Cohort plc

Annual Report and Accounts 2013

Company number
05684823

Cohort plc is the parent company of three innovative, agile and responsive businesses operating in defence and related markets.

We provide a range of services and products to customers both in the UK and internationally.

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

Financial and operational highlights

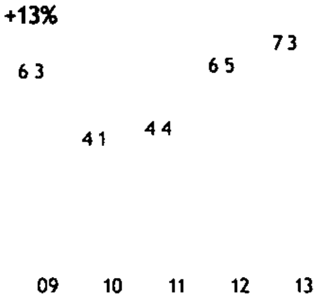
- Adjusted operating profit* up 13% to £7.3m (2012: £6.5m), a record trading profit.
- Adjusted earnings per share* up 16% at 17.94 pence (2012: 15.52 pence).
- Net funds up 16% to £16.4m (2012: £14.1m).
- Proposed final dividend up 21% at 2.30 pence per share (2012: 1.90 pence).
- Record profit at MASS.
- SEA profitability significantly improved.
- SCS profitable despite a very tight market.

In this report

Adjusted operating profit (£m)*

£7.3m

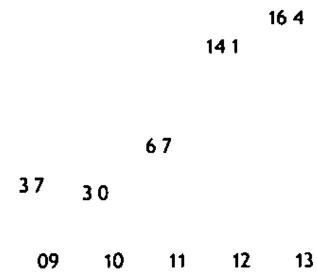
+13%



Net funds (£m)

£16.4m

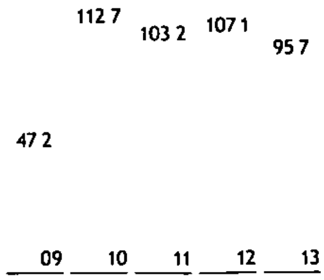
+16%



Order book (£m)

£95.7m

-11%



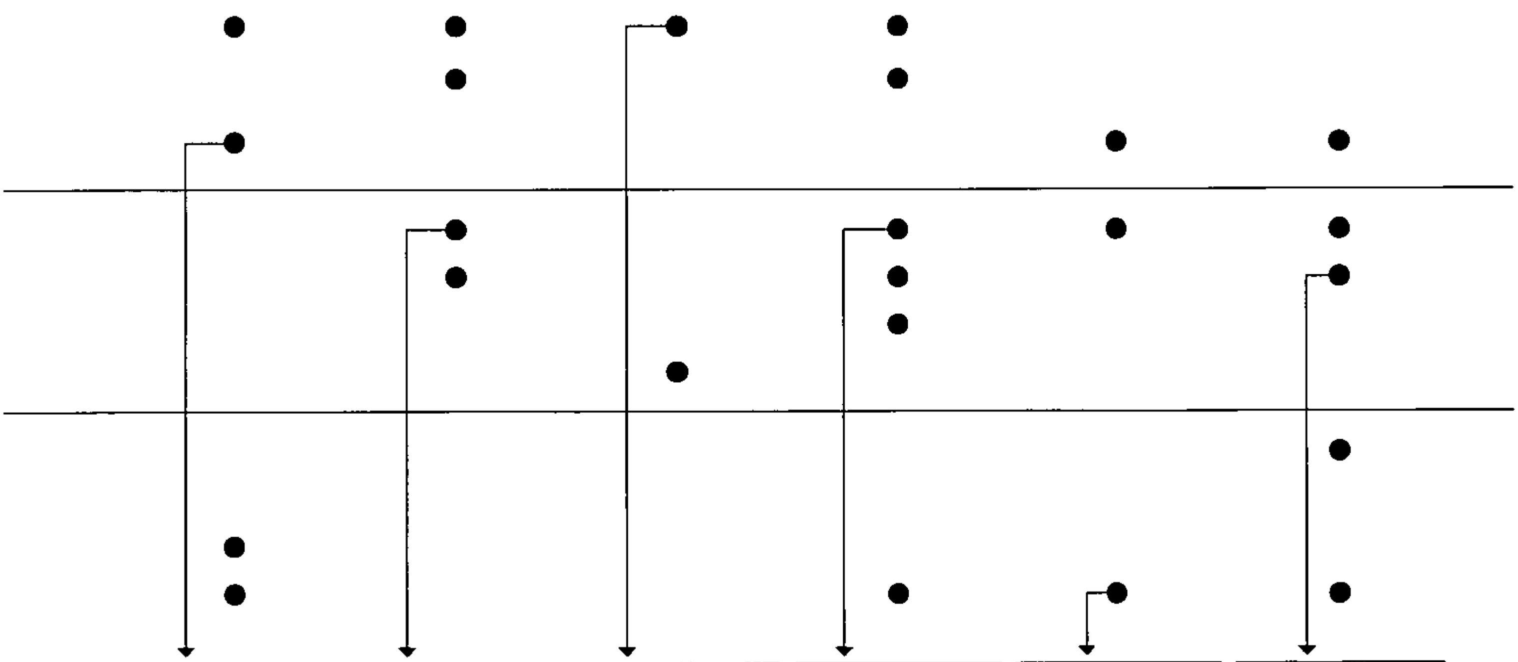
Excludes exceptional items, amortisation of other intangible assets and marking forward exchange contracts to market value at the year end

Our business

Cohort is the parent company of three well-established subsidiaries providing a wide range of services and products for UK and international customers.

Operating divisions		Revenue 2013 (£m)	Secure networks	Electronic systems
			Design, implementation, configuration, management and consultation in relation to secure networking infrastructure	*Design prototyping, testing, manufacture and support of electronics based equipment, including the development of embedded software, FPGAs, etc*
MASS harnesses technology to deliver trusted services and solutions that improve the security, efficiency and effectiveness of operations in government industry and educational establishments **www.mass.co.uk**	Electronic Warfare Operational Support (EWOS)	£4 1m		
	Managed services	£13 3m	●	●
	Systems development	£7 5m		●
SCS is an independent consultancy with a first-class reputation for providing a wide range of technical support, consultancy and managed services to a diverse customer base **www.scs.biz**	Complex systems	£5 1m	●	
	Information and communication services	£5 2m		
	Training support services	£3.8m		
SEA delivers systems engineering, software and electronic engineering services and solutions, including design and manufacture to government and industry **www.sea.co.uk**	Space	£5 1m		●
	Communication systems	£8 1m		●
	Sensor processing products	£3 3m		●
	Sensor and information systems	£15 4m		
Examples			MASS offers cyber security vulnerability assessments and solutions	SEA's Roadflow product continues to be successful in the UK and internationally

Application software	Operational support	Training	Specialist expertise	Applied research	Studies and analysis
Development, support and upgrade of software packages	*Provision of direct support to active operations including the processing and provision of operational data and field support of operational equipment*	*Supply of training courses, trainers, training materials and facilities*	*Provision of expert individuals, to be part of a team managed by the customer*	*Management/execution of scientific investigation work aimed at specific objectives*	*Self contained studies, consultancy and analytical work, excluding scientific research with a defined output (report, recommendations etc)*



MASS is at the heart of the UK Electronic Warfare (EW) data management system	SCS continues to provide technical support to UK overseas operations	MASS has opened a new state of-the-art EW training facility in Lincoln	SCS offers Human Factors expertise to support the design, build and test of complex systems	SEA is leading the Delivering Dismounted Effect programme for DSTL	SCS provides Independent Test and Evaluation to the DE&S Airworthiness Team and Air Platform Teams

Chairman's statement

Nick Prest CBE, Chairman

"Cohort continued to improve its performance in the year, achieving a record trading profit and increasing its net funds."

In summary

The Board is recommending a final dividend of 2 3 pence per ordinary share (2012 1 9 pence)

Cohort achieved a record trading profit for the year of £7 3m (2012 £6 5m)

The Group ended the year with record net funds of £16 4m (2012 £14 1m)

MASS achieved another year of record profit

SEA continued its progress with significant profit improvement

SCS remained profitable in a tight market

Cohort continued to improve its performance in the year, achieving a record trading profit and increasing its net funds despite difficult conditions in some parts of its Defence market Of Cohort's trading subsidiaries, MASS achieved another record result and SEA made significant further progress SCS remained profitable in a tight market, although its performance was down on last year

Key financials

In the year ended 30 April 2013, Cohort posted revenue of £70 9m (2012 £75 4m), including revenue of £24 9m (2012 £26 1m) from MASS Consultants Limited (MASS), £31 9m (2012 £31 8m) from SEA (Group) Limited (SEA) and £14 1m (2012 £17 5m) from Systems Consultants Services Limited (SCS) The reduction in revenue was due to customer rescheduling of planned milestones on certain long term projects, slippage on specific projects, primarily at SEA's Space division, out of the period and, notably at SCS, reduced technical support work as a result of MOD policies to restrain such spending

The Group's adjusted operating profit was £7 3m (2012 £6 5m) This included adjusted operating profit from SCS of £0 5m (2012 £1 3m), from MASS of £5 0m (2012 £4 8m) and from SEA of £3 1m (2012 £1 7m) Cohort Group overheads were £1 3m (2012 £1 3m) The higher profitability reflected improved operational efficiency at MASS and, particularly, SEA where the extensive management and organisation changes made over the last two years are now showing results

The Group operating profit of £8 4m (2012 £4 2m) was after recognising amortisation of intangible assets, differences arising on marking forward exchange contracts to market value at the year end and an exceptional item Profit before tax was £8 5m (2012 £4 2m) and profit after tax was £8 3m (2012 £4 6m)

Basic earnings per share were 20 76 pence (2012 11 30 pence) Adjusted earnings per share were 17 94 pence (2012 15 52 pence) The adjusted earnings per share were based upon profit after tax, excluding amortisation of other intangible assets, marking forward exchange contracts to market value at the year end and exceptional items, all net of tax The basic earnings per share for the year ended 30 April 2013 include a benefit from the exceptional item of 3 48 pence per share

Order intake for the year was £59 6m (2012 £79 3m) The net funds at the year end were £16 4m (2012 £14 1m)

Dividends

The Board is recommending a final dividend of 2 3 pence per ordinary share (2012 1 9 pence), making a total dividend of 3 5 pence per ordinary share (2012 2 9 pence) in respect of the year ended 30 April 2013, a 21% increase This will be payable on 25 September 2013 to shareholders on the register at 30 August 2013 subject to approval at the Annual General Meeting on 18 September 2013

MASS

MASS, again, posted record figures for profit and cash generation MASS's revenue was down on last year due to the timing of deliveries in its Building Schools for the Future program in North Lincolnshire, which have moved into 2013/14 at the customer's instigation This change in revenue mix accounts for the improved net return of MASS, 20 3% compared with 18 5% last year

MASS's order book declined during the year, partly due to run-off of longer term contracts not due to be replenished in the year

Progress was made in developing export opportunities for Electronic Warfare Operational Support (EWOS)

SCS

SCS has continued to experience a tight domestic market for its services, evidenced by a 19% fall in revenue year on year The majority of this revenue fall was in its provision of technical support services to backfill gapped posts in the UK MOD, where restrictions were in place on the procurement of such support

SCS was able to mitigate some of this revenue and margin loss through expansion of its business in other areas and by reducing its cost base to align with its revenue levels and making use of its flexible cost associate labour pool However, these actions could not fully alleviate SCS's profit deterioration in the year

The £0 5m (2012 £1 3m) of trading profit was after incurring £0 1m of restructuring costs which are expected to realise over £0 6m of annual cost saving in 2013/14

SCS, despite the tight market, ended the year with an order book of £7 7m, almost in line with its opening order book for the year

SEA

SEA continued to improve its profitability following the organisational and management changes made in 2010/11 SEA's trading profit of £3 1m (2012 £1 7m) represented a much better level of net return of 9 8% (2012 5 4%)

SEA continued to be hampered by some poorly performing space projects which are now expected substantially to complete in 2013/14 and therefore we expect the net return to continue to improve

SEA secured nearly £34m (2012 £38m) of orders in the year pushing its closing order book up to nearly £32m

Cash

Cash generated from operations in the period was £4 1m (2012 £8 4m) The reduction was largely due to an adverse working capital movement arising from the continued lock up of work in progress on the delayed space projects in SEA The Board and Executive Management have a strong focus on cash and we expect an improved performance in 2013/14 In the meantime, the Group's healthy cash position provides flexibility for investment and, since the year end, SEA has purchased the freehold of one of its Bristol sites for £1 9m

Management and staff

The Group's improving performance reflects the impact of the management changes made over the last three years The senior management teams at Cohort and within the subsidiaries have steered the business through some difficult times and deserve credit for maintaining focus and morale My thanks also go to all the staff within the businesses, whose hard work and ability to deliver what our customers need, within tight budgets, are what ultimately continue to drive our performance

Outlook

The closing order book of £95 7m (2012 £107 1m) is in line with the opening position on a like for-like basis after taking account of the run off of approximately £11m of multi-year orders in 2013 Although the UK defence market remains tight, especially for shorter term in-year spend, 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 are also strengthening Outside Defence, MASS is making progress in its secure networks business and SEA in transport Overall we expect order intake to be stronger in 2013/14 than 2012/13

The Cohort businesses are now on a sound operational footing and the management emphasis is shifting to driving growth, both organically and by acquisition Despite uncertainties in the wider Defence market, the Board consider that Cohort's order book and near term prospects provide the base for further progress in the current year

Nick Prest CBE
Chairman

Net funds (£m)

£16.4m

+16%

3 7 3 0 6 7 14 1 16 4

09 10 11 12 13

Dividend payment per share (p)

3.50 pence

+21%

1 75 2 05 2 40 2 90 3 50

09 10 11 12 13

Read more about our recent operational activities, strategy and financial review on pages 6 to 21

Our strategy

We are actively preserving the high-growth potential of innovative, independent businesses through a clear, three-point strategy.

Our mission	Our strategy	Delivered through
Creating value for our shareholders and customers in our markets, including defence, security and related areas where we can apply our high technology skills to deliver growth through the innovation, agility and responsiveness of smaller independent businesses in a framework of stability and the benefits of knowledge, access and cooperation provided by the wider Group	Maintain investor confidence and ensure good corporate governance	**Good governance and control** 01 A framework of financial control, strategy review, performance management and leadership development 02 Clear and consistent communication 03 Ability to act fast if problems arise
	Consistently grow profits and cash generation organically Through our subsidiary businesses	**Strong performance of subsidiary businesses** 04 A focus on trusted delivery to our customers 05 Encouraging innovation and responsiveness with a low cost base 06 Identifying and pursuing growth opportunities 07 Developing high quality leadership teams and a high performance culture
	Increase the diversity and profitability of the Group through selective acquisitions	**Growth through acquisition** 08 Proactive engagement with businesses that can add value to the Group 09 Maintaining a strong acquisition team 10 Demonstrating a structure and culture that is attractive to potential sellers

We measure our progress using key performance indicators which can be found on page 21

What we did in 2012/13

We have enhanced communications with our investors through the introduction of webcasts on our Investor Relations website, and have continued to publish news stories from the subsidiary businesses

IT security has had some focus in the past 12 months, and a new Cyber Forum has been set up, with representatives from across the Group charged with sharing best practice and raising the bar in this important area

Leadership development programmes have been run at two of the subsidiaries, which have been received positively and have enhanced our management capabilities

The businesses have continued to win profitable contracts in both established and new markets For example, SEA achieved its first export order for its Roadflow product

Progress has been made to win more business in the export market Although timing is often difficult to predict, we are confident that this effort will lead to successes in the next 12 month period

Cohort introduced its Business Excellence Awards, which aims to recognise and reward people who show behaviours consistent with our values

Following a quiet period on the acquisitions front since 2010 when Abacus EW was acquired, Cohort has increased its activity once again in this area, and we have been actively engaged with owners of businesses who could potentially join the Group

Cohort has developed a proprietary system for identifying, researching and targeting potential businesses that could be suitable acquisitions for the Group

We continue to get positive feedback from potential business vendors that the Cohort structure presents an attractive proposition

Our priorities for 2013/14

The Group will conduct a Business Continuity Review in the early part of the year

The Company has made a significant investment in having a presence at the Defence and Security Equipment International (DSEI) exhibition in London in September This is a useful opportunity to showcase our strengths and capabilities to investors, customers and business partners

The businesses have delivered a robust set of business plans for the period 2013/14, which continue the Group's strategic objective

Growing capabilities in cyber and winning more business in the export market remain strategic priorities for Cohort along with a focus on delivery to all our customers, including the UK MOD, who continue to rely on our performance during times of great change and uncertainty for them

With a growing pipeline of potential acquisitions and a strong balance sheet, we are confident that this aspect of our Group strategy will progress

The priority is to find value enhancing acquisitions, that complement, but do not directly compete with, the subsidiaries within the Group

Business review

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

In summary

Cohort has continued its progress, delivering a record level of adjusted operating profit and cash

Operational net return was over 10% of revenue

MASS achieved record profit

SEA's operating performance continues to improve

SCS remained profitable despite a tight market and falling revenue

Order book at 30 April 2013 underpins over £45m of 2013/14 revenue

Record net funds provide capacity to carry out our strategy

Operating review

2012/13 has been another year of continued progress for Cohort, building on the improvements made in the last two years This progress has resulted in delivery of a record level of adjusted operating profit and cash

The Group's adjusted operating profit of £7 3m (2012 £6 5m) on revenue of £70 9m (2012 £75 4m) was a net return of 10 3% (2012 8 6%)

The improved operating performance reflects the improvements made in what have been weaker areas of the business, primarily at SEA There has also been a contribution from the mix of work, with a smaller proportion of revenue coming from lower margin areas such as space and education

There remain some areas of the business where performance needs to improve further and we will continue to work on these in the year ahead

Operating strategy

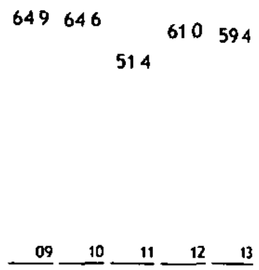
Cohort operates as a group of three medium sized businesses, operating primarily in defence and security markets, and with a strong emphasis on technology, innovation and specialist expertise

- MASS is a leading international provider in the fields of electronic warfare (EW) and secure communications, including cyber security Its products include the THURBON™ electronic warfare 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 provider of secure networks to educational and other non-defence markets MASS is led by its Managing Director, Ashley Lane It celebrates its 30th anniversary in 2013
- SCS is a provider of independent expert advisory services to defence and related markets It serves both government and private sector customers in the UK and internationally Its highly capable people combine experience in the armed forces with a wide range of technical specialisations, enabling the business to provide rapid expert support in areas including information systems, training, airworthiness, delivery and management of complex systems and support to operations in high threat areas It was founded in 1992 SCS's Managing Director is Bill Bird

Defence & Security (£m)

84%

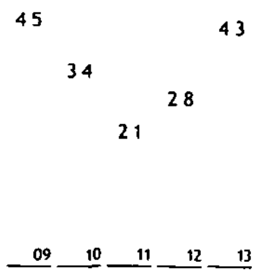
of Group revenue



Transport (£m)

6%

of Group revenue



"Cohort has continued its progress, delivering a record level of adjusted operating profit and cash."

- SEA specialises in providing systems engineering and specialist design solutions to government and industry SEA is an expert in naval and tactical communications, providing solutions for the UK submarine flotilla and tactical battlefield data systems It provides a range of simulation based training solutions and middleware to provide realistic training for complex environments SEA also provides software and systems for the transport market and high-integrity space flight hardware for scientific missions It was founded in 1998 and is led by Managing Director Steve Hill SEA is celebrating its 25th anniversary in 2013 by organising voluntary activities to raise money for a range of national and local charities selected by its staff

Cohort's strategy is to allow its subsidiary businesses a significant degree of operational autonomy in order to fully develop their potential, 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 It is also 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 The characteristics we look to in our people were recently recognised in the Group's inaugural Business Excellence Awards

This approach is more difficult for very large prime contractors for whom co-ordination of large teams through repeatable and enforceable processes can be more important than speed or innovation But it positions us well to supply systems and services to our customers where these attributes are highly valued

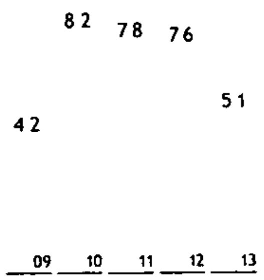
Adjusted operating profit by subsidiary

	Adjusted operating profit			Net return of revenue	
	2013 £m	2012 £m	Change %	2013 %	2012 %
MASS	5 0	4 8	4	20 3	18 5
SCS	0 5	1 3	(62)	3 7	7 5
SEA	3 1	1 7	82	9 8	5 4
Central costs	(1.3)	(1 3)	–	–	–
	7 3	6 5	13	10 3	8 6

Space (£m)

7%

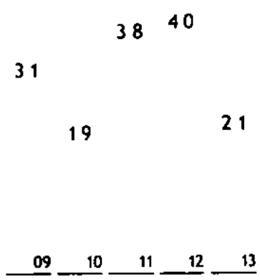
of Group revenue



Other commercial (£m)

3%

of Group revenue



Business review continued

"Our strategies have allowed us to grow our profit at a time when UK defence expenditure has been constrained."

Operating strategy continued

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 and SEA's Roadflow product range We have also been active in finding new customers for the capabilities we have developed, both in export markets and for non-defence purposes

Being part of the Cohort Group adds significant value to our businesses compared to being an independent operation The strong Group balance sheet gives customers the confidence to award large or long-term contracts that we are technically well-able to execute but which would otherwise be perceived as risky Examples include MASS's £50m in-service support contract awarded in 2010, and the £20m of contracts awarded to SEA so far for the Astute submarine External Communications System The Group Executive and Non-executive 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 The three 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

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 developed 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 see opportunities to accelerate our growth by making targeted acquisitions We believe that there are good small businesses in the UK and elsewhere that would thrive under Cohort ownership, whether as new members of the Group or as "bolt in" acquisitions to our existing operations

The most likely candidates for bolt-in acquisitions are small, innovative 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 acquisition by MASS of Abacus EW Consultancy in 2010 is a good example of this, and was successful for the Group in terms of its immediate financial return and the access it has provided for MASS into new markets

For stand-alone acquisitions we are looking for agile, innovative businesses of comparable size to MASS, SCS and SEA and which 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 key evaluation criteria

MASS

	2013 £m	2012 £m
Revenue	24 9	26 1
Adjusted operating profit	5 0	4 8
Operating cash flow	4 4	3 9

MASS had another successful year under Ashley Lane's leadership, once again achieving a record level of trading profit despite a 5% reduction in revenue compared to 2011/12

Early in the year it became clear that work to provide secure networks for several schools under the North Lincolnshire Building Schools for the Future contract would be postponed into the next financial year Some significant export prospects have also slipped, and one of MASS's Middle East contracts has been extended for successive short periods in place of the expanded contract that had been expected MASS also saw a decrease in its Electronic Systems work, experiencing a tighter market and a taking back in-house of some of the work it has traditionally done for prime contractors These areas have been the main contributors to the reduced revenue at MASS

These reductions in revenue have been partly compensated by increases in activity on the UK SHEPHERD program, which is a key project for the UK's Defence EW centre with MASS's own proprietary EW data management system, THURBON™, at its core

MASS's net return of 20 3% was due to the mix of revenue and the release of risk contingency as certain projects came to a conclusion MASS's net return is expected to return to a more usual level in the coming year

During the year MASS completed and opened a new dedicated Electronic Warfare (EW) training centre at its Lincoln office to provide state of-the art training facilities to UK and overseas customers MASS has now delivered over 40,000 EW training days to customers from around 20 countries MASS continues to have a good pipeline of training opportunities and these often provide openings to promote its capabilities of EW Operational Support (EWOS), EW application software (THURBON™) and secure network provision EWOS revenues were slightly down compared to 2011/12 due to timing of orders

MASS also continues to develop its business in the secure networks area with key wins including a further University Technical College at Sheffield To further enhance MASS's offering to government, education and commercial customers in this field, MASS has trained and qualified in-house a number of IT consultants to be accredited to the listed adviser scheme run by the Government's Communications Electronics Security Group (CESG), known as CLAS CLAS consultants are used by government and other organisations to provide high level cyber security assurance MASS has also secured a position on the UK Government s G-Cloud-3 framework, a contracting mechanism to deliver security related and other information systems services to the public sector

At the end of the year MASS reorganised its divisional structure, to reflect its capabilities and markets It now has two main market facing divisions, Electronic Warfare Operational Support and Secure Information Systems In addition there is a third division focused on developing the THURBON™ product for Project SHEPHERD and also for export customers

Looking forward, MASS's export pipeline for THURBON™ projects, whether alone or as part of a larger SHEPHERD type offering, remains good We are also expecting an expansion of the EWOS work done by MASS in certain export markets during the coming year As always with export prospects, the timing of these is hard to predict and MASS takes a prudent view in its internal forecasts Redevelopment of three further schools has now been formally approved by North Lincolnshire Council, and MASS has been awarded a three-year contract to be the Council's ICT and business partner, accordingly we expect our secure networks activity to increase this year

Secure networks

Maintaining assured access to, and protection of, secure data is more important than ever before for both government and business organisations MASS has deep experience within highly secure, business critical environments, and has the tools, skills and experience to ensure that critical data is kept safe - whether personal, commercially sensitive or government classified The Company's highly skilled cyber security team is able to help customers identify vulnerabilities in their computer networks and to put them right This is achieved through a combination of people, process and technology, as well as training

Business review continued

SCS

	2013 £m	2012 £m
Revenue	**14 1**	17 5
Adjusted operating profit	**0 5**	1 3
Operating cash flow	**0 1**	2 2

SCS, under Managing Director Bill Bird, has experienced a sharp decline in revenue and profit compared to 2011/12 This reflects developments within the UK MOD, SCS's main customer MOD has imposed tight restrictions on manpower substitution work as it reduces its own workforce Furthermore, additional MOD review processes and shortages of experienced commercial staff have slowed down the contracting process for technical support work, creating delays and additional cost As a result SCS's revenue from provision of technical experts to the UK MOD suffered a marked decline from around £4 4m in 2011/12 to £1 8m in 2012/13 We have recently seen some of the restrictions ease a little, but we are not expecting a rapid recovery in this line of business in the coming year

Other areas of SCS's work have been more buoyant Applied research for the NATO Communications and Information Agency more than doubled in 2012/13 to around £1 5m of revenue and the prospects for the current year appear good SCS continues to provide exercise support to the UK's Joint Forces Command, a program it has run now for over 10 years and recently secured a further extension of this work for 2013/14 It was this capability which enabled SCS to win and deliver a key piece of high level command and co-ordination training for the UK Government and its stakeholders for the 2012 London Olympics This work was a one-off project delivered in 2011/12, and so accounts for part of the drop in revenue this year

There was a slight reduction in SCS's work in air domain hazard analysis for MOD, mostly due to limited customer resource pushing our effort into 2013/14 SCS's pipeline for activity in the independent technical evaluation and other air domain work remains strong SCS recently secured its first contract in Oman, where it will be supporting the National Defence College with similar services to those it provides for the Royal College of Defence Studies in the UK

Recognising the continuing squeeze on its main source of revenue, SCS cut its cost base last year, reducing the number of operating divisions from four to three The full benefit of this should be seen in 2013/14

Studies & analysis

SCS provides Independent Technical Evaluation services to the DE&S Airworthiness Team and Air Platform Project Teams SCS provides independent expert technical support using Suitably Qualified and Experienced Persons (SQEP) to underpin certification, acceptance and integration activities of aircraft and support DE&S more generally in airworthiness development and implementation Our airworthiness support work helps to ensure that military aircraft are released to Service safely and effectively SCS has recently introduced its own Independent Technical Evaluation Accreditation Scheme - an industry-leading scheme for assuring the competency of both individuals and the organisation to undertake this mission-critical work

Group revenue by market and business

■ Defence & Security ■ Transport Space ■ Other commercial

2013
£70.9m

£24 9m
£31 9m
£14 1m

MASS SCS SEA

Total revenue by market

£59 4m (A)
£4 3m
£5 1m
£2 1m

2012
£75.4m

£26 1m
£31 8m
£17 5m

MASS SCS SEA

Total revenue by market

£61 0m (B)
£2 8m
£7 6m
£4 0m

Further breakdown of Defence & Security (D&S) revenue

■ Direct to UK MOD Indirect* to UK MOD ■ Export & other

where the Group acts as a sub contractor or partner

2013
£59.4m
(A)

£23 0m
£22 3m
£14 1m

MASS SCS SEA

Total D&S revenue

£28 9m
£23 3m
Total to UK MOD
£52 2m
£7 2m

2012
£61.0m
(B)

£22 5m
£21 0m
£17 5m

MASS SCS SEA

Total D&S revenue

£30 7m
£22 5m
Total to UK MOD
£53 2m
£7 8m

Business review continued

SEA

	2013 £m	2012 £m
Revenue	**31 9**	31 8
Adjusted operating profit	**3 1**	1 7
Operating cash flow	**2 1**	3 5

SEA, under the leadership of Managing Director Steve Hill, has had a successful year with profit increasing substantially on a similar level of revenue Sharply increasing revenue in areas such as transport and a reduction in relatively low margin space electronics work resulted in much improved profitability

SEA made good progress on its External Communications System (ECS) for the Astute Class of submarines This included testing of integration with the submarines' combat system, which is expected to complete in the first half of 2013/14 SEA also delivered and installed ECS on Astute Boat 3

SEA's activities in the transport market have seen a marked increase with deliveries on two key software projects for Network Rail These were ISP Scheme and Network Rail Operational Logistics (NROL), ISP Scheme is a state of the art signalling design tool for the UK signalling design industry, designed to replace legacy tools and increase the efficiency of signalling design and is due to complete in 2013/14 NROL will be used by Network Rail to plan the delivery of heavy resources across the rail network in order to carry out essential maintenance and engineering NROL is a significant project in Network Rail with £800m worth of resources to be processed through the system each year and to be used by over 1,500 Network Rail employees, customers and suppliers This system is due to be deployed by Network Rail in the coming year

The Roadflow products also had a successful year with sales increasing from £0 8m in 2011/12 to £1 7m in 2012/13, including a first export customer A variant of Roadflow is currently undergoing approval tests for use as an enforcement system for level crossing offences, a high profile application that has the potential to prevent a significant number of serious accidents

SEA's applied research activity for the Defence Science and Technology Laboratory (DSTL) decreased slightly compared to 2011/12 The DSTL framework effort was on Expeditionary Logistics and Support, a program which concludes next month and Delivering Dismounted Effects, the follow on to Future Dismounted Close Combat (FDCC) The decrease from last year was mainly due to 2011/12 including an exceptional level of activity on FDCC as the program approached its

Electronic systems

During the last year SEA has deployed the first of its new Roadflow Flexi systems These are used by councils across the UK to enforce civil traffic regulations, for example bus lanes and parking A variant of the system has been supplied to a key export customer and a further variant is being developed for use in the enforcement of criminal offences within the UK

conclusion This capability provides an entry for promoting other capabilities and services to the customer (DSTL) including products for development by the ultimate customer, the UK MOD

The lower space revenue was due to slippage of milestones, primarily on the various Earthcare missions We have made progress in addressing many of the project issues in SEA's Space division by introducing additional project management resource and stronger commercial oversight Some of the delivery delays were a result of this more robust commercial approach taken by SEA with both customers and suppliers, as we have worked to maintain and, where possible, improve our margins The delays in Space have affected SEA's operating cash performance this year, and we expect this to improve in 2013/14 The progress we have made in Space has enabled us to deliver newly won Space projects to expectations

SEA's pipeline of opportunities remains strong in both defence and non defence markets

Revenue breakdown by capability

Notable changes between 2012 and 2013 were

- A significant increase in Application Software work, both in absolute terms and as a proportion of total revenue This was driven primarily by the increased work at SEA on the ISP Scheme and NROL projects for Network Rail, and by Project SHEPHERD at MASS
- A drop in revenue from Secure Networks in both absolute and relative terms This is a capability area where we expect to see growth in the medium term, but the 2012/13 result was affected by the decision by North Lincolnshire Council to delay its acquisition of new secure networks for schools into 2013/14
- A drop in revenue from Specialist Expertise, again in both absolute and relative terms This was entirely a result of the sharp drop in revenue from this source at SCS

Our people

All of the Group's capabilities and customer relationships ultimately derive from our people We are very much a people business and such success as we achieve is entirely due to the technical excellence, managerial skills and business acumen of our employees We are very grateful for the many examples of hard work and dedication we have seen, from the senior management group to individuals and teams delivering what our customers need

Revenue breakdown by capability

	2013 £m	2012 £m
Electronic systems The design and supply of such equipment and its associated embedded software, as well as the integration of commercial "off the shelf" equipment for specialist applications	15 7	18 5
Secure networks The provision of advice and system implementation to protect against cyber attack and other threats Both MASS and SCS provide these services for a range of clients	12.3	14 1
Specialist expertise The provision of expert individuals as part of a customer's team All three of our businesses are active in this area, most notably SCS	10 1	12 2
Applied research The management and execution of scientific investigation work aimed at specific objectives, such as SEA's leadership of the Expeditionary Logistics and Support research program for MOD	9 2	9 1
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 customers	8 8	5 5
Training This includes formal, on-the-job and scenario-based training services An example is SCS's provision of exercise-based training for the UK's Joint Forces Command	7 2	7 6
Operational support The provision of direct support to active operations which takes place at both MASS (including its Electronic Warfare Operational Support activities) and SCS	4 3	5 0
Studies and analysis Other self-contained studies, consultancy and analytical work such as SCS's Hazard Analysis work on the Joint Combat Aircraft	3 3	3 4
	70.9	**75.4**

2013	2012
23%	24%
17%	19%
14%	16%
13%	12%
12%	7%
10%	10%
6%	7%
5%	5%

Business review continued

"The pipeline and underpinning for the coming year gives us confidence that we will continue to make progress in 2013/14."

Order intake and order book

	Order intake		Order book	
	2013 £m	2012 £m	2013 £m	2012 £m
MASS	11 7	25 6	56 1	69 2
SCS	14 2	15 8	7.7	7 8
SEA	33 7	38 5	31 9	30 1
	59.6	79 9	95 7	107 1

Operational outlook

The fall in the Group's order intake, and consequently order book, is a result of delays to some significant orders, primarily at MASS

Last year MASS secured the Project SHEPHERD order which is deliverable over several years as well as multi-year refreshes on its support to the UK Air Warfare Centre These contracts have not been due for renewal in 2012/13 However, MASS is awaiting some key multi year export orders which have been covered during this year by successive short term orders as the work has been delivered Further export opportunities for THURBON™ and Electronic Warfare operational support and training are in the pipeline but the timing of these, as with all export orders, is unpredictable Of MASS's order book at 30 April 2013, over £17m is deliverable in 2013/14, a similar level of underpinning as last year

SCS's order intake was affected by a considerable tightening of its technical support offering through the former Logistics division, a fall of £2m year on year However in other areas, SCS's order intake grew by around 4% compared to last year and its closing order book of £7 7m is virtually all deliverable in 2013/14 representing a similar level of underpinning to 2012/13 The visibility of SCS's pipeline, as in the past, remains short (typically around six months) and so SCS retains a flexible resource model to enable it to respond quickly to changes in market conditions SCS's pipeline of opportunities includes extension and expansion of its air domain offering through independent technical evaluation, both on the Joint Strike Fighter and other air platforms

SEA's order intake was also down on 2011/12 but much of the drop was due to the receipt last year of nearly £9m of ECS orders for Astute Boats 3 and 5 Orders for the next batch of ECS systems for Astute Boats 6 and 7 are expected soon and the prospects for further deliveries of this system on other submarine platforms are good

SEA's order intake included a new research framework for the UK MOD's research arm, DSTL, Delivering Dismounted Effects This £10m plus framework is a follow on to its successful four year research project, Future Dismounted Close Combat and a strong endorsement of SEA's continuing capability to manage expert teams and deliver leading research to the customer's requirements

SEA's Roadflow product goes from strength to strength with orders of nearly £2m this year compared with under £1m in 2011/12 This year also saw it secure its first export order and further export opportunities exist

SEA's Space division order intake was down on 2011/12 with some key programs slipping into 2013/14 The pipeline for Space is good and the recently announced increased financial commitment of the UK Government to Space, through the UK Space Agency, is an encouraging signal for future growth

SEA's closing order book of nearly £32m underpins over £20m of revenue in 2013/14

After adjusting for revenue delivered from multi-year orders secured previously (an amount of around £11m), the closing order book of the Group on a like for-like basis is in line with last year and provides a similar level of underpinning of revenue at MASS and SCS to that seen historically At SEA, the level of revenue for 2013/14 underpinned by the 30 April 2013 order book is slightly less than that seen historically, primarily due to the timing of ECS orders

In the near term, the majority of Cohort's business will continue to derive, either directly or indirectly, from the UK MOD There are continuing uncertainties as to both the volume and future procurement system in this market The Government continues to examine the merits of moving to a Government Owned Contractor Operated (GOCO) defence equipment and support organisation and the implications of this for Cohort are not yet clear Despite these uncertainties, high priority programs, several of which are important to Cohort, remain focused and have progressed Good examples are submarines, the nuclear deterrent and combat aircraft

We are also increasingly active in export markets, some of which have growing demands for defence equipment with resources to match This market background, together with our improved operational performance and the pipeline of opportunities and underpinning for the coming year, gives us confidence that we will continue to make progress in 2013/14

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 provides it with the firepower to conduct its acquisition strategy and has also enabled it, after the year end, to secure its operational facilities in Bristol from which some of its key defence and most of its transport capabilities are sourced The purchase of one of its offices in the North Bristol Business Park for a total cost of £1 9m will enable SEA to continue to grow its business as well as deliver some immediate operational savings

At 30 April 2013 the Group had facilities with its banking provider, RBS, as follows

	£m	Term at commencement of facility
Overdraft facility for working capital requirements	7 5	364 days

During the year ended and at 30 April 2013 none of the above facility had been drawn by the Group

The overdraft facility is renewable 1 October 2013 and the Board expects it to be renewed on broadly similar terms

The Group takes a prudent approach to treasury policy with its overriding objective being protection of capital In implementing this policy, deposits are held with institutions with credit ratings of at least A3 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 All of the Group's 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

Application software

The MASS THURBON™ EW data management system is at the heart of Team Excalibur's solution to deliver a significant improvement programme for the UK's Defence Electronic Warfare Centre (DEWC) This programme, named Project SHEPHERD by the UK Ministry of Defence (MOD), is a strategically important project, which will enable significant improvements in the delivery of the EW information that is so important to modern operations At a time when military forces have to meet many challenges, SHEPHERD will provide the DEWC with a crucial step-change in automated end-to-end capability that will support improved situational awareness and platform protection

Team Excalibur will upgrade the UK Defence Electronic Warfare Database and provide a suite of state of the art EW Operational Support tools MASS is utilising THURBON™ to provide the advanced data management capability as part of the SHEPHERD solution

Business review continued

Cash performance of the Group

	2013 £m	2012 £m
Adjusted operating profit	7 3	6 5
Depreciation and other non-cash operating movements	0 9	1 1
Working capital movement	(3.1)	1 2
	5 1	8 8
Tax, dividends, capital expenditure, interest and investments	(2.8)	(1 4)
Increase in net funds	2 3	7 4

Funding resource and policy continued

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 6% to 2 1% (2012 0 5% to 2 1%)

In addition to its cash resources, the Group has in issue 40 8m ordinary shares of 10 pence each Of these shares just over 0 7m are owned by the Cohort plc Employee Benefit Trust and waive their 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 3 1m at 30 April 2013

The Group maintains a progressive dividend policy with dividends having increased by approximately 20% per annum over the last three years and dividend cover being maintained in the current year at over five times (2012 five times) based upon the adjusted earnings per share

The Group's cash generation in 2012/13 has not been as strong as during 2011/12 In summary, the Group's cash performance was as set out in the table above

The primary reason for the weaker cash performance has been an increase in working capital at both MASS and SEA, mostly due to an unwinding of cash advances and an increase in work in progress These were partly offset by a reduction in trade debtors The unwinding of advances was as expected but the increase in work in progress in the year was not, as milestones failed to complete on some legacy Space projects and have now slipped into 2013/14 Tax payments were also higher by £0 8m as the Group's profitability and consequently current year's tax charge have risen

The Group's customer base of governments, major prime contractors and international agencies make its debtor risk low The year end debtor days in sales were 42 days (2012 51 days) This calculation is based upon dividing the revenue by month, working backwards from April into the trade debtors balance (excluding unbilled income and work in progress) at the year end, 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 decrease in debtor days is a reflection of the tighter control over working capital across the Group

The Group's foreign exchange exposure is mainly at SEA and primarily relates to receivables from the European Space Agency, this exposure is hedged using forward contracts At 30 April 2013, the Group had in place forward foreign exchange contracts as follows

	Sell	Buy
Euro to GBP	€10 0m	£8 5m
US$ to GBP	$0 8m	£0 5m

These forward contracts are used by the Group to manage its risk exposure to foreign currency on trading contracts where it either or both receives and pays currency from customers and to suppliers respectively

These forward exchange contracts are entered into when customer contracts are considered highly probable The Group does not enter into speculative foreign exchange dealing The marking of forward exchange contracts to market at the spot rate on 30 April 2013 resulted in the recognition of a derivative financial liability of £39,000 (2012 £413,000) and a credit to the income statement of £374,000

(2012 £955,000 charge) In both years, the change in the derivative financial instrument has been recognised separately within operating profit and is not disclosed as part of the adjusted operating profit of the Group

Tax

The Group's tax charge for the year ended 30 April 2013 of £168,000 (2012 £411,000 credit) was at an effective rate of 2 0% (2012 credit rate of 9 9%) of profit before tax This includes a current year corporation tax charge of £1,158,000 (2012 £1,268,000), a rate of 13 6% (2012 30 5%) of profit before tax, a prior year corporation tax credit of £411,000 (2012 £1,001,000) and a deferred tax credit of £579,000 (2012 £678,000)

Including the current year deferred tax, the effective current tax rate for the year ended 30 April 2013 is 6 8% (2012 14 2%), lower than the standard rate (calculated at 23 92%, 2012 25 83%), primarily due to recognition of Research & Development (R&D) tax credits, an exceptional income of £1 4m which is not taxable and recognising a deferred tax asset on unutilised trading losses at SEA

The Group's overall tax rate was below the standard corporation tax rate of 23 92% (2012 25 83%) 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 additional R&D tax credits claimed The Group's businesses are only allowed to claim the lower R&D tax credit allowance available to larger companies, currently 30% Looking forward, the Group's effective current tax rate for 2013/14 and 2014/15 is estimated at 16% and 15% respectively, taking account of the reduction in headline tax rates and assuming 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 2010/11 through to 2012/13

Exceptional items (see note 3)

The Group incurred minor restructuring costs in the year ended 30 April 2013 (over £0 1m) and in this particular case are considered to be part of the ongoing business of the Group and, as such, have not been disclosed separately

The release of the earn out provision (£1 4m) in respect of the acquisition of Abacus EW by MASS was a result of the Abacus EW business not achieving the high targets set for the earn out

Operational support

SCS Field Service Representative engineers continue to provide essential support to critical base protection systems, vital for the safety and security of British forces on operations overseas The SCS field engineers provide a comprehensive and wide range of services including site reconnaissance, installation and integration for new deployments, plus full maintenance of the installed systems hardware and software ensuring 100% availability A help-desk is also provided in the UK to ensure 24/7 logistic and welfare cover SCS engineers have been employed as contractors on UK Operations for over 3 years, principally in Camp Bastion, Afghanistan, but also in Forward Operating Bases when required Previous support has also been provided in other countries such as Iraq

Business review continued

Adjusted earnings per share

The adjusted earnings per share of 17 94 pence (2012 15 52 pence) are reported in addition to the basic earnings per share and exclude the effect of amortisation of intangible assets, exchange movement on marking forward exchange contracts to market and exceptional items, all net of tax The adjusted earnings per share, excluding the prior year tax credit and the deferred tax credit in respect of unutilised trading losses, £835,000 in total (2012 £1,001,000), were 15 86 pence (2012 13 04 pence), an increase of 22%

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 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 £292,000 (2012 £353,000) which are 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

Simon Walther
Finance Director

Applied research

SEA won the Delivering Dismounted Effect (DDE) programme last August and has now completed the first year of a 4 year contract for DSTL The focus for the first year has been to baseline the current capability and to identify candidate technologies to enhance the lethal and non-lethal effects of the dismounted soldier

Key performance indicators

The indicators shown below have been identified by the Directors as giving the best overall indication of the Group's long term success

Performance indicator	1. Change in revenue	2. Change in adjusted operating profit	3. Order book visibility	4. Change in adjusted earnings per share	5. Operating cash conversion
Description	Changes in total Group revenue compared to the prior year	Change in Group operating profit before amortisation of other intangible assets, marking forward exchange contracts to market and exceptional items	Orders for next financial year expected to be delivered as revenue, presented as a percentage of consensus market revenue forecasts for the year	Annual change in earnings per share, before amortisation of other intangible assets, marking forward exchange contracts to market and exceptional items, all net of tax	Net cash generated from operations before tax as compared to the profit before tax
Why measured?	Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time	The adjusted profit trend provides an indication of whether additional revenue is being gained without profit margins being compromised and whether any acquisitions are value enhancing	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	Change in adjusted earnings per share is an absolute measure of the Board's management of the Group's return to shareholders including tax and interest	Operating cash conversion measures the ability of the Group to convert profit into cash
2013	(6)%	13%	60% *cover on forecast 2014 revenue of* £75.5m	16%	61%
2012	16%	47%	67% *cover on forecast 2013 revenue of* £73.8m	62%	210%
Comment	Fall in revenue in 2013 due to reduction in manpower substitution at SCS and slippage of education work at MASS and Space milestones at SEA into 2013/14	Increase in 2013 due to improved operational efficiency at MASS and, particularly, SEA	Cover at MASS and SCS same as 2012 SEA down slightly due to timing of ECS orders	Increase in 2013 reflects profitability arising from operational improvements, particularly at SEA	Weaker operating cash conversion in 2013 was due to the work in progress from SEA's Space projects not falling as expected, whilst customer advances unwound as anticipated

Risk management

Risk identification, analysis and management allows Cohort to deliver its strategic objectives effectively.

Market risks

Risk area	Nature of risk	Mitigation and progress
Customers	The Group's single most important customer is the UK MOD £28 9m of revenue came directly from this source in 2013 (2012 £30 7m), 41% (2012 41%) of Group revenue In addition £23 3m (2012 £22 5m) of Group revenue, 33% (2012 30%) was sourced ultimately from the UK MOD but received via other contractors With the Government running a significant budget deficit 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	The increase in the proportion of its revenue to its ultimate primary customer in 2013 compared with 2012 reflected the Group's position on a number of key UK MOD programmes including ECS for Astute class submarines, electronic warfare database and research frameworks in the areas of logistics and soldier capability £16 6m (2012 £14 1m) (23%) of Group revenue, representing 32% of revenue derived from the UK MOD, was in relation to the Joint Combat Aircraft, Astute submarine and nuclear deterrent programmes, all of which have been confirmed as high priority areas following the Government's Strategic Defence and Security Review

Operational risks

Risk area	Nature of risk	Mitigation and progress
Suppliers	As is typical in the defence and space sectors, the Group is reliant on certain key suppliers for specific elements of its technical and product offerings In the defence sector in particular, the reliance on suppliers is long term, with product duration in this sector often being tens of years	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
Operations *(MASS & SEA)*	The Group's operational risk is primarily manifested through its three subsidiaries The subsidiary trading and business risks are similar in the cases of 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, both MASS and SEA have a fixed level of core software and hardware engineering and technical expertise	This is typical in defence and space 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, monthly review by the subsidiary board and regular interaction with the customer and key suppliers Revenue and cost is recognised taking account of risk and estimated cost at completion (including any contractual 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

Read more about how we manage risk in the Corporate Governance report on pages 28 to 30

Operational risks continued

Risk area	Nature of risk	Mitigation and progress
Operations *(SCS)*	The primary cost risk is in respect of staff utilisation SCS revenue visibility is short with typical contract duration of three to six months This carries risk to forward utilisation The business maintains a comprehensive prospects schedule This risk is also an opportunity, with SCS often securing and delivering work in a very short time frame SCS has a small number of fixed price contracts The Group (through all three subsidiaries) 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	The risk is mitigated, in the short term, by the use of sub contractor staff In the long term, a programme of skills assessment and training is in place to ensure continued flexibility of the engineering resource This risk is managed by retaining a minimal core staff, essential for business support, development and delivering key skills to customers The majority of deliverable service is provided by non core staff (associates) where cost is only incurred when the associates are on task The forward utilisation of core staff is monitored on a weekly basis looking forward up to three months Utilisation in the year was below 2012 due to the fall in revenue, SCS reduced its cost base at the half year to align with future expected revenue levels 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	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	The Group takes an active part in these arrangements and, through regular (usually monthly) project review meetings and other correspondence, ensures that the team (including our partners) delivers as a whole to the customer and to the needs of the individual team members In addition, the Group's Executive Management team maintains regular and co-ordinated relationships with partners and ensures the Group's approach is consistent and avoids unnecessary overlap or omissions

Strategic risks

Risk area	Nature of risk	Mitigation and progress
Acquisitions	The buying (and selling) of businesses is a risk in respect of value, distraction, integration and ongoing obligations and undertakings	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

Risk management continued

Financial risks

Risk area | Nature of risk | Mitigation and progress

Treasury

Nature of risk

Cash and bank deposits are held as follows

	2013 £'000	2012 £'000	Moody's credit rating of bank as at 2 May 2013
Royal Bank of Scotland Plc	10,409	10,137	A3
Lloyd's TSB Bank plc	3,017	–	A2
Santander UK plc	2,000	3,000	A2
Clydesdale Bank	1,000	–	A2
Barclays Bank Plc	–	1,003	A2
	16,426	14,140	

The Group's facilities with RBS are renewed annually During the year, the Group renewed its working capital facility with RBS for £7 5m This facility is available to all of the Group's entities through an offset arrangement The current facility expires in October 2013 when it is expected to be renewed on broadly similar terms

Mitigation and progress

The Group takes a very prudent approach to the management of its financial instruments, which are described in note 16 The Group's cash is held with at least A3 rated institutions 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

Currency risk

Nature of risk

The Group has contracts with overseas customers and suppliers requiring payment or receipt in currencies other than £ sterling

The Group's exposure to credit risk at 30 April 2013 in respect of financial derivatives (forward foreign exchange contracts) was £9 0m of receivable only (2012 £9 8m of receivable)

The financial derivatives at 30 April 2013 were all held with RBS 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 Euro (€) through SEA's Aerospace division which has most of its contracts denominated in €

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 72) and Critical Accounting Judgements (pages 74 to 75) and as such may from time to time have a degree of risk

The 2013 bad debt charge was £Nil (2012 £78,000) on Group revenue of £70 9m (2012 £75 4m)

Financial assets exposed to credit risk at 30 April

	2013 £m	2012 £m
Trade receivables	10 6	12 6
Other receivables	8 8	7 9
Cash and bank deposits	16 4	14 1

Of the trade receivables, £3 0m was with the UK MOD at 30 April 2013 (2012 £5 1m)

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 Of the £78,000 charged in 2012, £68,000 was recovered in 2013

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

Board of Directors and Executive Management

1. Nick Prest CBE
Chairman

Term of office
Nick Prest 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

2. Stanley Carter
Co Chairman

Term of office
Stanley Carter became Co Chairman of Cohort in 2009 having previously been its Chief Executive since its formation

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 the central staff, 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 MOD He has degrees in Technology and Behavioural Science from Loughborough and the Open University respectively, and an MSc in Information Systems from the Royal Military College of Science

5. Sir Robert Walmsley KCB
Independent Non executive Director

Term of office
Sir Robert joined the Board of Cohort on flotation in March 2006

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, occupying that position from 1996 until 2003 He served on the British Energy Board from 2003 until 2009 and until recently was a senior adviser at Morgan Stanley International and Chairman of the Major Projects Association

External appointments
Sir Robert is on the board of the General Dynamics Corporation and Ultra Electronic Holdings as well as holding a number of other advisory roles in the defence and energy sectors

6. Ashley Lane
Managing Director of MASS

Term of office
Ashley was appointed as Managing Director of MASS in May 2009

Background and experience
After graduating from Surrey University with a Masters Degree (Distinction) in Electronic and Electrical Engineering, Ashley joined Thorn EMI Electronics as a Systems Engineer working on countermeasures, radar and surveillance systems He spent four years in technology development and licensing, building the successful wireless technology company UbiNetics He has held key technical roles on a number of electronics, IT and real-time system projects, as well as positions as Business Manager, Consultancy Division Head, Programme Manager and, for five years, Systems Development and Technical Director for MASS

● Member of the Cohort plc Board
● Member of Remuneration & Appointments and Audit Committees

●

●

3. 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

4. Simon Walther
Finance Director and Company Secretary

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

Background and experience
After graduating with a BSc in Toxicology and Pharmacology from University College, London, he 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 over fifteen years' industry relevant experience, with previous senior finance roles at Alvis and BAE Systems

7. Bill Bird
Managing Director of SCS

Term of office
Bill was appointed as Managing Director of SCS in September 2010

Background and experience
Bill graduated from Cambridge with an MA in Medical Science Following an aircrew career in the Royal Air Force, when he was awarded an MBE for his work in the Intelligence community, Bill spent 10 years in general management, gaining an MBA from Reading University in 2000 He was the General Manager of Rockwell's UK Defence business and spent three years as Managing Director of Boeing's UK subsidiary, BDUK, which he set up in 1996 Bill joined KPMG in 2000 and left to develop Hedra's defence and aerospace practice in October 2003 During his consulting career, Bill has had extensive experience of MOD procurement and support, outsourcing and commercial negotiations and is also a chartered IT Practitioner

8. 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 ten 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 Masters in Engineering Project Management

Corporate governance report

Corporate structure

The Board

Audit Committee
Sir Robert Walmsley (Chairman)
Nick Prest
Stanley Carter

Remuneration & Appointments Committee
Sir Robert Walmsley (Chairman)
Nick Prest
Stanley Carter

Nick Prest
Chairman

Introduction

As Cohort plc is listed on AIM, it is neither required to comply with the UK Corporate Governance Code that was published in September 2012 by the Financial Reporting Council (the Code) nor issue a statement of compliance with it. Nevertheless, the Board fully supports the principles set out in the Code and seeks to comply wherever this is appropriate, having regard to the size of the Company, the resources available to it and the interpretation of the Code in the Quoted Companies Alliance Corporate Governance Code for Small and Mid-sized Quoted Companies. Details are provided below of how the Company applies the Code.

The Board

The Board of Directors comprises the Chairman, two Executive Directors and two Non-executive Directors, Stanley Carter (Co Chairman) and Sir Robert Walmsley. Nick Prest and Stanley Carter are not considered independent.

The Board has determined Sir Robert Walmsley to be independent and he is designated the Senior Independent Director. The Board is aware that it is not compliant with the Code in respect of having at least two independent Non-executive Directors, but considers the size of the current Board does not justify the cost. The Board will keep this matter under review.

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 deemed necessary for the Board to discharge its duties. It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets, major items of expenditure, major contract bids and acquisitions.

All Directors retire by rotation and are subject to election by shareholders at intervals of once every three years.

Board committees

The Board has established two committees: Audit and Remuneration & Appointments, each having written terms of delegated responsibilities.

The attendance of the Directors at Board and Committee meetings for the year ended 30 April 2013 is shown below.

Attendance at Board and Committee meetings

	Board (8 meetings)	Audit (3 meetings)	Remuneration & Appointments (3 meetings)
N Prest (Chairman)	8	3	3
S Carter (Co-Chairman)	8	3	3
Sir Robert Walmsley (Non-executive Director)	8	3	3
A Thomis (Chief Executive)	8	–	–
S Walther (Finance Director and Company Secretary)	8	–	–

Audit Committee

The Audit Committee comprises the Company Chairman and the Non-executive Directors and is scheduled to meet at least twice a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditor of the Group. In order to comply with the requirement of the Code that at least one member has relevant financial experience, the Chairman of the Board sits on the Audit Committee.

Sir Robert Walmsley is Chairman of the Audit Committee.

Committee consideration of the financial statements

In making its recommendation to the Board 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 acquisition of MASS (including Abacus EW) and SEA 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) and SEA has been tested for impairment as at 30 April 2013 In both cases 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 WACC of 9 8% but impaired if the Group's WACC increases to 14 6% The Group's 2013 post-tax WACC of 9 8% is higher than the 2012 equivalent of 6 9% which reflects slightly higher equity risk The Group's pre-tax WACC is 14 1% (2012 12 6%)

The sensitivity of the SEA goodwill to impairment has increased since last year due to the lower growth rates (1 5% compared with 2 25% in 2012) used to discount the future cash flows of SEA

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 2013

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 Practice Board Prior to commencing its audit work, the independent auditor confirmed in writing the nature of any non-audit work 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 of March 2013 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) was appointed in March 2010 and this financial year end is its fourth annual audit of the Group

The analysis of the auditor's, KPMG Audit Plc (2012 KPMG Audit Plc), remuneration is shown in the table below

Audit related assurance services include £7,000 in respect of a review of the Group's payroll processes

Fees payable to KPMG Audit Plc 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

The Company 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 Chairman of the Audit Committee is notified promptly of the fact and the content of the call, so that appropriate action can be taken

Auditor's remuneration

	2013 £ 000	2012 £ 000
Fees payable to the Company's auditor for the audit of the Company's and consolidated accounts	19	19
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	66	63
Total audit fees	85	82
Interim review fee	6	6
Audit related assurance services	7	3
Total non-audit fees	13	9
Total fees paid to the auditor and its associates	98	91
Charged to profit for the year	98	91

Corporate governance report continued

Remuneration & Appointments Committee

The Remuneration & Appointments Committee comprises the Company Chairman and the Non-executive Directors and is scheduled to meet at least once a year It is the Remuneration & Appointments Committee's role to establish a formal and transparent policy on Executive remuneration and to set remuneration packages for individual Directors

Sir Robert Walmsley is Chairman of the Remuneration & Appointments Committee

The Board has not established a Nominations Committee This is not considered necessary due to the small size of the Cohort Board The role of a Nominations Committee is undertaken by the Remuneration & Appointments Committee and the Chief Executive

Management of the Group and its subsidiary undertakings

The management of the Group and subsidiary undertakings is as follows

Group management

- Cohort plc Board meeting at least eight times per year
- Group Executive Committee meeting at least four times per year, comprising Cohort plc Executive Directors and subsidiary Managing Directors

Subsidiary management

- 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 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, Interim Report, website (www cohortplc com) and increasing use of social media, webcasts and email news alerts to provide further information to shareholders

Internal control and risk management

The Board is responsible 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 Group does not currently have an internal audit function due to the small size of the Cohort administrative function and the high level of Director review and authorisation of transactions

A comprehensive budgeting process is completed once a year, 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 appropriate procedures described by the Bribery Act 2010 to prevent bribery Each business within the Group reports annually to the Board on its compliance with the policy and procedures The Cohort plc 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 2013

Directors' report

The Directors present their report and the audited financial statements (pages 31 to 75) of Cohort plc for the year ended 30 April 2013 Cohort plc is a company incorporated in and operating from England Its registered address is Arlington House, 1025 Arlington Business Park, Theale, Reading RG7 4SA The Corporate Governance report set out on pages 28 to 30 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 the Overview on pages 2 to 7

Business review

The Company is required by the Companies Act 2006 to include a Business review in this report The information that fulfils the requirements of the Business review can be found in the following sections, which are incorporated in this report by reference

	Pages
• Our business	2 to 3
• Chairman's statement	4 to 5
• Our strategy	6 to 7
• Business review	8 to 24

Information about the use of financial instruments by the Company and its subsidiaries is given in note 19 to the financial statements and on pages 18 to 19 of the Business review

Post balance sheet event

On 5 June 2013, the Group's subsidiary SEA (Group) Limited acquired the freehold of one of its premises in the North Bristol Business Park for a total consideration of £1 9m There have been no other significant events since the balance sheet date

Dividends

The Directors recommend a final dividend of 2 30 pence (2012 1 90 pence) per 10 pence ordinary share to be paid on 25 September 2013 to ordinary shareholders on the register on 30 August 2013 which, together with the interim dividend of 1 20 pence paid on 6 March 2013, makes a total of 3 50 pence for the year (2012 2 90 pence)

Research and development

During the year ended 30 April 2013 the Group expenditure on research and development, both on behalf of customers and the Group's own private venture expenditure, was £11 8m (2012 £10 4m)

Going concern

The Group's financial statements have been prepared on the going concern basis The reasons for this are set out on page 67 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 which carry 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 Shares held by the Cohort plc Employee Benefit Trust (see note 22) abstain from voting and do not receive any dividend

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 Code, the Companies Act and related legislation The Articles themselves may be amended by special resolution of the shareholders The powers of Directors are described in the Cohort plc Board Terms of Reference, copies of which are available on request, and the Corporate Governance report on pages 28 to 30

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 4m shares at 30 April 2013

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 loan 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 page 33 to 35

International Financial Reporting Standards (IFRS)

The Group and parent company's reported results for the year ended 30 April 2013 are in accordance with IFRS

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 is referenced in table 1 below

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

Disclosure	Report	Pages
Directors who served throughout the year	Remuneration & Appointments Committee report	33 to 35
Directors retiring by rotation	Remuneration & Appointments Committee report	33 to 35
Directors' biographies	Board of Directors and Executive Management	26 to 27
Directors' interests	Remuneration & Appointments Committee report	33 to 35
Directors' share options	Remuneration & Appointments Committee report	33 to 35

Directors' report continued

Table 2: Substantial shareholdings and voting rights

	Percentage of voting rights and issued share capital %	Number of ordinary shares	Nature of holding
S Carter	26 15	10,665,718	Direct
Schroder Investment Management	9 85	4,015,827	Direct
Hargreave Hale	8 79	3,586,838	Direct
N Prest	5 11	2,084,580	Direct

Supplier payment policy

In respect of all of its suppliers, the Group's policy is

- to agree the terms of payment when contracting with suppliers,
- to ensure suppliers are made aware of the terms of payment, and
- to abide by the terms of payment

All suppliers are treated alike in terms of payment with no preference to any one supplier and the Group does not follow any particular code of practice or standard in its payment policy

At 30 April 2013, the trade creditors of the Group represented 35 days (2012 39 days) of purchases

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 The media used for organised communications includes 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 opportunity 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 2013 the Group made charitable donations of £6,292 (2012 £8,020), mainly in respect of military and local charities The Group made no political donations during the year (2012 £Nil)

Substantial shareholdings

The Company has been notified as at 7 June 2013, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the voting rights as a shareholder of the Company as shown in table 2 above

Our auditor, KPMG Audit Plc, is in the process of transferring its business to KPMG LLP A resolution to appoint KPMG LLP as auditor will be proposed at the Annual General Meeting (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 24 June 2013 and signed on its behalf by

Simon Walther
Company Secretary

Remuneration & Appointments Committee report

Table 1: Directors' interests

	At 30 April 2013 number of 10p ordinary shares	At 30 April 2012 number of 10p ordinary shares
S Carter	10,665,718	10,665,718
N Prest	2,084,580	2,084,580
A Thomis	35,230	35,230
Sir Robert Walmsley	25,035	25,035
S Walther	25,601	25,601

Sir Robert Walmsley KCB
Chairman of the Remuneration & Appointments Committee

Introduction

The Remuneration & Appointments Committee of the Board is responsible for considering Directors' remuneration packages and makes recommendations to the Board

Remuneration policy

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

Executive Directors receive salary, medical cover, pension contribution, annual bonuses, shares and share options

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 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

The Group makes contributions to a stakeholder pension scheme (a defined contribution scheme) at a rate of 10% of the Executive Director's contribution

Director's interest 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 table 1 above

Performance incentives

The Group operated a cash bonus scheme and granted share options in the year ended 30 April 2013

A bonus of £54,000 was payable to the Executive Directors for the year ended 30 April 2013 (2012 £99,494) as determined by the Remuneration & Appointments Committee on 13 June 2013

Ordinary shares under option granted during the year ended 30 April 2013 and outstanding at 30 April 2013 were as shown in table 2 overleaf

The mid market price of Cohort plc 10 pence ordinary shares at 30 April 2013 was 130 5 pence (2012 98 5 pence), the lowest and highest market prices in the year were 88 5 pence and 151 0 pence respectively

For the year ending 30 April 2014, the bonus payable to the Executive Directors of Cohort plc in respect of that year will be based upon performance compared to budget for adjusted operating profit and cash and will be payable up to a maximum of 15% of salary

On 19 June 2013, the Board adopted a Restricted Share Scheme enabling it to award shares in Cohort plc ("Restricted Shares") as incentive payments to members of the top management group 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 will be borne by the Company

In a change to previous years' incentive schemes, the Executive Directors of Cohort plc will (in addition to the annual bonus described above) 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, and

iii 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)

The above rewards are payable on a linear basis from zero to 20% of salary as the growth in adjusted profit before interest and tax per share over a period starting 1 May 2013 goes from zero to 10% The Remuneration & Appointments Committee intends that in future years these elements of bonus will be based on annualised profit growth over successively longer intervals, ultimately moving to a rolling four-year period

The Committee considers this long term incentive plan better aligns the objectives of the Executive Directors with the shareholders

No bonuses are payable or share options awardable to the Non executive Directors

The subsidiary Managing Directors' incentive schemes for the year ended 30 April 2014 are the same as those of the Executive Directors of Cohort plc, except the annualised profit growth target is based predominantly (60%) upon the respective subsidiary's profit performance

Cash bonus schemes for other senior management of the subsidiary companies have been established for the year ending 30 April 2014, with a similar framework to that of the Cohort plc Executive Directors, with varying levels of percentage of salary, none exceeding 35%

The Group has the right to recover from the Cohort plc Executive Directors and 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

Remuneration & Appointments Committee report continued

Table 2: Directors' share options

	At 1 May 2012 or date of appointment Number	Granted Number	Exercised Number	Lapsed/ forfeited Number	At 30 April 2013 Number	Date of grant	Date from which option can be exercised	Exercise period Years
A Thomis								
Cohort plc 2006 share option scheme under the Enterprise Management Incentive (EMI) scheme								
- Option price of £1 23 per share	40,650	–	–	–	40,650	8 Mar 2006	9 Mar 2009	7
Cohort plc 2006 share option scheme (unapproved)								
- Option price of £0 835 per share	66,995	–	–	–	66,995	23 Jul 2010	24 Jul 2013	7
- Option price of £0 915 per share	76,546	–	–	–	76,546	26 Jul 2011	27 Jul 2014	7
- Option price of £1 165 per share	–	75,000	–	–	75,000	2 Aug 2012	3 Aug 2015	7
Save as you earn (SAYE) scheme								
- Option price of £0 97 per share	3,711	–	–	–	3,711	27 Jul 2010	1 Sep 2013	
	187,902	75,000	–	–	262,902			
S Walther								
Cohort plc 2006 share option scheme (approved)								
- Option price of £0 915 per share	32,786	–	–	–	32,786	26 Jul 2011	27 Jul 2014	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
Save as you earn (SAYE) scheme								
- Option price of £0 97 per share	9,278	–	–	–	9,278	27 Jul 2010	1 Sep 2013	
	127,488	65,000	–	–	192,488			

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

Table 3: Directors' remuneration

	Salary 2013 £	Bonus 2013 £	Benefits in kind 2013 £	Emoluments 2013 £	Pension contributions 2013 £	Total 2013 £	Total 2012 £
Executive Directors							
A Thomis	185,000	30,000	419	215,419	1,994	217,413	232,179
S Walther	150,000	24,000	419	174,419	1,300	175,719	190,931
Non-executive Directors							
N Prest	60,000	–	–	60,000	–	60,000	60,000
S Carter	45,000	–	–	45,000	–	45,000	45,000
Sir Robert Walmsley	30,000	–	–	30,000	–	30,000	30,000
Total	470,000	54,000	838	524,838	3,294	528,132	558,110

Chairman and Non-executive Directors

Both Nick Prest and Sir Robert Walmsley were appointed in February 2006 Stanley Carter was appointed Non-executive Co-Chairman of Cohort plc on 25 May 2009 These appointments can be terminated upon three months' notice being given by either party

The following Director is due to retire by rotation and, being eligible, offers himself for re-election at the forthcoming Annual General Meeting on 18 September 2013

- S Carter

Directors' remuneration

Details of Directors' remuneration are set out in table 3 opposite

Salaries for Andrew Thomis and Simon Walther have been increased to £191,000 and £154,000 per annum respectively for the year ended 30 April 2014 The fees payable to the Chairman and Non-executive Directors for the year ended 30 April 2014 are the same as for the year ended 30 April 2013

Statement of Directors' responsibilities

in respect of the Annual Report and financial statements

The Directors are responsible for preparing the Annual 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 Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law

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 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 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 24 June 2013

Andrew Thomis
Chief Executive

Simon Walther
Finance Director

Financial statements
for the year ended 30 April 2013

Independent auditor's report
to the members of Cohort plc

We have audited the financial statements of Cohort plc for the year ended 30 April 2013 set out on pages 38 to 75 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

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 35, 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 2013 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 IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Matthew Lewis (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
Arlington Business Park
Theale
Reading
RG7 4SD
24 June 2013

Consolidated income statement
for the year ended 30 April 2013

	Notes	2013 £'000	2012 £'000
Revenue	1	70,866	75,408
Cost of sales		(47,646)	(53,386)
Gross profit		23,220	22,022
Administrative expenses		(14,837)	(17,828)
Operating profit	1	8,383	4,194
Comprising			
Adjusted operating profit	1	7,336	6,513
Amortisation of other intangible assets (included in administrative expenses)		(727)	(1,364)
Income/(charge) on marking forward exchange contracts to market value at the year end (included in cost of sales)	19	374	(955)
Exceptional items (included in administrative expenses)	3	1,400	–
		8,383	4,194
Finance income	5	128	77
Finance costs	6	–	(115)
Profit before tax		8,511	4,156
Income tax (charge)/credit	7	(168)	411
Profit for the year attributable to the equity shareholders of the parent	4	8,343	4,567

Earnings per share		Pence	Pence
Basic	9	20 76	11 30
Diluted	9	20 46	11 28

All profit for the year is attributable to equity shareholders of the parent and is derived from continuing operations

Consolidated statement of comprehensive income
for the year ended 30 April 2013

	Notes	2013 £'000	2012 £'000
Profit for the year attributable to the equity shareholders of the parent		8,343	4,567
Cash flow hedges - expense taken to equity (net of tax credit)	19	–	(24)
Total comprehensive income for the year attributable to the equity shareholders of the parent		8,343	4,543

Consolidated statement of changes in equity
for the year ended 30 April 2013

Group	Share capital £'000	Share premium account £'000	Own shares £'000	Share option reserve £'000	Hedge reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2011	4,079	29,519	(302)	555	24	14,380	48,255
Profit for the year	–	–	–	–	–	4,567	4,567
Other comprehensive income for the year	–	–	–	–	(24)	–	(24)
Total comprehensive income for the year	–	–	–	–	(24)	4,567	4,543
Equity dividends	–	–	–	–	–	(1,051)	(1,051)
Share-based payments	–	–	–	353	–	–	353
Transfer of share option reserve on vesting of options	–	–	–	(205)	–	205	–
At 30 April 2012	4,079	29,519	(302)	703	–	18,101	52,100
Profit for the year	–	–	–	–	–	8,343	8,343
Equity dividends	–	–	–	–	–	(1,247)	(1,247)
Own shares acquired	–	–	(532)	–	–	–	(532)
Own shares sold	–	–	91	–	–	–	91
Net loss on selling own shares	–	–	12	–	–	(12)	–
Share based payments	–	–	–	292	–	–	292
Transfer of share option reserve on vesting of options	–	–	–	(424)	–	424	–
At 30 April 2013	**4,079**	**29,519**	**(731)**	**571**	**–**	**25,609**	**59,047**

Company statement of changes in equity
for the year ended 30 April 2013

Company	Share capital £'000	Share premium account £'000	Own shares £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
At 1 May 2011	4,079	29,519	(302)	555	4,211	38,062
Profit for the year	–	–	–	–	1,801	1,801
Other comprehensive income for the year	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	1,801	1,801
Equity dividends	–	–	–	–	(1,051)	(1,051)
Share-based payments	–	–	–	353	–	353
Transfer of share option reserve on vesting of options	–	–	–	(205)	13	(192)
At 1 May 2012	4,079	29,519	(302)	703	4,974	38,973
Profit for the year	–	–	–	–	2,553	2,553
Equity dividends	–	–	–	–	(1,247)	(1,247)
Own shares acquired	–	–	(532)	–	–	(532)
Own shares sold	–	–	91	–	–	91
Net loss on selling own shares	–	–	12	–	(12)	–
Share-based payments	–	–	–	292	–	292
Transfer of share option reserve on vesting of options	–	–	–	(424)	43	(381)
At 30 April 2013	**4,079**	**29,519**	**(731)**	**571**	**6,311**	**39,749**

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

Consolidated and Company statements of financial position
as at 30 April 2013

	Notes	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Assets					
Non-current assets					
Goodwill	10	31,395	31,395	–	–
Other intangible assets	10	64	791	–	–
Property, plant and equipment	11	6,892	7,252	4	11
Investment in subsidiaries	12	–	–	42,692	42,825
Deferred tax asset	18	479	157	7	7
		38,830	39,595	42,703	42,843
Current assets					
Inventories	13	228	215	–	–
Trade and other receivables	14	19,385	20,468	90	80
Cash and cash equivalents		16,426	14,140	6,017	4,003
		36,039	34,823	6,107	4,083
Total assets		74,869	74,418	48,810	46,926
Liabilities					
Current liabilities					
Trade and other payables	15	(13,075)	(16,492)	(365)	(450)
Current tax liabilities		(1,101)	(1,086)	(31)	(4)
Derivative financial instruments	19	(39)	(413)	–	–
Bank borrowings	16	–	–	(8,665)	(7,499)
Provisions	17	(911)	(3,318)	–	–
		(15,126)	(21,309)	(9,061)	(7,953)
Non-current liabilities					
Bank borrowings	16	–	–	–	–
Deferred tax liability	18	(696)	(953)	–	–
Provisions	17	–	(56)	–	–
		(696)	(1,009)	–	–
Total liabilities		(15,822)	(22,318)	(9,061)	(7,953)
Net assets		59,047	52,100	39,749	38,973
Equity					
Share capital	20	4,079	4,079	4,079	4,079
Share premium account		29,519	29,519	29,519	29,519
Own shares	22	(731)	(302)	(731)	(302)
Share option reserve	21	571	703	571	703
Hedge reserve	19	–	–	–	–
Retained earnings		25,609	18,101	6,311	4,974
Total equity attributable to the equity shareholders of the parent		59,047	52,100	39,749	38,973

The financial statements on pages 38 to 75 were approved by the Board of Directors and authorised for issue on 24 June 2013 and are signed on its behalf by

Andrew Thomis
Chief Executive

Simon Walther
Finance Director

Company number
05684823

Consolidated and Company cash flow statements
for the year ended 30 April 2013

		Group		Company	
	Notes	2013 £'000	2012 £ 000	2013 £'000	2012 £'000
Net cash from operating activities	24a	4,090	8,424	2,410	2,183
Cash flow from investing activities					
Interest received		128	77	128	69
Proceeds on disposals of property, plant and equipment		3	2	–	–
Purchases of property, plant and equipment	11	(256)	(141)	(2)	(3)
Net cash (used in)/received from investing activities		(125)	(62)	126	66
Cash flow from financing activities					
Dividends paid	8	(1,247)	(1,051)	(1,247)	(1,051)
Repayment of borrowings	16	–	(3,444)	–	(3,000)
Purchase of own shares	22	(532)	–	(532)	–
Sale of own shares	22	91	–	91	–
Net cash used in financing activities		(1,688)	(4,495)	(1,688)	(4,051)
Net increase/(decrease) in cash and cash equivalents		2,277	3,867	848	(1,802)
Represented by					
Cash and cash equivalents and short term borrowings brought forward		14,140	10,177	(3,496)	(1,694)
Cash flow		2,277	3,867	848	(1,802)
Exchange		9	96	–	–
Cash and cash equivalents and short term borrowings carried forward	24b	16,426	14,140	(2,648)	(3,496)

Notes to the financial statements
for the year ended 30 April 2013

1. Segmental analysis

For management and reporting purposes, the Group currently operates through its three subsidiaries MASS, SCS and SEA 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 Overview (pages 2 to 7) and in the Business review (pages 8 to 24)

Business segment information about these subsidiaries is presented below

2013	MASS £'000	SCS £'000	SEA £'000	Eliminations £'000	Group £'000
Revenue					
External revenue	24,843	14,098	31,925	–	70,866
Inter segment revenue	–	113	–	(113)	–
	24,843	14,211	31,925	(113)	70,866
Segment adjusted operating profit	5,033	517	3,118	–	8,668
Unallocated corporate expenses	–	–	–	–	(1,332)
Adjusted operating profit	5,033	517	3,118	–	7,336
Income on marking forward exchange contracts to market value at the year end	–	–	374	–	374
Exceptional item	1,400	–	–	–	1,400
Amortisation of other intangible assets	(727)	–	–	–	(727)
Operating profit	5,706	517	3,492	–	8,383
Finance income (net of cost)	–	–	–	–	128
Profit before tax	5,706	517	3,492	–	8,511
Income tax charge					(168)
Profit after tax					8,343

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	SCS £'000	SEA £'000	Central £'000	Group £'000
Capital additions	53	20	181	2	256
Depreciation	229	71	301	9	610

Balance sheet				Eliminations	
Assets					
Segment assets	6,528	3,154	17,696	(873)	26,505
Goodwill	12,500	–	18,895		31,395
Other intangible assets	64	–	–		64
Deferred tax asset					479
Cash					16,426
Consolidated total assets	19,092	3,154	36,591		74,869
Liabilities					
Segment liabilities	(3,745)	(3,115)	(8,351)	1,186	(14,025)
Current tax liabilities					(1,101)
Deferred tax liability					(696)
Consolidated total liabilities	(3,745)	(3,115)	(8,351)		(15,822)

Notes to the financial statements continued
for the year ended 30 April 2013

1. Segmental analysis continued

2012	MASS £'000	SCS £'000	SEA £'000	Eliminations £ 000	Group £'000
Revenue					
External revenue	26,117	17,508	31,783	–	75,408
Inter-segment revenue	2	53	14	(69)	–
	26,119	17,561	31,797	(69)	75,408
Segment adjusted operating profit	4,831	1,320	1,723	–	7,874
Unallocated corporate expenses	–	–	–	–	(1,361)
Adjusted operating profit	4,831	1,320	1,723	–	6,513
Charge on marking forward exchange contracts to market value at the year end	–	–	(955)	–	(955)
Amortisation of other intangible assets	(1,219)	–	(145)	–	(1,364)
Operating profit	3,612	1,320	623	–	4,194
Finance cost (net of income)	–	8	(66)	–	(38)
Profit before tax	3,612	1,328	557	–	4,156
Income tax credit					411
Profit after tax					4,567

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	SCS £ 000	SEA £'000	Central £ 000	Group £'000
Capital additions	5	49	84	3	141
Depreciation	228	61	398	12	699

Balance sheet				Eliminations	
Assets					
Segment assets	7,699	4,054	17,568	(1,386)	27,935
Goodwill	12,500	–	18,895		31,395
Other intangible assets	791	–	–		791
Deferred tax asset					157
Cash					14,140
Consolidated total assets	20,990	4,054	36,463		74,418
Liabilities					
Segment liabilities	(6,449)	(4,503)	(10,247)	920	(20,279)
Current tax liabilities					(1,086)
Deferred tax liability					(953)
Consolidated total liabilities	(6,449)	(4,503)	(10,247)		(22,318)

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 are allocated to reportable segments with the exception of central cash and bank borrowings, and current tax 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 The following table provides an analysis of the Group's revenue by geographical location of the customer

	2013 £'000	2012 £ 000
UK	60,215	64,740
Other EC countries	5,666	6,085
Asia Pacific	4,253	4,274
USA	732	309
	70,866	75,408

All Group assets, tangible and intangible, are located in the UK

Market segments

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

	2013 £'000	2012 £'000
Defence (including security)	59,312	61,003
Space	5,138	7,562
Transport	4,333	2,763
Other commercial	2,083	4,080
	70,866	75,408

Major customers

Revenue from major customers included in the Group's business segments for the year ended 30 April 2013 is as follows

	2013 UK MOD £'000	2013 Customer A £'000	2013 Customer B £'000	2013 Customer C £'000	2012 UK MOD £'000	2012 Customer A £ 000	2012 Customer B £'000	2012 Customer C £ 000
MASS	10,816	2,712	–	2,838	9,966	2,474	–	1,553
SCS	6,877	278	–	91	9,167	526	–	96
SEA	11,234	7,280	2,412	–	11,606	6,402	4,019	–
	28,927	10,270	2,412	2,929	30,739	9,402	4,019	1,649

2. Employee benefit expense (including Directors)

	2013 £'000	2012 £'000
Wages and salaries	22,992	23,505
Social security costs	2,613	2,644
Defined contribution pension plan costs	1,998	1,924
Share-based payments	292	353
	27,895	28,426

Notes to the financial statements continued
for the year ended 30 April 2013

2. Employee benefit expense (including Directors) continued
Average number of employees (including Directors)

	2013 Number	2012 Number
Other operational	316	331
Managed services	77	70
Total operational	393	401
Administration and support	120	126
	513	527

The above disclosures include Directors Directors' emoluments and share option details are disclosed separately in the Remuneration & Appointments Committee report on pages 33 to 35

3. Exceptional items
The net exceptional income comprises

	2013 £'000	2012 £'000
Release of earn out provision in respect of the acquisition of Abacus EW Consultancy Limited	1,400	–

All exceptional items are in respect of continuing operations

The tax charge in respect of exceptional items is £Nil (2012 £Nil)

4. Profit for the year
The profit for the year has been arrived at after charging/(crediting)

	Notes	2013 £ 000	2012 £'000
Net foreign exchange (gains)/losses	19	(420)	857
Research and development costs		11,800	10,398
Depreciation of property, plant and equipment	11	610	699
Amortisation of other intangible assets	10	727	1,364
Cost of inventories recognised as expenses		21,688	22,963
Staff costs (excluding share-based payments)	2	27,603	28,073
Share-based payments	21	292	353

All of the above charges/(credits) are in respect of continuing operations

5. Finance income

	2013 £'000	2012 £'000
Interest on bank deposits	128	69
Other interest receivable	–	8
	128	77

All finance income is in respect of continuing operations

6. Finance costs

	2013 £ 000	2012 £'000
Bank and short term interest	–	115

All finance costs are in respect of continuing operations

7. Income tax charge/(credit)

	2013 £'000	2012 £ 000
Corporation tax in respect of this year	1,158	1,268
Corporation tax in respect of prior years	(411)	(1,001)
	747	267
Deferred tax in respect of this year	(579)	(678)
	168	(411)

The corporation tax is calculated at 23 92% (2012 25 83%) of the estimated assessable profit for the year, as disclosed below

The current tax in respect of the year ended 30 April 2013 includes £Nil charge (2012 £Nil charge) in respect of exceptional items The deferred tax includes a credit of £175,000 in respect of amortisation of other intangible assets (2012 £370,000) and a charge of £90,000 (2012 £240,000 credit) in respect of marking forward exchange contracts to market at the year end The deferred tax is further explained in note 18

The tax charge for the year is reconciled to the profit per the Consolidated income statement for the year ended 30 April 2013 as follows

	2013 £'000	2012 £ 000
Profit before tax on continuing operations	8,511	4,156
Tax at the UK corporation tax rate of 23 92% (2012 25 83%)	2,036	1,074
Tax effect of expenses that are not deductible in determining taxable profit	30	118
Tax effect of R&D tax credits	(677)	(534)
Tax effect of exceptional items that are not recognised in determining taxable profit	(335)	–
Tax effect of change in tax rate from 24% to 23% (2012 26% to 24%)	(31)	(68)
Tax effect of recognising unutilised trading losses at SEA	(444)	–
Tax effect of prior year R&D tax credits	(411)	(1,001)
Tax charge/(credit) for the year	168	(411)

The UK corporation tax rate for the year ended 30 April is calculated at 23 92%, based upon eleven months at 24% and one month at 23%

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised for the year ended 30 April 2013 directly in other comprehensive income

	2013 £'000	2012 £'000
Deferred tax credit arising on income and expenses recognised in other comprehensive income		
Revaluations of financial instruments treated as cash flow hedges	–	(9)

Notes to the financial statements continued
for the year ended 30 April 2013

8. Dividends

	2013 £'000	2012 £ 000
Amounts recognised as distributions to equity holders in the period		
Final dividend in respect of the year ended 30 April 2012 at 1 90 pence per ordinary share (2011 1 60 pence per ordinary share)	766	647
Interim dividend in respect of the year ended 30 April 2013 at 1 20 pence per ordinary share (2012 1 00 pence per ordinary share)	481	404
	1,247	1,051
Proposed final dividend for the year ended 30 April 2013 at 2 30 pence per ordinary share (2012 1 90 pence per ordinary share)	922	768

The proposed final dividend is subject to approval by shareholders at the AGM to be held on 18 September 2013 and has not been included as a liability in these financial statements

If approved, this dividend will be paid on 25 September 2013 to shareholders on the register as at 30 August 2013

The Cohort plc Employee Benefit Trust, which holds ordinary shares in Cohort plc, representing 1 73% (2012 0 89%) 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

	2013			2012		
	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)	40,195,916	8,343	20 76	40,425,342	4,567	11 30
Share options	582,251	–	–	70,022	–	–
Diluted earnings	40,778,167	8,343	20 46	40,495,364	4,567	11 28

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 year ended 30 April 2013 is after deducting the own shares

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

		2013			2012		
	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		40,195,916	8,343	20 76	40,425,342	4,567	11 30
(Income)/charge on marking forward exchange contracts to market value at the year end (net of income tax of £90,000, 2012 £240,000)	19	–	(284)	–	–	715	–
Exceptional items (net of income tax of £Nil, 2012 £Nil)	3	–	(1,400)	–	–	–	–
Amortisation of other intangible assets (net of income tax of £175,000, 2012 £370,000)	10	–	552	–	–	994	–
Adjusted earnings		40,195,916	7,211	17 94	40,425,342	6,276	15 52
Share options		582,251	–	–	70,022	–	–
Diluted adjusted earnings		40,778,167	7,211	17 68	40,495,364	6,276	15 50

The adjusted earnings are in respect of continuing operations

10. Goodwill and other intangible assets

	Goodwill			Other intangible assets		
	SEA £'000	MASS £'000	Group £'000	SEA £ 000	MASS £'000	Group £'000
Cost						
At 1 May 2011	18,895	12,500	31,395	1,160	4,340	5,500
At 1 May 2012	18,895	12,500	31,395	1,160	4,340	5,500
At 30 April 2013	**18,895**	**12,500**	**31,395**	**1,160**	**4,340**	**5,500**
Amortisation						
At 1 May 2011	–	–	–	1,015	2,330	3,345
Charge for the year ended 30 April 2012	–	–	–	145	1,219	1,364
At 1 May 2012	–	–	–	1,160	3,549	4,709
Charge for the year ended 30 April 2013	–	–	–	–	727	727
At 30 April 2013	**–**	**–**	**–**	**1,160**	**4,276**	**5,436**
Net book value						
At 30 April 2013	**18,895**	**12,500**	**31,395**	**–**	**64**	**64**
At 30 April 2012	18,895	12,500	31,395	–	791	791

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

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 key assumptions for the value-in-use calculations are those regarding discount rates, growth rates and any other factors which may affect future performance as are known of in the current period

The Group's subsidiaries have prepared cash flow forecasts as part of the recent annual budgetary process, as approved by management This provides the next three years' cash flow forecasts which have been extrapolated forward at an estimated long term growth rate of 1 50% (2012 2 25%) The cash flow forecasts are prepared on a consistent basis based upon each subsidiary's budget To this has been applied the Group's estimated pre tax weighted average cost of capital (WACC) of 14 1% (2012 8 9%)

The Group's WACC is an estimate based upon the Company's current equity risk, market interest rates, Company debt interest rates and market equity risk The same rate of WACC and long term growth rate have been applied to the assessment of the carrying value of goodwill for both MASS and SEA, since the businesses have similar market experience and exposures

On the basis of these tests, no impairment of goodwill has arisen in the year ended 30 April 2013 in respect of either MASS or SEA The goodwill of SEA is more sensitive with no impairment at the Group's WACC of 14 1% but is impaired if the Group's WACC increases to 26 7%

The other intangible assets arose on the acquisition of the subsidiaries and are disclosed above

Notes to the financial statements continued
for the year ended 30 April 2013

10. Goodwill and other intangible assets continued

The other intangible assets are amortised over the estimated lives of the specific other intangible asset, as follows

	Other intangible assets £'000	Estimated life Years	Remaining period of amortisation at 30 April 2013 Years
MASS			
On acquisition of MASS			
Contracts acquired	1,060	4	–
Contracts to be secured	280	7	0 25
	1,340		
On acquisition of Abacus EW			
Contracts acquired	1,446	3	0 10
Future orders and prospects	1,074	2	–
Intellectual property rights	480	3	0 10
	3,000		
	4,340		

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 2011	6,714	4,654	11,368
Additions	–	141	141
Disposals	–	(288)	(288)
At 1 May 2012	6,714	4,507	11,221
Additions	48	208	256
Disposals	–	(278)	(278)
At 30 April 2013	**6,762**	**4,437**	**11,199**
Depreciation			
At 1 May 2011	616	2,932	3,548
Charge in the year	110	589	699
Eliminated on disposal	–	(278)	(278)
At 1 May 2012	726	3,243	3,969
Charge in the year	109	501	610
Eliminated on disposal	–	(272)	(272)
At 30 April 2013	**835**	**3,472**	**4,307**
Net book value			
At 30 April 2013	**5,927**	**965**	**6,892**
At 30 April 2012	5,988	1,264	7,252

11. Property, plant and equipment continued

The Company's property, plant and equipment was £4,000 at 30 April 2013 (2012 £11,000)

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

The property, plant and equipment have been pledged to secure the Group's banking facilities

The valuation (in accordance with International Valuation Standards) of the Group's land and buildings at 30 April 2013 supports the above net book value

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

12. Investment in subsidiaries and joint ventures

	Group		Company	
	2013 £'000	2012 £ 000	2013 £'000	2012 £ 000
Subsidiary undertakings	–	–	42,692	42,825
Joint ventures	–	–	–	–
	–	–	42,692	42,825

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

Name of company	Country of registration	Type of shares	Proportion of shareholding and voting rights held	Nature of business
Directly owned				
Systems Consultants Services Limited (SCS)	England	Ordinary	100%	Technical consultancy
MASS Limited	England	Ordinary	100%	Holding company of MASS Consultants Limited
SEA (Group) Limited (SEA)	England	Ordinary	100%	Holding company of Systems Engineering & Assessment Limited, Beckington Castle Limited and various dormant subsidiaries
Digital Millennium Map LLP (DMM)	England	Ordinary	25%	2D digital mapping - in administration
Advanced Geospatial Solutions Limited (AGS)	England	Ordinary	50%	Formerly 3D mapping technology (business of AGS sold 1 August 2009)
Held through a subsidiary				
MASS Consultants Limited (MASS)	England	Ordinary	100%	Electronic warfare, managed services, secure communications and IT support services
Systems Engineering & Assessment Limited	England	Ordinary	100%	Deliverer of systems engineering, software and electronic engineering services and solutions to defence, space and transport
Beckington Castle Limited	England	Ordinary	100%	Property company holding freehold of Beckington Castle
Abacus EW Consultancy Limited	England	Ordinary	100%	Electronic warfare training services and software applications

DMM and AGS, which are both retained as investments of the Group, are not accounted for under the equity method of accounting as the Group ceased to have an active participation from 1 November 2006 and 30 April 2009 respectively

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

Notes to the financial statements continued
for the year ended 30 April 2013

12. Investment in subsidiaries and joint ventures continued

For information, the performance of DMM for the year ended 30 April 2013 was as follows

	Year ended 30 April 2013 £'000	Cumulative to 30 April 2013 £'000
Unrecognised share of profit	24	87
Revenues	98	3,018
Expenses	(2)	(3,628)
Profit/(loss)	96	(610)

	2013 £'000	2012 £ 000
Total assets	17	17
Total liabilities	(5)	(6)

The Group has received and continues to receive a return on its original investment in DMM This income is disclosed in "administrative expenses" within the Consolidated income statement

For information, the performance of AGS for the year ended 30 April 2013 was as follows

	Year ended 30 April 2013 £'000	Cumulative to 30 April 2013 £'000
Unrecognised share of (loss)/profit	(3)	24
Revenues	–	901
Expenses	(3)	(2,059)
Loss	(3)	(1,158)

	2013 £'000	2012 £'000
Total assets	–	–
Total liabilities	(1,117)	(1,114)

AGS sold its business on 1 August 2009 The Group retains its investment in AGS and received no further consideration in respect of the business disposal in the year ended 30 April 2013 (2012 £13,743, disclosed in the adjusted operating profit of the Group) The loss for the year ended 30 April 2013 was the tax charge in respect of prior year royalty income

Company

The Company's investments in subsidiaries are as follows

	MASS £'000	SCS £ 000	SEA £'000	Total £ 000
At 1 May 2011	14,515	1,723	26,480	42,718
Share-based payments	117	81	103	301
Vested in year	(77)	(58)	(59)	(194)
At 1 May 2012	14,555	1,746	26,524	42,825
Share-based payments	101	63	84	248
Vested in year	(118)	(105)	(158)	(381)
At 30 April 2013	**14,538**	**1,704**	**26,450**	**42,692**

13. Inventories

	2013 £'000	2012 £'000
Finished goods	228	215

The inventory at 30 April 2013 is after a stock provision of £19,000 (2012 £141,000)

The inventory has been pledged to secure the Group's banking facilities

14. Trade and other receivables

	Group		Company	
	2013 £'000	2012 £ 000	2013 £'000	2012 £ 000
Trade receivables	10,598	12,688	–	–
Allowance for doubtful debts	–	(78)	–	–
	10,598	12,610	–	–
Amounts recoverable on contracts	7,078	6,218	–	–
Prepayments and accrued income	1,709	1,640	90	80
	19,385	20,468	90	80

The average credit period taken on sales of goods is 42 days (2012 51 days) Of the trade receivables balance, £3 5m was considered overdue at 30 April 2013 (2012 £2 4m) reflecting high levels of invoicing in March 2013, especially at SEA Overdue is defined as trade receivables still due 30 days or more after invoice date The allowance for doubtful debt is determined by management's best estimate, by reference to the particular receivables over which doubt may exist None of the other receivables was past due

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 2013 is the UK MOD, with a balance outstanding of £3 0m (2012 £5 1m) Other customers who represent more than 5% of the total balance of trade receivables include

	2013 £m	2012 £m
Customer A	1 3	0 9
Customer B	1.4	1 5

Trade receivables include £2 6m (2012 £2 2m) denominated in foreign currency

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

The Group assesses all new customers for credit worthiness 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	2013 £'000	2012 £'000
30-60 days	3,085	1,197
60-90 days	226	445
> 90 days	210	752
	3,521	2,394

Notes to the financial statements continued
for the year ended 30 April 2013

14. Trade and other receivables continued

Movement in the allowance for doubtful debts	2013 £'000	2012 £'000
Balance at 1 May	**78**	108
Impairment losses recognised	**–**	78
Amounts written off as uncollectable in year	**(10)**	(27)
Amounts recovered during year	**(48)**	(5)
Impairment losses reversed	**(20)**	(76)
Balance at 30 April	**–**	78

15. Trade and other payables

	Group		Company	
	2013 £'000	2012 £ 000	2013 £'000	2012 £'000
Advance receipts	**757**	3,092	**–**	–
Trade payables and accruals	**4,284**	4,875	**21**	45
Other payables	**–**	2	**2**	2
Social security and other taxes	**1,849**	2,209	**82**	74
Accruals and deferred income	**6,185**	6,314	**260**	329
Amounts due to subsidiary undertakings	**–**	–	**–**	–
	13,075	16,492	**365**	450

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 35 days (2012 39 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 22 to 24)

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 The advance receipts will unwind over the next 12 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 £0 5m (2012 £0 5m) denominated in foreign currency

16. Bank borrowings

	Group		Company	
	2013 £ 000	2012 £ 000	2013 £'000	2012 £'000
Bank overdrafts	**–**	–	**8,665**	7,499
Bank loans	**–**	–	**–**	–
	–	–	**8,665**	7,499

All borrowings are secured using the fixed and floating assets of the Group

16. Bank borrowings continued

These borrowings are repayable as follows

	Group		Company	
	2013 £'000	2012 £'000	2013 £ 000	2012 £'000
On demand or within one year	–	–	8,665	7,499
In the second year	–	–	–	–
In the third to fifth years inclusive	–	–	–	–
	–	–	8,665	7,499
Less amounts due for settlement within 12 months (shown under current liabilities)	–	–	(8,665)	(7,499)
Amount due for settlement after 12 months	–	–	–	–

The weighted average interest rates paid were as follows

	2013 %	2012 %
Bank overdrafts	–	–
Bank loans	–	4 50

The bank overdrafts are repayable on demand The Group operates a sterling current account offset facility The interest rate applicable to the overdraft facility when drawn is at 2 25% (2012 2 25%) above the Bank of England base rate Overdrafts in currency other than sterling are not part of the sterling current account offset facility and are disclosed as part of bank borrowings above

At 30 April 2013, the Group had available £7 5m of undrawn overdraft facility The Directors consider the carrying amount of bank borrowings approximate to their fair value

The Group's net funds at 30 April 2013 of £16 4m are held with the following banks

	2013 £'000	2012 £ 000	Moody's credit rating of bank as at 2 May 2013
Royal Bank of Scotland Plc	10,409	10,137	A3
Lloyds TSB Bank plc	3,017	–	A2
Santander UK plc	2,000	3,000	A2
Clydesdale Bank	1,000	–	A2
Barclays Bank Plc	–	1,003	A2
	16,426	14,140	

Notes to the financial statements continued
for the year ended 30 April 2013

17. Provisions

Group	Abacus EW earn out £'000	Withdrawal from AGS £'000	Restructuring £'000	Onerous lease commitment £ 000	Warranty £ 000	Other contract related provisions £'000	Total £'000
At 1 May 2011	1,400	22	62	170	289	1,499	3,442
Charged/(credited) to the income statement	–	(6)	–	20	50	677	741
Utilised	–	–	(62)	(67)	(32)	(648)	(809)
At 1 May 2012	1,400	16	–	123	307	1,528	3,374
Charged/(credited) to the income statement	(1,400)	(16)	–	(50)	68	(267)	(1,665)
Utilised	–	–	–	(73)	(245)	(480)	(798)
At 30 April 2013	**–**	**–**	**–**	**–**	**130**	**781**	**911**
Provisions due less than one year	–	–	–	–	130	781	911
Provisions due greater than one year	–	–	–	–	–	–	–
At 30 April 2013	**–**	**–**	**–**	**–**	**130**	**781**	**911**
Provisions due less than one year	1,400	16	–	67	307	1,528	3,318
Provisions due greater than one year	–	–	–	56	–	–	56
At 30 April 2012	1,400	16	–	123	307	1,528	3,374

The earn out provision in respect of the acquisition of Abacus EW was recognised at 14 May 2010 Following conclusion of the earn out period on 13 May 2013, the provision was no longer required and was released in full in the year ended 30 April 2013 The income was recognised as an exceptional item in the Consolidated income statement (see note 3)

The provision in respect of the withdrawal from AGS was to cover existing commitments related to the period prior to the sale of the AGS business in August 2009 These commitments have now expired

The onerous lease commitment (including a provision for dilapidations) in respect of MASS's obligations on its former operating property in St Neots, which it vacated in August 2011, expired in April 2013 following settlement with the landlord The remainder of this provision was released in full and is reported within administration costs in the income statement

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 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 includes contract loss provisions in respect of contracts where the estimated cost at completion exceeds the total expected revenue of the contract 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 includes property dilapidation provisions and other trade related issues which may not be related to a trading contract These balances are immaterial

18. Deferred tax

	Accelerated tax depreciation £'000	Other intangible assets £ 000	Revaluation of building £ 000	Other short term timing differences £'000	Tax losses £'000	Derivatives £ 000	Group £'000
At 1 May 2011	(337)	(560)	(554)	118	–	(150)	(1,483)
Credit/(charge) to the income statement	51	354	12	(55)	–	248	610
Credit to equity	–	–	–	–	–	9	9
Effect of change in tax rate in the income statement	23	16	42	(5)	–	(8)	68
At 1 May 2012	(263)	(190)	(500)	58	–	99	(796)
Credit/(charge) to the income statement	40	173	10	(9)	424	(90)	548
Effect of change in tax rate in the income statement	11	2	21	(3)	–	–	31
At 30 April 2013	**(212)**	**(15)**	**(469)**	**46**	**424**	**9**	**(217)**

The deferred tax credit of £579,000 is a combination of the credit to the income statement (£548,000) and the effect of the change in tax rate from 24% to 23% on those items recognised in the income statement (£31,000 credit)

The credit is disclosed as £579,000 (2012 £678,000 credit) in respect of the current year

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

	2013 £'000	2012 £ 000
Deferred tax assets	479	157
Deferred tax liabilities	(696)	(953)
	(217)	(796)

The Group has recognised a deferred tax asset of £0 4m (2012 £Nil) for unutilised trading losses within its subsidiary SEA of £1 8m (2012 £1 9m) These are now considered recoverable in the foreseeable future which they were not in 2012 These tax losses can all be carried forward indefinitely

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

A deferred tax asset in respect of the share-based payments has not been recognised as any deferred tax asset is considered immaterial

The Company's deferred tax balance at 30 April 2013 was an asset of £7,000 (2012 £7,000) being £3,000 (2012 £5,000) in respect of other short term timing differences and accelerated tax depreciation of £4,000 (2012 £2,000)

On 21 March 2012, the Chancellor announced the reduction in the main rate of UK corporation tax to 23% with effect from 1 April 2013 This change became substantively enacted on 3 July 2012 and therefore the effect of the rate reduction creates a reduction in the deferred tax liability which has been included in the figures above

The Chancellor also proposed changes on 20 March 2013 to further reduce the main rate of corporation tax by 3% to 20% by 1 April 2015, but these changes have not yet been substantively enacted and therefore are not included in the figures above The overall effect of the further reductions from 23% to 20%, if these applied to the deferred tax balance at 30 April 2013, would be to further reduce the net tax liability by £28,000

Notes to the financial statements continued
for the year ended 30 April 2013

19. Derivative financial instruments
The Group has derivative financial instruments as follows

	2013 £ 000	2012 £'000
Assets		
Foreign currency forward contracts	–	–
Liabilities		
Foreign currency forward contracts	(39)	(413)

The changes in marking the outstanding foreign currency forward contracts to fair value are credited or charged to the Consolidated income statement as "income/(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 are all in respect of the SEA subsidiary and are disclosed within the SEA's operating profit in the segmental analysis (see note 1) The credit (charge in 2012) to the Consolidated income statement for the year ended 30 April 2013 was as follows

	2013 £'000	2012 £ 000
Foreign currency forward contracts	374	(955)

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

2013	Buy £ 000	Sell €'000	Buy £'000	Sell US$'000
At forward exchange rates				
At 1 May 2012	9,840	11,568	–	–
Transferred to the income statement in respect of matured contracts	(2,708)	(2,980)	(339)	(539)
New contracts	1,343	1,381	819	1,302
At 30 April 2013	8,475	9,969	480	763
Fair value adjustment	(51)		12	
At 30 April 2013 at closing spot rate	8,424		492	

The total fair value adjustment is £39,000 credit (2012 £413,000) and the change in the forward exchange fair values for the year ended 30 April 2013 is £374,000 income (30 April 2012 £955,000 charge) which is included in the operating profit of the Group as a credit

2012	Buy £'000	Sell €'000	Sell £'000	Buy € 000	Sell £'000	Buy US$'000	Sell €'000	Buy US$ 000
At forward exchange rates								
At 1 May 2011	10,341	12,107	–	–	(543)	(873)	(1,699)	(2,380)
Transferred to the income statement in respect of matured contracts	(14,032)	(16,242)	11,771	13,753	543	873	1,699	2,380
New contracts	13,531	15,703	(11,771)	(13,753)	–	–	–	–
At 30 April 2012	9,840	11,568	–	–	–	–	–	–
Fair value adjustment	(413)		–		–		–	
At 30 April 2012 at closing spot rate	9,427		–		–		–	

19. Derivative financial instruments continued

Currency derivatives continued

The maturity of the outstanding contracts was as follows

At 30 April 2013	Buy £'000	Sell €'000	Buy £ 000	Sell US$'000
Within one year	5,792	6,813	480	763
One to two years	2,645	3,111	–	–
Greater than two years	38	45	–	–
At 30 April 2013 at closing spot rate	**8,475**	**9,969**	**480**	**763**

At 30 April 2012	Buy £'000	Sell €'000	Sell £'000	Buy US$'000
Within one year	8,394	9,868	–	–
One to two years	680	800	–	–
Greater than two years	766	900	–	–
At 30 April 2012 at closing spot rate	9,840	11,568	–	–

The following significant exchange rates applied at 30 April

	2013		2012	
	US $	Euro	US $	Euro
	0 6455	0 8450	0 6149	0 8149

Sensitivity analysis

A 10% strengthening of £ sterling against the above currencies at 30 April 2013 would have had no effect on profits (2012 decrease of £4,000), after taking into account assets and liabilities hedged by forward exchange contracts

Interest rate swaps

The Group used an interest rate swap to manage its exposure to interest rate movements on its mortgage borrowings in the prior year

The interest rate swap was settled in full during the prior year following repayment of the Group's mortgage borrowings in October 2011

The derivative financial instrument in respect of the interest rate swap was valued as follows

	2013 £'000	2012 £'000
Nominal value of swap	–	–
Fair value of swap	–	–
Derivative financial asset	–	–

The movement in the hedge reserve was as follows

	£ 000
At 1 May 2011	24
Loss recognised on closing out interest rate swap on repayment of mortgages	(33)
Deferred tax relating to loss on closing out interest rate swap	9
At 30 April 2012 and 30 April 2013	–

Notes to the financial statements continued
for the year ended 30 April 2013

20. Share capital

	2013 Number	2012 Number
Allotted, called up and fully paid 10 pence ordinary shares	**40,786,788**	40,786,788

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

	Number
At 1 May 2011	40,786,788
Share options exercised	–
At 30 April 2012	40,786,788
Share options exercised	–
At 30 April 2013	**40,786,788**

The Company has one class of ordinary shares which carry no right to fixed income

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 33 to 35

The following options were outstanding at 30 April 2013

				30 April 2013			30 April 2012		
Scheme and grant date	Exercise price £	Vesting date	Expiry date	Vested	Not vested	Total	Vested	Not vested	Total
Cohort plc 2006 share option scheme									
8 Mar 2006	1 230	8 Mar 2009	8 Mar 2016	**89,430**	**–**	**89,430**	89,430	–	89,430
19 Feb 2007	1 770	20 Feb 2010	19 Feb 2017	**99,941**	**–**	**99,941**	99,941	–	99,941
11 Jul 2008	1 890	12 Jul 2011	11 Jul 2018	**7,929**	**–**	**7,929**	17,091	–	17,091
5 Aug 2009	1 715	6 Aug 2012	5 Aug 2019	**43,178**	**–**	**43,178**	–	51,028	51,028
23 Jul 2010	0 835	24 Jul 2013	23 Jul 2020	**–**	**619,010**	**619,010**	–	724,887	724,887
27 Oct 2010	0 770	28 Oct 2013	27 Oct 2020	**–**	**64,935**	**64,935**	–	64,935	64,935
26 Jul 2011	0 915	27 Jul 2014	26 Jul 2021	**–**	**866,186**	**866,186**	–	950,686	950,686
24 Jan 2012	1 100	25 Jan 2015	24 Jan 2022	**–**	**51,000**	**51,000**	–	68,000	68,000
2 Aug 2012	1 165	3 Aug 2015	2 Aug 2022	**–**	**522,000**	**522,000**	–	–	–
				240,478	**2,123,131**	**2,363,609**	206,462	1,859,536	2,065,998
Save As You Earn (SAYE) scheme									
26 Jan 2006	1 450			**–**	**–**	**–**	47,428	–	47,428
12 Feb 2008	1 330			**102,559**	**–**	**102,559**	–	112,663	112,663
18 Aug 2009	1 380			**526**	**40,334**	**40,860**	–	125,810	125,810
27 July 2010	0 970			**–**	**229,688**	**229,688**	–	275,921	275,921
08 Aug 2011	0 885			**–**	**235,600**	**235,600**	–	272,448	272,448
15 Aug 2012	1 190			**–**	**97,866**	**97,866**	–	–	–
				103,085	**603,488**	**706,573**	47,428	786,842	834,270
				343,563	**2,726,619**	**3,070,182**	253,890	2,646,378	2,900,268

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

The Group plan provides for a grant price equal to the average quoted market price of the Group shares on the date of grant The vesting period is generally three years, five years in the case of some SAYE schemes 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

21. Share options continued

The movement in share options during the year is as follows

	2013 Options	2013 Weighted average exercise price £	2012 Options	2012 Weighted average exercise price £
Outstanding at 1 May	2,900,268	1 00	3,015,013	1 28
Granted during the year	643,400	1 17	1,365,737	0 92
Forfeited during the year	(252,051)	1 02	(1,279,888)	1 52
Exercised during the year	(100,367)	0 91	–	–
Expired during the year	(121,068)	1 41	(200,594)	1 31
Outstanding at 30 April	3,070,182	1 02	2,900,268	1 00
Exercisable at 30 April	343,563	1 49	253,890	1 53

The weighted average share price at the date of exercise for share options exercised during the year was £0 91 (2012 £Nil) The options outstanding at 30 April 2013 had a weighted average exercise price of £1 02 (2012 £1 00) and a weighted average remaining contractual life of six years (2012 seven years)

The exercised options in the year were all satisfied by shares from the Cohort plc Employee Benefit Trust (see note 22) and no new shares were issued (see note 20)

In the year ended 30 April 2013, options were granted as follows 540,000 on 2 August 2012 and 103,400 on 15 August 2012 The exercise prices of the options granted on those dates were £1 165 and £1 190 respectively In the year ended 30 April 2012, options were granted as follows 1,015,686 on 26 July 2011, 282,051 on 8 August 2011 and 68,000 on 24 January 2012 The exercise prices of the options granted on those dates were £0 915, £0 885 and £1 100 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 year were as follows

	2013	2012
Weighted average share price	£1 22	£0 92
Weighted average exercise price	£1 02	£1 00
Expected volatility	37%	20%-45%
Risk free rate	0 96%-5.75%	0 96%-5 75%
Leaver rate (per annum)	6 5%-10 0%	6 5%-10 0%
Dividend yield	0 26%-1 96%	0 26%-1 96%

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 has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations

The Group recognised a cost of £292,000 (2012 £353,000) 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 costs" within the Consolidated income statement

Notes to the financial statements continued
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22. Own shares

	£'000
Balance at 1 May 2011	302
Acquired in the year	–
Balance at 30 April 2012	302
Acquired in the year	532
Sold in the year	(91)
Loss on shares sold in the year	(12)
Balance at 30 April 2013	**731**

The own shares reserve represents the cost of shares in Cohort plc purchased in the market and held by the Cohort plc 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 33 to 35)

The number of ordinary shares in Cohort plc held by the Employee Benefit Trust at 30 April 2013 was 706,079 (2012 361,446)

The ordinary shares in Cohort plc acquired in the year by the Employee Benefit Trust were as follows

	Number	Cost £'000
7 August 2012	100,000	118
3 October 2012	100,000	120
29 October 2012	200,000	242
16 November 2012	45,000	52
	445,000	532

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

Exercise price per share Pence	Number of shares sold	Proceeds £'000	(Loss)/gain on sale of shares £'000
83 5	51,000	42	(10)
88 5	2,262	2	–
91 5	35,000	32	(4)
97 0	3,298	3	–
119 0	336	1	–
133 0	5,052	7	1
138 0	3,419	4	1
	100,367	91	(12)

The market valuation of the ordinary shares in Cohort plc held by the Employee Benefit Trust at 30 April 2013 was £921,433 (2012 £356,024)

The cost of operating the Employee Benefit Trust during the year ended 30 April 2013 was £11,605 (2012 £5,720) and this cost is included within the "administrative expenses" of the Consolidated income statement

23. Reserves

The Group (consolidated) and Company statements of changes in equity are disclosed as primary statements on pages 39 and 40 Below is a description of the nature and purpose of the individual reserves

- Share capital represents the nominal value of shared issued, including those issued to the 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 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
- Hedge reserve represents the cumulative change in fair value of interest rate swaps net of tax charged to reserves (see note 19)
- 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	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Profit for the year	**8,343**	4,567	**2,553**	1,801
Adjustments for				
Income tax expense/(credit)	**168**	(411)	**29**	2
Depreciation of property, plant and equipment	**610**	699	**9**	12
Amortisation of other intangible assets	**727**	1,364	**–**	–
Net finance (income)/cost	**(128)**	38	**(128)**	(20)
Derivative financial instruments	**(374)**	955	**–**	–
Share-based payment	**292**	353	**43**	53
Decrease in provisions	**(2,463)**	(68)	**–**	–
Operating cash flows before movements in working capital	**7,175**	7,497	**2,506**	1,848
(Increase)/decrease in inventories	**(13)**	141	**–**	–
Decrease/(increase) in receivables	**1,083**	(129)	**(10)**	335
(Decrease)/increase in payables	**(3,092)**	1,236	**(86)**	49
	(2,022)	1,248	**(96)**	384
Cash generated by operations	**5,153**	8,745	**2,410**	2,232
Income taxes paid	**(1,063)**	(206)	**–**	–
Interest paid	**–**	(115)	**–**	(49)
Net cash inflow from operating activities	**4,090**	8,424	**2,410**	2,183

Notes to the financial statements continued
for the year ended 30 April 2013

24. Cash flow continued

b Cash and cash equivalents at 30 April 2013

	Group		Company	
	2013 £'000	2012 £ 000	2013 £'000	2012 £'000
Cash and bank	10,409	10,137	–	–
Short term deposits	6,017	4,003	6,017	4,003
Total cash and cash equivalents	16,426	14,140	6,017	4,003
Bank loans	–	–	(8,665)	(7,499)
Total debt	–	–	(8,665)	(7,499)
Net funds	16,426	14,140	(2,648)	(3,496)

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 approximates to their fair value

25. Operating lease arrangements

Group	2013 £ 000	2012 £'000
Minimum lease payments under operating leases recognised as an expense in the year		
- land and buildings	773	773
- other	191	172
	964	945

At 30 April 2013 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	2013 £'000	2012 £'000
Land and buildings		
- leases which expire within one year	529	82
- leases which expire in the second to fifth year inclusive	1,591	960
- leases which expire after five years	420	2,090
	2,540	3,132
Other		
- leases which expire within one year	96	17
- leases which expire in the second to fifth year inclusive	75	164
- leases which expire after five years	–	–
	171	181
	2,711	3,313

Significant leasing arrangements held by the Group are in respect of its operating facilities in Lincoln, Bristol and Theale

The lease on MASS's former operating property in St Neots (Grove House) ceased in April 2013 and the remaining onerous lease commitment in respect of this lease was released to the income statement in the year ended 30 April 2013

In respect of all the Group's operating leases (including the Company's), there is no contingent rent payable, no escalation clauses and no 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 have any renewal or purchase options

25. Operating lease arrangements continued

Company	2013 £ 000	2012 £ 000
Minimum lease payments under operating leases recognised as an expense in the year		
- land and buildings	38	38

At 30 April 2013 the Company had outstanding commitments for future minimum lease payments under non cancellable operating leases which fall due as follows

	2013 £ 000	2012 £ 000
Land and buildings		
- leases which expire within one year	–	–

26. Commitments

There was £42,262 of capital commitments at 30 April 2013 (2012 £1,200)

27. Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes The contributions for the year of £1,998,000 (2012 £1,924,000) were charged to the income statement Contributions outstanding at 30 April 2013 were £77,000 (2012 £162,000)

28. Contingent liabilities

At 30 April 2013 the Group has in place an advance payment guarantee of £175,000 (2012 £175,000) with RBS This guarantee is in respect of SCS's leased property, Arlington House

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 are disclosed as follows

	Management fees received from subsidiaries £'000	Rent paid to subsidiaries £'000	Dividends received from subsidiaries £'000	Group relief received from subsidiaries £ 000
2013	1,300	38	2,500	–
2012	1,300	40	1,850	–

Transactions between the Group and its joint ventures are disclosed below

	Purchases £'000	Sales £'000	Investment in year £'000	Changes in loans/current account/ sales ledger £'000
Advanced Geospatial Solutions (AGS)				
2013	–	–	–	3
2012	–	–	–	(21)
Digital Millennium Map LLP (DMM)				
2013	–	–	–	–
2012	–	–	(23)	–

Notes to the financial statements continued
for the year ended 30 April 2013

29. Related party transactions continued

The change in the loans, current accounts and sales ledgers reflects purchases, sales and support costs to the related party undertakings less any receipts received

The relationships are described as follows

- AGS - the interest in which is owned by Cohort plc, a 50% joint venture From 1 May 2009 this has been accounted for as an investment, the Group no longer having an active participation in this entity
- DMM - the interest in which is owned by Cohort plc, a 25% joint venture From 1 November 2006 this has been accounted for as an investment, the Group no longer having an active participation in this entity

The change in investment in the current and previous year in DMM reflects recovery of the investment through a dividend

The Group is expected to have no significant transactions with either AGS or DMM

During the year ended 30 April 2013, the Directors of Cohort plc received dividends from the Company as follows

	2013 £	2012 £
S Carter	330,637	277,309
N Prest	64,622	54,199
A Thomis	1,092	916
Sir Robert Walmsley	776	651
S Walther	794	666
	397,921	333,741

Further details of the remuneration of the Directors are set out in the Remuneration & Appointments Committee report (pages 33 to 35)

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

	2013 £	2012 £
Salary (including any allowances, benefits and employer's NI)	883,836	967,988
Employers pension contribution	79,917	78,143
Long term benefits	–	–
Termination payments or benefits (including employer's NI)	–	–
	963,753	1,046,131

The key management of the Group is the Board of Cohort plc plus each subsidiary's Managing Director

Accounting policies

Basis of accounting

Both the parent company financial statements and 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) 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

As highlighted in note 16 to the financial statements, the Company meets its day-to day working capital requirements through an offsetting facility which is due for renewal in October 2013 Both the current domestic economic conditions and continuing UK government budget pressures, including defence, create uncertainty particularly over (a) the level of demand for the Group's products, (b) the exchange rate between sterling and euro and thus the consequence for certain long term contracts, and (c) the availability of bank finance in the foreseeable future

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 Company will open renewal negotiations with the bank in due course and has at this stage not sought any written commitment that the facility will be renewed However, the Company has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms

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 Business review on pages 8 to 24 The financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described in the Business review on pages 17 to 19

In addition, the Business review of the financial statements 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 2013 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 This is necessary as the Group's subsidiaries continue to prepare statutory financial statements in accordance with UK GAAP

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 2013 which have had no significant impact on the amounts reported in these financial statements by the Group These include IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and IFRS 13 'Fair Value Measurement'

These changes may impact the accounting for future transactions and arrangements

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)

Accounting policies continued

Business combinations continued

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

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

Cohort's trade is the provision of technical advice and support, and the design, development and manufacture of niche products As part of its operations, the Group may dispose of, or recognise impairment of, subsidiaries, or significant parts of subsidiaries, associates (including joint ventures and investments) and fixed assets as well as other significant non-trading transactions including significant restructuring costs, either as part of continuing operations or discontinued operations

These items form part of the Group's operating activities and are reported in arriving at the Group's profit from operations, however, management does not consider these items to be part of trading activities The gains or losses on such items can be significant and arise in different reporting periods and would consequently have a material impact upon the absolute amount of and trend in the Group's trading profit from operations

Any gains or losses (including transaction costs) on these non trading items are disclosed as a separate line item (in aggregate) in the income statement with analysis in a note to the accounts

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a 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

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 currently sterling for the whole Group 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

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 retranslated at the rates prevailing on the balance sheet date

Exchange differences arising on the settlement of monetary items, and on the retranslation 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 opposite

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) An intangible asset with an indefinite useful life is tested for impairment biannually and whenever there is an indication that the asset may be impaired

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

Accounting policies continued

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 below, the valuation of intangible assets is an area of critical judgement and estimate by 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

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

Restructuring

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Group

Onerous lease commitment

Present obligations arising under an onerous lease are recognised and measured as a provision An onerous lease is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received

An onerous lease includes the vacation of a property prior to termination of the associated lease

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 that it is probable that total contracts 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

Where the expected cost at completion of a current contract exceeds the sum of the contracted revenue and any probable revenue, then the amount of that excess (the estimated contract loss) is immediately provided for in full Such 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

Accounting policies continued

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 "stand alone" 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 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 stand alone values using either the principle in IAS 18 13 or the following criteria based on IAS 11 7-10

- separate proposal 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 and cash-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 effect of non-transferability, exercise restrictions and behavioural considerations

A liability equal to the portion of the goods and services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share based payments

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

Accounting policies continued

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 payables

Trade payables are initially measured at fair value

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

1 Critical accounting judgements

Revenue recognition

The revenue recognition policy of the Group is described in detail on page 72 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, test 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 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 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

Critical accounting judgements and key sources of estimation uncertainty continued

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 therefore increases 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 our 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

Standards and interpretations issued at 30 April 2013 not applied to these financial statements

A number of other standard amendments and International Financial Reporting Interpretation Committee (IFRIC Interpretations) have been issued and are yet to be applied by the Group There are three proposed changes to international standards proposed by the International Accounting Standards Board These have an effective date of implementation of on or after 1 January 2014 The impact of these standards on the Group's financial statements are not significant Two current exposure drafts which are not standards but will have an impact on the Group are

i Revenue recognition, and

ii Leases

The full impact for the Group has not been assessed at this stage

Shareholder information, financial calendar and advisers

Advisers

Nominated adviser and broker

Investec
2 Gresham Street
London EC2V 7QP

Auditor

KPMG Audit Plc
Chartered Accountants
Arlington Business Park
Theale
Reading RG7 4SD

Tax advisers

Deloitte LLP
Abbots House
Abbey Street
Reading RG1 3BD

Legal advisers

Pitmans
The Anchorage
34 Bridge Street
Reading RG1 2LU

Registrars

Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Public and investor relations

MHP Communications
60 Great Portland Street
London W1W 7RT

Bankers

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 Registrar), you should contact the Company Secretary by letter to the Company's registered office or by email to info@cohortplc com

Share register

Capita Registrars 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 Registrars
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone 0871 664 0300 (calls cost 10 pence per minute plus network extras) (From outside the UK +44 (0) 20 8639 3399) Lines are open Monday to Friday, 8 30am to 5 30pm

Facsimile +44 (0) 20 8639 2220

Email ssd@capitaregistrars com

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
- **Daily Telegraph** - AIM section
- **London Evening Standard** - AIM section

Financial calendar

Annual General Meeting
- 18 September 2013

Final dividend payable
- 25 September 2013

Expected announcements of results for the year ending 30 April 2014.

Preliminary half year announcement
- December 2013

Preliminary full year announcement
- June 2014

Registered office

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1025 Arlington Business Park
Theale
Reading RG7 4SA

Registered company number of Cohort plc

05684823

Cohort plc is a company registered in England and Wales

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