | 40,263 |
| Goodwill and other intangible assets | 12,500 | 10,660 | — | 26,293 | — | 49,453 |
| Deferred tax asset | | | | | | 818 |
| Cash | | | | | | 23,109 |
| Consolidated total assets | 22,507 | 13,415 | 3,563 | 49,650 | | 113,643 |
| **Liabilities** | | | | | | |
| Segment liabilities | (6,056) | (2,657) | (3,223) | (17,715) | (6,602) | (36,253) |
| Current tax liabilities | | | | | | (570) |
| Deferred tax liability | | | | | | (2,727) |
| Bank borrowings | | | | | | (3,304) |
| Consolidated total liabilities | (6,056) | (2,657) | (3,223) | (17,715) | | (42,854) |

The above figures include 100% of MCL. The non-controlling interest (49.999%) is reported separately in the income statement and reserves.

50.001% of MCL was acquired on 9 July 2014 and 100% of its figures are reported above from that date. The non-controlling interest (49.999%) is reported separately in the income statement and reserves.

For the purposes of monitoring segment performance and allocating resource between segments, the Group's Chief Executive monitors the tangible, intangible and financial assets attributable to each segment.

All assets and liabilities are allocated to reportable segments with the exception of central cash and bank borrowings, current tax and deferred tax assets and liabilities.

Goodwill and other intangible assets are allocated to reportable segments as analysed in note 10.

## 1. Segmental analysis continued

### Geographical segments

The Group's subsidiaries are all located in the UK with the exception of EID, which is located in Portugal. The following table provides an analysis of the Group's revenue by geographical location of the customer:

| | 2017 From the UK £'000 | 2017 From Portugal £'000 | 2017 Total £'000 | 2016 All UK £'000 |
|---|---|---|---|---|
| UK | **76,707** | **—** | **76,707** | 92,978 |
| Portugal | **—** | **2,417** | **2,417** | — |
| Other EC countries including NATO | **4,993** | **5,707** | **10,700** | 5,569 |
| Asia Pacific | **11,550** | **2,613** | **14,163** | 11,382 |
| Africa | **—** | **5,886** | **5,886** | 16 |
| North and South America | **2,778** | **—** | **2,778** | 2,632 |
| | **96,028** | **16,623** | **112,651** | 112,577 |

All Group assets, tangible and intangible, are located in the UK with the exception of EID, which is located in Portugal. EID's net assets are shown in note 1.

### Market segments

The following table provides an analysis of the Group's revenue by market sector:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Defence (including security) | **101,857** | 102,995 |
| Transport | **5,920** | 3,532 |
| Offshore energy | **1,946** | 3,022 |
| Other commercial | **2,928** | 3,028 |
| | **112,651** | 112,577 |

Further information on revenue by capability can be found in the Strategic report (page 3).

### Major customers

Revenue from major customers included in the Group's business segments for the year ended 30 April 2017 is as follows:

| | 2017 | | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | UK MOD £'000 | Portuguese MOD £'000 | Customer A £'000 | Customer B £'000 | Customer C £'000 | UK MOD £'000 | Customer A £'000 | Customer B £'000 | Customer C £'000 |
| EID | **—** | **2,187** | **—** | **5,886** | **—** | — | — | — | — |
| MASS | **12,158** | **—** | **7,396** | **—** | **2,565** | 13,095 | 6,451 | — | 3,217 |
| MCL | **12,537** | **—** | **—** | **—** | **—** | 11,052 | — | 300 | — |
| SCS | **3,130** | **—** | **245** | **—** | **—** | 10,711 | — | 2,983 | — |
| SEA | **6,283** | **—** | **14,809** | **—** | **—** | 11,624 | 20,496 | — | — |
| | **34,108** | **2,187** | **22,450** | **5,886** | **2,565** | 46,482 | 26,947 | 3,283 | 3,217 |

Customers B and C in 2016 are not the same as customers B and C in 2016.

## 2. Employee benefit expense (including Directors)

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Wages and salaries | **34,395** | 31,131 |
| Social security costs | **3,807** | 3,360 |
| Defined contribution pension plan costs | **2,335** | 2,294 |
| Share-based payments | **221** | 197 |
| | **40,758** | 36,982 |

### 2. Employee benefit expense (including Directors) continued

#### Average number of employees (including Directors)

| | 2017 Number | 2016 Number |
|---|---|---|
| Other operational (including production) | **476** | 392 |
| Managed services | **100** | 90 |
| Total operational | **576** | 482 |
| Administration and support | **239** | 189 |
| | **815** | 671 |

The above disclosures include Directors. Directors' emoluments and share option details are disclosed separately in the Remuneration & Appointments Committee report on pages 37 to 39.

### 3. Profit for the year

The profit for the year has been arrived at after charging:

| | Notes | 2017 £'000 | 2016 £'000 |
|---|---|---|---|
| Net foreign exchange gains | 19 | **(430)** | (544) |
| Research and development costs | | **7,875** | 5,330 |
| Depreciation of property, plant and equipment | 11 | **1,207** | 1,090 |
| Amortisation of other intangible assets | 10 | **11,259** | 6,379 |
| Cost of inventories recognised as expenses | | **37,268** | 49,056 |
| Staff costs (excluding share-based payments) | 2 | **40,537** | 36,785 |
| Share-based payments | 21 | **221** | 197 |

All of the above charges are in respect of continuing operations.

The fees payable to the auditor for audit and non-audit services are disclosed in the Corporate Governance report on page 33.

### 4. Reorganisation of SCS

As announced on 11 October 2016, the Group's business, SCS, was reorganised with its operating divisions being transferred to other Group businesses (see the Business review (page 13)) and its administrative function being closed. This took effect on 1 November 2016 and the total cost of restructuring was £2,570,000. This includes a charge in respect of an onerous lease of £1,044,000, of which £957,000 remains as a provision at 30 April 2017.

The reorganisation cost also included £252,000 of fixed assets written off with the balance comprising redundancy and other restructuring costs.

### 5. Finance income

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Interest on bank deposits | **47** | 68 |

All finance income is in respect of continuing operations.

### 6. Finance costs

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Loans and finance leases | **46** | 4 |

All finance costs are in respect of continuing operations.

## 7. Income tax (credit)/charge

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| UK corporation tax: in respect of this year | **1,466** | 1,935 |
| UK corporation tax: in respect of prior years | **(845)** | (368) |
| Portugal corporation tax: in respect of this year | **965** | – |
| Other foreign corporation tax: in respect of this year | **13** | – |
| | **1,599** | 1,567 |
| Deferred tax: in respect of this year | **(2,798)** | (1,621) |
| Deferred tax: in respect of prior years | **55** | – |
| | **(2,743)** | (1,621) |
| | **(1,144)** | (54) |

The corporation tax is calculated at 19.92% (2016: 20.00%) of the estimated assessable profit for the year, as disclosed below.

The current tax in respect of the year ended 30 April 2017 includes £512,000 credit (2016: £Nil charge) in respect of exceptional items.

The deferred tax includes a credit of £2,402,000 in respect of amortisation of other intangible assets (2016: £1,505,000), and a charge of £86,000 (2016: £109,000) in respect of marking forward exchange contracts to market value at the year end cash held (in euros) for the purchase of EID to market value at the acquisition date of EID (28 June 2016). The deferred tax is further explained in note 18.

The tax charge for the year is reconciled to profit per the Consolidated income statement for the year ended 30 April 2017 as follows:

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Profit before tax on continuing operations | **964** | 5,310 |
| Tax at the UK corporation tax rate of 19.92% (2016: 20%) | **192** | 1,062 |
| Tax effect of expenses that are not deductible in determining taxable profit | **49** | 197 |
| Tax effect of R&D tax credits | **(385)** | (400) |
| Tax effect of exceptional items that are not recognised in determining taxable profit | **25** | 164 |
| Tax effect of change in tax rate from 19% to 17% in 2017 (2016: change in tax rate from 20% to 18%) | **(33)** | (287) |
| Tax effect of recognising unutilised trading losses at SEA | **–** | (41) |
| Tax effect of statutory deduction for share options exercised | **(152)** | (395) |
| Tax effect of foreign tax rates | **10** | – |
| Tax effect of deferred tax movement on share options to be exercised | **(5)** | 14 |
| Tax effect of other prior year adjustments, including R&D tax credits | **(845)** | (368) |
| Tax credit for the year | **(1,144)** | (54) |

The UK corporation tax for the year ended 30 April 2017 is calculated at 19.92%, based upon eleven months at 20% and one month at 19%. The UK corporation tax rate for the year ended 30 April 2016 is calculated at 20% for 12 months.

In addition a deferred tax charge of £336,000 (2016: £711,000 credit) was recognised directly in equity.

## 8. Dividends

| | 2017 £'000 | 2016 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Final dividend in respect of the year ended 30 April 2016 at 4.10 pence per ordinary share (2015: 3.40 pence per ordinary share) | **1,652** | 1,387 |
| Interim dividend in respect of the year ended 30 April 2017 at 2.20 pence per ordinary share (2016: 1.90 pence per ordinary share) | **892** | 771 |
| | **2,544** | 2,158 |
| Proposed final dividend for the year ended 30 April 2017 at 4.90 pence per ordinary share (2016: 4.10 pence per ordinary share) | **2,022** | 1,648 |

The proposed final dividend is subject to approval by shareholders at the AGM to be held on 7 September 2017 and has not been included as a liability in these financial statements. If approved, this dividend will be paid on 13 September 2017 to shareholders on the register as at 18 August 2017.

The Cohort Employee Benefit Trust, which holds ordinary shares in Cohort plc representing 0.77% (2016: 1.85%) of the Company's called up share capital, has agreed to waive all dividends due to it in accordance with an arrangement dated 20 November 2009.

### 9. Earnings per share

The earnings per share are calculated as follows:

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Weighted average number of shares Number** | **Earnings £'000** | **Earnings per share Pence** | Weighted average number of shares Number | Earnings £'000 | Earnings per share Pence |
| Basic earnings (net profit attributable to equity holders of Cohort plc) | **40,400,179** | **3,672** | **9.09** | 40,622,496 | 7,775 | 19.14 |
| Share options | **553,515** | | | 767,501 | | |
| Diluted earnings | **40,953,694** | **3,672** | **8.97** | 41,389,997 | 7,775 | 18.78 |

The basic earnings per share are calculated by dividing the profit attributable to equity holders of the parent company (Cohort plc) by the weighted average number of ordinary shares in issue during the year. The diluted earnings per share are calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of shares in issue during the year as adjusted for the effects of potentially dilutive share options.

The weighted average number of shares for the years ended 30 April 2017 and 30 April 2016 is after deducting the own shares, which are held by the Cohort Employee Benefit Trust.

In addition, the adjusted earnings per share of the Group are calculated in a similar manner to the basic earnings per share with the adjustments to the basic earnings as shown below:

| | | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|---|
| | Notes | **Weighted average number of shares Number** | **Earnings £'000** | **Earnings per share Pence** | Weighted average number of shares Number | Earnings £'000 | Earnings per share Pence |
| Basic earnings | | **40,400,179** | **3,672** | **9.09** | 40,622,496 | 7,775 | 19.14 |
| (Credit)/charge on marking forward exchange contracts and cash held for the acquisition of EID to market value at the year end/acquisition date (net of tax charge of £86,000; (2016: £109,000 charge) | 19 | | **(344)** | | | (435) | |
| Acquisition costs of EID | 30 | | **80** | | | 821 | |
| Acquisition costs of MCL | 31 | | **47** | | | — | |
| Reorganisation of SCS (net of tax credit of £512,000) | 3 | | **2,058** | | | — | |
| Amortisation of other intangible assets (net of income tax credit of £1,550,000 (2016: £1,505,000)) | | | **5,773** | | | 2,879 | |
| Adjusted earnings | | **40,400,179** | **11,286** | **27.93** | 40,622,496 | 11,040 | 27.18 |
| Share options | | **553,515** | | | 767,501 | | |
| Diluted adjusted earnings | | **40,953,694** | **11,286** | **27.56** | 41,389,997 | 11,040 | 26.67 |

The adjusted earnings are in respect of continuing operations.

The adjustment to earnings for calculating the adjusted earnings per share excludes the non-controlling interest in respect of the amortisation of other intangible assets is as follows:

| | Amortisation of other intangible asset (note 10) £'000 | Deferred tax credit thereon £'000 | Net £'000 | Non-controlling interest £'000 | Attributable to equity shareholders of the Group £'000 |
|---|---|---|---|---|---|
| EID | 6,171 | (1,385) | 4,786 | 2,063 | 2,723 |
| MCL | 3,402 | (680) | 2,722 | 1,021 | 1,701 |
| SEA | 1,686 | (337) | 1,349 | — | 1,349 |
| | 11,259 | (2,402) | 8,857 | 3,084 | 5,773 |

## 10. Goodwill and other intangible assets

| | Goodwill | | | | | Other intangible assets | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | SEA £'000 | MASS £'000 | MCL £'000 | EID £'000 | Group £'000 | SEA £'000 | MASS £'000 | MCL £'000 | EID £'000 | Group £'000 |
| **Cost** | | | | | | | | | | |
| At 1 May 2015 | 24,063 | 12,500 | 2,398 | — | 38,961 | 7,955 | 4,340 | 15,678 | — | 27,973 |
| At 1 May 2016 | 24,063 | 12,500 | 2,398 | — | 38,961 | 7,955 | 4,340 | 15,678 | — | 27,973 |
| Acquisition of EID | — | — | — | 2,195 | 2,195 | — | — | — | 10,247 | 10,247 |
| **At 30 April 2017** | **24,063** | **12,500** | **2,398** | **2,195** | **41,156** | **7,955** | **4,340** | **15,678** | **10,247** | **38,220** |
| **Amortisation** | | | | | | | | | | |
| At 1 May 2015 | 2,000 | — | — | — | 2,000 | 2,538 | 4,340 | 2,224 | — | 9,102 |
| Charge for the year ended 30 April 2016 | — | — | — | — | — | 1,187 | — | 5,192 | — | 6,379 |
| At 1 May 2016 | 2,000 | — | — | — | 2,000 | 3,725 | 4,340 | 7,416 | — | 15,481 |
| Charge for the year ended 30 April 2017 | — | — | — | — | — | 1,686 | — | 3,402 | 6,171 | 11,259 |
| **At 30 April 2017** | **2,000** | **—** | **—** | **—** | **2,000** | **5,411** | **4,340** | **10,818** | **6,171** | **26,740** |
| **Net book value** | | | | | | | | | | |
| **At 30 April 2017** | **22,063** | **12,500** | **2,398** | **2,195** | **39,156** | **2,544** | **—** | **4,860** | **4,076** | **11,480** |
| At 30 April 2016 | 22,063 | 12,500 | 2,398 | — | 36,961 | 4,230 | — | 8,262 | — | 12,492 |

Goodwill arises on the acquisition of subsidiaries. These subsidiaries are the cash-generating units to which goodwill has been allocated.

The amortisation charge is disclosed as "Amortisation of other intangible assets" in the income statement.

56.89% of EID was acquired on 28 June 2016 and a further 0.02% before 30 April 2017. EID has been accounted for as a 100% subsidiary with the non-controlling interest disclosed separately (see note 30).

The non-controlling interest of MCL (49.999%) was acquired in full by the Group on 31 January 2017, with the Group owning 100% of MCL from that date (see note 31).

The Group tests goodwill biannually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the subsidiaries (cash-generating units) are determined from value-in-use calculations.

The value-in-use calculations take the cash flows of each cash-generating unit and apply the Group's weighted average cost of capital (WACC) to this to determine if there is any impairment of the cash-generating units' goodwill.

In assessing any impairment of goodwill, each value-in-use calculation makes a number of estimates, which use the same basis as used in previous years, as follows:

| | Basis of estimate |
|---|---|
| **Cash flow** | As in previous years, the cash flows for the years ended 30 April 2018, 2019 and 2020 are based upon the cash-generating units' budgets and forecasts for those years. These cash flows are based upon the revenue, margin and overhead cost forecasts for each business taking account of the run-off of order book, renewal of existing business and winning of new business. Historically, these cash flow forecasts have been a reasonable forecast of actual performance over the period of measurement. Costs reflect inflation rates, currently assumed at 2% (2016: 2%). With regard to the revenue, margin and overhead cost forecasts, the key assumptions underlying these inputs are that current projects contracted will continue as per agreement, that government defence spending will remain largely consistent in the future and that each cash-generating unit will continue to be as successful in competing for new contracts as it has been historically. Currently, a reasonable proportion of revenue for 2018, 2019 and 2020 is already under contract and, as such, the main assumptions related to revenue volumes are in periods after 2020 where there is greater uncertainty and risk. |
| **Growth rate** | The cash flows for each UK-based cash-generating unit from years four to 20 inclusive are based upon the forecast cash flow for the year ended 30 April 2020 to which a growth rate of 1.5% is applied each year (2016: 1.5%). This rate reflects a prudent view of recent UK growth rates and is below the historically higher UK inflation rate of 2.25%. The growth rate is similar for all of the cash-generating units as a significant proportion of their business is with the same customer, the UK MOD. As a significant proportion of the business is with the UK Government, a more prudent growth rate has been used to reflect lower expected growth rates of UK Government expenditure. In the case of EID, its main customer is the Portuguese MOD. As such, the growth rate assumed for EID's future cash flows is 1.0%, reflecting the expected growth rate for Portuguese Government expenditure. |

## 10. Goodwill and other intangible assets continued

WACC comprises a number of elements as follows:

| | |
|---|---|
| **Value of equity** | Calculated as the issued share capital of the Group (Cohort plc) multiplied by the closing share price at 30 April 2017 of £4.25 (2016: £3.825). |
| **Risk free interest rate** | Based upon ten-year UK Government gilt rate of 1.09% (2016: 1.60%). |
| **Beta factor** | Derived from analyst estimates provided by the Group's NOMAD (Investec) and reflects a range of outcomes from 0.47 to 0.50 (2016: 0.40 to 0.50). |
| **Equity risk premium** | The equity risk premium of the Group of 11.80% (2016: 9.20%) to which is added a further range of risk premium of 4% to 8% to reflect customer market risk and the low liquidity and risk of AIM stocks. |
| **Cost of debt** | The Group has no net debt. The Group loan at 30 April 2017 has an interest cost of 1.381% per annum as at that date (2016: 1.475%). |

The Group's pre-tax WACC applied to each cash-generating unit's cash flows was 15.1% (2016: 14.1%). The Group WACC has been deemed appropriate to use for each cash-generating unit as all funding is cross guaranteed and therefore the same cost of funding is incurred by each cash-generating unit.

On the basis of these tests, no impairment of goodwill has arisen in the year ended 30 April 2017 in respect of any of EID, MASS, MCL or SEA. The goodwill of SEA is more sensitive with no impairment at the Group's WACC of 15.1% but impairment of £5.0m if the Group's pre-tax WACC increases to 22.7%. The Group's pre-tax WACC increases to 22.7% when the premium applied to the equity risk to reflect the Group's AIM listing is increased from 8% to 19%. The likelihood of this increase in the WACC is considered low.

The other intangible assets arose on the acquisition of subsidiaries. The EID and J+S intangible assets were in respect of contracts acquired. The J+S other intangible asset is disclosed as part of SEA. The MCL intangible asset was in respect of contracts acquired and to be secured.

The MASS other intangible asset, which is now fully amortised, was in respect of contracts acquired and to be secured in respect of MASS's acquisition of Abacus EW.

The SEA other intangible asset, which is now fully amortised, was in respect of contracts acquired on the acquisition of SEA.

## 11. Property, plant and equipment

| Group | Land and buildings £'000 | Fixtures and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 May 2015 | 9,692 | 6,215 | 15,907 |
| Additions | 156 | 824 | 980 |
| Disposals | — | (80) | (80) |
| At 1 May 2016 | 9,848 | 6,959 | 16,807 |
| On acquisition of EID | 2 | 293 | 295 |
| Additions | 58 | 817 | 875 |
| Disposals | — | (2,276) | (2,276) |
| Foreign exchange movement | — | 4 | 4 |
| **At 30 April 2017** | **9,908** | **5,797** | **15,705** |
| **Depreciation** | | | |
| At 1 May 2015 | 1,152 | 4,417 | 5,569 |
| Charge in the year | 275 | 815 | 1,090 |
| Eliminated on disposal | — | (79) | (79) |
| At 1 May 2016 | 1,427 | 5,153 | 6,580 |
| Charge in the year | 294 | 913 | 1,207 |
| Eliminated on disposal | — | (2,021) | (2,021) |
| Foreign exchange movement | — | 1 | 1 |
| **At 30 April 2017** | **1,721** | **4,046** | **5,767** |
| **Net book value** | | | |
| **At 30 April 2017** | **8,187** | **1,751** | **9,938** |
| At 30 April 2016 | 8,421 | 1,806 | 10,227 |

The Company's property, plant and equipment was £68,000 at 30 April 2017 (2016: £15,000). This was after additions of £66,000 and a depreciation charge of £13,000 for the year ended 30 April 2017.

### 11. Property, plant and equipment continued

The net book value of fixed assets held under finance leases at 30 April 2017 was £3,753 (2016: £11,211).

The depreciation charge is disclosed within "Administrative expenses" in the Consolidated income statement.

The valuation (in accordance with International Valuation Standards) of the Group's land and buildings at 30 April 2017 supports the above net book value.

The Group's land and buildings as disclosed above are the cost of purchase plus refurbishment and the fair value on acquisition. As such the Group has no revaluation reserve at this time.

Of the net loss of £255,000 on the disposal of fixed assets, £252,000 was recognised as an exceptional item on the reorganisation of SCS (see note 3).

### 12. Investment in subsidiaries and joint ventures

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| Subsidiary undertakings | **—** | — | **69,494** | 61,643 |
| Joint ventures | **—** | — | **—** | — |
| | **—** | — | **69,494** | 61,643 |

A list of all the investments in joint ventures and subsidiaries is as follows:

| Name of company | Registered office | Country of registration | Type of shares | Proportion of shareholding and voting rights held | Nature of business |
|---|---|---|---|---|---|
| **Directly owned** | | | | | |
| Systems Consultants Services Limited (SCS) | 2 Waterside Drive, Reading RG7 4SW | England | Ordinary | 100% | Formerly a provider of technical consultancy. Operating divisions transferred to SEA and MASS |
| MASS Limited | 2 Waterside Drive, Reading RG7 4SW | England | Ordinary | 100% | Holding company of MASS Consultants Limited |
| SEA (Group) Ltd. (SEA) | Beckington Castle, Frome BA11 6TA | England | Ordinary | 100% | Holding company of Systems Engineering & Assessment Ltd and Beckington Castle Ltd |
| Marlborough Communications (Holdings) Limited | Dovenby Hall, Horley RH6 9UU | England | Ordinary | 100% | Holding company of Marlborough Communications Limited |
| Digital Millennium Map LLP (DMM) | Virginia Villas, Hartley Wintney RG27 8NW | England | Ordinary | 25% | 2D digital mapping – in administration |
| Thunderwaves, S.A. | 6. Ruo do Alecia 26E, 1200-018, Lisbon | Portugal | Ordinary | 100% | The holding company of EID |
| **Held through a subsidiary** | | | | | |
| MASS Consultants Limited (MASS) | Enterprise House, Cambridgeshire, PE19 6BN | England | Ordinary | 100% | Electronic warfare, managed services, secure communications and IT support services |
| Systems Engineering & Assessment Ltd | Beckington Castle, Frome BA11 6TA | England | Ordinary | 100% | Deliverer of systems engineering, software and electronic engineering services and solutions to the defence and transport markets and is also the holding company of J+S Limited |
| J+S Limited | Riverside Road, Barnstaple EX31 1LY | England | Ordinary | 100% | Subsidiary of Systems Engineering & Assessment Ltd and provides products and services to the defence and offshore energy markets |
| Marlborough Communications Limited (MCL) | Dovenby Hall, Horley RH6 9UU | England | Ordinary | 100% | Designs, sources and supports advanced electronic and surveillance technology |
| Beckington Castle Ltd | Beckington Castle, Frome BA11 6TA | England | Ordinary | 100% | Property company holding freehold of Beckington Castle and SEA's Bristol office |
| Empresa de Investigação e Desenvolvimento de Electrónica, S.A. (EID) | Quinta dos Medronheiros-Lazarim, 2820-486 Charneca da Caparica, Lisbon | Portugal | Ordinary | 56.91% | Designs and manufactures advanced communications systems for the defence and security markets |
| JSK Naval Support Inc. | 193 Brunswick Blvd, Quebec, Canada H9R 5N2 | Canada | Ordinary | 50% | A joint venture between SEA and a Canadian supplier to deliver and support SEA products into the Canadian Navy and services |

## 12. Investment in subsidiaries and joint ventures continued

During the year, the Group's immediate subsidiary, Thunderwaves, S.A., a Portuguese registered company, acquired 56.89% of EID on 28 June 2016 and a further 0.02% on or before 30 April 2017.

The Group also acquired the non-controlling interest (49.999%) of MCL on 31 January 2017.

DMM, which is retained as an investment of the Group, is not accounted for under the equity method of accounting as the Group ceased to have an active participation from 1 November 2006. The Group has received and continues to receive a return on its original investment in DMM. This income of £2,875 (2016: £2,560) is disclosed in "Administrative expenses" within the Consolidated income statement.

All shares held in subsidiaries and joint ventures are the same class and carry equal weighting to any shares held by other shareholders.

### Company

The Company's investments in subsidiaries are as follows:

| | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Thunderwaves £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| At 1 May 2015 | 14,493 | 8,852 | 1,638 | 26,393 | — | 51,376 |
| Acquired | — | — | — | — | 8,699 | 8,699 |
| Capital contribution | — | — | 1,000 | — | — | 1,000 |
| Share-based payments | 77 | 9 | 20 | 64 | — | 170 |
| Vested in year | (96) | — | (38) | (60) | — | (194) |
| Deferred tax on share-based payments charged directly to equity | 331 | — | 63 | 198 | — | 592 |
| At 1 May 2016 | 14,805 | 8,861 | 2,683 | 26,595 | 8,699 | 61,643 |
| Acquired | — | 7,506 | — | — | 624 | 8,130 |
| Share-based payments | 86 | 15 | 21 | 76 | — | 198 |
| Vested in year | (69) | — | (18) | (44) | — | (131) |
| Deferred tax on share-based payments charged directly to equity | (225) | — | (45) | (76) | — | (346) |
| **At 30 April 2017** | **14,597** | **16,382** | **2,641** | **26,551** | **9,323** | **69,494** |

## 13. Inventories

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Finished goods and raw materials | **5,296** | 2,036 |

The inventory at 30 April 2017 is after a stock provision of £911,000 (2016: £782,000).

## 14. Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| Trade receivables | **22,619** | 18,269 | **—** | — |
| Allowance for doubtful debts | **(168)** | — | **—** | — |
| | **22,451** | 18,269 | **—** | — |
| Amounts recoverable on contracts | **5,182** | 3,929 | **—** | — |
| Prepayments and accrued income | **10,124** | 5,058 | **151** | 88 |
| Current tax assets | **253** | — | **—** | — |
| Deposit paid in respect of acquisition of EID (see note 30) | **—** | 744 | **—** | — |
| Amounts due from subsidiary undertakings | **—** | — | **106** | 701 |
| | **38,010** | 28,000 | **257** | 789 |

No trade and other receivables were due in greater than one year.

The average credit period taken on sales of goods is 42 days (2016: 31 days). Of the trade receivables balance, £3.4m was considered overdue at 30 April 2017 (30 April 2016: £3.4m). The increase in the debtor days is due to the very strong trading of the Group in the final quarter of the current financial year. Overdue is defined as trade receivables still outstanding beyond invoice terms (typically 30 days). The allowance for doubtful debt is determined by management's best estimates, by reference to the particular receivables over which doubt may exist. None of the other receivables were past due.

### 14. Trade and other receivables continued

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. The largest trade receivable to which the Group is exposed at 30 April 2017 is the UK MOD, with a balance outstanding of £6.4m (2016: £6.3m). Other customers who represent more than 5% of the total balance of trade receivables include:

| | **2017 £m** | 2016 £m |
|---|---|---|
| Customer A | **2.9** | 5.7 |
| Customer B | **2.9** | — |
| Customer C | **1.8** | — |
| Customer D | **—** | 1.3 |

Trade receivables include £4.5m (2016: £0.5m) denominated in foreign currency. The predominate currency of the trade receivables is pounds sterling.

The majority of the Group's customers are UK or overseas government organisations and larger prime contractors in the defence and transport sectors.

The Group assesses all new customers for creditworthiness before extending credit. In the case of overseas customers, the Group utilises various payment protection mechanisms including but not limited to export credit guarantees, letters of credit and advance payments.

Trade receivables disclosed above include amounts which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful debts because the credit quality of the customer is not considered to have changed and the amount due is considered fully recoverable.

| Ageing of past due but not impaired receivables | **2017 £'000** | 2016 £'000 |
|---|---|---|
| 30–60 days | **2,268** | 1,801 |
| 60–90 days | **721** | 1,163 |
| >90 days | **442** | 429 |
| | **3,431** | 3,393 |

| Movement in the allowance for doubtful debts | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Balance at 1 May | **—** | 6 |
| Impairment losses recognised | **7** | — |
| On acquisition of EID | **161** | — |
| Amounts written off as uncollectable in year | **—** | (6) |
| Balance at 30 April | **168** | — |

### 15. Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| Advance receipts | **2,199** | — | **—** | — |
| Trade payables and accruals | **6,975** | 8,096 | **158** | 437 |
| Social security and other taxes | **3,799** | 4,378 | **108** | 566 |
| Accruals and deferred income | **21,312** | 17,749 | **3,593** | 1,058 |
| Amounts due to subsidiary undertakings | **—** | — | **—** | — |
| | **34,285** | 30,223 | **3,859** | 2,061 |

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing contract costs. Advance receipts reflect invoicing ahead of work done in accordance with contracted terms. The average credit period taken for trade purchases is 43 days (2016: 43 days). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms (see Risk management, pages 25 to 28).

Trade payables and accruals, other payables and taxes are all due for settlement within 12 months of the year end, the majority within three months.

Social security and other taxes include employment taxes and VAT.

The Directors consider that the carrying amount of trade payables approximates to their fair values.

Total payable includes £7.9m (2016: £0.2m) denominated in foreign currency.

## 16. Bank borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| Bank overdrafts | **—** | — | **16,737** | 13,263 |
| Bank loans | **3,536** | 3,293 | **3,536** | 3,293 |
| Finance leases | **9** | 11 | **—** | — |
| | **3,545** | 3,304 | **20,273** | 16,556 |

These borrowings are repayable as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| On demand or within one year | **3,540** | 3,297 | **20,273** | 16,556 |
| In the second year | **4** | 4 | **—** | — |
| In the third to fifth years inclusive | **1** | 3 | **—** | — |
| | **3,545** | 3,304 | **20,273** | 16,556 |
| Less: amounts due for settlement within 12 months (shown under current liabilities) | **(3,540)** | (3,297) | **(20,273)** | (16,556) |
| Amount due for settlement after 12 months | **5** | 7 | **—** | — |

The weighted average interest rates paid were as follows:

| | **2017 %** | 2016 % |
|---|---|---|
| Bank overdrafts (variable) | **1.85** | 2.25 |
| Bank loans (variable) | **1.39** | 1.475 |
| Finance leases (fixed) | **4.60** | 4.60 |

The variable rates are based upon the Bank of England or European Central Bank interest rates.

On 17 November 2015, the Group entered into a new banking facility. The £25.0m facility is provided equally by the Barclays, Lloyds and RBS banks. The facility is provided for three years with options to extend for a further two years and is secured over all of the Group's assets excluding EID, which is not part of the facility arrangement and maintains its own facilities locally in Portugal. The facility is available to the Group (excluding EID) in respect of acquisition financing, overdraft and other ancillary facilities including bonding, letters of credit and foreign exchange forward contracts.

At 30 April 2017 the facility has been drawn on as follows:

| | Of which drawn is £m |
|---|---|
| Revolving credit facility loan | 3.5 |
| Overdraft | — |
| Foreign exchange | 0.4 |
| Bonding | 0.5 |
| | 4.4 |

At 30 April 2017, the Group had available £20.6m of undrawn bank facility. The Directors consider the carrying amount of bank borrowings approximate to their fair values.

### 16. Bank borrowings continued

The Group's cash at 30 April 2017 of £12.0m is held with the following banks:

| | 2017 £'000 | 2016 £'000 | Moody's long-term credit rating of bank as at 14 June 2017 |
|---|---|---|---|
| Royal Bank of Scotland Plc | **581** | 14,845 | A3 |
| Barclays Bank PLC | **2,983** | 205 | A1 |
| Lloyds Bank plc | **483** | — | A1 |
| Clydesdale Bank plc | **60** | 104 | Baa2 |
| Novo Banco | **31** | 7,955 | Caa2 |
| Santander Bank | **1,441** | — | Ba1 |
| Banco Comercial Português | **5,438** | — | Ba2 |
| Caixa Geral de Depósitos Bank | **841** | — | B1 |
| Other banks and cash | **159** | — | |
| | **12,017** | 23,109 | |

### 17. Provisions

| Group | Reorganisation of SCS £'000 | Warranty £'000 | Other contract-related provisions £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 May 2015 | — | 188 | 370 | 558 |
| (Credited)/charged to the income statement | — | (33) | 28 | (5) |
| Utilised | — | (12) | (42) | (54) |
| At 1 May 2016 | — | 143 | 356 | 499 |
| Charged to the income statement | 2,570 | 851 | 100 | 3,521 |
| On acquisition of EID | — | 53 | — | 53 |
| Utilised | (1,307) | (300) | (350) | (1,957) |
| Foreign exchange movement on acquisition of EID | — | (4) | — | (4) |
| **At 30 April 2017** | **1,263** | **743** | **106** | **2,112** |
| Provisions due in less than one year | 528 | 743 | 106 | 1,377 |
| Provisions due in greater than one year | 735 | — | — | 735 |
| **At 30 April 2017** | **1,263** | **743** | **106** | **2,112** |
| Provisions due in less than one year | — | 143 | 356 | 499 |
| Provisions due in greater than one year | — | — | — | — |
| At 30 April 2016 | — | 143 | 356 | 499 |

The warranty provisions are management's best estimates of the Group's liability under warranties granted on software and other products supplied and are based upon past experience. The timing of such expenditure is uncertain, although warranties generally have a time limit of no more than 12 months, unless a longer warranty period is purchased by the customer. Warranty provisions are reviewed at the half year and year end in respect of actual spend and the remaining obligations to be fulfilled.

Other contract-related provisions are management's best estimate of the Group's exposure to contract-related costs and undertakings which are in addition to contract accruals and include contract loss provisions. The timing of these is uncertain but is expected to be resolved within 12 months of the balance sheet date. These arise where a service or product has been previously delivered to the customer and the Group receives a claim or an adverse indication in respect of the work done. Where the amount required is uncertain or the Group disputes the amount of the claim, provision is made for the best estimate of the amount that will be required to settle the issue.

Other contract-related provisions also include contract loss provisions in respect of contracts where the estimated cost at completion exceeds the total expected revenue of the contract. A contract loss provision is recognised as a provision in full immediately as it arises. The contract loss provisions are held in respect of contracts which are expected to complete in the next 12 months.

Other contract-related provisions also include property dilapidation provisions and other trade-related issues which may not be related to a trading contract. These balances are immaterial.

The provision in respect of the reorganisation of SCS comprises an onerous lease of £957,000 of which £735,000 is due in greater than one year with the balance in respect of other restructuring costs (see note 4).

## 18. Deferred tax

| | Accelerated tax depreciation £'000 | Other intangible assets £'000 | Revaluation of building £'000 | Other short-term timing differences £'000 | Share options £'000 | Derivatives £'000 | Group £'000 |
|---|---|---|---|---|---|---|---|
| At 1 May 2015 | (229) | (3,774) | (389) | 80 | 79 | (8) | (4,241) |
| Credit/(charge) to the income statement in respect of the current tax year | 96 | 1,275 | 9 | (34) | (14) | 2 | 1,334 |
| Effect of change of UK corporation tax rate | 22 | 230 | 38 | (1) | (3) | 1 | 287 |
| Recognised in the income statement | 118 | 1,505 | 47 | (35) | (17) | 3 | 1,621 |
| Recognised in equity | — | — | — | — | 711 | — | 711 |
| At 1 May 2016 | (111) | (2,269) | (342) | 45 | 773 | (5) | (1,909) |
| On acquisition of EID | 92 | (2,300) | — | 60 | — | — | (2,148) |
| Credit to the income statement in respect of the current tax year | 63 | 2,402 | 7 | 253 | 5 | 33 | 2,763 |
| (Charge)/credit to the income statement in respect of prior tax years | (59) | — | — | 4 | — | — | (55) |
| Effect of change of UK corporation tax rate | 14 | — | 19 | — | — | — | 33 |
| Foreign exchange movement | 2 | — | — | — | — | — | 2 |
| Recognised in the income statement | 20 | 2,402 | 26 | 257 | 5 | 33 | 2,743 |
| Recognised in equity | — | — | — | — | (336) | — | (336) |
| **At 30 April 2017** | **1** | **(2,167)** | **(316)** | **362** | **442** | **28** | **(1,650)** |

Certain deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Deferred tax assets | **833** | 818 |
| Deferred tax liabilities | **(2,483)** | (2,727) |
| | **(1,650)** | (1,909) |

Deferred tax liabilities in respect of other intangible assets were recognised on the acquisition of EID (£2,300,000) and will be credited to the income statement as the respective other intangible asset is amortised.

A deferred tax liability in respect of the revaluation of a freehold building arose on the acquisition of SEA and is the potential tax liability payable on the revaluation gain in respect of the building with reference to its historical cost.

The Company's deferred tax balance at 30 April 2017 was an asset of £159,000 (2016: £147,000) being £19,000 (2016: £14,000) in respect of other short-term timing differences, accelerated tax depreciation of £3,000 (2016: £4,000) and share options of £137,000 (2016: £129,000).

The corporation tax rate in the UK for the year ended 30 April 2017 was 19.92% (2016: 20.00%) which has been applied by Cohort in calculating its income tax (see note 9). A reduction in the UK corporation tax rate from 19% (effective 1 April 2017) and to 17% (effective 1 April 2020) were enacted in September 2016. The deferred tax assets and liabilities are calculated using 19% for balances expected to reverse on or before 31 March 2020 and 17% for those reversing after this date.

For deferred tax balances in respect of EID (Portugal), the rate used is 22.45%.

The equity movement in deferred tax on share options is to reflect the future tax associated with the total future share options exercisable and is not capped at the share-based payment level as previously reported.

## 19. Derivative financial instruments

The Group has derivative financial instruments as follows:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| **Assets** | | |
| Foreign currency forward contracts | **148** | — |
| **Liabilities** | | |
| Foreign currency forward contracts | **—** | (31) |

## 19. Derivative financial instruments continued

The changes in marking the outstanding foreign currency forward contracts to fair value (which are based upon quoted market valuations) are credited or charged to the Consolidated income statement as "Credit/(charge) on marking forward exchange contracts to market value at the year end". They are in respect of trading contracts undertaken by the Group and in respect of MCL and SEA, and are disclosed within their respective operating profits in the segmental analysis (see note 1; 2016: MCL and SEA). They are considered to be level 1 classification. The credit (2016: credit) to the Consolidated income statement for the year ended 30 April 2017 was as follows:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Foreign currency forward contracts | **171** | 7 |

### Currency derivatives

The Group utilises forward currency contracts to hedge significant future transactions and cash flows. The Group is party to a number of foreign currency forward contracts in the management of its foreign exchange rate exposure.

The changes in total outstanding committed foreign currency forward contracts of the Group were as follows:

| **2017** | Sell £'000 | Buy NOK'000 | Buy £'000 | Sell €'000 | Buy £'000 | Sell US$'000 | Sell £'000 | Buy US$'000 |
|---|---|---|---|---|---|---|---|---|
| **At forward exchange rates** | | | | | | | | |
| At 1 May 2016 | (31) | (381) | – | – | 1,579 | 2,263 | (747) | (1,092) |
| Contracts matured in period | 31 | 381 | – | – | (328) | (545) | 747 | 1,092 |
| New contracts in period | – | – | 371 | 434 | – | – | (2,458) | (3,081) |
| **At 30 April 2017** | **–** | **–** | **371** | **434** | **1,251** | **1,718** | **(2,458)** | **(3,081)** |
| Fair value adjustment | – | | (6) | | 77 | | 77 | |
| **At 30 April 2017 at spot rate** | **–** | | **365** | | **1,328** | | **(2,381)** | |

The total fair value adjustment is £148,000 (2016: £31,000) and the change in the forward exchange fair values for the year ended 30 April 2017 is £179,000 (30 April 2016: £7,000), which is included in the operating profit of the Group as a credit (2016: credit).

| 2016 | Sell £'000 | Buy NOK'000 | Sell £'000 | Buy €'000 | Buy £'000 | Sell US$'000 | Sell £'000 | Buy US$'000 |
|---|---|---|---|---|---|---|---|---|
| **At forward exchange rates** | | | | | | | | |
| At 1 May 2015 | – | – | (99) | (136) | – | – | (1,780) | (2,787) |
| Contracts matured in period | 23 | 278 | 4,421 | 6,236 | (36) | (51) | 1,552 | 2,462 |
| New contracts in period | (54) | (659) | (4,322) | (6,100) | 1,615 | 2,314 | (519) | (767) |
| At 30 April 2016 | (31) | (381) | – | – | 1,579 | 2,263 | (747) | (1,092) |
| Fair value adjustment | – | | – | | (30) | | (1) | |
| At 30 April 2016 at spot rate | (31) | | – | | 1,549 | | (748) | |

### Liquidity risk

The maturity of the outstanding contracts was as follows:

| **At 30 April 2017** | Buy £'000 | Sell €'000 | Buy £'000 | Sell US$'000 | Buy £'000 | Sell US$'000 |
|---|---|---|---|---|---|---|
| Within one year | 371 | 434 | 1,251 | 1,718 | (2,458) | (3,081) |
| Within two years | – | – | – | – | – | – |
| Greater than two years | – | – | – | – | – | – |
| **At 30 April 2017 at forward rate** | **371** | **434** | **1,251** | **1,718** | **(2,458)** | **(3,081)** |

## 19. Derivative financial instruments continued

### Liquidity risk continued

| At 30 April 2016 | Sell £'000 | Buy NOK'000 | Buy £'000 | Sell US$'000 | Buy £'000 | Sell US$'000 |
|---|---|---|---|---|---|---|
| Within one year | (31) | (381) | 811 | 1,116 | (747) | (1,092) |
| Within two years | — | — | 138 | 196 | — | — |
| Greater than two years | — | — | 630 | 951 | — | — |
| At 30 April 2016 at forward rate | (31) | (381) | 1,579 | 2,263 | (747) | (1,092) |

The following significant exchange rates applied at 30 April:

| | **2017** | | 2016 | | |
|---|---|---|---|---|---|
| | **US$** | **Euro** | NOK | US$ | Euro |
| Exchange rates at 30 April | **0.7726** | **0.8419** | 0.0852 | 0.6845 | 0.7843 |

### Sensitivity analysis

A 10% strengthening of sterling against the above currencies at 30 April 2017 would increase the reported operating profit by £62,000 (2016: decrease the reported operating profit by £102,000) in respect of marking these forward contracts to market value.

## 20. Share capital

| | **2017 Number** | 2016 Number |
|---|---|---|
| Allotted, called up and fully paid 10 pence ordinary shares | **40,959,101** | 40,959,101 |

Movement in allotted, called up and fully paid 10 pence ordinary shares:

| | Number |
|---|---|
| At 1 May 2015 | 40,959,101 |
| Share options exercised | — |
| At 1 May 2016 | 40,959,101 |
| Share options exercised | — |
| **At 30 April 2017** | **40,959,101** |

The Company has one class of ordinary shares, none of which carry a right to fixed income.

During the year ended 30 April 2017, no ordinary shares (2016: nil) in Cohort plc were issued to satisfy share options.

## 21. Share options

The Group grants share options under the Cohort plc 2006 share option scheme to senior management and key employees. In addition, the Group operates a save as you earn (SAYE) scheme which is available to all employees.

The details of the share option schemes are contained in the Remuneration & Appointments Committee report on pages 37 to 39.

The following options were outstanding at 30 April 2017:

| Scheme and grant date | Exercise price £ | Vesting date | Expiry date | 30 April 2017 Vested | 30 April 2017 Not vested | 30 April 2017 Total | 30 April 2016 Vested | 30 April 2016 Not vested | 30 April 2016 Total |
|---|---|---|---|---|---|---|---|---|---|
| Cohort plc 2006 share option scheme | | | | | | | | | |
| 19 Feb 2007 | 1.770 | 20 Feb 2010 | 19 Feb 2017 | **—** | **—** | **—** | 32,909 | — | 32,909 |
| 11 Jul 2008 | 1.890 | 12 Jul 2011 | 11 Jul 2018 | **7,929** | **—** | **7,929** | 7,929 | — | 7,929 |
| 23 Jul 2010 | 0.835 | 24 Jul 2013 | 23 Jul 2020 | **103,471** | **—** | **103,471** | 105,471 | — | 105,471 |
| 26 Jul 2011 | 0.915 | 27 Jul 2014 | 26 Jul 2021 | **66,252** | **—** | **66,252** | 98,252 | — | 98,252 |
| 24 Jan 2012 | 1.100 | 25 Jan 2015 | 24 Jan 2022 | **—** | **—** | **—** | 9,050 | — | 9,050 |
| 2 Aug 2012 | 1.165 | 3 Aug 2015 | 2 Aug 2022 | **148,500** | **—** | **148,500** | 248,458 | — | 248,458 |
| 9 Aug 2013 | 1.675 | 10 Aug 2016 | 9 Aug 2023 | **137,950** | **—** | **137,950** | — | 258,150 | 258,150 |
| 11 Aug 2014 | 1.975 | 12 Aug 2017 | 11 Aug 2024 | **—** | **207,852** | **207,852** | — | 229,852 | 229,852 |
| 31 Oct 2014 | 2.425 | 1 Nov 2017 | 31 Oct 2024 | **—** | **24,000** | **24,000** | — | 28,000 | 28,000 |
| 20 Aug 2015 | 3.725 | 21 Aug 2018 | 20 Aug 2025 | **—** | **277,482** | **277,482** | — | 290,482 | 290,482 |
| 22 Sep 2015 | 3.750 | 23 Sep 2018 | 22 Sep 2025 | **—** | **—** | **—** | — | 4,000 | 4,000 |
| 15 Aug 2016 | 3.400 | 16 Aug 2019 | 15 Aug 2026 | **—** | **307,056** | **307,056** | — | — | — |
| | | | | **464,102** | **816,390** | **1,280,492** | 502,069 | 810,484 | 1,312,553 |
| **Save as you earn (SAYE) scheme** | | | | | | | | | |
| 8 Aug 2011 | 0.885 | | | **3,485** | **—** | **3,485** | — | 48,098 | 48,098 |
| 15 Aug 2012 | 1.190 | | | **—** | **5,042** | **5,042** | — | 30,252 | 30,252 |
| 13 Aug 2013 | 1.545 | | | **—** | **20,771** | **20,771** | — | 85,193 | 85,193 |
| 11 Aug 2014 | 2.075 | | | **—** | **120,715** | **120,715** | — | 134,041 | 134,041 |
| 14 Aug 2015 | 3.380 | | | **—** | **137,348** | **137,348** | — | 147,098 | 147,098 |
| 29 Aug 2016 | 3.550 | | | **—** | **148,225** | **148,225** | — | — | — |
| | | | | **3,485** | **432,101** | **435,586** | — | 444,682 | 444,682 |
| | | | | **467,587** | **1,248,491** | **1,716,078** | 502,069 | 1,255,166 | 1,757,235 |

The SAYE options have maturity periods of three or five years from the date of grant.

The Group plan provides for a grant price equal to the closing market price of the Group shares on the trading day prior to the date of grant. The vesting period is generally three years, five years in the case of some SAYE options. If options under the Cohort plc 2006 share option scheme remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

The movement in share options during the year is as follows:

| | 2017 Options | 2017 Weighted average exercise price £ | 2016 Options | 2016 Weighted average exercise price £ |
|---|---|---|---|---|
| Outstanding at 1 May | **1,757,235** | **2.04** | 2,204,563 | 1.35 |
| Granted during the year | **473,182** | **3.45** | 444,134 | 3.61 |
| Forfeited during the year | **(50,998)** | **2.52** | (42,186) | 1.88 |
| Exercised during the year | **(424,616)** | **1.37** | (849,276) | 1.08 |
| Expired during the year | **(38,725)** | **2.37** | — | — |
| Outstanding at 30 April | **1,716,078** | **2.56** | 1,757,235 | 2.04 |
| Exercisable at 30 April | **467,587** | **1.22** | 502,069 | 1.10 |

The weighted average share price at the date of exercise for share options exercised during the year was £1.37 (2016: £1.08). The options outstanding at 30 April 2017 had a weighted average exercise price of £2.56 (2016: £2.04) and a weighted average remaining contractual life of six years (2016: six years).

The exercised options in the year were satisfied by transferring 424,616 shares from the Cohort Employee Benefit Trust (see note 22).

### 21. Share options continued

In the year ended 30 April 2017, options were granted as follows: 149,979 on 29 August 2016 under the SAYE scheme and 323,203 on 15 August 2016 under the Cohort plc 2006 share option scheme. The exercise prices of the options granted on those dates were £3.550 and £3.40 respectively.

Share options granted during the current and previous years were valued using the Quoted Companies Alliance model, a Black Scholes-based binomial model. The inputs to this model for the current and previous years were as follows:

| | **2017** | 2016 |
|---|---|---|
| Weighted average share price | **£3.78** | £3.53 |
| Weighted average exercise price | **£2.56** | £2.04 |
| Expected volatility | **28.0%** | 25.0% |
| Risk free rate | **0.33%–1.10%** | 0.91%–1.84% |
| Leaver rate (per annum) | **10.0%** | 10.0% |
| Dividend yield | **0.95%** | 1.04% |

Expected volatility was determined by calculating the historical volatility of the Group's share price over the previous three years. The leaver rate used in the model is based on management's best estimate.

The Group recognised a cost of £221,000 (2016: £197,000) relating to share-based payment transactions which are all equity settled, an equivalent amount being transferred to the share option reserve.

The cost of share-based payments is included in "Administrative expenses" within the Consolidated income statement.

### 22. Own shares

| | £'000 |
|---|---|
| Balance at 1 May 2015 | 835 |
| Acquired in the year | 4,162 |
| Sold in the year | (914) |
| Loss on shares sold in the year | (1,348) |
| Balance at 30 April 2016 | 2,735 |
| Acquired in the year | 109 |
| Sold in the year | (583) |
| Loss on shares sold in the year | (1,119) |
| **Balance at 30 April 2017** | **1,142** |

The own shares reserve represents the cost of shares in Cohort plc purchased in the market and held by the Cohort Employee Benefit Trust to satisfy options under the Group's share option (see note 21) and Restricted Share schemes (see Remuneration & Appointments Committee report on pages 37 to 39).

The number of ordinary shares in Cohort plc held by the Employee Benefit Trust at 30 April 2017 was 315,248 (2016: 755,743).

29,000 Cohort plc ordinary shares were acquired on 3 May 2016 by the Employee Benefit Trust at a cost of £3.761 per share, a total investment of £109,077.

Ordinary shares in Cohort plc were transferred by the Employee Benefit Trust for the purposes of satisfying the exercise of share options as follows:

| Exercise price per share<br>Pence | Number of<br>shares sold | Proceeds<br>£'000 | Loss<br>on sale<br>of shares<br>£'000 |
|---|---|---|---|
| 83.5 | 2,000 | 2 | (6) |
| 88.5 | 44,613 | 39 | (122) |
| 91.5 | 32,000 | 29 | (87) |
| 110.0 | 9,050 | 10 | (23) |
| 116.5 | 99,958 | 116 | (246) |
| 119.0 | 19,957 | 24 | (49) |
| 154.5 | 64,033 | 99 | (133) |
| 167.5 | 106,266 | 178 | (207) |
| 177.0 | 32,909 | 58 | (61) |
| 197.5 | 9,999 | 20 | (16) |
| 207.5 | 3,831 | 8 | (6) |
| | 424,616 | 583 | (956) |

### 22. Own shares continued

In addition, 44,879 (2016: 32,568) ordinary shares in Cohort plc were transferred at nil value realising a loss on sale of shares of £162,641 for the purpose of satisfying shares awarded to the Executive Directors (see Remuneration & Appointments Committee report on pages 37 to 39) and senior management under the Group's Restricted Share scheme. The total loss on satisfying share options and Restricted Shares by the Employee Benefit Trust was £1,119,000 (2016: £1,348,000).

59,983 (2016: 63,213) shares remain held by the Employee Benefit Trust and remain to be issued under the Restricted Share scheme, on which an estimated loss of £217,197 (2016: £228,768) will be recognised as they are issued.

The market valuation of the ordinary shares in Cohort plc held by the Employee Benefit Trust at 30 April 2017 was £1,339,804 (2016: £2,890,717).

The cost of operating the Employee Benefit Trust during the year ended 30 April 2017 was £22,151 (2016: £89,867) and this cost is included within "Administrative expenses" in the Consolidated income statement.

### 23. Reserves

The Group (consolidated) and Company statements of changes in equity are disclosed as primary statements on pages 45 and 46. Below is a description of the nature and purpose of the individual reserves:

- Share capital represents the nominal value of shares issued, including those issued to the Cohort Employee Benefit Trust (see note 20).
- Share premium includes the amounts over the nominal value in respect of share issues. In addition, costs in respect of share issues are debited to this account.
- Own shares held by the Group represent shares in Cohort plc. All the shares are held by the Cohort Employee Benefit Trust (see note 22).
- Share option reserve represents the cumulative share-based payment charged to reserves less the transfer to retained earnings on vesting of options.
- Other reserve represents the final earn out payable on the acquisition of the non-controlled interest (49.999%) of MCL. This reserve is expected to be utilised fully no later than 31 July 2017.
- Retained earnings include the realised gains and losses made by the Group and the Company.

### 24. Cash flow

#### a. Net cash from operating activities

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| Profit for the year | **2,108** | 5,364 | **4,070** | 6,788 |
| Adjustments for: | | | | |
| Income tax (credit)/expense | **(1,144)** | (54) | **8** | (97) |
| Depreciation of property, plant and equipment | **1,207** | 1,090 | **13** | 6 |
| Amortisation of other intangible assets and goodwill | **11,259** | 6,379 | **—** | — |
| Net finance (income)/expense | **(1)** | (64) | **6** | (62) |
| Derivative financial instruments and other non-trading exchange movements | **(430)** | (7) | **—** | — |
| Share-based payment | **221** | 197 | **23** | 26 |
| Increase/(decrease) in provisions | **297** | (59) | **—** | — |
| Operating cash flows before movements in working capital | **13,517** | 12,846 | **4,120** | 6,661 |
| Increase in inventories | **(1,386)** | (958) | **—** | — |
| (Increase)/decrease in receivables | **(3,002)** | (8,585) | **444** | (486) |
| (Decrease)/increase in payables | **(5,815)** | 5,203 | **(441)** | (640) |
| | **(10,203)** | (4,340) | **3** | (1,126) |
| Cash generated by operations | **3,314** | 8,506 | **4,123** | 5,535 |
| Income taxes paid | **(2,609)** | (1,784) | **(10)** | — |
| Interest paid | **(46)** | (4) | **(43)** | — |
| Net cash inflow from operating activities | **659** | 6,718 | **4,070** | 5,535 |

## 24. Cash flow continued

### b. Cash and cash equivalents at 30 April 2017

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 £'000** | 2016 £'000 | **2017 £'000** | 2016 £'000 |
| Cash and bank | **12,017** | 23,109 | **—** | — |
| Short-term deposits | **—** | — | **—** | — |
| Total cash and cash equivalents | **12,017** | 23,109 | **—** | — |
| Bank overdraft | **—** | — | **(16,737)** | (13,263) |
| Bank loan | **(3,536)** | (3,293) | **(3,536)** | (3,293) |
| Finance lease | **(9)** | (11) | **—** | — |
| Total debt | **(3,545)** | (3,304) | **(20,273)** | (16,556) |
| Net funds | **8,472** | 19,805 | **(20,273)** | (16,556) |

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with a maturity at commencement of three months or less. The carrying amounts of these assets approximate to their fair value.

## 25. Operating lease arrangements

| Group | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year: | | |
| Land and buildings | **1,099** | 786 |
| Other | **176** | 194 |
| | **1,275** | 980 |

At 30 April 2017 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Land and buildings: | | |
| Leases which expire within one year | **274** | — |
| Leases which expire in the second to fifth year inclusive | **2,870** | 672 |
| Leases which expire after five years | **1,152** | 3,968 |
| | **4,296** | 4,640 |
| Other: | | |
| Leases which expire within one year | **172** | 8 |
| Leases which expire in the second to fifth year inclusive | **431** | 280 |
| Leases which expire after five years | **—** | — |
| | **603** | 288 |
| | **4,899** | 4,928 |

Significant leasing arrangements held by the Group are in respect of its operating facilities in Aberdeen, Barnstaple, Lincoln, Lisbon and Theale.

In respect of all the Group's operating leases (including the Company's), there is no contingent rent payable and there are no escalation clauses, restrictions for further leasing or restrictions on the Group's ability to access debt or pay dividends.

None of the significant operating leases entered into by the Group has any renewal or purchase options.

| Company | **2017 £'000** | 2016 £'000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year: | | |
| Land and buildings | **53** | 53 |

## 25. Operating lease arrangements continued

At 30 April 2017 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2017<br>£'000 | 2016<br>£'000 |
|---|---|---|
| Land and buildings: | | |
| Leases which expire within one year | — | 53 |
| Leases which expire in the second to fifth year inclusive | **828** | — |
| | **828** | 53 |

The lease commitment in respect of the Group's Theale property, which was previously with SCS, has been transferred to Cohort plc as at 1 April 2017.

## 26. Commitments

There was £2,000 of capital commitments at 30 April 2017 (2016: £83,000).

## 27. Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £2,335,000 (2016: £2,294,000) were charged to the Consolidated income statement. Contributions outstanding at 30 April 2017 were £219,430 (2016: £213,980).

## 28. Contingent liabilities

At 30 April 2017 the Group had in place bank guarantees of £537,000 (2016: £962,000) in respect of trading contracts. The Group is not aware of any conditions which would realise these contingent liabilities.

## 29. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. However, the key transactions with the Company are disclosed as follows:

| | Capital contribution to subsidiary (see note 12)<br>£'000 | Management fees received from subsidiaries<br>£'000 | Rent paid to subsidiaries<br>£'000 | Dividends received from subsidiaries<br>£'000 | Group relief received from subsidiaries<br>£'000 |
|---|---|---|---|---|---|
| **2017** | — | **1,700** | **50** | **4,750** | **111** |
| 2016 | 1,000 | 1,700 | 53 | 5,500 | 88 |

During the year ended 30 April 2017, the Directors of Cohort plc received dividends from the Company as follows:

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| S Carter | **573,660** | 482,603 |
| N Prest CBE | **130,834** | 110,483 |
| A Thomis | **6,715** | 4,773 |
| Sir Robert Walmsley | **1,890** | 1,327 |
| S Walther | **6,189** | 4,651 |
| J Perrin | **252** | — |
| | **719,540** | 603,837 |

Further details of the remuneration of the Directors are set out in the Remuneration & Appointments Committee report (pages 37 to 39).

The aggregate remuneration (excluding share option costs) of the key management of the Group was as follows:

| | 2017<br>£ | 2016<br>£ |
|---|---|---|
| Salary (including any allowances, benefits and employer's NI) | **1,532,158** | 1,423,466 |
| Employer's pension contribution | **42,131** | 86,727 |
| Termination payments | **155,000** | — |
| | **1,729,289** | 1,510,193 |

The key management of the Group is the Board of Cohort plc plus each subsidiary's managing director.

## 30. Acquisition of Empresa de Investigação e Desenvolvimento de Electrónica, S.A. (EID)

As announced on 28 June 2016, Cohort plc acquired 56.89% of EID for a total consideration of £8.9m (€10.3m). The Group has recognised 100% of EID's results and net assets from that date as it has effective control.

The acquisition accounting is as follows:

| | Book value £'000 | Fair value £'000 |
|---|---|---|
| Recognised amounts of identifiable assets acquired and liabilities assumed: | | |
| Property, plant and equipment | 295 | 295 |
| Other intangible assets | — | 10,247 |
| Inventory | 1,874 | 1,874 |
| Trade and other receivables | 6,120 | 6,411 |
| Trade and other payables | (7,908) | (8,575) |
| Provisions | 53 | 53 |
| Deferred tax | 92 | (2,149) |
| Net cash | 3,708 | 3,708 |
| | 4,234 | 11,864 |
| 56.89% of net assets acquired | | 6,749 |
| Goodwill | | 2,195 |
| Total consideration | | 8,944 |
| Satisfied by: | | |
| Cash | | 8,944 |
| Total consideration transferred | | 8,944 |
| Net cash outflow arising on acquisition: | | |
| Cash consideration paid | | 8,497 |
| Less: cash and cash equivalents acquired | | (3,708) |
| | | 4,789 |

Actual cash outflow for the year ended 30 April 2017 was £4,045,000, £744,000 having been paid on deposit in the year ended 30 April 2016.

The exchange rate used on the acquisition of EID in respect of net assets, goodwill and consideration was £1:€1.2073.

Other intangible assets of £10.2m and their estimated useful lives are analysed as follows:

| | Other intangible assets £'000 | Estimated life Years |
|---|---|---|
| Contracts acquired | 10,247 | 9 |

A deferred tax liability of £2.3m in respect of the other intangible assets balance above was established and is disclosed as part of the fair value deferred tax liability.

The goodwill of £2.2m arising from the acquisition represents the customer contacts, supplier relationships and know-how to which no certain value can be ascribed. None of the goodwill is expected to be deductible for income tax purposes.

The acquisition costs of £0.9m in respect of EID were charged as an exceptional item of £0.8m in the Consolidated income statement for the year ended 30 April 2016 and £0.1m for the year ended 30 April 2017.

EID contributed £16.0m of revenue and £4.2m of adjusted operating profit for the period from 28 June 2016 to 30 April 2017.

A further 0.02% of EID was acquired in the year ended 30 April 2017 from private shareholders under the same terms of the original deal.

Cohort plc has agreed with the Portuguese Government, the holder of 43.09% of EID, to acquire a further 23.09% on the same terms as the original sale and purchase agreement, leaving the Group with 80% of EID. On completion of the second part of the acquisition of EID, we will enter into a shareholders' agreement giving the Portuguese Government certain rights, typical of a minority shareholder.

## 31. Acquisition of Marlborough Communications Limited (MCL)

The Group originally acquired 50% plus one share of Marlborough Communications Ltd (MCL) on 9 July 2014.

The Group has recognised 100% of MCL's results and net assets as it has effective control from that date.

On 31 January 2017, Cohort plc purchased the non-controlling interest in MCL of 49.999% for a cash consideration of £5,080,344 in accordance with the original sale and purchase agreement of 9 July 2014.

A further estimated earn out (in accordance with the sale and purchase agreement) of £465,000 is payable to the minority shareholders on or before 31 July 2017. This is based upon the closing order book of MCL at 30 April 2017. This earn out is shown as a creditor due in less than one year.

Further, in accordance with the sale and purchase agreement, the non-controlling interest of MCL is to receive 49.999% of the cash held by MCL at 30 April 2017 over and above that required to meet its working capital requirements. This is estimated at £1,961,000 and is shown as a creditor due in less than one year.

On acquiring the non-controlling interest in MCL, the following adjustments arose in the Group accounts of Cohort plc:

| | £'000 |
|---|---|
| Charge to equity (retained earnings) | 2,075 |
| Elimination of non-controlling interest in MCL | 5,011 |
| | 7,086 |
| This was funded by: | |
| Cash consideration to acquire non-controlling interest | 5,080 |
| Creditor due in less than one year in respect of share of cash due to the non-controlling interest of MCL | 1,961 |
| Increase in creditor due in less than one year in respect of earn out payable to non-controlling interest of MCL (up to £465,000 in total) | 45 |
| | 7,086 |

The creditor of £2,426,000 due in less than one year is payable to the former minority shareholders of MCL on or before 31 July 2017.

MCL contributed £2.1m of adjusted operating profit on £14.8m of revenue for the year ended 30 April 2017, of which £1.4m and £5.0m respectively were for the period from 1 February 2017 to 30 April 2017.

Further costs of £47,000 were incurred in acquiring the non-controlling interest of MCL. These have been recognised as an exceptional item in the Consolidated income statement.

The investment in MCL by the Company, Cohort plc, increased by £7,506,000 (see note 12) comprising the £5,080,000 paid 31 January 2017 and the additional £2,426,000 expected to be paid on or before 31 July 2017.

### Basis of accounting

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 46 to 79. On publishing the parent company financial statements here, together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements. The Company is a public company limited by shares.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available for sale, investment property and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

As highlighted in note 16 to the financial statements, the Company meets its day-to-day working capital requirements through a facility which is due for renewal in November 2018. Both the current domestic economic conditions and continuing UK Government budget pressures, including defence, create uncertainty, particularly over the level of demand for the Group's products.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Strategic report on pages 2 to 28. The financial position of the Company, its cash flows, its liquidity position and its borrowing facilities are also described in the Strategic report on pages 2 to 28.

In addition, the Strategic report includes the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 30 April 2017. Subsidiaries acquired during the year are consolidated from the date of acquisition, using the purchase method (see "Business combinations" below).

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. The Group's subsidiaries have prepared their statutory financial statements in accordance with Adopted IFRS, as from 1 May 2015.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

#### Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### Adoption of new and revised standards

Various new and revised standards and interpretations have been adopted by the Group in the year ended 30 April 2017 which have had no significant impact on the amounts reported in these financial statements by the Group.

### Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest rate method and are disclosed within accruals to the extent they are not settled in the period, unless the loan terms provide for the interest to be added to the principal, in which case the interest is added to the carrying amount of the instrument to which it pertains.

### Borrowing costs
All borrowing costs are recognised in the income statement in the period in which they are incurred unless, where appropriate, interest costs are capitalised into assets, fixed and current.

### Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the completion date, of assets acquired, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquired subsidiary. The costs of acquisition are charged to the Consolidated income statement as an exceptional item in accordance with IFRS 3 (Revised).

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable intangible assets, assets, liabilities and contingent liabilities recognised. If, after reassessment, which is a point in time greater than 12 months after the completion date, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds or is below the cost of the business combination, the excess or shortfall is recognised immediately in the income statement as an exceptional item.

Adjustments to the provisional value of assets and liabilities acquired in a business combination when the final values have become known within 12 months are adjusted as if the accounting had been completed at the acquisition date and the comparative information for prior periods is restated accordingly.

Any change in consideration, where previously estimated, is immediately recognised as an exceptional item in the income statement.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

The Group measures the non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquire in the event of liquidation, at its proportionate interest in the recognised amount of the identifiable net assets of the acquire at the acquisition date.

Where less than 100% of a subsidiary is acquired but the Group has effective control, that subsidiary is accounted for as if 100% were acquired with the non-controlling interest recognised appropriately.

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Prior to the adoption of IAS 27 (2008), goodwill was recognised on the acquisition of non-controlling interests in a subsidiary, which represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of the transaction.

### Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and on-demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Deposits are included within cash and cash equivalents where the maturity from commencement of the deposit is three months or less.

### Derivative financial instruments and hedge accounting
The Group's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise and are disclosed separately in deriving the Group's adjusted operating profit.

### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### Exceptional items

Items which are both material and non-recurring are presented as exceptional items within the relevant income statement category. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance. Events which may give rise to the classification of items as exceptional, if of a significantly material value, include gains or losses on the disposal of a business or the restructuring of a business, transaction costs, litigation and similar settlements, asset impairments and onerous contracts.

### Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument.

### Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Specifically in the case of the put option to acquire the non-controlling interest of MCL, as the option is a put and the non-controlling interests have a right to participate in any equity distributions (including dividends), the original option value and any subsequent changes to the value of that option are included in equity and not in the income statement. This option will be fully utilised on or before 31 July 2017.

### Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency), which is sterling for the whole Group excluding Cohort's direct subsidiary Thunderwaves and indirect subsidiary, EID, which both have the functional currency of the euro. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements, with any exchange difference included in the Consolidated comprehensive statement of income.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in the income statement for the year.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts. The Group's accounting policies in respect of such derivative financial instruments are described above.

These forward foreign exchange contracts are revalued to fair value at each balance sheet date with any movement included in the Consolidated income statement as part of the cost of sales and disclosed separately in deriving the Group's adjusted operating profit.

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable intangible assets, assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment biannually. Any impairment is recognised immediately in the income statement as an exceptional item and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's subsidiaries as appropriate. Subsidiaries (cash-generating units) to which goodwill has been allocated are tested for impairment biannually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the subsidiary is less than the carrying amount of the subsidiary, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the subsidiary and then to the other assets of the subsidiary pro rata on the basis of the carrying amount of each asset in the subsidiary. An impairment loss recognised for goodwill is not reversed in a subsequent period. The impairment of goodwill is a critical judgement and estimate and is discussed in detail below.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

### Impairment of tangible and intangible assets excluding goodwill
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or subsidiary) is estimated to be less than its carrying amount, the carrying amount of the asset (subsidiary) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (subsidiary) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (subsidiary) in prior years. A reversal of an impairment loss is recognised as income immediately.

### Intangible assets
Intangible assets are recognised in respect of contracts, intellectual property rights and other measurable intangibles arising on business combinations. The value of these intangible assets is determined by the estimated value to the Group going forward and the intangible assets are written off on a straight-line basis over the estimated useful life. As discussed on page 79, the valuation of intangible assets is an area of critical judgement and estimate for the Directors.

### Inventories
Inventories are stated at the lower of cost and net realisable value. Cost of finished goods and work in progress includes overheads appropriate to the stage of manufacture. Net realisable value is based upon estimated selling price less further cost expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items. Stock is accounted for on a first in, first out basis.

### Joint ventures
The Group accounts for joint ventures where it has a participating interest using the equity method of accounting and discloses the net investment in non-current assets.

Where the investment in a joint venture is negative, the negative investment, to the extent it is a liability of the Group, is offset against any trade and other receivables held by the Group in respect of that joint venture.

The Group accounts for joint ventures in which it no longer has a participating interest by recognising any investment and assets or liabilities due to or from the Group.

### Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Group as lessee
Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

### Pension contributions
Payments are made to the Company's stakeholder pension schemes, all of which are defined contribution schemes. Amounts are charged to the income statement as incurred.

### Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their fair value at the date of acquisition, plus any subsequent cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Buildings | 2%–4% |
| Fixtures, fittings and equipment | 20%–50% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement as an exceptional item.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) which arises as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. In respect of specific types of provisions the policy is as follows:

#### Warranty

Provisions for the expected cost of warranty obligations under local sale of goods legislation and specifically contracted warranty undertakings are recognised at the date of sale of the relevant product or service. The provision is the Directors' best estimate of the expenditure required to settle the Group's obligation.

#### Other contract-related provisions including contract loss provisions

These include the following:

The Group undertakes a number of contracts where contractual and/or third-party obligations arise as a result of delivering the contract. This provision includes amounts for losses on contracts which are recognised in full immediately when it is probable that total contract costs will exceed total contract revenue. In some cases, after a product has been delivered and revenue has been recognised, the Group receives claims (including warranty issues) from customers in respect of work done. Where the amount required to settle the claim is uncertain or the Group disputes the amount of the claim, provision is made for the best estimate of the amount that will be required to settle the claim.

Contract loss provisions are reviewed on a regular basis to determine whether the provision is still adequate or excessive. Contract loss provisions and subsequent adjustments to them are charged as cost of sales in the income statement.

Where such an obligation relates to a discontinued operation then the charge will be disclosed as an exceptional item.

### Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's own development activity is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software, product and new processes) and is technically and commercially feasible;
- it is probable that the asset created will generate future economic benefits and the Group has available to itself sufficient resources to complete the development and to subsequently sell and/or use the asset created; and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

## Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable for the provision of goods and services, excluding discounts, VAT and other sales-related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

The Group applies either IAS 11 'Construction Contracts' or IAS 18 'Revenue' to account for revenue depending on the nature of the arrangement with the customer. The Group's arrangements fall into four main categories:

### 1. Time hire

Revenue is recognised in accordance with IAS 18 when the services are provided, i.e. when the employees undertake the work.

### 2. Managed services

In managed services, revenue is generally a fixed price for the provision of specific ongoing defined services (not the construction of an asset) over an agreed period. These services include the provision of technical engineering support, maintaining help desks and consultancy. Where the services comprise an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the period that the services are provided. Where the services comprise one or more significant acts, revenue is recognised as each act is completed.

### 3. Product

Goods are delivered to customers and, on their acceptance by the customer, revenue is recognised. At that point, the Group does not have any continuing involvement or control over the goods and all significant risks and rewards have been transferred to the customer.

### 4. System design, build, test and delivery

These contracts are typically for building complex custom designed assets which are usually components for use in larger customer owned assets. These contracts are accounted for under IAS 11. The Group's contracts of this nature are generally fixed price and without "standalone" values for each element as the contracts are negotiated and ultimately delivered/accepted as a single package.

In these contracts the revenue is recognised using the "percentage of completion" method in IAS 11.

In almost all cases, the percentage of completion is based on input measures (i.e. costs incurred as a proportion of estimated total costs). In some cases, an output measure based on surveys of work performed (milestones) may be used where these are available and measure reliably the work performed.

Costs are expensed as incurred in respect of all contracts unless they relate to goods yet to be delivered, services related to a significant act that has yet to be completed or future activities on a contract accounted for under IAS 11, in which case they are recorded as an asset (either inventory or amounts recoverable on contract).

In some cases, Group contracts can be divided into multiple elements with standalone values using either the principle in IAS 18.13 or the following criteria based on IAS 11.7-10:

- separate proposals for each element;
- each element was subject to separate negotiations; and
- costs and revenues for each element can be identified.

Where separate elements are identified, each is treated as one of the four revenue types described above.

## Bid costs

Costs incurred before the award of a contract is probable are expensed as incurred. Where material bid costs arise after the award of a contract has become probable but before the contract is in place, then such identified bid costs are included in contract costs.

## Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based Payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2006.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest and adjusted for the non-market-based vesting conditions.

Fair value is measured by use of the Quoted Companies Alliance binomial model (a Black Scholes model). The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of share-based payments is charged to the income statement with a corresponding credit applied to the share option reserve. The appropriate element of the reserve is transferred to the retained profit of the Group when the share options to which the reserve relates vest.

### Taxation

The tax expense represents the sum of the tax currently payable and the deferred tax expense or credit.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Trade and other receivables

Trade receivables are initially measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the estimated recoverable amount.

Long-term contracts are assessed on a contract-by-contract basis and reflected in the income statement by recording revenue and related costs as contract activity progresses. Revenue is ascertained in a manner appropriate to the stage of completion of the contract, and credit taken for profit earned to date when the outcome of the contract can be assessed with reasonable certainty. The amount by which revenue exceeds payments on account is classified as "Amounts recoverable on contracts" and included within trade and other receivables; to the extent that payments on account exceed relevant revenue, the excess is included as an advance receipt within trade and other payables. The amount of long-term contracts, at cost net of amounts transferred to cost of sales, costs incurred plus recognised profits, less provision for foreseeable losses and payments on account not matched with revenue, is included within trade and other receivables as "Amounts recoverable on contracts".

### Trade and other payables

Trade and other payables are initially measured at fair value. Subsequent measurement is based on changes in the fair value and any changes recognised in the Consolidated income statement.

### Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The Directors have identified the following critical judgements and estimates in applying the Group's accounting policies that have the most significant impact on the amounts recognised in the financial statements.

## Critical accounting judgements and key sources of estimation uncertainty continued

### 1. Critical accounting judgements

#### Revenue recognition

The revenue recognition policy of the Group is described in detail on page 77. There are areas where the Directors have to make judgements as to the level of revenue to be recognised in the financial statements, in particular "stage of completion":

- In accordance with IAS 11, revenue is recognised using the "percentage of completion" method for system design, build, testing and delivery contracts. In almost all cases, the percentage of completion is based on input measures (i.e. costs incurred as a proportion of estimated total costs). In a few cases, an output measure based on surveys of work performed (milestones) may be used where these are available and measure reliably the work performed.
- These contracts generally are not capable of segmentation and the percentage of completion method is applied to the contract as a whole.
- In advance of completion of key stages (or deliverables) of contracts, there is additional uncertainty in the estimated total contract costs and accordingly this additional uncertainty is reflected in increased estimates of the total contract costs, i.e. a contingency is added.
- Once those key stages have been completed and the risks have expired, the relevant remaining contingencies are removed from the forecast total contract costs. It is a critical judgement of the Directors as to both the level of contingency recognised and its retention or not.

#### Acquisition of other intangible assets

Intangible assets other than goodwill that are obtained through acquisition are capitalised on the balance sheet. These other intangible assets are valued on acquisition using a discounted cash flow methodology which depends on future assumptions about the revenue from contracts, prices and costs and on the Group's cost of capital. These assumptions reflect management's best estimates but depend on inherent uncertainties which may not be within the control of management.

### 2. Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

#### Impairment of goodwill

The Group has significant goodwill balances, the life of which it considers to be indefinite. It assesses biannually the recoverability of the balance, or more frequently in the event of an occurrence indicating impairment. The assessment involves comparing the carrying amount of the asset with its recoverable amount, which is the greater of its value in use and net realisable value by reference to external measures.

Value in use is determined using discounted cash flow techniques that involve the estimation of future cash flows over a long period and an appropriate discount rate.

Future cash flows are estimated based on historical experience, internal estimates and data from external sources. Such estimates are subject to change as a result of changes in economic and competitive conditions. Higher estimates of future cash flows will increase the value in use of goodwill, but lower estimates of cash flows will reduce the value in use and increase the risk of impairment.

Discount rates (weighted average cost of capital) are applied to the cash flows to arrive at the value in use. An increase in the discount rate will reduce the value in use of the goodwill, and will therefore increase the risk of the value in use falling below the carrying value and resulting in an impairment provision being required. A reduction in the discount rate decreases the likelihood of impairment.

Future changes in interest rates, the premium that markets place on equity investments relative to risk free rates and the specific assessment of the capital markets as to the Group's risk relative to other companies can affect the Group's discount rate. Increases in interest rates or the risk premiums applied by capital markets would result in an increase in the Group's discount rate and vice versa. These factors are largely outside the Group's control or ability to predict and can therefore have a significant impact on the estimated fair value of goodwill and hence its impairment.

The assessment of goodwill impairment is disclosed in note 10.

#### Other

Where a reasonably possible change in a key assumption could give rise to a change in the amount reported, this is disclosed within the relevant note to the accounts.

## Standards and interpretations issued as at 29 June 2017 not applied to these financial statements

A number of other standard amendments and IFRS Interpretations Committee (IFRS IC) Interpretations have been issued and are yet to be applied by the Group. The most significant of these are:

1. IFRS 15 'Revenue from Contracts with Customers'. This standard is effective from 1 January 2018 and will be required to be first applied to the Group's financial reporting for the year ending 30 April 2019. Earlier adoption is being considered by the Group and its impact is under review.
2. IFRS 16 'Leases'. This standard was issued on 13 January 2016 and is effective from 1 January 2019 and will first apply to the Group's financial reporting for the year ending 30 April 2020. The impact of this standard on the Group is under review.

## Advisers

### Nominated adviser and broker
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Chartered Accountants
Arlington Business Park
Theale
Reading RG7 4SD

### Tax advisers
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### Legal advisers
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Reading RG1 1SH

### Registrars
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Beckenham
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### Public and investor relations
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Forbury Square
Reading RG1 3EU

RBS
Abbey Gardens
4 Abbey Street
Reading RG1 3BA

## Shareholders' enquiries
If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries which are dealt with by the registrars), you should contact the Company Secretary by letter to the Company's registered office or by email to info@cohortplc.com.

## Share register
Capita Asset Services maintains the register of members of the Company.

If you have any questions about your personal holding of the Company's shares, please contact:

### Capita Asset Services
Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

**Telephone**: 0871 664 0300 (calls cost 12 pence per minute plus your phone company's access charge). (From outside the UK: +44 20 8639 3399, calls will be charged at the applicable international rate). Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

**Email**: shareholderenquiries@capita.co.uk

If you change your name or address or if details on the envelope enclosing this report, including your postcode, are incorrect or incomplete, please notify the registrars in writing.

## Daily share price listings
- The Financial Times – AIM, Aerospace and Defence
- The Times – Engineering
- The Daily Telegraph – AIM section
- London Evening Standard – AIM section

## Financial calendar

### Annual General Meeting
7 September 2017

### Final dividend payable
13 September 2017

## Expected announcements of results for the year ending 30 April 2018

### Preliminary half year announcement
12 December 2017

### Preliminary full year announcement
3 July 2018

## Registered office
Cohort plc
2 Waterside Drive
Arlington Business Park
Theale
Reading RG7 4SW

## Registered company number of Cohort plc
05684823

Cohort plc is a company registered in England and Wales.

## Five-year record

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Headline results (£'000)** | | | | | |
| Revenue | **112,651** | 112,577 | 99,938 | 71,555 | 70,866 |
| Adjusted operating profit | **14,489** | 11,902 | 10,085 | 8,171 | 7,336 |
| **Adjusted earnings per share (pence)** | | | | | |
| Basic | **27.93** | 27.18 | 20.45 | 19.15 | 17.94 |
| Diluted | **27.56** | 26.67 | 20.00 | 18.66 | 17.68 |
| **Statutory earnings per share (pence)** | | | | | |
| Basic | **9.09** | 19.14 | 14.04 | 14.75 | 20.76 |
| Diluted | **8.97** | 18.78 | 13.74 | 14.37 | 20.46 |
| Net operating cash flow (£'000) | **659** | 6,718 | 18,798 | 2,576 | 4,090 |
| Net funds (£'000) | **8,472** | 19,805 | 19,687 | 16,338 | 16,426 |
| Order intake (£m) | **108.6** | 94.8 | 114.3 | 69.1 | 59.6 |
| Order book (£m) | **136.5**[1] | 116.0 | 134.0[2] | 81.7[3] | 95.7 |

1 The order book at 30 April 2017 is after including the acquired order book of EID (£23.1m) on 28 June 2016.

2 The order book at 30 April 2015 is after including the acquired order books of MCL (£5.4m) on 9 July 2014 and J+S (£32.6m) on 1 October 2014.

3 The order book at 30 April 2014 excludes SEA's Space business order book of £10.6m (2013 included £10.4m in respect of SEA's Space business).


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Produced by
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