# Cohort plc
**Annual Report and Accounts 2015**

Registered company number
05684823

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

MASS is a specialist defence and technology business, focused mainly on electronic warfare, information systems and cyber security

**www mass co uk**

MCL is an expert in the sourcing design and integration of communications and surveillance technology, as well as support and training for UK end users including the MOD and other government agencies

**www marlboroughcomms com**

SCS is a defence and security consultancy, combining technical expertise with armed forces experience and domain knowledge

**www scs-ltd co.uk**

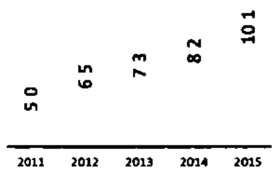
SEA is an advanced electronic systems and software house operating in the defence, transport and offshore energy markets

**www.sea.co.uk**

## Fınancial and operatıonal hıghlıghts

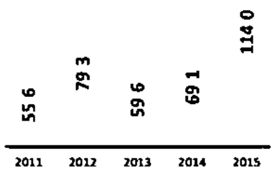
**Adjusted operatıng profit (£m)***

**£10.1m**
+23%




**Order ıntake (£m)**

**£114.0m**
+65%




**Net funds (£m)**

**£19.7m**
+21%


- Adjusted operatıng profit* up 23% to £10 1m (2014 £8 2m), a record tradıng profit
- Underlyıng organıc growth (excludıng acquısıtıons) up 22% and 17% ın revenue and adjusted operatıng profit
- Adjusted earnıngs per share* up 7% at 20 45 pence (2014 19 15 pence)
- Proposed final dıvıdend up 21% at 3 40 pence per share (2014 2 80 pence)
- Net funds up 21% to £19 7m (2014 £16 3m)
- Record profit at MASS
- SEA profitabılıty ımproved and J+S busıness ıntegrated
- SCS profitabılıty sıgnıficantly ımproved
- MCL maıden contrıbutıon of £1 3m on £10 1m of revenue

* Excludes exceptıonal ıtems amortısatıon of other ıntangıble assets and markıng forward exchange contracts to market value at the year end



*Vısıt www cohortplc com for up to the mınute news, announcements and ınvestor ınformatıon*

## Chairman's statement

Nick Prest CBE, Chairman

### In summary

- The Board is recommending a final dividend of 3 4 pence per ordinary share (2014 2 8 pence)
- Cohort plc achieved a record adjusted operating profit for the year of £10 1m (2014 £8 2m)
- The Group ended the year with net funds of £19 7m (2014 £16 3m)
- MASS achieved record profits
- SEA continued its progress and integrated the acquired J+S business
- SCS significantly improved its profitability
- Maiden contribution from MCL

*Read more about our recent operational activities, strategy and business review on pages 10 to 21*

Cohort plc once again improved its performance in the year achieving record revenue, adjusted operating profit and closing cash The underlying businesses of MASS, SCS and SEA all recorded growth in revenue and adjusted operating profit, and the result also benefited from the two acquisitions made in the year

### Key financials

In the year ended 30 April 2015, Cohort plc achieved sales revenue of £99 9m (2014 £71 6m), including £32 5m (2014 £27 6m) from MASS Consultants Limited (MASS), £16 9m (2014 £14 9m) from Systems Consultants Services Limited (SCS) £40 4m (2014 £29 1m) from SEA (Group) Limited (SEA), and a maiden contribution from Marlborough Communications Limited (MCL) of £10 1m The SEA revenue included a contribution from the newly acquired J+S Limited (J+S) of £7 9m As well as the two acquisitions, the improved revenue of the Group reflected increased export work at MASS, submarine communications system work at SEA and training support activity at SCS

The Group's adjusted operating profit was £10 1m (2014 £8 2m) This included contributions from MASS of £5 5m (2014 £5 0m), SCS £1 3m (2014 £1 0m) and SEA £4 0m (2014 £3 8m) and a good initial contribution from MCL of just over £1 3m Cohort plc Group overheads were £2 0m (2014 £1 6m) MASS, which remains the Group's largest contributor to profit, improved its performance as a result of higher revenue, although its net margin was slightly lower as a result of changed mix Likewise the improved performance at SCS reflected its increased revenue

The improvement at SEA, which included a contribution from J+S of £0 1m, was especially pleasing, since the 2014 comparative included a final profit contribution from SEA's divested Space business of £0 6m

The Group operating profit of £5 9m (2014 £6 6m) was after recognising amortisation of intangible assets of £3 6m and exceptional items of £0 6m, the latter being the costs of the two acquisitions and completing the disposal of SEA's Space business Profit before tax was £5 9m (2014 £6 7m) and profit after tax was £5 2m (2014 £5 9m)

Adjusted earnings per share were 20 45 pence (2014 19 15 pence) The adjusted earnings per share were based upon profit after tax, excluding amortisation of other intangible assets, charge on marking forward exchange contracts to market value at the year-end and exceptional items, all net of tax Basic earnings per share were 14 04 pence (2014 14 75 pence)

Order intake for the year was £114 3m (2014 £68 5m) and a further £5 4m and £32 6m of orders were added to the Group's order book with the acquisitions of MCL and J+S respectively The net funds at the year-end were £19 7m (2014 £16 3m), the Group having spent over £17m during the year on acquiring MCL and J+S

### Dividends

The Board is recommending a final dividend of 3 4 pence per ordinary share (2014 2 8 pence), making a total dividend of 5 0 pence per ordinary share (2014 4 2 pence) for the year a 19% increase This will be payable on 30 September 2015 to shareholders on the register at 28 August 2015 subject to approval at the Annual General Meeting on 22 September 2015

## MASS
MASS's adjusted operating profit of just under £5 5m (2014 £5 0m) was ahead of last year's, driven by its increased revenue Its net margin was down from 18 1% to 16 9% as a result of the changed mix of work Looking forward we expect MASS to operate around this margin level as it grows its cyber offering, which typically includes more bought-in equipment

MASS's order book improved during the year as it replenished a number of its longer-term orders, especially in the export market Its closing order book of £53 4m (2014 £46 4m) provides a good underpinning for 2016

## MCL
Marlborough Communications Ltd (MCL) was acquired by the Group on 9 July 2014 and has become the fourth standalone member of Cohort plc As I explained last December, the Group acquired 50% plus one share of MCL, giving effective control to the Group and as a result 100% of MCL's result is reported by the Group, with the minority interest being deducted for earnings per share calculations

MCL, as expected, has been immediately earnings enhancing, making an initial contribution of £1 3m of adjusted operating profit on revenue of £10 1m

In addition to the acquired order book of £5 4m, MCL secured orders in the ten months since acquisition of £7 5m and ended the year with an order book of £2 8m This order book, as is typical for MCL, covers only a small proportion of the coming financial year's revenue expectations MCL's business model has historically had short cycle times, especially in support and repeat work, and its pipeline of prospects give us confidence that it will make progress in the coming year

## SCS
In what continues to be a tight domestic defence market for technical consultancy, SCS again grew its UK MOD revenue, much of this a result of its unique position in delivering high level training to the Joint Warfare Centre Activity in this area has increased and is now closer to pre Afghanistan levels following the withdrawal of British forces from that theatre

The £1 3m (2014 £1 0m) adjusted operating profit was a net return of 7 8% (2014 6 9%) of revenue This welcome improvement reflects the operational gearing from the higher revenue and is an indication of SCS's progress

SCS's closing order book was £9 8m (2014 £10 0m), a good starting position for the coming year

## SEA
SEA had another strong year with its adjusted operating profit growing to £4 0m (2014 £3 8m) despite last year's comparative including a positive contribution from the divested Space business of £0 6m The SEA result included restructuring costs of £0 2m from integrating J+S This was completed before the end of the year and will provide a cost saving going forward of around £0 5m per annum

The improved result at SEA reflected higher revenue in its defence business with deliveries continuing on the delivery of the External Communications System (ECS) for the Astute class of submarines Work has now started on the remainder of the UK's submarine fleet under the Common ECS programme

The initial contribution from J+S of £0 1m was below expectations, reflecting delays to a number of projects with the UK MOD, all of which have now been secured The prospects for J+S remain in line with our expectations at the time of the acquisition

SEA secured over £50m (2014 £33m) of orders in the year as well as acquiring nearly £33m of order book with the acquisition of J+S, and closed with an order book of £68 0m (2014 £25 3m), providing a good underpinning to the coming year and beyond

## Cash
The Group delivered a very strong operating cash performance for the year of £18 8m (2014 £2 6m) offsetting the significant investment outflows in acquiring MCL and J+S After some delay, the sale of SEA's Space business was concluded satisfactorily, the Group receiving the £1 5m it expected in respect of working capital acquired by Thales Alenia Space on top of the £2 5m completion monies received earlier in the year The strong year-end cash position was ahead of our expectations and partly benefited from the timing of contract receipts and supplier payments around the year-end This position will reverse in the coming months

## Board, management and staff
As separately announced a number of changes will shortly take place in the composition of the Cohort plc Board These reflect the evolving needs of the Group and the plans of individuals

With effect from the Annual General Meeting to be held on 22 September 2015 Stanley Carter will relinquish his role as Co Chairman of Cohort plc He will remain on the Board as a Non executive Director

Jeff Perrin will be joining the Board of Cohort plc as a Non executive Director on 1 July 2015 and will take over from Sir Robert Walmsley as Chairman of the Audit Committee following the Annual General Meeting Rob Walmsley will remain on the Board as a Non-executive Director and continue as Chairman of the Remuneration and Nominations Committee

I would like to set on record the Board's appreciation for all that Stanley Carter has done for Cohort plc as co-founder, as CEO until 2009, and in recent years as Co Chairman He remains a significant shareholder and the Board is pleased that he will be continuing as a Non-executive Director

I am delighted that we will shortly be welcoming Jeff Perrin to the Board He brings a wealth of experience not only in the financial management of multi business technology groups, operating in the UK and overseas but also in the general management of such companies, embracing the supply of software and hardware and the execution of multi-disciplinary projects in markets related to those in which Cohort plc operates He will be a valuable addition to the Cohort plc Board

I would like to thank Rob Walmsley for his work as Chair of the Audit Committee from the inception of the Company until now

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

I would like to thank in particular Bill Bird, who retires as Managing Director of SCS on 26 June 2015 Bill started with SCS in September 2010 and has successfully steered the company in a tricky market, improving its profit performance year on year whilst at the helm The Board of Cohort plc wishes Bill a very happy retirement I also welcome Christian Cullinane as Bill's replacement Christian joined the Group on 11 June 2015 having had extensive experience as a senior executive in consultancy, the last ten years in defence with QinetiQ and Airbus, and previously with Deloitte and BT

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

## Outlook
The closing order book of £134 0m (2014 £81 7m) provides a good underpinning to the coming year Although the UK defence market remains tight, the Cohort plc businesses have strong and relevant capabilities, established positions on some key long term UK MOD programmes, and a good pipeline of new opportunities Export prospects continue to strengthen Outside defence, MASS is making progress with its cyber capability, especially in the security market, and SEA, in transport, has successfully completed all of the testing required to enable it to achieve UK Home Office approval for its level crossing enforcement system A number of long-term orders were secured during the year just ended, so we do not expect to see a repeat of 2015's sharp increase in order book over the coming financial year

The management emphasis is now on driving further growth both organically and by acquisition supported by a continuing strong funding position The Board considers that Cohort plc's order book and near-term prospects provide a good base for future progress

**Nick Prest CBE**
Chairman

**Our business and capabilities**

# Our four **innovative, agile and responsive businesses** apply advanced technology in defence, security and related markets

■ Capability

□ Example

| Subsidiary | Operating division | Revenue | **Defence products**<br>The design, supply and support of such equipment, and its associated embedded software as well as the integration of commercial off the shelf' equipment for specialist applications | **Secure networks**<br>The provision of advice and system implementation to protect against cyber attack and other threats for a range of clients in defence and non defence |
|---|---|---|---|---|
| | Electronic warfare operational support | £10 3m | | |
| | Secure information systems | £22 2m | ■ | ■ |
| | Acquired 9 July 2014 | £10 1m | ■ | |
| | Complex systems | £3 8m | | |
| | Regulatory, information and communications systems | £6 8m | | |
| | Training support | £6 3m | | □ |
| | Communications systems | £17 5m | ■ | |
| | Research | £8 0m | | |
| | Sensor and information systems and products | £7 0m | ■ | |
| | J+S (acquired 1 October 2014) | £7 9m | □ | |

**Examples**

| | Defence products | Secure networks |
|---|---|---|
| | SEA is delivering torpedo launch systems to the Malaysian Navy for deployment on a fleet of offshore patrol vessels | SCS provides the Communication and Information System to the EU s counter-piracy operation "Atalanta' |

**Application software**

The design and supply of specialist software systems including SHEPHERD and transport databases

**Operational support**

The provision of direct support for information and products in active operations including electronic warfare operational support and offshore energy

**Training**

Supply of formal on-the job and scenario-based training services trainers training materials and facilities

**Studies and analysis**

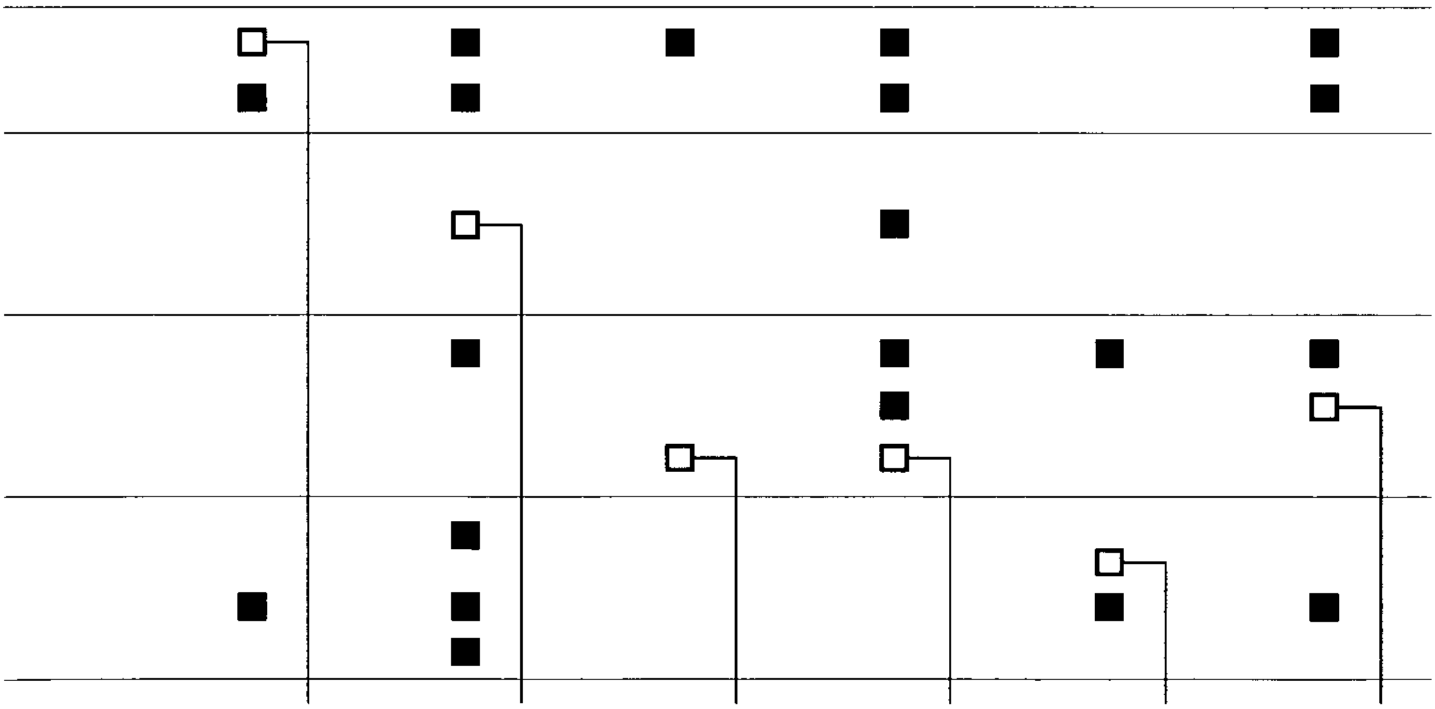
Self contained studies, consultancy and analytical work, excluding scientific research with a defined output (report, recommendations etc )

**Applied research**

Management and execution of scientific investigation work aimed at specific objectives

**Specialist expertise**

Provision of expert individuals to be part of a team managed by the customer



MASS provides the UK's electronic warfare database based on THURBON™

MCL provides Tactical Nano UAV systems for front line operations

SCS has renewed its contract to provide training and exercise support to the UK s Joint Forces Command

SCS provides expert non-lethal weapons technology advice to DSTL through the "Delivering Dismounted Effect" programme

SEA is leading research into the future British infantryman through its 'Delivering Dismounted Effect" framework for the DSTL

SCS provides independent technical analysis for air platforms entering UK service, including JSF and Air Seeker

Our business model and strategy

# Our mission is to combine the **innovation and responsiveness** of smaller, independent businesses with the benefits of a listed group

## Our business model

**Four autonomous, agile businesses combining niche technology with highly skilled and flexible people**


**Adding value through**

| Higher margin exports | Established position in key UK defence programmes | Flexible capabilities to meet customer needs |
|---|---|---|

## Our strategy

### Organic growth

Consistently grow profits and cash generation organically through our four subsidiaries

### Acquisitions

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

### Maintain confidence

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

| Delivered through | What we did in 2014/15 | Our priorities for 2015/16 |
| --- | --- | --- |
| • A focus on trusted delivery to our customers<br>• Encouraging innovation and responsiveness with a low cost base<br>• Identifying and pursuing growth opportunities<br>• Developing high quality leadership teams and a high performance culture | • Adjusted operating profit of the Group before acquisitions grew 17% from £7 6m to £8 9m in 2015, a new high for the Group<br>• Net cash increased to £19 7m even after spending over £17m on new business acquisitions<br>• Rolled out executive and leadership development progress for Directors and future leaders of the Group respectively | • Continued organic growth through pursuing identified opportunities in UK and export defence and other market areas<br>• Continue Executive Development Programme for Cohort plc and subsidiary Directors<br>• Continue Group-wide Leadership Development Programme, aimed at the future leaders of the business<br>• Invest in current and future market growth opportunities including cyber |
| • Proactive engagement with businesses that can add value to the Group<br>• Maintaining a strong acquisition team<br>• Demonstrating a structure and culture that is attractive to potential sellers | • 50% plus one share of MCL acquired 9 July 2014<br>• 100% of J+S acquired 1 October 2014<br>• SEA's Space business disposal successfully closed out and all expected funds received  Business successfully separated from SEA's site in Bristol | • Cohort plc will look to make at least one acquisition in 2016<br>• We have funding capacity to make acquisitions and continue to look at both standalone and bolt-on acquisition opportunities<br>• As part of our strategy, Cohort plc will put in place enlarged bank facilities to support growth and diversity |
| • A framework of financial control, strategy review, performance management and leadership development<br>• Clear and consistent communication<br>• An ability to act fast if problems arise | • Succession planning and training<br>• Business continuity review and cyber threat assessment across the Group<br>• SCS successfully introduced a new IT system at the end of the financial year<br>• Edison appointed to provide further investor relations news flow | • SCS's new IT system will be regularly monitored<br>• Jeff Perrin appointed 1 July 2015 as a new Non-executive Director and chair of the Audit Committee<br>• SEA and J+S reporting systems to be fully integrated |

*We measure our progress using key performance indicators, which can be found on the following page*

**Key performance indicators**

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

| Performance indicator | Why is it measured? |
| --- | --- |
| **Change in revenue**<br>Changes in total Group revenue compared to the prior year | Revenue growth gives a quantified indication of the rate at which the Group's business activity is expanding over time |
| **Change in adjusted operating profit**<br>Change in Group operating profit before amortisation of other intangible assets, marking forward exchange contracts to market and exceptional items | 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**<br>Orders for next financial year expected to be delivered as revenue, presented as a percentage of consensus market revenue forecasts for the year | 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**<br>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 | Change in adjusted earnings per share is an absolute measure of the Board's management of the Group's return to shareholders net of tax and interest |
| **Operating cash conversion**<br>Net cash generated from operations before tax as compared to the profit before tax | Operating cash conversion measures the ability of the Group to convert profit into cash |

| 2015 | 2014 | Comment |
|---|---|---|
| 40% | 1% | Increase in revenue in 2015 due to acquisitions of MCL and J+S as well as 23% increase in underlying business, the latter increase due to export EWOS, delivery of ECS and training |
| 23% | 11% | Increase in 2015 due to improved profitability at MASS, SCS and SEA as well as the positive impact of the acquisitions of MCL and J+S |
| 65%<br>cover on forecast 2016 revenue of £111m at 30 April 2015 | 58%<br>cover on forecast 2015 revenue of £71 0m at 30 April 2014 | The cover has increased on last year with strong order cover at MASS and SEA SCS cover is similar to last year MCL revenue cover is low as seen historically for the business |
| 7% | 7% | Continuing growth in 2015 reflects improved profitability partly offset by higher tax charge on adjusted earnings, as well as excluding the non-controlling (minority) interest of MCL |
| 350% | 54% | The very strong operating cash flow reflects good receipt performance at the year end and slippage of supplier payments (due to invoices not received) into the first quarter of 2015/16 The operating cash conversion in 2015/16 will be much weaker than 2014/15 |

*Read how risk identification, analysis and management allow us to deliver our strategic objectives from page 22*

**Business review**
Andrew Thomis, Chief Executive
Simon Walther, Finance Director

## In summary

- Cohort plc has continued its progress, delivering a record level of adjusted operating profit
- Underlying businesses, excluding acquisitions, increased revenue and adjusted operating profit by 22% and 17% respectively
- MASS achieved record profit
- SEA's operating performance continues to improve
- J+S successfully integrated by SEA
- SCS delivered significantly improved profit
- Maiden contribution from MCL of £1 3m
- Order book at 30 April 2015 underpins over £71m of 2015/16 revenue
- Strong net funds provide capacity to carry out our strategy

*See the IBC of this report for a five year performance summary*

> "This has been another year of continued progress for Cohort plc, and also saw the Group make its first acquisitions in five years.

**Operating review**

2014/15 has been another year of continued progress for Cohort plc and also saw the Group make its first acquisitions in five years MCL was acquired in July 2014 and J+S in October 2014, both making positive contributions to the Group's adjusted operating profit This progress has resulted in the delivery of a record level of revenue and adjusted operating profit and a closing order book of £134 0m strongly underpinning the coming financial year

The Group's adjusted operating profit of £10 1m (2014 £8 2m) on revenue of £99 9m (2014 £71 6m) was a net return of 10 1% (2014 11 4%)

**Adjusted operating profit by subsidiary**

| | Adjusted operating profit | | | Operating margin | |
|---|---|---|---|---|---|
| | **2015 £m** | 2014 £m | Change % | **2015 %** | 2014 % |
| MASS | **5 5** | 5 0 | 10 | **16 9** | 18 1 |
| MCL | **1 3** | — | n/a | **13 1** | n/a |
| SCS | **1 3** | 1 0 | 30 | **7 8** | 6 9 |
| SEA | **4 0** | 3 8 | 5 | **9 8** | 13 1 |
| Central costs | **(2 0)** | (1 6) | 25 | **—** | — |
| | **10 1** | 8 2 | 23 | **10 1** | 11 4 |

As a result of the acquisitions made in 2014/15 and the disposal of SEA's Space business at the end of 2013/14, a "like for like" comparison of the underlying Group performance excluding these items is as follows

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Revenue £m** | **Adjusted operating profit £m** | Revenue £m | Adjusted operating profit £m |
| As reported in the Group's income statement | **99 9** | **10 1** | 71 6 | 8 2 |
| Exclude | | | | |
| SEA's Space business sold on 30 April 2014 | **—** | **—** | (4 5) | (0 6) |
| Impact of MCL acquired on 9 July 2014 | **(10 1)** | **(1 3)** | — | — |
| Impact of J+S acquired on 1 October 2014 | **(7 9)** | **(0 1)** | — | — |
| Merger costs of SEA and J+S | **—** | **0 2** | — | — |
| As reported on "like for like' basis | **81 9** | **8 9** | 67 1 | 7 6 |
| The underlying changes on a like for like basis are as follows | | | | |
| MASS | **32 5** | **5 5** | 27 6 | 5 0 |
| SCS | **16 9** | **1 3** | 14 9 | 1 0 |
| SEA (excluding J+S and Space business) | **32 5** | **4 1** | 24 6 | 3 2 |
| Central costs | **—** | **(2 0)** | — | (1 6) |
| | **81 9** | **8 9** | 67 1 | 7 6 |

The analysis shows that the Group achieved organic revenue and adjusted operating profit growth of 22% and 17% respectively

MASS was again the strongest contributor to the Group, growing its adjusted operating profit by 10% on revenue, which increased by nearly 18% MASS's net margin of 16 9% is much nearer its long-term expected operating margin, below last year's level, which benefited from a one off item of high margin income

SCS continued its positive progress, growing its revenue by 13% and its adjusted operating profit by 30% The improved net margin is a result of operational efficiency at the higher revenue level

SEA s underlying business (excluding the effects of Space and J+S) produced an increase of around 30% in both revenue and adjusted operating profit This was a result of strong performance in its defence business, with increased submarine activity more than offsetting a slightly weaker transport performance

The increase in central costs reflects the growth of the Group over the past year Looking forward we expect to see a further increase, albeit less marked, to prepare the Group for the next few years of delivering our strategy

## Operating strategy

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

- MASS is a leading international provider in the fields of electronic warfare (EW) and secure communications, including cyber security Its products include the THURBON™ EW database and it provides EW operational support services to a number of customers in the UK and overseas

MASS has some unique capabilities that have enabled it to establish strong niche positions in these important areas of defence and security, as well as gaining an increasing reputation as a leading provider of secure networks to educational and other non-defence markets MASS was founded in 1983 and is led by Managing Director Ashley Lane

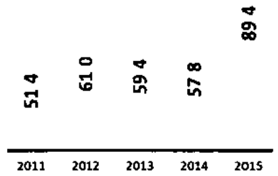
- MCL is a supplier of advanced electronic warfare and surveillance technologies to defence and security customers, mostly in the UK It sources technologies from a global supplier network as well as developing and supplying its own solutions MCL has a reputation for being flexible and agile in creating effective, mission deployable solutions for customers in the most challenging time frames MCL was founded in 1980 and is led by its Managing Director Darren Allery
- 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 Many of its people have experience in the armed forces covering 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 SCS was founded in 1992 and was led by Managing Director Bill Bird from 2010 until his retirement this June SCS's new Managing Director, Christian Cullinane, joined the business on 11 June 2015
- SEA specialises in providing systems engineering and specialist design solutions to government and industry Its submarine External Communications System is being provided for all of the Royal Navy's Astute class submarines, and will ultimately be fitted to all of the RN's submarines

## Revenue share

### Defence & Security revenue (£m)

**£89.4m**

+54%




### Transport revenue (£m)

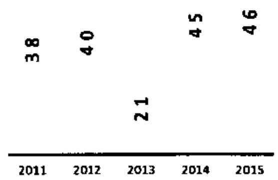
**£3.9m**

-20%


### Other commercial revenue (£m)

**£4.6m**

+7%




### Revenue share 2015

Defence & Security 89%

Transport 4%

Other commercial 5%

Offshore energy 2%

## Operating review continued

## Operating strategy continued

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 On 1 October 2014 SEA acquired 100% of J+S Ltd, a supplier of systems and in-service support for the defence and offshore energy markets in the UK and overseas Its products include sonar systems, torpedo launchers and a range of other naval equipment which is complementary to SEA's defence technology capabilities J+S has been integrated into SEA in the year ended 30 April 2015 and the combined business provides a wider and deeper offering to its customers, especially in naval equipment and support services SEA was founded in 1988 and is led by Managing Director Steve Hill

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

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, SCS's training support work for the Joint Forces Command, SEA's External Communication System (ECS) for submarines and MCL's family of Nano UAVs We have also been active in finding new customers for the capabilities we have developed, both in export markets and for non-defence purposes During the recent year we have widened the customer base for our cyber security offering, as well as progressing the development of the Red Light Roadflow product, which has now passed all of its accreditation requirements and awaits final UK Home Office sign-off We hope to see deliveries of this product in the coming year for application in rail crossing safety

Being part of the Cohort plc Group brings significant advantages to our businesses compared with operating independently The Group s strong balance sheet gives customers the confidence to award large or long term contracts that we are technically well able to execute but which would otherwise be perceived as risky Examples include MASS's £50m in-service support contract awarded in 2010, and nearly £55m of contracts awarded to SEA so far for ECS The Group s Directors have long experience of operating in the defence sector and have contacts and working relationships with senior customers in the UK and internationally which it would be hard for independent smaller businesses to establish Our four 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 organically at a time when UK defence expenditure, our largest source of revenue, has been tightly constrained They have also generated long-term customer relationships and good opportunities that give us confidence that we can continue to prosper despite the difficult and unpredictable market conditions

## Acquisitions

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

The most likely candidates for bolt-on acquisitions are businesses with capabilities and/or customer relationships that are closely linked to one of our existing subsidiaries We would expect to integrate an acquired business of this nature fully within the relevant subsidiary This could lead to both cost savings and benefits from shared access to markets and technologies The recent acquisition by SEA of J+S this year is a very good example of this J+S has been integrated fully into SEA, a process that took around six months from acquisition J+S increased SEA's depth of offering, especially in products and in-service support to its naval customers J+S has strong relationships in the UK but has also brought new markets to the Group in Southeast Asia, Europe and South and North America

Although the rationale for the acquisition was very much capability and market enhancement, the integration is expected to yield around £0 5m of annual cost savings in the coming financial year

For standalone acquisitions we are looking for agile, innovative businesses that have reached a stage of development where there will be mutual benefit in joining Cohort plc It is likely that candidates will be operating in the defence and security markets either in the UK or internationally as that is where the Group can add most value Growth prospects, sustainable competitive advantage and the ability to operate as part of a publicly quoted UK group will all be important The acquisition of just over 50% of MCL in the year meets these criteria

MCL provides niche communications and surveillance technology, both sourced from global suppliers and developed and integrated by its own in-house engineers It also provides training and support services Its customers are in the defence and security markets, primarily in the UK MCL brings to the Group a different offering and one which is very much seen as the future of procurement of such products and solutions by the UK MOD and wider defence and security customers In these technology areas, the ability to rapidly utilise existing technology to create solutions for pressing operational requirements is a key factor for success

The nature of MCL's offering and market make it a fast moving business with the time between opportunity and delivery often being very short MCL is looking to expand its offering into new areas and increase its level of long term supply and support contracts Joining Cohort plc has enhanced its market and financial strength, giving strong support to this strategy while retaining its agile and flexible approach, a key selling point for its customers

Cohort plc has acquired just over 50% of MCL, with the balance remaining in the hands of its management An agreement between the parties allows for a second-stage transaction whereby Cohort plc will acquire the remaining equity for a price based on MCL's performance over a two-year period This structure allows Cohort plc and the sellers to share the benefits of the acquisition while minimising risks on both sides

## Divisional review

### MASS

| | 2015 £m | 2014 £m |
|---|---|---|
| Revenue | **32 5** | 27 6 |
| Adjusted operating profit | **5 5** | 5 0 |
| Operating cash flow | **8 2** | (0 7) |

MASS had another successful year under Ashley Lane's leadership increasing its adjusted operating profit by 10% and revenue by 18% compared to 2013/14

A significant contributor to the increase in MASS's revenue was export EW operational support (EWOS), with extensions to its existing services in the Middle East taking its current workload through to the end of the 2016 calendar year

Education deliveries were flat during the year but MASS has continued to invest in its wider cyber offering for new commercial and government customers, the latter providing the first significant order wins and deliveries towards the end of the financial year

The mix of work, and the investment in cyber capability resulted in MASS's net margin being lower than last year At 16 9% (2014 18 1%) this is nearer to our long term expectation for MASS, with a portfolio of work including long-term managed service offerings, higher margin but unpredictable export business and more predictable but lower margin secure network and cyber activity in education, commercial, security and defence markets

MASS's support contract for the NATO Joint EW Core Staff, secured during 2013/14, was extended for a further year during 2014/15 As well as being a valuable growing work stream in its own right, this provides MASS with further opportunities to access NATO customers with its EWOS and THURBON™ offerings

MASS delivered a strong operating cash flow in the year, unwinding all of the large build-up of working capital in the final quarter of 2013/14 and maintaining this position throughout 2014/15

MASS reorganised itself further at the end of the year and enters 2015/16 with four divisions The EWOS division focuses on all of its export EW capability and THURBON™, including SHEPHERD (the provision of a system embodying THURBON™ to the UK MOD) as well as its EW managed service offerings in the UK The Cyber Security division includes MASS's offerings of solutions and training to government security customers The Secure Networks division includes MASS's secure network design, delivery and support, including Information Assurance Services to commercial, defence and educational customers The Strategic Systems division covers certain managed service and niche technical offerings to the UK MOD

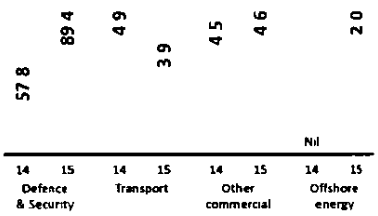
MASS enters the current year with a strong order book and pipeline of opportunities, including exports, though the latter are always unpredictable in terms of timing

## Group revenue by market

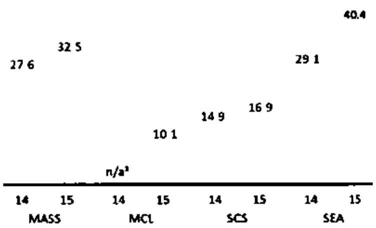
### Total revenue by market (£m)[1]

**£99.9m**

+40%




### Total revenue by business (£m)




1 Space (£4 4m in 2014) sold 30 April 2014 No revenue in 2015

2 Acquired 9 July 2014

### Key

Defence & Security

Transport

Space[1]

Other commercial

Offshore energy

*See a breakdown of Defence & Security revenue on page 16*

## Operating review continued
## Divisional review continued
### MCL

| | 2015 £m | 2014 £m |
|---|---|---|
| Revenue | **10 1** | — |
| Adjusted operating profit | **1 3** | — |
| Operating cash flow | **(2 1)** | — |

MCL's initial contribution to the Group was close to our expectation for the year, delivering a net margin of 13 1% on £10 1m of revenue

MCLs performance was driven by delivery of electronic surveillance systems to the UK Royal Navy, tactical satellite communication upgrades for British Army vehicles returning from Afghanistan and a number of other EW and communication deliveries for UK forces

Typifying its agility and flexibility during the year MCL designed, built and tested a one-off electronic system for a defence customer in under six months, a requirement driven by a demanding time-sensitive mission that was successfully accomplished This considerable achievement resulted in an impressed and happy customer, and a strong possibility of further orders

MCL is currently a business with a short order to delivery timescale, resulting in a relatively low current order backlog at any time It ended the year with just under £3m of 2015/16 on contract Historical experience and a strong pipeline of opportunities suggest it will once again win and deliver much of its revenue in the course of the financial year ahead MCLs pipeline includes prospects for securing longer-term, larger orders which if won would help to build a higher and more predictable base load of work

The adverse operating cash flow was as expected The business contained over £3m of cash when acquired which was required to meet its immediate operating obligations

I welcome MCL's Managing Director, Darren Allery, and his capable and enthusiastic team to the Cohort plc Group

### SCS

| | 2015 £m | 2014 £m |
|---|---|---|
| Revenue | **16 9** | 14 9 |
| Adjusted operating profit | **1 3** | 1 0 |
| Operating cash flow | **2 5** | 1 6 |

SCS, under the leadership of Bill Bird, has seen a 13% increase in revenue and a 30% improvement in profit SCS's net return on revenue has increased from 6 9% to 7 8%

The improvement reflects a continued focus on growing areas of the UK MOD budget, in particular air domain hazard analysis and technical assurance, which have grown as new military air platforms have been introduced into UK service SCS has also grown both its NATO work and other export offerings A further positive sign for SCS was the improvement in its high level training offering to the UK's Joint Warfare Centre (JWC), a service SCS has provided for over ten years now and which was extended for a further year until March 2016 following exercise of an option by the customer The increased activity was a result of the UK's return to normal patterns of deployment and training following the exit from Afghanistan last Christmas SCS continues to provide the JWC customer with a comprehensive and responsive service SCS also continued to secure further overseas work for this unique offering

SCS's net return at nearly 8% is an improvement Continued revenue growth can drive the margin closer to our target of 10% through operational gearing SCS delivered a strong operating cash performance, reducing its working capital to a record low level at 30 April 2015

I would like to place on record my thanks to Bill Bird for all of his efforts since 2010 He has steered SCS through a difficult time, both in its main UK MOD market and overcoming certain internal issues, resulting in a business which is more profitable cash generative and growing I welcome his successor, Christian Cullinane, who took over from Bill in June 2015

### SEA

| | 2015 £m | 2014 £m |
|---|---|---|
| Revenue | **40 4** | 29 1 |
| Adjusted operating profit | **4 0** | 3 8 |
| Operating cash flow | **8 4** | 1 9 |

SEA, led by Managing Director Steve Hill, has had a busy and successful year with profit increasing by 5% on nearly 40% higher revenue This performance, as at the Group level, is due to the impact of structural changes at SEA, disposal of its Space business on 30 April 2014, and the acquisition on 1 October 2014 of J+S and its subsequent integration

The SEA result on a "like for like" basis is as follows

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Revenue £m** | **Adjusted operating profit £m** | Revenue £m | Adjusted operating profit £m |
| As reported in the Group's income statement | **40 4** | **4 0** | 29 1 | 3 8 |
| Exclude | | | | |
| SEA's Space business sold on 30 April 2014 | **—** | **—** | (4 5) | (0 6) |
| Impact of J+S acquired on 1 October 2014 | **(7 9)** | **(0 1)** | — | — |
| Merger costs of SEA and J+S | **—** | **0 2** | — | — |
| As reported on "like for like basis | **32 5** | **4 1** | 24 6 | 3 2 |

The continuing business of SEA grew its revenue by 32% and its adjusted operating profit by 28%

The increase in revenue was due primarily to the securing of an initial Common ECS contract This extends the ECS system to cover two additional Astute class boats (five were already under contract), the four Vanguard class boats and certain of the Trafalgar class vessels

This increased revenue offsets a deterioration in the Transport revenue where an export contract delivered last year was not repeated in 2014/15

In net margin terms, the effect of these changes was a small reduction (on a "like for like basis) from 13 0% to 12 6%

SEA continued to make very good progress on its External Communications System (ECS) for the Astute class of submarines, with the first boat with SEA's ECS system installed having gone to sea

SEA's defence research revenue was slightly up on last year The business has continued to deliver a major research programme on soldier equipment known as Delivering Dismounted Effect (DDE) to its customer, the Defence Science and Technical Laboratory (DSTL) SEA is now regarded as a national lead provider in this area

In the transport market, SEA maintained deliveries of Roadflow units to UK customers SEA made good technical progress on its red light enforcement system, which is derived from Roadflow, obtaining the necessary technical clearance for the system We now await formal sign-off by the UK Home Office to enable the system to be fully deployed, with its output admissible as evidence in future prosecutions

SEA had a very strong operating cash flow in the year with good receipt management in the final quarter and slower than expected invoicing from its suppliers This supplier invoicing and payments caught up in the first few months of 2015/16

Having disposed of its Space business last year, SEA received the due completion monies in full £2 5m in June 2014 and the remaining £1 5m in April 2015

The acquired business of J+S contributed £0 1m of adjusted operating profit on £7 9m of revenue This was below our expectations for the period and was as a result of delayed orders for naval support and its leading low profile array sonar These orders have now been secured and delivery has commenced We expect J+S to deliver a return in 2015/16 in line with our expectations at the time of the acquisition

The offshore energy business was acquired just at the end of its peak activity period, the summer Nevertheless, and despite the depressed oil price, it has performed well, including securing its largest ever contract for a subsea distribution unit from Apache for over £1m

SEA's closing order book of £68 0m provides a strong underpinning to 2015/16 revenue, especially in its submarine and other naval system work

The integration of J+S and SEA has progressed well and was mostly complete at 30 April 2015 SEA incurred £0 2m of integration costs in the year ended 30 April 2015 and this is expected to realise annual savings of around £0 5m per annum from 1 May 2015

Following the integration, SEA's business has been restructured into four market-facing divisions spread across its four operating facilities comprising

- Maritime Division, including design, development, production and support of its naval communication systems, sonar, torpedo launch and other naval systems
- Research and Technical Support Division, including its capabilities in the land and research markets of defence

**Operating review continued**
**Divisional review continued**
SEA continued

- Software Solutions and Products Division, including SEA's transport work in the UK and overseas as well as other civil and non maritime products, its training and simulation capabilities and other information systems
- Subsea Engineering Division, developing and delivering SEA's activities in the offshore energy market, primarily oil and gas

These four business development and delivery divisions will be supported by a single production facility at its Barnstaple site, the result of integrating the former SEA and J+S production facilities at Beckington, Bristol and Barnstaple into one

## Revenue by market and business

| | MASS | | MCL | | SCS | | SEA | | Group | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | **%** | 2014 £m | % |
| Defence & Security | **28 5** | 23 5 | **10 1** | — | **16 7** | 14 5 | **34 1** | 19 8 | **89 4** | **89** | 57 8 | 81 |
| Transport | — | — | — | — | — | — | **3 9** | 4 9 | **3 9** | **4** | 4 9 | 7 |
| Offshore energy | — | — | — | — | — | — | **2 0** | — | **2 0** | **2** | — | — |
| Other commercial | **4 0** | 4 1 | — | — | **0 2** | 0 4 | **0 4** | — | **4 6** | **5** | 4 5 | 6 |
| Space | — | — | — | — | — | — | — | 4 4 | — | — | 4 4 | 6 |
| | **32 5** | 27 6 | **10 1** | — | **16 9** | 14 9 | **40 4** | 29 1 | **99 9** | **100** | 71 6 | 100 |

The Defence & Security revenue is further broken down as follows

| | MASS | | MCL | | SCS | | SEA | | Group | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m | **2015 £m** | **%** | 2014 £m | % |
| Direct to UK MOD | **11 5** | 10 7 | **8 4** | — | **8 7** | 7 3 | **9 7** | 8 0 | **38 3** | **38** | 26 0 | 36 |
| Indirect to UK MOD where the Group acts as a sub-contractor or partner | **6 1** | 6 3 | **0 3** | — | **3 9** | 4 3 | **21 4** | 11 7 | **31 7** | **32** | 22 3 | 32 |
| Total to UK MOD | **17 6** | 17 0 | **8 7** | — | **12 6** | 11 6 | **31 1** | 19 7 | **70 0** | **70** | 48 3 | 68 |
| Export and other | **10 9** | 6 5 | **1 4** | — | **4 1** | 2 9 | **3 0** | 0 1 | **19 4** | **19** | 9 5 | 13 |
| | **28 5** | 23 5 | **10 1** | — | **16 7** | 14 5 | **34 1** | 19 8 | **89 4** | **89** | 57 8 | 81 |

## Revenue breakdown by capability

| | | 2015 | | 2014 | |
|---|---|---|---|---|---|
| | | £m | % | £m | % |
| Defence products | Defence products the design, supply and support of such equipment and its associated embedded software, as well as the integration of commercial "off the shelf" equipment for specialist applications primarily by SEA and MCL | **34 8** | **35** | 15 6 | 22 |
| Training | 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 | **10 6** | **11** | 8 1 | 11 |
| Specialist expertise | Specialist expertise the provision of expert individuals as part of a customer's team Three of our businesses are active in this area, most notably SCS and MASS with a small level of activity at SEA | **10 4** | **10** | 12 1 | 17 |
| Application software | Application software the design and supply of specialist software systems such as MASS's work on Project SHEPHERD and SEA's work for its transport and defence customers | **10 1** | **10** | 10 5 | 15 |
| Operational support | Operational support the provision of direct support to active operations which takes place at both MASS (including its electronic warfare operational support activities), SCS and through SEA, both in defence and offshore energy | **9 7** | **10** | 3 9 | 5 |
| Secure networks | 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 | **9 1** | **9** | 8 7 | 12 |
| Studies and analysis | Studies and analysis other self-contained studies, consultancy and analytical work such as SCS s hazard analysis work on the Joint Combat Aircraft | **8 4** | **8** | 6 1 | 9 |
| Applied research | Applied research the management and execution of scientific investigation work aimed at specific objectives, such as SEA's leadership of the DDE research programme for MOD | **6 8** | **7** | 6 6 | 9 |
| | | **99 9** | **100** | 71 6 | 100 |

Notable changes between 2014 and 2015 were

- A significant growth in defence products, both in absolute terms and as a proportion of total revenue This was driven by the increased pace of work on ECS with the scope extending to further platform types The rest of the increase was from MCL delivering products and systems and J+S from its naval product and support business
- A twofold increase in operational support activity, primarily due to increased deliveries by MASS in EW operational support but also J+S's operational support to the offshore energy market

## Our people

At the year end the Group had 635 permanent employees as well as a number of people on fixed-term or task-specific contracts Many of these are highly qualified engineers, mathematicians and scientists (the average salary across the Group, excluding Directors, is £41 000) but our management and support people also make important contributions

We are not a business that focuses on high volume products requiring capital intensive machinery and tooling Almost all of the work that we win and execute across the Group is a result of the technical excellence managerial skills and sheer hard work of our people They are our most important source of competitive advantage, innovation and agility, and they are vital to our future success Developing our people and keeping them engaged are therefore high priorities for the Group

One way in which we do this is Cohort plc s Business Excellence Awards, which are intended to recognise outstanding contributions to business success In the 2015 financial year the Gold Award went to the team at SEA running the Delivering Dismounted Effect research programme This received some exceptionally positive customer feedback and resulted in both commercial success and some significant technical achievements Other award winners included a team supporting a vital defence system in Afghanistan, and another involved in submarine equipment trials The awards also gave an opportunity to celebrate some relatively unsung but important achievements by the Group's support staff

A new initiative in 2015 has been the introduction of a formal Leadership Development Scheme, intended to hone the skills of the next generation of senior leaders It has been extended to high potential individuals across the whole Group, and has been supported by the top management of both the operating businesses and the headquarters team As well as developing individual skills and encouraging people to achieve their full potential we see this as being a way to encourage the growth of informal networks across the Group, improving our ability to share information and work together more effectively

Cohort plc s largest customers are the UK armed forces, and the work we do helps them to carry out their vital work more effectively This work is a significant motivating factor for our people, many of whom are current reservists or former members of the armed forces themselves Cohort plc is proud to have been an early signatory to the UK Armed Forces Corporate Covenant and to have received in 2014 a Silver Award under the Defence Employer Recognition Scheme Our operating business SCS went a step better, being one of only five UK employers to receive a Gold Award under the scheme, which was presented at 10 Downing Street Our people are frequently involved in fundraising for armed forces charities, activities which we are pleased to support, in a modest way, corporately

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

## Operational outlook

The increase in the Group's order intake reflected medium-term export defence orders at MASS, orders at SEA to extend its ECS system to the whole of the Royal Navy's submarine fleet and initial order contributions from MCL and J+S (within SEA) The closing Group order book includes acquired order books of £5 4m and £32 6m from MCL and J+S respectively

MASS had a very strong year of order intake The increase over the previous year was predominantly due to export and UK EW work (a total of £24m) 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 2015, over £25m is deliverable in 2015/16, a higher level of underpinning than last year

MCL's order intake of £7 5m was mostly delivered in the year ended 30 April 2015 and MCLs closing order book of £2 8m is virtually all deliverable in 2015/16 MCL's visibility of its pipeline is short (typically three to six months) and MCL's business model with low flexible headcount (and hence cost) enable it to respond rapidly to opportunities and customer needs

## Order intake and order book

| | Order intake | | Order book | |
|---|---|---|---|---|
| | **2015 £m** | 2014 £m | **2015 £m** | 2014 £m |
| MASS | **39 6** | 17 9 | **53 4** | 46 4 |
| MCL | **7 5** | — | **2 8** | — |
| SCS | **16 7** | 17 4 | **9 8** | 10 0 |
| SEA | **50 5** | 33 2 | **68 0** | 25 3 |
| | **114 3** | 68 5 | **134 0** | 81 7 |

MCL's pipeline for 2015/16 is strong, although the timing is unpredictable, and there are some large opportunities which, if secured, would provide MCL with a more stable future revenue stream

SCS's order intake was slightly lower than last year reflecting the securing last year of longer-term air domain work SCS's closing order book of £9 8m is mostly deliverable in 2015/16 representing a similar level of underpinning to 2014/15 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 military air platforms

SEA's (including J+S's) strong order intake of over £50m was significantly up on last year The order intake included just over £9m of orders secured by J+S with the balance of orders (£41m) at SEA Major orders included over £25m for submarine systems, mostly Common ECS, with research and simulation accounting for around £14m

SEA's Roadflow product saw further orders of £1 5m this year compared with £2 1m in 2013/14 The reduction was due to an export order in 2013/14 that was not repeated this year The orders for UK Roadflow systems continue to show growth

SEA's closing order book of £68m will deliver over £34m of revenue in 2015/16, a record level of underpinning for SEA

In the near-term, the majority of Cohort plc's business will continue to derive, either directly or indirectly, from the UK MOD The MOD's latest Defence Equipment Plan continues to show a stable procurement programme, with the largest expenditure area by a considerable margin being submarines Overall, despite the pressure on public spending, defence is an area of significant accessible expenditure where sources of growth can be found We await to see the impact, if any of the Government's Strategic Defence Review, which is due to be published this autumn

We also remain active in exports, where we have seen growth in 2014/15 Our focus has been on markets with growing demands for defence equipment and resources to match Our non defence activities reduced in 2014/15 as a result of the sale of SEA's Space business but we remain active in the education, ICT, cyber security and transport markets as well as now having a small presence (2% of Group revenue) in the offshore energy market This market background, together with the pipeline of opportunities and our order book for the coming year give us confidence that we will continue to make progress in 2015/16

## 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 resources to conduct its acquisition strategy and the disposal of SEA's Space business has provided a further £4 0m of cash in the year

At 30 April 2015 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 30 April 2015 the above facility was drawn on by the Group for a period of one week

The overdraft facility is renewable 1 October 2015 and the Board expects it to be renewed on broadly similar terms, subject to its discussions to enter into a new multi-bank facility The Group is in discussion with RBS, Barclays and Lloyds to put in place a committed facility of three to five years, expected to be around £25m, to support the Group's day-to-day operational needs and provide a facility to support the Group's strategy of further acquisitions The Group has not received a written commitment from the banks regarding the facility but has received no indication that such a facility will not be provided

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 Baa2 RBS's ownership structure with a majority shareholding by the UK Government gives the Board confidence of the creditworthiness of the bank Deposits are generally held on short (less than three months) duration to maturity on commencement This matches the Group's cash resources with its internal 13-week cash forecasts, retaining flexibility whilst trying to ensure an acceptable return on its cash Most of the Group's 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

MCL's cash balances are held with Barclays and are currently outside this offset arrangement

Following the acquisition of J+S, the Group has inherited a banking arrangement with Clydesdale Bank which will be retained for a short while to receive any future receipts until payment arrangements with customers are transferred to our RBS accounts

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 20% to 1 35% (2014 0 46% to 1 40%)

## Funding resource and policy continued

In addition to its cash resources, the Group has in issue 41 0m ordinary shares of 10 pence each Of these shares 0 5m are owned by the Cohort plc Employee Benefit Trust (EBT) and which waives its rights to dividends In addition the Group has issued options over ordinary shares through key employee share option and SAYE schemes to the level of 2 2m at 30 April 2015

The Group maintains a progressive dividend policy with dividends having increased by approximately 20% per annum over the last five years and dividend cover in the current year at 4 4 times (2014 4 6 times) based upon the adjusted earnings per share

The Group's cash generation in 2014/15 was much stronger than previous years In summary the Group's cash performance was as follows

| | 2015 £m | 2014 £m |
|---|---|---|
| Adjusted operating profit | **10 1** | 8 2 |
| Depreciation and other non-cash operating movements | **1 2** | 0 8 |
| Working capital movement | **9 3** | (5 4) |
| | **20 6** | 3 6 |
| Acquisition of 50 001% of MCL | **(5 7)** | — |
| Acquisition of 100% of J+S | **(11 7)** | — |
| Disposal of SEA's Space business | **4 0** | 2 5 |
| Tax dividends, capital expenditure, interest, loans and investments | **(3 8)** | (6 2) |
| Increase/(decrease) in net funds | **3 4** | (0 1) |

The primary reason for the stronger cash flow was lower working capital at MASS, SCS and SEA This strong operating cash flow reflected good cash receipt management across the Group and slippage of supplier invoices (primarily at SEA) into 2015/16 and this timing advantage will unwind in 2015/16, much of it in the first quarter We expect the closing cash at the end of April 2016 to remain in line with previous expectations This implies a small net cash outflow in the coming year before any further acquisition activity

The lower cash outflow in tax, dividends, etc was mainly due to lower capital expenditure (SEA acquired the freehold of its Bristol office in 2013/14) and no investment in Cohort plc's own shares by the EBT The use of EBT shares to satisfy employee share options during 2014/15 may require further shares to be purchased by the EBT in the coming year

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 24 days (2014 43 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 This is a more appropriate measure than calculating based upon the annual revenue as it takes into account the heavy weighting of the Group's revenue in the last quarter of each year The decrease in debtor days is a reflection of the strong cash collection in the final quarter across the Group, especially at MASS and SEA

## Tax

The Group's tax charge for the year ended 30 April 2015 of £707,000 (2014 £843,000) was at an effective rate of 11 9% (2014 12 5%) of profit before tax This includes a current year corporation tax charge of £1,485,000 (2014 £1,222,000), a rate of 25 0% (2014 18 1%) of profit before tax, a prior year corporation tax credit of £204,000 (2014 credit of £482,000) and a deferred tax credit of £574,000 (2014 charge of £103,000)

Including the current year deferred tax, the effective current tax rate for the year ended 30 April 2015 is 16 3% (2014 19 6%) The current tax rate (including deferred tax) on profit before tax is lower than the standard rate (calculated at 20 92%, 2014 22 83%), primarily due to recognition of Research & Development (R&D) credits

The Group's overall tax rate was below the standard corporation tax rate of 20 92% (2014 22 83%) The reduction is due to the reasons given above for the current year's rate and, in addition, prior year tax credit in respect of the release of provisions held in respect of previous R&D credit claims 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 both 2015/16 and 2016/17 is estimated at 18%, 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 2013/14 and 2014/15 and it is this cautious approach which explains why the future tax rate of 18% is higher than this year's net rate of just under 12% Much of the lower rate in this year is due to higher actual R&D credits being recognised than were forecast, and the release of the earlier year contingency

## Exceptional items

The exceptional costs in the year were primarily in respect of the acquisitions of MCL and J+S, £0 2m and £0 4m respectively During the year the Group's subsidiary SEA received in full the remaining outstanding balance (£4 0m) due on the disposal of its Space business from the buyer, TAS In closing out this disposal, accruals for expected costs made in the year ended 30 April 2014 were not incurred, realising a reduction in the overall loss on disposal (an exceptional profit in the year ending 30 April 2015 of £44 000)

### Adjusted earnings per share

The adjusted earnings per share of 20 45 pence (2014 19 15 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 adjustments to the basic earnings per share in respect of the exchange movements and other intangible asset amortisation of MCL only reflect that proportion of the adjustment that is applicable to the equity holders of the parent, analysed as follows

| | Adjustment to adjusted operating profit £ 000 | Applicable tax adjustment £'000 | Adjustment to adjusted earnings per share (net of tax) £ 000 | |
|---|---|---|---|---|
| Exceptional items | 580 | (28) | 552 | |
| Exchange adjustment in marking forward contracts to market | 38 | 8 | 23 | note 1 |
| Amortisation of other intangible assets | | | | |
| J+S | 1,378 | (276) | 1,102 | |
| MCL | 2,224 | (445) | 890 | note 1 |
| | 4,220 | (741) | 2,567 | |

Note 1 These adjustments are at 50% of the adjustment to adjusted operating profit reflecting the share appropriate to the equity holdings of the parent

### Financial estimates and judgements

In preparing the Annual Report and Accounts of Cohort plc for 2015, a number of financial estimates and judgements have been made including

#### Revenue recognition on fixed-price contracts

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

#### 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 Consultancy Ltd), MCL and SEA (including J+S) The other intangible assets are in respect of contracts acquired, intellectual property rights and specific opportunities and in each case are amortised over the expected life of the earnings associated with the other intangible asset acquired The goodwill, which is not subject to amortisation but to annual impairment testing, arises from the intangible elements of the acquired businesses for which either the value or life is not readily derived This includes, but is not limited to, reputation, contacts and market synergies with existing Group members

The goodwill relating to the acquisitions of MASS (including Abacus EW) and SEA (including J+S) has been tested for impairment as at 30 April 2015 In both cases there was no impairment

The goodwill of J+S was tested for impairment alongside SEA as their future cash flows are no longer separable MCL s goodwill, since acquired in the year, was not tested for impairment at 30 April 2015

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

#### Provisions

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

#### Accounting policies

There were no significant changes in accounting policies applying to the Group for the year ended 30 April 2015

### 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 £198,000 (2014 £235,000), which is allocated to each business in proportion to its employee participation in the Group's share option schemes The segmental analysis (see note 1) is disclosed for each business after deducting the cost of share based payments

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

**Andrew Thomis**
Chief Executive Officer

**Simon Walther**
Finance Director

# Risk identification, analysis and management allow Cohort plc to deliver its strategic objectives **effectively**.

## Market risks

| Risk area | Nature of risk | Mitigation and progress |
|---|---|---|
| **Customers** | The Group's single most important customer remains the UK MOD £38 3m of revenue came directly from this source in 2015 (2014 £26 0m), 38% (2014 36%) of Group revenue In addition £31 8m (2014 £22 3m) of Group revenue, 32% (2014 31%) 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 2015 compared with 2014 reflects the acquisitions of MCL and J+S, both of which have the UK MOD as their primary customer It also reflects the marked increase in activity on the Royal Navy s submarine programmes<br>£30 0m (2014 £17 9m), 30% (2014 25%) of Group revenue, representing 43% (2014 37%) of revenue derived from the UK MOD was in relation to the Joint Combat Aircraft, Astute and other submarine programmes, and the 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 sector, the Group is reliant on certain key suppliers for specific elements of its technical and product offerings This reliance is long term, with product duration in this sector often being tens of years | 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<br>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 and SEA)* | The Group's operational risk is primarily manifested through its four subsidiaries The subsidiary trading and business risks are similar in the cases of MASS and SEA | This is typical in defence and is managed through bid/no bid reviews at the appropriate level using experienced personnel, including the Cohort plc Executive and Board |
| | i Bid risk – the businesses bid on contracts where the scope of work may not be well or fully defined by the customer<br>ii Fixed-price contracts – these are often of a long-term nature (greater than 12 months) and typically include delivery of hardware and software | These projects are managed by dedicated project management teams, monthly reviews by the subsidiary board and regular interaction with the customer and key suppliers Revenue and cost are recognised taking account of risk and estimated cost at completion (including any contractual contingency) |
| | 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 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 |

## Operational risks continued

| Risk area | Nature of risk | Mitigation and progress |
|---|---|---|
| **Operations** *(SCS)* | The primary cost risk is in respect of staff utilisation<br><br>SCS revenue visibility is short with typical contract duration of three to six months This carries risk to forward utilisation<br><br>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<br><br>SCS has a small number of fixed-price contracts | 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<br><br>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 levels were maintained during the year |
| **Operations** *(MCL)* | Like SCS MCL's revenue visibility is short at typically three to six months This carries risk to staff utilisation and predictability of revenue and profit | MCL's staff levels are low (2015 29) and the people employed are flexible and possess multiple skills enabling them to take on design, integration and support tasks across the full range of MCL's product offering MCL, in joining the Cohort plc Group, has a strategy to improve its visibility by securing longer term contracts, utilising the Group's size and financial stability |
| | The Group (through three of its 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 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<br><br>In addition, the Group's Executive Management team maintains regular and coordinated relationships with partners and ensures the Group's approach is consistent and avoids unnecessary overlap or omissions |

## Risk management continued

### 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 plc Board level, making use of appropriate external expertise and resources as and when required |

### Financial risks

Risk area | Nature of risk | Mitigation and progress

#### Treasury

**Nature of risk**

Cash and bank deposits are held as follows

| | 2015 £'000 | 2014 £'000 | Moody s credit rating of bank as at 25 June 2015 |
|---|---|---|---|
| Royal Bank of Scotland Plc | **16,850** | 10,256 | A3 |
| Barclays Bank plc | **2,606** | — | A2 |
| Lloyd's TSB Bank plc | **—** | 5,063 | A1 |
| Santander UK plc | **—** | 1,003 | A2 |
| Clydesdale Bank | **245** | 16 | Baa2 |
| | **19,701** | 16,338 | |

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 2015 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 15 The Group's cash is held with at least Baa2 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 credit rating of the banks used has remained at Baa2 The ownership structure of RBS (majority owned by the UK Government) gives the Board confidence of its creditworthiness as a bank

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 2015 in respect of financial derivatives (forward foreign exchange contracts) was £2 0m of payable only (2014 £4 0m of receivable)

The financial derivatives at 30 April 2015 were all held with Barclays (30 April 2014 RBS) These are disclosed in detail in note 18 to the financial statements

**Mitigation and progress**

The Group manages its exposure to currency risk by using forward foreign currency exchange contracts The level of forward cover is determined contract by contract, taking into account the net currency exposure to receipts and purchases Forward contracts are only put in place when customer contracts are deemed highly probable The Group does not enter into speculative forward exchange contracts The Group s primary exposure is to the US$ through MCL, which purchases a number of products in the United States

#### 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 69) and Critical Accounting Judgements (page 71) and as such may from time to time have a degree of risk

The 2015 bad debt charge was £3,000 (2014 £3,000) on Group revenue of £99 9m (2014 £71 6m)

Financial assets exposed to credit risk at 30 April

| | 2015 £m | 2014 £m |
|---|---|---|
| Trade receivables | **10 7** | 13 1 |
| Other receivables | **8 8** | 9 9 |
| Cash and bank deposits | **19 7** | 16 3 |

**Mitigation and progress**

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

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

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

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

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

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

# Corporate governance

**Nick Prest CBE** ■ □

Chairman

**Term of office**

Nick became Chairman of Cohort plc 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 plc Nick is also Chairman of Shephard Group a privately owned media company specialising in defence and aerospace

**Stanley Carter** ■ □

Co-Chairman

**Term of office**

Stanley has been with Cohort plc since its formation initially as its Chief Executive before holding the office of Co-Chairman from 2009 Stanley will relinquish the role of Co-Chairman at the Group s AGM (22 September 2015) but will continue on the Board as a Non-executive Director

**Background and experience**

Stanley jointly founded Cohort plc 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 UK 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

**Andrew Thomis** ■

Chief Executive

**Term of office**

Andrew took over as Chief Executive of Cohort plc 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 plc in a role covering strategy M&A and business development Following the acquisition of Alvis by BAE Systems in 2004, he worked with Nick Prest and Stanley Carter on the creation of Cohort plc, acting as Finance Director during the flotation and subsequently Corporate Development Director From 2007 to 2009 he was Managing Director of MASS

**Simon Walther** ■

Finance Director and Company Secretary

**Term of office**

Simon joined Cohort plc 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 15 years industry relevant experience with previous senior finance roles at Alvis plc and BAE Systems

■ Member of the Cohort plc Board

□ Member of Remuneration & Appointments and Audit Committees

**Sir Robert Walmsley KCB, FREng** ■ □

Independent Non-executive Director

**Term of office**

Sir Robert joined the Board of Cohort plc on flotation in March 2006 He will step down as Chairman of the Audit Committee following the AGM on 22 September 2015 but will retain the Chair of the Remuneration & Appointments Committee

**Background and experience**

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

**External appointments**

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

**Jeff Perrin** ■ □

Independent Non-executive Director

**Term of office**

Jeff will join the Board of Cohort plc on 1 July 2015 and will take over the role of Chairman of the Audit Committee following the AGM on 22 September 2015

**Background and experience**

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

**External appointments**

Jeff is also Chairman of the private equity backed defence company Chess Technologies Ltd a position he has held since 2008

**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 master's degree (distinction) in Electronic and Electrical Engineering Ashley joined Thorn EMI Electronics as a Systems Engineer working on radar, countermeasures and surveillance systems He also spent four years in technology development and licensing building the successful 3G wireless technology company UbiNetics He has held key technical roles on programmes spanning defence security and telecommunications as well as managerial positions including Business Manager Consultancy Division Head and for five years Systems Development and Technical Director for MASS

**Darren Allery**

Managing Director of MCL

**Term of office**

Darren became Managing Director of MCL in March 2009

**Background and experience**

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

**Christian Cullinane**

Managing Director of SCS

**Term of office**

Christian was appointed as Managing Director of SCS in June 2015

**Background and experience**

A law graduate and Henley Business School alumnus, Christian has over 15 years commercial experience holding senior positions in consultancy and telecommunications businesses Before joining SCS he was Commercial Director at Airbus Defence and Space where he was involved in a major telecommunications project in the Kingdom of Saudi Arabia From 2005 until 2012 he was Commercial and Performance Director for QinetiQ's consultancy business Christian has also undertaken senior business management roles with Deloitte Consulting BT Global Services and GPT (Marconi) He has significant negotiation and programme delivery experience in the defence security and civil markets both in the UK and overseas

**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 plc Group, he was Chief Executive of Circle Bath a venture capital backed private hospital in Bath Stephen has a first class honours degree in Electrical and Electronic Engineering and a master's in Engineering Project Management and is a qualified Chartered Director

## Corporate governance report
Nick Prest CBE, Chairman

## Governance structure

### Corporate structure

The Board

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

### Board composition

Chairman (1)

Executive (2)

Non-Executive (2)

### Introduction

**The Board is committed to maintaining appropriate standards of corporate governance and managing the Group in a flexible and effective manner**

As an AIM listed company Cohort plc is not required to comply with the UK Corporate Governance Code (the Code) Nevertheless, the Board fully supports the principles set out in the Code and seeks to comply wherever this is appropriate for its size and complexity This Corporate Governance report provides details of how the Group complies with the 2013 Quoted Companies Alliance Corporate Governance Code for Small and Mid size Quoted Companies (the QCA Code)

### The Board

As at 30 April 2015, the Board of Directors comprised the Chairman, two Executive Directors, Andrew Thomis and Simon Walther and two Non-executive Directors, Stanley Carter and Sir Robert Walmsley Nick Prest and Stanley Carter were not considered independent

The Board has determined Sir Robert Walmsley to be independent and he is designated the Senior Independent Director The Board was aware that it was not compliant with the QCA Code in respect of having at least two independent Non-executive Directors but has now addressed this matter following the appointment of Jeff Perrin as an independent Non-executive Director from 1 July 2015

Jeff Perrin will take over from Sir Robert Walmsley as the Chairman of the Audit Committee following the Annual General Meeting (AGM) on 22 September 2015 whilst Sir Robert will continue as Chairman of the Remuneration & Appointments Committee

The enhancement of the Board is in response to the increase in the size and complexity of the Group following recent acquisitions

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, acquisitions and disposals

All Directors retire by rotation and are subject to election by shareholders at least once every three years The Board does not make a formal evaluation of its performance, a matter which is under constant review by the Chairman

### Board committees

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

## Attendance at Board and Committee meetings

Board and Committee meetings are scheduled in advance for each calendar year Additional meetings are arranged as necessary including meetings with subsidiary Managing Directors to review strategic and financial plans The scheduled Board and Committee meetings and attendance are as follows

| | Board (8 formal meetings) | Audit (3 meetings) | Remuneration & Appointments (2 meetings) |
|---|---|---|---|
| N Prest (Chairman) | ■■■■■■■■ | ■■■ | ■■ |
| S Carter (Co-Chairman) | ■■■■■■■■ | ■■■ | ■■ |
| Sir Robert Walmsley (Non executive Director) | ■■■■■■■■ | ■■■ | ■■ |
| A Thomis (Chief Executive) | ■■■■■■■■ | — | — |
| S Walther (Finance Director and Company Secretary) | ■■■■■■■■ | — | — |

## Auditor's remuneration

| | 2015 £'000 | 2014 £ 000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the Company s and consolidated accounts | **22** | 20 |
| Fees payable to the Company's auditor for the audit of the Company's subsidiaries | **135** | 67 |
| Total audit fees | **157** | 87 |
| Interim review fee | **14** | 6 |
| Fee in respect of due diligence on the acquisition of J+S Ltd | **53** | — |
| Fee in respect of assistance on disposal of SEA's Space business | **34** | — |
| Total non-audit fees | **101** | 6 |
| Total fees paid to the auditor and its associates | **258** | 93 |
| Charged to profit for the year | **258** | 93 |

Fees in respect of the due diligence on the acquisition of Marlborough Communications Ltd of £60,315 were paid to Ernst & Young LLP

### Audit Committee

The Audit Committee comprises the Company Chairman and the Non-executive Directors and is scheduled to meet at least three times a year It is the Audit Committee s role to provide formal and transparent arrangements for considering how to apply financial reporting under IFRS and the Companies Act 2006 and the internal control requirements of the QCA Code, whilst maintaining an appropriate relationship with the independent auditor of the Group The Board considers that the Chairman of the Board has recent and relevant financial experience, as required by the QCA Code

Sir Robert Walmsley is Chairman of the Audit Committee The current terms of reference of the Audit Committee (published 15 May 2014) were reviewed during the year and no change was required

As from 22 September 2015, Jeff Perrin will chair the Audit Committee The members of the Audit Committee from this date will be the three Non-executive Directors and will not include the Chairman of the Board

### Committee consideration of the financial statements

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

### Areas of judgement

### Revenue recognition on fixed-price contracts

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

### Cost contingency on fixed-price contracts

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

### Goodwill and other intangible assets

The Group has recognised goodwill and other intangible assets in respect of the acquisitions of MASS (including Abacus EW), SEA (including J+S) and MCL 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 (including J+S) has been tested for impairment as at 30 April 2015 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 weighted average cost of capital (WACC) of 9 5% but materially impaired if the Group's post-tax WACC increases to over 18% The Group's 2015 post tax WACC of 9 5% is lower than the 2014 equivalent of 10 9%, which reflects the lower equity risk The Group s pre tax WACC is 12 9% (2014 15 2%)

The sensitivity of the SEA goodwill to impairment has decreased since last year due to the lower WACC as well as stronger cash flows at SEA reflecting lower working capital requirements following the disposal of its Space business on 30 April 2014

### Areas of judgement continued Goodwill and other intangible assets continued

The goodwill relating to the acquisition of MCL (acquired 9 July 2014) has not been tested for impairment at 30 April 2015 since it is a recent acquisition and the circumstances in respect of the acquisition have not materially changed The goodwill in respect of the acquisition of MCL will be tested from 31 October 2015

### 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 2015

### Independent auditor

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

The independent auditor presented its audit plan to the Audit Committee prior to the Audit Committee meeting held in March 2015 The plan was reviewed and approved at that meeting with specific areas of focus by the independent auditor discussed in detail for the ensuing audit

The independent auditor (KPMG LLP) was appointed in March 2010 and following its fifth annual audit last year the audit engagement partner has changed as from this, the audit of the financial statements for the year ended 30 April 2015

The analysis of the auditor's, KPMG LLP (2014 KPMG LLP), remuneration is shown in the table on page 29 The significant increase in the auditor's fee reflects the expansion in the Group during the year with the addition of two legal entities, MCL and J+S

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

### Whistle-blowing

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

### Remuneration & Appointments Committee

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

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

Sir Robert Walmsley is Chairman of the Remuneration & Appointments Committee

### Management of the Group and its subsidiary undertakings

The management of the Group and subsidiary undertakings is as follows

#### Group management

- The Cohort plc Board will meet at least eight times per calendar year This includes business and strategic reviews which are not recorded as formal Board meetings
- The Group Executive Committee will meet at least four times per calendar year, comprising Cohort plc Executive Directors and subsidiary Managing Directors

#### Subsidiary management

- There are monthly executive management meetings involving the senior management of each subsidiary Cohort plc 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, the Interim Report, the website (www cohortplc com) and increasingly social media, webcasts and email news alerts to provide further information to shareholders

### Internal control and risk management

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

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

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

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

The subsidiary balance sheets are reviewed in detail on a quarterly basis by the Cohort plc 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 (the "Act") to prevent bribery Each business within the Group reports annually to the Board on its compliance with the policy and procedures The Cohort 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 June 2015

### Cyber risk

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

The Group's Security Policy Framework is constantly reviewed taking account of best practice and requirements in government and industry and was last updated in May 2015

# Directors' report

## Introduction

The Directors present their report and the audited financial statements (pages 39 to 71) of Cohort plc for the year ended 30 April 2015 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 Our business and capabilities on pages 4 to 5

The Chairman's statement is included in the overview section on pages 2 to 3

## Post-balance sheet events

There have been no significant events since the balance sheet date

## Dividends

The Directors recommend a final dividend of 3 40 pence (2014 2 80 pence) per 10 pence ordinary share which, subject to shareholder approval, is due to be paid on 30 September 2015 to ordinary shareholders on the register on 28 August 2015 Together with the interim dividend of 1 60 pence paid on 4 March 2015, the full dividend for the year will be 5 00 pence (2014 4 20 pence), an increase of 19% over last year

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

| Disclosure | Report | Pages |
|---|---|---|
| Directors who served throughout the year | Remuneration & Appointments Committee report | 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 |

**Table 2. Substantial shareholdings and voting rights**

| | Percentage of voting rights and issued share capital % | Number of ordinary shares | Nature of holding |
|---|---|---|---|
| S Carter | 22 23 | 9,105 718 | Direct |
| Schroder Investment Management | 14 46 | 5,922,355 | Direct |
| Hargreave Hale | 11 00 | 4,507,545 | Direct |
| N Prest | 5 09 | 2,084,580 | Direct |

## Research and development

During the year ended 30 April 2015 the Group expenditure on research and development, both on behalf of customers and the Group's own private venture expenditure, was £9 4m (2014 £9 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 66 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 19 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 20 Shares held by the Cohort plc Employee Benefit Trust (see note 21) 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 QCA 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 "Matters reserved for the Board", copies of which are available on our website (www cohortplc com) or on request, and set out in 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 5m shares at 30 April 2015

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 pages 33 to 35

## International Financial Reporting Standards (IFRS)

The Group and parent company's reported results for the year ended 30 April 2015 are prepared in accordance with IFRS as adopted by the EU

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

Details of information in respect of the Directors of the Company is referenced in table 1 on page 31

### 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 2015 the Group made charitable donations of £26,999 (2014 £15 555), mainly in respect of military and local charities The Group made no political donations during the year (2014 £Nil)

### Substantial shareholdings
The Company has been notified as at 8 June 2015, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the voting rights of substantial shareholders of the Company as shown in table 2 on page 31

### Reappointment of auditor
A resolution to re appoint KPMG LLP as auditor will be proposed at the Annual General Meeting

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 25 June 2015 and signed on its behalf by

**Simon Walther**
Company Secretary

# Remuneration & Appointments Committee report

## Introduction

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

## Remuneration policy

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

Executive Directors receive salary, medical cover and pension contribution as well as annual cash 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 losing office as a consequence of a change of control arising as a result of any person or persons acquiring more than 50% of the voting rights at a general meeting of the Company

## Pensions

During the year ended 30 April 2015, the Group made contributions to a stakeholder pension scheme (a defined contribution scheme) at a rate of 10% of any Executive Director's contribution plus 3% of the Executive Director's salary per annum to the same scheme

## Directors' interests

| | **At 30 April 2015 Number of 10p ordinary shares** | At 30 April 2014 Number of 10p ordinary shares |
|---|---|---|
| S Carter | **9,105,718** | 10,665,718 |
| N Prest | **2,084,580** | 2 084,580 |
| A Thomis | **86,219** | 51,710 |
| Sir Robert Walmsley | **25,035** | 25,035 |
| S Walther | **79,151** | 45,828 |

## Directors' interests in the equity of Cohort plc

The Directors in office during the year under review and their interests in the equity of the Company are shown in the table above The changes in the Executive Directors' equity interests in the Company between 30 April 2014 and 30 April 2015 are analysed as follows

| | A Thomis | S Walther |
|---|---|---|
| At 30 April 2014 | 51,710 | 45,828 |
| Shares awarded under Restricted Share Scheme | 19,342 | 15,595 |
| Cohort plc 2006 share option scheme option exercised | 15,173 | 17,499 |
| Automatic dividend reinvestment in shares (within an ISA) | — | 291 |
| Shares sold as part of transfers to Individual Savings Accounts and/or Savings Investment Plan to settle transfer fees | (6) | (62) |
| **At 30 April 2015** | **86,219** | **79,151** |

Of the above shareholdings at 30 April 2015, 20,556 (2014 9,075) of Andrew Thomis' and 17,196 (2014 8,250) of Simon Walther's are held on trust by the Employee Benefit Trust as part of the Restricted Share Scheme and do not receive a dividend Stanley Carter sold 1,560,000 shares on 4 March 2015 at £2 36 per share There was no change in the interests of Nick Prest or Sir Robert Walmsley None of the Chairman s or Non executive Directors' shareholdings are held as part of the Restricted Share Scheme (2014 Nil)

## Performance incentives

The Cohort plc Executive Directors' incentive scheme was agreed by the Board on 19 June 2013 following a recommendation from the Remuneration & Appointments Committee This scheme has applied to the year ended 30 April 2015 and will also apply for the year ended 30 April 2016

The incentive scheme comprises two elements

### 1 In-year performance

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

### 2 Long-term performance

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

i up to 20% of salary as a cash bonus,

ii up to 20% of salary as Restricted Shares (calculated as the number of shares under the Restricted Share Scheme at the closing market price on the trading day prior to the award), and

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

These rewards are payable for the year ended 30 April 2015 on a linear basis from zero to 20% of salary as the compound annual growth rate in adjusted profit before interest and tax per share over a 24 month 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 a successively greater number of years, ultimately moving to a rolling four-year period

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

### Performance incentives continued

#### 2 Long-term performance continued

The Committee considers that this long-term incentive plan aligns the objectives of the Executive Directors with the shareholders The Committee retains discretionary powers in respect of awarding annual cash bonuses in excess of 35% to the Executive Directors where circumstances warrant it

At the Remuneration & Appointments Committee held on 3 June 2015, the following awards were made to the Executive Directors

i A cash bonus of £123,550 was payable to the Executive Directors for the year ended 30 April 2015 (2014 £105,225)

ii Restricted Shares under the Restricted Share Scheme were approved as follows

| | **In respect of the year ended 30 April 2015** | | In respect of the year ended 30 April 2014 | |
|---|---|---|---|---|
| | **Estimated number of shares** | **Value of shares £** | Actual number of shares | Value of shares £ |
| A Thomis | **14,365** | **39,000** | 19,342 | 38,200 |
| S Walther | **11,639** | **31,600** | 15,595 | 30,800 |
| | **26,004** | **70,600** | 34,937 | 69,000 |

The total estimated value received by the Executive Directors in respect of the Restricted Share Scheme, including income tax and employee NIC was £148 645 in respect of the year ended 30 April 2015 (2014 £146,809) The Restricted Shares in respect of the year ended 30 April 2014 were approved at the Remuneration & Appointments Committee of 5 June 2014 and were awarded on 11 August 2014 The Restricted Shares in respect of the year ended 30 April 2015 are expected to be awarded in August 2015 following the end of the close period The estimated number of shares is based on the mid-market share price (271 50 pence) and the total estimated value on the prevailing tax rates, both at 3 June 2015

iii Ordinary shares under option granted during the year ended 30 April 2015 and outstanding at 30 April 2015 were as shown in table 2 (opposite)

The mid-market price of Cohort plc 10 pence ordinary shares at 30 April 2015 was 265 0 pence (2014 166 0 pence), the lowest and highest market prices in the year were 166 0 pence and 282 50 pence respectively

No bonuses are payable or share options awardable to the Non-executive Directors Cash bonus schemes for other senior management of the subsidiary companies have been established for the year ending 30 April 2015, with a similar framework to that of the Cohort plc Executive Directors, with varying levels of percentage of salary, none exceeding 35% subject to the discretion of the Committee

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

### 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

Sir Robert Walmsley, Simon Walther and Andrew Thomis are due to retire by rotation and, being eligible, offer themselves for re election at the forthcoming Annual General Meeting on 22 September 2015

Jeff Perrin, who was appointed by the Board with effect from 1 July 2015, in accordance with the Articles of the Company, and, being eligible, offers himself for election at the Annual General Meeting on 22 September 2015

### Directors' remuneration

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

Salaries for Andrew Thomis and Simon Walther have been increased to £212,000 and £168,000 per annum respectively for the year ended 30 April 2016 The fees payable to the Chairman and Non-executive Directors for the year ended 30 April 2015, which have been unchanged since 1 May 2010, have been increased as follows

| | **Annual fees from 1 May 2015** | Annual fees for the year ended 30 April 2014 |
|---|---|---|
| N Prest | **90,000** | 60,000 |
| S Carter | **45,000** | 45,000 |
| Sir Robert Walmsley | **45,000** | 30,000 |
| | **180,000** | 135,000 |

Jeff Perrin appointed with effect from 1 July 2015, will receive a fee of £45,000 per annum from that date

## Directors' remuneration continued

### Table 2 Directors' share options

| | At 1 May 2014 or date of appointment Number | Granted Number | Exercised Number | Lapsed/ forfeited Number | **At 30 April 2015 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 £1 230 per share | 40,650 | — | (40,650) | — | — | 8 Mar 2006 | 9 Mar 2009 | 7 |
| **Cohort plc 2006 share option scheme (approved)** | | | | | | | | |
| – Option price of £1 975 per share | — | 15,189 | — | — | **15,189** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| **Cohort plc 2006 share option scheme (unapproved)** | | | | | | | | |
| – Option price of £0 835 per share | 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 |
| – Option price of £1 675 per share | 24 250 | — | — | — | **24,250** | 9 Aug 2013 | 10 Aug 2016 | 7 |
| – Option price of £1 975 per share | — | 4,153 | — | — | **4,153** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| **Save as you earn (SAYE) scheme** | | | | | | | | |
| – Option price of £1 545 per share | 2,330 | — | — | — | **2,330** | 13 Aug 2013 | 1 Sep 2016 | |
| – Option price of £2 075 per share | — | 2,602 | — | — | **2,602** | 11 Aug 2014 | 1 Sep 2017 | |
| | 285,771 | 21,944 | (40,650) | — | **267,065** | | | |
| **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 |
| – Option price of £1 975 per share | — | 15,189 | — | — | **15,189** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| **Cohort plc 2006 share option scheme (unapproved)** | | | | | | | | |
| – Option price of £0 835 per share | 55,172 | — | — | — | **55,172** | 23 Jul 2010 | 24 Jul 2013 | 7 |
| – Option price of £0 915 per share | 30,252 | — | — | — | **30,252** | 26 Jul 2011 | 27 Jul 2014 | 7 |
| – Option price of £1 165 per share | 65,000 | — | — | — | **65,000** | 2 Aug 2012 | 3 Aug 2015 | 7 |
| – Option price of £1 675 per share | 21,750 | — | — | — | **21,750** | 9 Aug 2013 | 10 Aug 2016 | 7 |
| – Option price of £1 975 per share | — | 406 | — | — | **406** | 11 Aug 2014 | 12 Aug 2017 | 7 |
| **Save as you earn (SAYE) scheme** | | | | | | | | |
| – Option price of £1 545 per share | 5,825 | — | — | — | **5,825** | 13 Aug 2013 | 1 Sep 2016 | |
| – Option price of £2 075 per share | — | 867 | — | — | **867** | 11 Aug 2014 | 1 Sep 2017 | |
| | 210,785 | 16 462 | (32,786) | — | **194,461** | | | |

Andrew Thomis exercised 40,650 share options held under the Enterprise Management Incentive Scheme on 5 August 2014 when the market price of Cohort plc ordinary shares was 197 88 pence per share Andrew Thomis disposed of sufficient shares to fund the option exercise with the balance of 19,342 being retained at 30 April 2015

Simon Walther exercised 32,786 Cohort plc 2006 approved share options on 5 August 2014, when the market price of Cohort plc ordinary shares was 197 88 pence per share Simon Walther disposed of sufficient shares to fund the option exercise with the balance of 15,595 being retained at 30 April 2015

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 2015 £** | **Bonus 2015 £** | **Restricted Share awards 2015 £** | **Benefits in kind 2015 £** | **Emoluments 2015 £** | **Pension contributions 2015 £** | **Total 2015 £** | Total 2014 £ |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| A Thomis | **195,000** | **68,250** | **82,112** | **599** | **345,961** | **7,827** | **353,788** | 323 858 |
| S Walther | **158,000** | **55,300** | **66,533** | **599** | **280,432** | **6,150** | **286,582** | 260,981 |
| **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** | **488,000** | **123,550** | **148,645** | **1,198** | **761,393** | **13,977** | **775,370** | 719,839 |

The Restricted Share awards include tax and employee NIC

## Statement of Directors' responsibilities
in respect of the Annual Report and financial statements

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

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

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

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

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

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

By order of the Board on 25 June 2015

**Andrew Thomis**
Chief Executive

**Simon Walther**
Finance Director

# Financial statements

## 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 2015 set out on pages 39 to 71 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 36, 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 2015 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 Strategic report and 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

**Andrew Campbell-Orde (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
**Chartered Accountants**
Arlington Business Park
Theale
Reading
RG7 4SD
25 June 2015

## Consolidated income statement
for the year ended 30 April 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Revenue** | 1 | **99,938** | 71 555 |
| Cost of sales | | **(69,988)** | (47,842) |
| **Gross profit** | | **29,950** | 23,713 |
| Administrative expenses | | **(24,085)** | (17,095) |
| **Operating profit** | 1 | **5,865** | 6,618 |
| Comprising | | | |
| Adjusted operating profit | 1 | **10,085** | 8,171 |
| Amortisation of other intangible assets (included in administrative expenses) | 9 | **(3,602)** | (64) |
| Charge on marking forward exchange contracts to market value at the year end (included in cost of sales) | 18 | **(38)** | (103) |
| **Exceptional items** | | | |
| Cost of acquisition of MCL (included in administrative expenses) | 29 | **(197)** | — |
| Cost of acquisition of J+S (included in administrative expenses) | 30 | **(427)** | — |
| Profit/(loss) on disposal of SEA's Space business (included in administrative expenses) | 31 | **44** | (1,386) |
| | | **5,865** | 6,618 |
| Finance income | 4 | **87** | 125 |
| Finance costs | 5 | **(5)** | — |
| **Profit before tax** | | **5,947** | 6,743 |
| Income tax charge | 6 | **(707)** | (843) |
| **Profit for the year** | 3 | **5,240** | 5,900 |
| Attributable to | | | |
| Equity shareholders of the parent | | **5,628** | 5,900 |
| Non-controlling interests | | **(388)** | — |
| | | **5,240** | 5,900 |

| Earnings per share | | Pence | Pence |
|---|---|---|---|
| Basic | 8 | **14 04** | 14 75 |
| Diluted | 8 | **13 74** | 14 37 |

All profit for the year is derived from continuing operations

The comprehensive income for each year attributable to equity shareholders of the parent and the non-controlling interests is the same as the profit for the year attributable to the equity shareholders of the parent and the non controlling interests

The accompanying notes form part of the financial statements

## Consolidated statement of changes in equity
for the year ended 30 April 2015

| Group | Share capital £'000 | Share premium account £'000 | Own shares £'000 | Share option reserve £'000 | Other reserves £'000 | Retained earnings £'000 | Total £'000 | Non-controlling interests £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|
| | Attributable to the equity shareholders of the parent | | | | | | | | |
| At 1 May 2013 | 4,079 | 29,519 | (731) | 571 | — | 25,609 | 59,047 | — | 59,047 |
| Profit for the year | — | — | — | — | — | 5,900 | 5,900 | — | 5,900 |
| **Transactions with owners of Group and non-controlling interests, recognised directly in equity** | | | | | | | | | |
| Equity dividends | — | — | — | — | — | (1,482) | (1,482) | — | (1,482) |
| New shares issued | 17 | 137 | — | — | — | — | 154 | — | 154 |
| Vesting of Restricted Shares | — | — | — | — | — | 16 | 16 | — | 16 |
| Own shares acquired | — | — | (1,979) | — | — | — | (1,979) | — | (1,979) |
| Own shares sold | — | — | 307 | — | — | — | 307 | — | 307 |
| Net loss on selling own shares | — | — | 129 | — | — | (129) | — | — | — |
| Share-based payments | — | — | — | 235 | — | — | 235 | — | 235 |
| Transfer of share option reserve on vesting of options | — | — | — | (280) | — | 280 | — | — | — |
| At 30 April 2014 | 4,096 | 29,656 | (2,274) | 526 | — | 30,194 | 62,198 | — | 62,198 |
| Profit for the year | — | — | — | — | — | 5,628 | 5,628 | (388) | 5,240 |
| **Transactions with owners of Group and non-controlling interests, recognised directly in equity** | | | | | | | | | |
| Equity dividends | — | — | — | — | — | (1,765) | (1,765) | — | (1,765) |
| New shares issued | — | 1 | — | — | — | — | 1 | — | 1 |
| Vesting of Restricted Shares | — | — | — | — | — | 44 | 44 | — | 44 |
| Own shares sold | — | — | 822 | — | — | — | 822 | — | 822 |
| Net loss on selling own shares | — | — | 617 | — | — | (617) | — | — | — |
| Share-based payments | — | — | — | 198 | — | — | 198 | — | 198 |
| Transfer of share option reserve on vesting of options | — | — | — | (321) | — | 321 | — | — | — |
| Option for acquiring non-controlling interest in MCL | — | — | — | — | (12,500) | — | (12,500) | — | (12,500) |
| Introduction of non-controlling interest on acquisition of MCL | — | — | — | — | — | — | — | 8,609 | 8,609 |
| **At 30 April 2015** | **4,096** | **29,657** | **(835)** | **403** | **(12,500)** | **33,805** | **54,626** | **8,221** | **62,847** |

# Company statement of changes in equity
for the year ended 30 April 2015

| Company | Share capital £'000 | Share premium account £'000 | Own shares £'000 | Share option reserve £'000 | Other reserves £'000 | Retained earnings £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| At 1 May 2013 | 4,079 | 29,519 | (731) | 571 | — | 6,311 | 39,749 |
| Profit for the year | — | — | — | — | — | 3 073 | 3,073 |
| **Transaction with owners of Company, recognised directly in equity** | | | | | | | |
| Equity dividends | — | — | — | — | — | (1,482) | (1 482) |
| New shares issued | 17 | 137 | — | — | — | — | 154 |
| Vesting of Restricted Shares | — | — | — | — | — | 16 | 16 |
| Own shares acquired | — | — | (1,979) | — | — | — | (1,979) |
| Own shares sold | — | — | 307 | — | — | — | 307 |
| Net loss on selling own shares | — | — | 129 | — | — | (129) | — |
| Share-based payments | — | — | — | 235 | — | — | 235 |
| Transfer of share option reserve on vesting of options | — | — | — | (280) | — | 42 | (238) |
| **Total contributions by and distribution to owners of the Company** | 17 | 137 | (1 543) | (45) | — | (1,553) | (2,987) |
| At 30 April 2014 | 4,096 | 29,656 | (2,274) | 526 | — | 7,831 | 39 835 |
| Profit for the year | — | — | — | — | — | 2,953 | 2,953 |
| **Transaction with owners of Company, recognised directly in equity** | | | | | | | |
| Equity dividends | — | — | — | — | — | (1,765) | (1,765) |
| New shares issued | — | 1 | — | — | — | — | 1 |
| Vesting of Restricted Shares | — | — | — | — | — | 44 | 44 |
| Own shares sold | — | — | 822 | — | — | — | 822 |
| Net loss on selling own shares | — | — | 617 | — | — | (617) | — |
| Share based payments | — | — | — | 198 | — | — | 198 |
| Transfer of share option reserve on vesting of options | — | — | — | (321) | — | 38 | (283) |
| Option for acquiring non-controlling interest in subsidiary, MCL | — | — | — | — | (12,500) | — | (12,500) |
| **Total contributions by and distribution to owners of the Company** | — | 1 | 1,439 | (123) | (12,500) | (2,300) | (13 483) |
| **At 30 April 2015** | **4,096** | **29,657** | **(835)** | **403** | **(12,500)** | **8,484** | **29,305** |

The reserves of the Group and the Company are described in note 22

## Consolidated and Company statement of financial position
as at 30 April 2015

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2015 £'000 | 2014 £'000 | 2015 £'000 | 2014 £ 000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Goodwill | 9 | **36,841** | 29,395 | **—** | — |
| Other intangible assets | 9 | **18,871** | — | **—** | — |
| Property, plant and equipment | 10 | **10,338** | 8,502 | **7** | 11 |
| Investment in subsidiaries | 11 | **—** | — | **51,376** | 42,648 |
| Deferred tax asset | 17 | **104** | 301 | **32** | 34 |
| | | **66,154** | 38,198 | **51,415** | 42,693 |
| **Current assets** | | | | | |
| Inventories | 12 | **1,078** | 297 | **—** | — |
| Trade and other receivables | 13 | **19,528** | 22,998 | **219** | 296 |
| Cash and cash equivalents | | **19,701** | 16,338 | **—** | 6,082 |
| | | **40,307** | 39,633 | **219** | 6,378 |
| **Total assets** | | **106,461** | 77,831 | **51,634** | 49,071 |
| **Liabilities** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other payables | 14 | **(25,373)** | (13,297) | **(2,796)** | (698) |
| Current tax liabilities | | **(786)** | (782) | **—** | — |
| Derivative financial instruments | 18 | **(38)** | (142) | **—** | — |
| Bank borrowings | 15 | **(4)** | — | **(7,033)** | (8,538) |
| Provisions | 16 | **(558)** | (791) | **—** | — |
| | | **(26,759)** | (15,012) | **(9,829)** | (9,236) |
| **Non-current liabilities** | | | | | |
| Deferred tax liability | 17 | **(4,345)** | (621) | **—** | — |
| Bank borrowings | 15 | **(10)** | — | **—** | — |
| Other creditors | 29 | **(12,500)** | — | **(12,500)** | — |
| | | **(16,855)** | (621) | **(12,500)** | — |
| **Total liabilities** | | **(43,614)** | (15,633) | **(22,329)** | (9,236) |
| **Net assets** | | **62,847** | 62,198 | **29,305** | 39,835 |
| **Equity** | | | | | |
| Share capital | 19 | **4,096** | 4,096 | **4,096** | 4 096 |
| Share premium account | | **29,657** | 29,656 | **29,657** | 29,656 |
| Own shares | 21 | **(835)** | (2,274) | **(835)** | (2,274) |
| Share option reserve | 20 | **403** | 526 | **403** | 526 |
| Other reserves option for acquiring non-controlling interest in MCL | 29 | **(12,500)** | — | **(12,500)** | — |
| Retained earnings | | **33,805** | 30,194 | **8,484** | 7,831 |
| **Total equity attributable to the equity shareholders of the parent** | | **54,626** | 62,198 | **29,305** | 39,835 |
| **Non-controlling interests** | | **8,221** | — | **—** | — |
| **Total equity** | | **62,847** | 62,198 | **29,305** | 39,835 |

The financial statements on pages 39 to 71 were approved by the Board of Directors and authorised for issue on 25 June 2015 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 2015

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Net cash from operating activities | 23a | **18,798** | 2,576 | **1,983** | 3,077 |
| **Cash flow from investing activities** | | | | | |
| Interest received | | **87** | 125 | **82** | 125 |
| Proceeds on disposals of property, plant and equipment | | **—** | 3 | **—** | — |
| Purchases of property, plant and equipment | 10 | **(1,063)** | (2,274) | **(2)** | (10) |
| Acquisition of MCL, net of cash acquired | 29 | **(5,698)** | — | **(5,698)** | — |
| Acquisition of J+S net of cash acquired | 30 | **(11,688)** | — | **—** | — |
| Disposal of SEA's Space business | 31 | **4,000** | 2,500 | **—** | — |
| Net cash (used in)/received from investing activities | | **(14,362)** | 354 | **(5,618)** | 115 |
| **Cash flow from financing activities** | | | | | |
| Dividends paid | 7 | **(1,765)** | (1,482) | **(1,765)** | (1,482) |
| Issue of new shares | 19 | **1** | 154 | **1** | 154 |
| Purchase of own shares | 21 | **—** | (1,979) | **—** | (1,979) |
| Sale of own shares | 21 | **822** | 307 | **822** | 307 |
| Repayment of borrowings | 15 | **(131)** | — | **—** | — |
| Net cash used in financing activities | | **(1,073)** | (3,000) | **(942)** | (3,000) |
| Net increase/(decrease) in cash and cash equivalents | | **3,363** | (70) | **(4,577)** | 192 |
| Represented by | | | | | |
| Cash and cash equivalents and short-term borrowings brought forward | | **16,338** | 16,426 | **(2,456)** | (2,648) |
| Cash flow | | **3,363** | (70) | **(4,577)** | 192 |
| Exchange | | **—** | (18) | **—** | — |
| Cash and cash equivalents and short-term borrowings carried forward | 23b | **19,701** | 16,338 | **(7,033)** | (2,456) |

### 1 Segmental analysis

For management and reporting purposes, the Group currently operates through its four subsidiaries MASS, MCL, 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 3) and in the Strategic report (pages 4 to 24)

Business segment information about these subsidiaries is presented below

| 2015 | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Eliminations £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External revenue | 32,528 | 10,143 | 16,892 | 40,375 | — | 99,938 |
| Inter-segment revenue | 25 | — | 56 | — | (81) | — |
| | 32,553 | 10,143 | 16,948 | 40,375 | (81) | 99,938 |
| **Segment adjusted operating profit** | 5,492 | 1,327 | 1,319 | 3,964 | — | 12,102 |
| Unallocated corporate expenses | — | — | — | — | — | (2,017) |
| **Adjusted operating profit** | 5,492 | 1,327 | 1,319 | 3,964 | — | 10,085 |
| Charge on marking forward exchange contracts to market value at the year end | — | (38) | — | — | — | (38) |
| Reduction in loss on disposal of SEA's Space business | — | — | — | 44 | — | 44 |
| Costs of acquisition of MCL | — | — | — | — | (197) | (197) |
| Costs of acquisition of J+S | — | — | — | (427) | — | (427) |
| Amortisation of other intangible assets | — | (2,224) | — | (1,378) | — | (3,602) |
| **Operating profit/(loss)** | 5,492 | (935) | 1,319 | 2,203 | (197) | 5,865 |
| Finance income (net of cost) | — | 5 | — | (3) | — | 82 |
| Profit/(loss) before tax | 5,492 | (930) | 1,319 | 2,200 | (197) | 5,947 |
| Income tax charge | | | | | | (707) |
| Profit after tax | | | | | | 5,240 |

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

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

| Other information | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Central £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| Capital additions | — | 30 | 271 | 760 | 2 | 1,063 |
| Depreciation | 225 | 64 | 120 | 542 | 6 | 957 |

| Balance sheet | MASS £'000 | MCL £'000 | SCS £'000 | SEA £'000 | Eliminations £'000 | Group £'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Segment assets | 10,202 | 3,899 | 3,172 | 15,374 | (1,703) | 30,944 |
| Goodwill and other intangible assets | 12,500 | 15,852 | — | 27,360 | | 55,712 |
| Deferred tax asset | | | | | | 104 |
| Cash | | | | | | 19,701 |
| Consolidated total assets | 22,702 | 19,751 | 3,172 | 42,734 | | 106,461 |
| **Liabilities** | | | | | | |
| Segment liabilities | (6,757) | (2,835) | (4,983) | (11,534) | (12,374) | (38,483) |
| Current tax liabilities | | | | | | (786) |
| Deferred tax liability | | | | | | (4,345) |
| Consolidated total liabilities | (6,757) | (2,835) | (4,983) | (11,534) | | (43,614) |

50 001% of MCL was acquired 9 July 2014 and 100% of its figures are reported above from that date until 30 April 2015 The non controlling interest (49 999%) is reported separately in the income statement and reserves

100% of J+S was acquired 1 October 2014 Its figures are included in SEA's reported figures from that date until 30 April 2015 The impact of J+S on the Group's reported results is shown in note 30

## 1 Segmental analysis continued

| 2014 | MASS £'000 | SCS £'000 | SEA £'000 | Eliminations £'000 | Group £'000 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| External revenue | 27,568 | 14,850 | 29,137 | — | 71,555 |
| Inter-segment revenue | — | 257 | — | (257) | — |
| | 27 568 | 15,107 | 29,137 | (257) | 71,555 |
| **Segment adjusted operating profit** | 4,999 | 1,037 | 3,803 | — | 9,839 |
| Unallocated corporate expenses | — | — | — | — | (1,668) |
| **Adjusted operating profit** | 4,999 | 1,037 | 3,803 | — | 8,171 |
| Charge on marking forward exchange contracts to market value at the year end | — | — | (103) | — | (103) |
| Loss on disposal of SEA's Space business | — | — | (1,386) | — | (1,386) |
| Amortisation of other intangible assets | (64) | — | — | — | (64) |
| **Operating profit** | 4,935 | 1,037 | 2,314 | — | 6,618 |
| Finance income (net of cost) | — | — | — | — | 125 |
| Profit before tax | 4,935 | 1,037 | 2,314 | — | 6,743 |
| Income tax charge | | | | | (843) |
| Profit after tax | | | | | 5,900 |

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 | — | 148 | 2,116 | 10 | 2,274 |
| Depreciation | 225 | 88 | 296 | 3 | 612 |

| Balance sheet | MASS £ 000 | SCS £'000 | SEA £'000 | Eliminations £ 000 | Group £ 000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Segment assets | 10,586 | 3,117 | 19,056 | (962) | 31,797 |
| Goodwill and other intangible assets | 12,500 | — | 16,895 | | 29 395 |
| Deferred tax asset | | | | | 301 |
| Cash | | | | | 16,338 |
| Consolidated total assets | 23,086 | 3,117 | 35,951 | | 77 831 |
| **Liabilities** | | | | | |
| Segment liabilities | (3,519) | (3,706) | (8,156) | 1,151 | (14,230) |
| Current tax liabilities | | | | | (782) |
| Deferred tax liability | | | | | (621) |
| Consolidated total liabilities | (3,519) | (3,706) | (8,156) | | (15,633) |

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

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

Goodwill and other intangible assets are allocated to reportable segments as analysed in note 9

### 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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| UK | **81,863** | 58,631 |
| Other EC countries | **3,975** | 5,527 |
| Asia Pacific | **12,274** | 6,522 |
| North and South America | **1,826** | 875 |
| | **99,938** | 71,555 |

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

## 1 Segmental analysis continued

### Market segments

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

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Defence (including security) | **89,430** | 57,776 |
| Transport | **3,859** | 4,869 |
| Offshore energy | **1,967** | — |
| Other commercial | **4,682** | 4,428 |
| Space | **—** | 4,482 |
| | **99,938** | 71,555 |

Further information on revenue by capability can be found in the Strategic report (page 17)

### Major customers

Revenue from major customers included in the Group's business segments for the year ended 30 April 2015 is as follows

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | UK MOD £'000 | Customer A £'000 | Customer B £'000 | Customer C £'000 | UK MOD £'000 | Customer A £'000 | Customer B £'000 | Customer C £'000 |
| MASS | **11,500** | **5,296** | **2,857** | **2,810** | 10,746 | 3,491 | — | 1,729 |
| MCL | **8,420** | **—** | **—** | **—** | — | — | — | — |
| SCS | **8,713** | **—** | **—** | **—** | 7,271 | 427 | — | — |
| SEA | **9,675** | **16,902** | **—** | **—** | 7,990 | 6,922 | 2,449 | — |
| | **38,308** | **22,198** | **2,857** | **2,810** | 26,007 | 10,840 | 2,449 | 1,729 |

## 2 Employee benefit expense (including Directors)

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Wages and salaries | **27,307** | 23,331 |
| Social security costs | **2,883** | 2,588 |
| Defined contribution pension plan costs | **2,022** | 2,092 |
| Share-based payments | **198** | 235 |
| | **32,410** | 28,246 |

### Average number of employees (including Directors)

| | 2015 Number | 2014 Number |
|---|---|---|
| Other operational (including production) | **383** | 307 |
| Managed services | **86** | 75 |
| Total operational | **469** | 382 |
| Administration and support | **178** | 122 |
| | **647** | 504 |

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 Profit for the year

The profit for the year has been arrived at after charging

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| Net foreign exchange losses | 18 | **38** | 103 |
| Research and development costs | | **9,411** | 9,381 |
| Depreciation of property, plant and equipment | 10 | **957** | 612 |
| Amortisation of other intangible assets | 9 | **3,602** | 64 |
| Cost of inventories recognised as expenses | | **36,311** | 19,093 |
| Staff costs (excluding share-based payments) | 2 | **32,212** | 28,011 |
| Share based payments | 20 | **198** | 235 |

All of the above charges are in respect of continuing operations

The fees payable to the auditor for audit and non-audit services are disclosed in the Corporate Governance report on pages 29 to 30

## 4 Finance income

| | 2015 £'000 | 2014 £ 000 |
|---|---|---|
| Interest on bank deposits | **87** | 125 |

All finance income is in respect of continuing operations

## 5 Finance costs

| | 2015 £'000 | 2014 £ 000 |
|---|---|---|
| Loans and finance leases | **5** | — |

All finance costs are in respect of continuing operations

## 6 Income tax charge

| | 2015 £'000 | 2014 £ 000 |
|---|---|---|
| Corporation tax in respect of this year | **1,485** | 1,222 |
| Corporation tax in respect of prior years | **(204)** | (482) |
| | **1,281** | 740 |
| Deferred tax in respect of this year | **(518)** | 103 |
| Deferred tax in respect of prior years | **(56)** | — |
| | **(574)** | 103 |
| | **707** | 843 |

The corporation tax is calculated at 20 92% (2014 22 83%) of the estimated assessable profit for the year, as disclosed below

The current tax in respect of the year ended 30 April 2015 includes £28,000 credit (2014 £186,000 charge) in respect of exceptional items The deferred tax includes a credit of £721,000 in respect of amortisation of other intangible assets (2014 £15,000) and a charge of £8 000 (2014 £37,000) in respect of marking forward exchange contracts to market at the year end The deferred tax is further explained in note 17

The tax charge for the year is reconciled to the profit per the Consolidated income statement for the year ended 30 April 2015 as follows

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Profit before tax on continuing operations | **5,947** | 6,743 |
| Tax at the UK corporation tax rate of 20 92% (2014 22 83%) | **1,244** | 1,539 |
| Tax effect of expenses that are not deductible in determining taxable profit | **124** | 164 |
| Tax effect of R&D tax credits | **(336)** | (514) |
| Tax effect of exceptional items that are not recognised in determining taxable profit | **130** | 502 |
| Tax effect of change in tax rate from 23% to 20% in 2014 2015 no change in tax rate | **—** | (49) |
| Tax effect of recognising unutilised trading losses at SEA | **(78)** | — |
| Tax effect of statutory deduction for share options exercised | **(204)** | (126) |
| Tax effect of deferred tax movement on share options to be exercised | **87** | (191) |
| Tax effect of prior year R&D tax credits | **(170)** | (542) |
| Tax effect of other prior year adjustments | **(90)** | 60 |
| Tax charge for the year | **707** | 843 |

The UK corporation tax rate for the year ended 30 April is calculated at 20 92%, based upon eleven months at 21 0% and one month at 20 0%

## 7 Dividends

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period | | |
| Final dividend in respect of the year ended 30 April 2014 at 2 80 pence per ordinary share (2013 2 30 pence per ordinary share) | **1,121** | 926 |
| Interim dividend in respect of the year ended 30 April 2015 at 1 60 pence per ordinary share (2014 1 40 pence per ordinary share) | **644** | 556 |
| | **1,765** | 1,482 |
| Proposed final dividend for the year ended 30 April 2015 at 3 40 pence per ordinary share (2014 2 80 pence per ordinary share) | **1,369** | 1,108 |

The proposed final dividend is subject to approval by shareholders at the AGM to be held on 22 September 2015 and has not been included as a liability in these financial statements

If approved, this dividend will be paid on 30 September 2015 to shareholders on the register as at 28 August 2015

### 7 Dividends continued

The Cohort plc Employee Benefit Trust, which holds ordinary shares in Cohort plc, representing 1 22% (2014 3 36%) 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

### 8 Earnings per share

The earnings per share are calculated as follows

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | **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) | **40,071,658** | **5,628** | **14 04** | 40,010,675 | 5,900 | 14 75 |
| Share options | **894,739** | **—** | **—** | 1,036,715 | — | — |
| Diluted earnings | **40,966,397** | **5,628** | **13 74** | 41,047,390 | 5,900 | 14 37 |

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 each of the years ended 30 April 2015 and 30 April 2014 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

| | | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|---|
| | 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 | | **40,071,658** | **5,628** | **14 04** | 40,010,675 | 5,900 | 14 75 |
| Charge on marking forward exchange contracts to market value at the year end (plus income tax charge of £8,000, 2014 charge of £37,000) | 18 | **—** | **23** | **—** | — | 140 | — |
| (Profit)/loss on disposal of SEA's Space business (including tax credit of £28,000, 2014 charge of £186,000) | 31 | **—** | **(72)** | **—** | — | 1,572 | — |
| Acquisition costs of MCL | 29 | **—** | **197** | **—** | — | — | — |
| Acquisition costs of J+S | 30 | **—** | **427** | **—** | — | — | — |
| Amortisation of other intangible assets (net of income tax credit of £721,000, 2014 £15,000) | 9 | **—** | **1,992** | **—** | — | 49 | — |
| Adjusted earnings | | **40,071,658** | **8,195** | **20 45** | 40,010,675 | 7,661 | 19 15 |
| Share options | | **894,739** | **—** | **—** | 1,036,715 | — | — |
| Diluted adjusted earnings | | **40,966,397** | **8,195** | **20 00** | 41,047,390 | 7,661 | 18 66 |

The adjusted earnings are in respect of continuing operations

The adjustment to earnings for calculating the adjusted earnings per share exclude the non-controlling interest in respect of the charge in marking forward exchange contracts to market (£23,000 of £46,000) and the amortisation of other intangible assets in respect of MCL (£337,000 of £2,881,000) both adjustments net of appropriate tax adjustment in each case

## 9 Goodwill and other intangible assets

| | Goodwill | | | | Other intangible assets | | | |
|---|---|---|---|---|---|---|---|---|
| | SEA £'000 | MASS £'000 | MCL £'000 | Group £'000 | SEA £'000 | MASS £'000 | MCL £'000 | Group £'000 |
| **Cost** | | | | | | | | |
| At 1 May 2013 | 18,895 | 12,500 | — | 31,395 | 1,160 | 4,340 | — | 5,500 |
| At 1 May 2014 | 18,895 | 12,500 | — | 31,395 | 1,160 | 4,340 | — | 5,500 |
| Acquisition of MCL | — | — | 2,398 | 2,398 | — | — | 15,678 | 15,678 |
| Acquisition of J+S | 5,048 | — | — | 5,048 | 6,795 | — | — | 6,795 |
| **At 30 April 2015** | **23,943** | **12,500** | **2,398** | **38,841** | **7,955** | **4,340** | **15,678** | **27,973** |
| **Amortisation** | | | | | | | | |
| At 1 May 2013 | — | — | — | — | 1,160 | 4,276 | — | 5,436 |
| Charge for the year ended 30 April 2014 | 2,000 | — | — | 2 000 | — | 64 | — | 64 |
| At 1 May 2014 | 2,000 | — | — | 2,000 | 1 160 | 4,340 | — | 5,500 |
| Charge for the year ended 30 April 2015 | — | — | — | — | 1,378 | — | 2,224 | 3,602 |
| **At 30 April 2015** | **2,000** | **—** | **—** | **2,000** | **2,538** | **4,340** | **2,224** | **9,102** |
| **Net book value** | | | | | | | | |
| **At 30 April 2015** | **21,943** | **12,500** | **2,398** | **36,841** | **5,417** | **—** | **13,454** | **18,871** |
| At 30 April 2014 | 16,895 | 12 500 | — | 29,395 | — | — | — | — |

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

50 001% of MCL was acquired 9 July 2014 MCL has been accounted for as a 100% subsidiary with the non controlling interest disclosed separately

100% of J+S was acquired 1 October 2014

The goodwill of SEA was reduced by £2 0m following the disposal of SEA's Space business This reduction reflects the historical goodwill associated with the Space business when SEA was acquired in November 2007 This reduction was charged as an exceptional item as part of the loss on disposal of SEA's Space business in the year ended 30 April 2014 (see note 31)

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

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

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

### 9 Goodwill and other intangible assets continued

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

| | Basis of estimate |
|---|---|
| **Cash flow** | As in previous years, the cash flows for the years ended 30 April 2016, 2017 and 2018 are based upon the cash-generating units' budget and forecasts for those years These cash flows are based upon the revenue, margin and overhead cost forecasts for each business taking account of the run-off of order book, renewal of existing business and winning of new business Historically these cash flow forecasts have been a reasonable forecast of actual performance over the period of measurement Costs reflect inflation rates, currently assumed at 2% (2014 3%) With regard to the revenue, margin and overhead cost forecasts the key assumptions underlying these inputs are that current projects contracted will continue as per agreement, that government defence spending will remain largely consistent in the future and that each cash generating unit will continue to be as successful in competing for new contracts as it has been historically Currently a large proportion of revenue for 2016, 2017 and 2018 is already under contract and, as such, the main assumptions related to revenue volumes are in periods after 2018 where there is greater uncertainty and risk |
| **Growth rate** | The cash flows for each cash-generating unit from years 4 to 20 inclusive are based upon the forecast cash flow for the year ended 30 April 2018 to which a growth rate of 1 5% is applied each year (2014 1 5%) This rate reflects a prudent view of recent UK growth rates and is below the historically higher UK inflation rate of 2 25% The growth rate is similar for both cash-generating units as a significant proportion of their business is with the same customer, the UK MOD As a significant proportion of the business is with UK Government, a more prudent growth rate has been used to reflect lower growth rates of UK Government expenditure |

WACC comprises a number of elements as follows

| | |
|---|---|
| **Value of equity** | Calculated as the issued share capital of the Group (Cohort plc) multiplied by the closing share price at 30 April 2015 of £2 65 (2014 £1 66) |
| **Risk free interest rate** | Is based upon ten year UK Government gilt rate of 1 88% (2014 2 69%) |
| **Beta factor** | Derived from analyst estimates provided by the Group s NOMAD (Investec) and reflects a range of outcomes from 0 62 to 0 63 (2014 0 64 to 0 65) |
| **Equity risk premium** | Is the equity risk premium of the Group of 8 33% (2014 8 58%) to which is added a further range of risk premium to reflect the low liquidity and risk of AIM stocks, 4% to 9% |
| **Cost of debt** | The Group has no debt and cost of debt is therefore zero (2014 zero) |

The Group's pre-tax WACC applied to each cash generating unit's cash flows was 12 9% (2014 15 2%) The Group WACC has been deemed appropriate to use for each cash-generating unit as all funding is cross guaranteed and therefore the same cost of funding is incurred by each cash generating unit

On the basis of these tests, no impairment of goodwill has arisen in the year ended 30 April 2015 in respect of either MASS or SEA The goodwill of SEA is more sensitive with no impairment at the Group's WACC of 12 9% but is impaired by £0 4m if the Group's pre-tax WACC increases to 23 9% The Group s pre-tax WACC increases to 23 9% when the premium applied to the equity risk to reflect the Group's AIM listing is increased from 4% to 14% The likelihood of this increase in the WACC is considered low

The other intangible assets arose on the acquisition of the subsidiaries Both the MCL and J+S intangible assets are in respect of contracts acquired and to be secured and are further analysed in notes 29 and 30 respectively The J+S other intangible asset is disclosed as part of SEA

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

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

## 10 Property, plant and equipment

| Group | Land and buildings £'000 | Fixtures and equipment £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| At 1 May 2013 | 6,762 | 4,437 | 11,199 |
| Additions | 1,878 | 396 | 2,274 |
| Disposals | — | (266) | (266) |
| At 1 May 2014 | 8,640 | 4,567 | 13,207 |
| On acquisition | 961 | 787 | 1,748 |
| Additions | 125 | 938 | 1,063 |
| Disposals | (34) | (77) | (111) |
| **At 30 April 2015** | **9,692** | **6,215** | **15,907** |
| **Depreciation** | | | |
| At 1 May 2013 | 835 | 3,472 | 4,307 |
| Charge in the year | 136 | 476 | 612 |
| Eliminated on disposal | — | (214) | (214) |
| At 1 May 2014 | 971 | 3,734 | 4,705 |
| Charge in the year | 215 | 742 | 957 |
| Eliminated on disposal | (34) | (59) | (93) |
| **At 30 April 2015** | **1,152** | **4,417** | **5,569** |
| **Net book value** | | | |
| **At 30 April 2015** | **8,540** | **1,798** | **10,338** |
| At 30 April 2014 | 7 669 | 833 | 8,502 |

The Company's property, plant and equipment was £7,000 at 30 April 2015 (2014 £11,000)

The net book value of fixed assets held under finance leases at 30 April 2015 was £13,000 (2014 £Nil)

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

The valuation (in accordance with International Valuation Standards) of the Group's land and buildings at 30 April 2015 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

The fixed assets disposed of as part of the disposal of SEA's Space business (see note 31) are shown within disposals for the year ended 30 April 2014 in the above table

## 11 Investment in subsidiaries and joint ventures

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Subsidiary undertakings | — | — | **51,376** | 42 648 |
| Joint ventures | — | — | — | — |
| | — | — | **51,376** | 42,648 |

### 11. Investment in subsidiaries and joint ventures continued

A list of all the 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 |
| Marlborough Communications (Holdings) Ltd | England | Ordinary | 50 001% | Holding company of Marlborough Communications Ltd |
| Digital Millennium Map LLP (DMM) | England | Ordinary | 25% | 2D digital mapping – in administration |
| **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 the defence, transport and offshore energy markets and is also the holding company of J+S Limited |
| J+S Limited | England | Ordinary | 100% | Subsidiary of System Engineering and Assessment Limited and provides product and services to the defence and offshore energy markets |
| Marlborough Communications Limited | England | Ordinary | 50 001% | Designs, sources and supports advanced electronic and surveillance technology |
| Beckington Castle Limited | England | Ordinary | 100% | Property company holding freehold of Beckington Castle and SEA's Bristol office |
| Abacus EW Consultancy Limited | England | Ordinary | 100% | Dormant |

DMM, which is retained as an investment of the Group, is not accounted for under the equity method of accounting as the Group ceased to have an active participation from 1 November 2006

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

The Group has received and continues to receive a return on its original investment in DMM This income of £31 875 (2014 £16,100) is disclosed in "administrative expenses within the Consolidated income statement

## Company

The Company's investments in subsidiaries are as follows

| | MASS £'000 | MCL £ 000 | SCS £ 000 | SEA £ 000 | Total £'000 |
|---|---|---|---|---|---|
| At 1 May 2013 | 14 538 | — | 1,704 | 26,450 | 42,692 |
| Share-based payments | 83 | — | 46 | 65 | 194 |
| Vested in year | (98) | — | (66) | (74) | (238) |
| At 1 May 2014 | 14 523 | — | 1,684 | 26,441 | 42,648 |
| Acquired | — | 8,847 | — | — | 8,847 |
| Share-based payments | 75 | 5 | 28 | 56 | 164 |
| Vested in year | (105) | — | (74) | (104) | (283) |
| **At 30 April 2015** | **14,493** | **8,852** | **1,638** | **26,393** | **51,376** |

### 12 Inventories

| | 2015 £'000 | 2014 £ 000 |
|---|---|---|
| Finished goods | **1,078** | 297 |

The inventory at 30 April 2015 is after a stock provision of £500,000 (2014 £6,000)

## 13 Trade and other receivables

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £'000 |
| Trade receivables | **10,659** | 13,068 | **—** | — |
| Allowance for doubtful debts | **(6)** | (3) | **—** | — |
| | **10,653** | 13,065 | **—** | — |
| Amounts recoverable on contracts | **2,927** | 2,115 | **—** | — |
| Prepayments and accrued income | **5,948** | 3,818 | **219** | 296 |
| Amount receivable in respect of disposal of SEA's Space business | **—** | 4,000 | **—** | — |
| | **19,528** | 22,998 | **219** | 296 |

The average credit period taken on sales of goods is 24 days (2014 43 days) Of the trade receivables balance, £2 8m was considered overdue at 30 April 2015 (2014 £3 6m) reflecting the improved debtor days and working capital management across the Group Overdue is defined as trade receivables still outstanding beyond invoice terms (typically 30 days) The allowance for doubtful debt is determined by management's best estimate by reference to the particular receivables over which doubt may exist None of the other receivables were 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 2015 is the UK MOD, with a balance outstanding of £1 9m (2014 £2 9m) Other customers who represent more than 5% of the total balance of trade receivables include

| | **2015 £m** | 2014 £m |
|---|---|---|
| Customer A | **1 6** | 1 9 |
| Customer B | **0 7** | — |
| Customer C | **—** | 1 2 |
| Customer D | **0 1** | 0 7 |

Trade receivables include less than £0 1m (2014 £1 9m) 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 transport sectors

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

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

| Ageing of past due but not impaired receivables | **2015 £'000** | 2014 £'000 |
|---|---|---|
| 30–60 days | **1,623** | 3,156 |
| 60–90 days | **333** | 268 |
| >90 days | **843** | 217 |
| | **2,799** | 3,641 |

| Movement in the allowance for doubtful debts | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Balance at 1 May | **3** | — |
| Impairment losses recognised | **3** | 3 |
| Amounts written off as uncollectable in year | **—** | — |
| Amounts recovered during year | **—** | — |
| Impairment losses reversed | **—** | — |
| Balance at 30 April | **6** | 3 |

## 14 Trade and other payables

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £ 000 |
| Advance receipts | **—** | 837 | **—** | — |
| Trade payables and accruals | **11,228** | 3,952 | **60** | 170 |
| Other payables | **—** | — | **—** | — |
| Social security and other taxes | **2,740** | 2,335 | **97** | 86 |
| Accruals and deferred income | **11,405** | 6,173 | **761** | 420 |
| Amounts due to subsidiary undertakings | **—** | — | **1,878** | 22 |
| | **25,373** | 13,297 | **2,796** | 698 |

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 68 days (2014 42 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) The higher average credit period reported reflects the large amount of purchases in the final quarter which were not due for payment before the year end

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

Social security and other taxes include employment taxes and VAT

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

Total payable includes £1 9m (2014 £0 3m) denominated in foreign currency

## 15 Bank borrowings

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £ 000 | **2015 £'000** | 2014 £ 000 |
| Bank overdrafts | **—** | — | **7,033** | 8,538 |
| Finance leases | **14** | — | **—** | — |
| | **14** | — | **7,033** | 8,538 |

These borrowings are repayable as follows

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £'000 | **2015 £'000** | 2014 £ 000 |
| On demand or within one year | **4** | — | **7,033** | 8,538 |
| In the second year | **4** | — | **—** | — |
| In the third to fifth years inclusive | **6** | — | **—** | — |
| | **14** | — | **7,033** | 8,538 |
| Less amounts due for settlement within 12 months (shown under current liabilities) | **(4)** | — | **(7,033)** | (8,538) |
| Amount due for settlement after 12 months | **10** | — | **—** | — |

The weighted average interest rates paid were as follows

| | **2015 %** | 2014 % |
|---|---|---|
| Bank overdrafts | **2 25** | — |
| Bank loans | **4 50** | — |
| Finance leases | **4 60** | — |

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% (2014 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

A loan of £129 000 with Clydesdale Bank was acquired with J+S on 1 October 2014 This loan was fully paid off by 30 April 2015 Interest charge incurred on this loan in the period from 1 October 2014 to 30 April 2015 was £3,000 at an average interest rate of 4 5%

At 30 April 2015 the Group had available £7 5m of undrawn overdraft facility The Directors consider the carrying amount of bank borrowings approximate to their fair value

A finance lease of £16,000 was acquired with J+S on 1 October 2014 £2,000 was paid in the year ended 30 April 2015

## 15 Bank borrowings continued

The Group's net funds at 30 April 2015 of £19 7m are held with the following banks

| | 2015 £'000 | 2014 £ 000 | Moody s credit rating of bank as at 25 June 2015 |
|---|---|---|---|
| Royal Bank of Scotland Plc | **16,850** | 10,256 | A3 |
| Barclays Bank plc | **2,606** | — | A2 |
| Lloyds TSB Bank plc | **—** | 5 063 | A1 |
| Santander UK plc | **—** | 1,003 | A2 |
| Clydesdale Bank | **245** | 16 | Baa2 |
| | **19,701** | 16 338 | |

## 16 Provisions

| Group | MCL earn out £'000 | Warranty £'000 | Other contract related provisions £'000 | Total £'000 |
|---|---|---|---|---|
| At 1 May 2013 | — | 130 | 781 | 911 |
| (Credited)/charged to the income statement | — | 152 | (119) | 33 |
| Utilised | — | — | (153) | (153) |
| At 1 May 2014 | — | 282 | 509 | 791 |
| On acquisition | 983 | — | 123 | 1,106 |
| (Credited)/charged to the income statement | — | (59) | 98 | 39 |
| Utilised | (983) | (35) | (360) | (1,378) |
| **At 30 April 2015** | **—** | **188** | **370** | **558** |
| Provisions due in less than one year | — | 188 | 370 | 558 |
| Provisions due in greater than one year | — | — | — | — |
| **At 30 April 2015** | **—** | **188** | **370** | **558** |
| Provisions due in less than one year | — | 282 | 509 | 791 |
| Provisions due in greater than one year | — | — | — | — |
| At 30 April 2014 | — | 282 | 509 | 791 |

The MCL earn out provision of £983,000 was paid to the vendors of MCL on 30 March 2015

The other provisions arising on acquisition are in respect of J+S (see note 30) They were either acquired or arose on fair value adjustments to the J+S balance sheet acquired and have been charged against goodwill on acquisition

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

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

## 17 Deferred tax

| | Accelerated tax depreciation £'000 | Other intangible assets £'000 | Revaluation of building £'000 | Other short term timing differences £'000 | Tax losses £'000 | Share options £'000 | Derivatives £'000 | Group £'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 May 2013 | (212) | (15) | (469) | 46 | 424 | — | 9 | (217) |
| (Charge)/credit to the income statement in respect of the current tax year | (11) | 15 | 10 | (28) | (287) | 191 | (42) | (152) |
| Effect of change in tax rate in the income statement | 29 | — | 60 | (2) | (18) | (25) | 5 | 49 |
| At 1 May 2014 | (194) | — | (399) | 16 | 119 | 166 | (28) | (320) |
| On acquisition | — | (4,495) | — | — | — | — | — | (4,495) |
| (Charge)/credit to the income statement in respect of prior year tax | 13 | — | — | 60 | (45) | — | 28 | 56 |
| (Charge)/credit to the income statement in respect of the current tax year | (48) | 721 | 10 | 4 | (74) | (87) | (8) | 518 |
| **At 30 April 2015** | **(229)** | **(3,774)** | **(389)** | **80** | **—** | **79** | **(8)** | **(4,241)** |

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

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Deferred tax assets | **104** | 301 |
| Deferred tax liabilities | **(4,345)** | (621) |
| | **(4,241)** | (320) |

Deferred tax liabilities in respect of other intangible assets were recognised on the acquisition of MCL (£3,136,000) and J+S (£1 359,000) and will be credited to the income statement as the respective other intangible asset is amortised (see notes 29 and 30)

The Group has recognised a deferred tax asset of £Nil (2014 £0 1m) for unutilised trading losses within its subsidiary SEA of £Nil (2014 £0 6m), the losses having been fully utilised in the year ended 30 April 2015

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

The Company's deferred tax balance at 30 April 2015 was an asset of £32,000 (2014 £34,000) being £13,000 (2014 £Nil) in respect of other short term timing differences, accelerated tax depreciation of £4,000 (2014 £4,000) and share options of £15,000 (2014 £30,000)

As announced on 21 March 2013 a tax rate of 20%, applicable from 1 April 2015, has been used to calculate the deferred tax balances as at 30 April 2015 and 30 April 2014

## 18 Derivative financial instruments

The Group has derivative financial instruments as follows

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| **Assets** | | |
| Foreign currency forward contracts | **—** | — |
| **Liabilities** | | |
| Foreign currency forward contracts | **(38)** | (142) |

The changes in marking the outstanding foreign currency forward contracts to fair value (which are based upon quoted market valuations) are credited or charged to the Consolidated income statement as "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 MCL and are disclosed within MCL's operating profit in the segmental analysis (see note 1 2014 SEA) The charge (2014 charge) to the Consolidated income statement for the year ended 30 April 2015 was as follows

| | **2015 £'000** | 2014 £'000 |
|---|---|---|
| Foreign currency forward contracts | **(38)** | (103) |

## 18 Derivative financial instruments continued

### 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

| 2015 | Sell £ 000 | Buy €'000 | Buy £ 000 | Sell € 000 | Sell £ 000 | Buy US$'000 |
|---|---|---|---|---|---|---|
| **At forward exchange rates** | | | | | | |
| At 1 May 2014 | — | — | 4,001 | 4 700 | 136 | 226 |
| Contracts matured in period | — | — | (4,001) | (4,700) | (136) | (226) |
| New contracts in period | (99) | (136) | — | — | (1,780) | (2,787) |
| **At 30 April 2015** | (99) | (136) | — | — | (1,780) | (2,787) |
| Fair value adjustment | — | | — | | (38) | |
| **At 30 April 2015 at spot rate** | **(99)** | | — | | **(1,818)** | |

The total fair value adjustment is £38,000 credit (2014  £142,000) and the change in the forward exchange fair values for the year ended 30 April 2015 is £38,000 (30 April 2014  £103,000), which is included in the operating profit of the Group as a charge

| 2014 | Buy £ 000 | Sell € 000 | Sell £ 000 | Buy US$'000 |
|---|---|---|---|---|
| **At forward exchange rates** | | | | |
| At 1 May 2013 | 8,475 | 9 969 | 480 | 763 |
| Contracts matured in period | (6 967) | (8,198) | (758) | (1,238) |
| New contracts in period | 2,493 | 2,929 | 414 | 701 |
| At 30 April 2014 | 4,001 | 4,700 | 136 | 226 |
| Fair value adjustment | (139) | | (3) | |
| At 30 April 2014 at spot rate | 3 862 | | 133 | |

### Liquidity risk

The maturity of the outstanding contracts was as follows

| **At 30 April 2015** | Sell £ 000 | Buy € 000 | Buy £ 000 | Sell US$'000 |
|---|---|---|---|---|
| Within one year | 99 | 136 | 1,780 | 2,787 |
| One to two years | — | — | — | — |
| Greater than two years | — | — | — | — |
| **At 30 April 2015 at forward rate** | **99** | **136** | **1,780** | **2,787** |

| At 30 April 2014 | Buy £ 000 | Sell €'000 | Sell £ 000 | Buy US$ 000 |
|---|---|---|---|---|
| Within one year | 3,709 | 4,357 | 136 | 226 |
| One to two years | 292 | 343 | — | — |
| Greater than two years | — | — | — | — |
| At 30 April 2014 at forward rate | 4,001 | 4,700 | 136 | 226 |

The following significant exchange rates applied at 30 April

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **US$** | **Euro** | US$ | Euro |
| | **0 6523** | **0 7289** | 0 5927 | 0 8216 |

### Sensitivity analysis

A 10% strengthening of £ sterling against the above currencies at 30 April 2015 would increase the reported operating profit by £174 000 (2014  reduction in reported operating profit of £366,000) in respect of marking these forward contracts to market

# Notes to the financial statements continued
for the year ended 30 April 2015

## 19 Share capital

| | 2015 Number | 2014 Number |
|---|---|---|
| Allotted, called up and fully paid 10 pence ordinary shares | **40,959,101** | 40,958 616 |

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

| | Number |
|---|---|
| At 1 May 2013 | 40,786,788 |
| Share options exercised | 171,828 |
| At 30 April 2014 | 40,958,616 |
| Share options exercised | 485 |
| **At 30 April 2015** | **40,959,101** |

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

During the year ended 30 April 2015, 485 ordinary shares (2014 171,828) in Cohort plc were issued to satisfy share options as follows

| Date | Number of new shares issued on exercise of share options | Share option exercise price Pence | Value £'000 | Mid market price of shares on issue date Pence |
|---|---|---|---|---|
| 28 July 2014 | 485 | 1 545 | <1 | 2 03 |

The issue of these new shares has increased the value of issued share capital by £49 and the share premium account by £700

## 20 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 2015

| | | | | 30 April 2015 | | | 30 April 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| 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 | **13,904** | **—** | **13,904** | 66,554 | — | 66,554 |
| 19 Feb 2007 | 1 770 | 20 Feb 2010 | 19 Feb 2017 | **86,241** | **—** | **86,241** | 99,941 | — | 99,941 |
| 11 Jul 2008 | 1 890 | 12 Jul 2011 | 11 Jul 2018 | **7,929** | **—** | **7,929** | 7,929 | — | 7,929 |
| 5 Aug 2009 | 1 715 | 6 Aug 2012 | 5 Aug 2019 | **14,277** | **—** | **14,277** | 23,359 | — | 23,359 |
| 23 Jul 2010 | 0 835 | 24 Jul 2013 | 23 Jul 2020 | **262,466** | **—** | **262,466** | 337,868 | — | 337,868 |
| 27 Oct 2010 | 0 770 | 28 Oct 2013 | 27 Oct 2020 | **12,935** | **—** | **12,935** | 44,935 | — | 44,935 |
| 26 Jul 2011 | 0 915 | 27 Jul 2014 | 26 Jul 2021 | **326,326** | **—** | **326,326** | — | 789,686 | 789,686 |
| 24 Jan 2012 | 1 100 | 25 Jan 2015 | 24 Jan 2022 | **17,000** | **—** | **17,000** | — | 34,000 | 34,000 |
| 2 Aug 2012 | 1 165 | 3 Aug 2015 | 2 Aug 2022 | **—** | **450,666** | **450,666** | — | 469 500 | 469,500 |
| 9 Aug 2013 | 1 675 | 10 Aug 2016 | 9 Aug 2023 | **—** | **278,017** | **278,017** | — | 309,250 | 309,250 |
| 11 Aug 2014 | 1 975 | 12 Aug 2017 | 11 Aug 2024 | **—** | **253,852** | **253,852** | — | — | — |
| 31 Oct 2014 | 2 425 | 01 Nov 2017 | 31 Oct 2024 | **—** | **28,000** | **28,000** | — | — | — |
| | | | | **741,078** | **1,010,535** | **1,751,613** | 580,586 | 1,602,436 | 2,183,022 |
| **Save As You Earn (SAYE) scheme** | | | | | | | | | |
| 18 Aug 2009 | 1 380 | | | **—** | **—** | **—** | — | 31,320 | 31,320 |
| 27 Jul 2010 | 0 970 | | | **—** | **101,931** | **101,931** | — | 109 576 | 109,576 |
| 08 Aug 2011 | 0 885 | | | **—** | **49,492** | **49,492** | — | 219,879 | 219 879 |
| 15 Aug 2012 | 1 190 | | | **—** | **64,896** | **64,896** | — | 78,962 | 78,962 |
| 13 Aug 2013 | 1 545 | | | **—** | **92,183** | **92,183** | — | 112 259 | 112,259 |
| 11 Aug 2014 | 2 075 | | | **—** | **144,448** | **144,448** | — | — | — |
| | | | | **—** | **452,950** | **452,950** | — | 551,996 | 551,996 |
| | | | | **741,078** | **1,463,485** | **2,204,563** | 580,586 | 2,154,432 | 2,735,018 |

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

## 20 Share options continued

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

The movement in share options during the year is as follows

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | **Options** | **Weighted average exercise price £** | Options | Weighted average exercise price £ |
| Outstanding at 1 May | **2,735,018** | **1 12** | 3,070,182 | 1 02 |
| Granted during the year | **456,439** | **2 04** | 456,739 | 1 64 |
| Forfeited during the year | **(109,667)** | **1 53** | (223,979) | 1 18 |
| Exercised during the year | **(854,327)** | **0 96** | (489,535) | 0 94 |
| Expired during the year | **(22,900)** | **1 23** | (78,389) | 1 25 |
| Outstanding at 30 April | **2,204,563** | **1 35** | 2,735,018 | 1 12 |
| Exercisable at 30 April | **741,078** | **1 04** | 580,586 | 1 09 |

The weighted average share price at the date of exercise for share options exercised during the year was £0 96 (2014 £0 94) The options outstanding at 30 April 2015 had a weighted average exercise price of £1 35 (2014 £1 12) and a weighted average remaining contractual life of six years (2014 six years)

The exercised options in the year were satisfied by 853,842 shares from the Cohort plc Employee Benefit Trust (see note 21) and by the issue of 485 new shares (see note 19)

In the year ended 30 April 2015, options were granted as follows 273,352 on 11 August 2014, 28 000 on 31 October 2014 and 155 087 on 11 August 2014 for the SAYE The exercise prices of the options granted on those dates were £1 975, £2 425 and £2 075 respectively

In the year ended 30 April 2014, options were granted as follows 342,150 on 9 August 2013 and 114,589 on 13 August 2013 The exercise prices of the options granted on those dates were £1 675 and £1 545 respectively

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

| | 2015 | 2014 |
|---|---|---|
| Weighted average share price | **£2 27** | £1 81 |
| Weighted average exercise price | **£1 35** | £1 12 |
| Expected volatility | **30%** | 32% |
| Risk free rate | **0 96%–3 13%** | 0 96%–5 75% |
| Leaver rate (per annum) | **10 0%** | 10 0% |
| Dividend yield | **0 62%–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 is based on management's best estimate

The Group recognised a cost of £198,000 (2014 £235,000) 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

## 21 Own shares

| | £'000 |
|---|---|
| Balance at 1 May 2013 | 731 |
| Acquired in the year | 1,979 |
| Sold in the year | (307) |
| Loss on shares sold in the year | (129) |
| Balance at 30 April 2014 | 2,274 |
| Acquired in the year | — |
| Sold in the year | (822) |
| Loss on shares sold in the year | (617) |
| **Balance at 30 April 2015** | **835** |

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 20) 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 2015 was 500,041 (2014 1,378,047)

No ordinary shares in Cohort plc were acquired in the year by the Employee Benefit Trust

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 |
|---|---|---|---|
| 72 0 | 32,000 | 25 | (29) |
| 83 5 | 75,402 | 63 | (63) |
| 88 5 | 146,458 | 130 | (115) |
| 91 5 | 463,360 | 424 | (322) |
| 97 0 | 5,257 | 5 | (4) |
| 110 0 | 17,000 | 19 | (10) |
| 116 5 | 4,000 | 5 | (2) |
| 119 0 | 7,229 | 8 | (4) |
| 123 0 | 52,650 | 65 | (23) |
| 138 0 | 24,224 | 33 | (7) |
| 154 5 | 647 | 1 | — |
| 167 5 | 2,833 | 5 | — |
| 171 5 | 9,082 | 15 | — |
| 177 0 | 13,700 | 24 | 2 |
| | 853,842 | 822 | (577) |

In addition, ordinary shares in Cohort plc were transferred at nil value realising a loss on sale of shares of £40,330 by the Employee Benefit Trust for the purposes of satisfying shares awarded to the Executive Directors (see Remuneration & Appointments Committee report on pages 33 to 35) and senior management under the Group's Restricted Share Scheme

55,352 ordinary shares were awarded under the Restricted Share Scheme in August 2014 in respect of the year ended 30 April 2014

62 163 shares remain held in the Employee Benefit Trust remain to be issued under the Restricted Share Scheme on which a loss of 103,750 will be recognised as they are issued

The market valuation of the ordinary shares in Cohort plc held by the Employee Benefit Trust at 30 April 2015 was £1,325 109 (2014 £2,287,558)

The cost of operating the Employee Benefit Trust during the year ended 30 April 2015 was £29,596 (2014 £27,205) and this cost is included within the "administrative expenses" of the Consolidated income statement

## 22 Reserves

The Group (consolidated) and Company statements of changes in equity are disclosed as primary statements on pages 40 and 41 Below is a description of the nature and purpose of the individual reserves

- Share capital represents the nominal value of shares issued, including those issued to the Cohort plc Employee Benefit Trust (see note 19)
- Share premium includes the amounts over the nominal value in respect of share issues In addition, costs in respect of share issues are debited to this account
- Own shares held by the Group represent shares in Cohort plc All the shares are held by the Cohort plc Employee Benefit Trust (see note 21)
- Share option reserve represents the cumulative share-based payment charged to reserves less the transfer to retained earnings on vesting of options
- Other reserve This represents the potential acquisition cost to the Group for acquiring the non-controlled interest (49 999%) of MCL This reserve is expected to be utilised no later than 30 April 2017
- Retained earnings include the realised gains and losses made by the Group and the Company

## 23 Cash flow

### a Net cash from operating activities

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £ 000 | **2015 £'000** | 2014 £ 000 |
| Profit for the year | **5,240** | 5,900 | **2,953** | 3,073 |
| Adjustments for | | | | |
| Income tax expense/(credit) | **707** | 843 | **(70)** | (80) |
| Depreciation of property, plant and equipment | **957** | 612 | **6** | 3 |
| Amortisation of other intangible assets and goodwill | **3,602** | 2,064 | **—** | — |
| Net finance income | **(82)** | (125) | **(80)** | (125) |
| Derivative financial instruments | **38** | 103 | **—** | — |
| Share-based payment | **198** | 235 | **35** | 42 |
| Decrease in provisions | **(356)** | (120) | **—** | — |
| Operating cash flows before movements in working capital | **10,304** | 9,512 | **2,844** | 2,913 |
| Decrease/(increase) in inventories | **450** | (69) | **—** | — |
| Decrease/(increase) in receivables | **1,861** | (5,613) | **165** | (154) |
| Increase/(decrease) in payables | **7,890** | (212) | **(1,016)** | 349 |
| | **10,201** | (5,894) | **(851)** | 195 |
| Cash generated by operations | **20,505** | 3,618 | **1,993** | 3,108 |
| Income taxes paid | **(1,702)** | (1,042) | **(8)** | (31) |
| Interest paid | **(5)** | — | **(2)** | — |
| Net cash inflow from operating activities | **18,798** | 2,576 | **1,983** | 3,077 |

### b Cash and cash equivalents at 30 April 2015

| | Group | | Company | |
|---|---|---|---|---|
| | **2015 £'000** | 2014 £ 000 | **2015 £'000** | 2014 £ 000 |
| Cash and bank | **19,701** | 10,256 | **—** | — |
| Short-term deposits | **—** | 6,082 | **—** | 6,082 |
| Total cash and cash equivalents | **19,701** | 16,338 | **—** | 6,082 |
| Bank overdraft | **—** | — | **(7,033)** | (8,538) |
| Finance lease | **(14)** | — | **—** | — |
| Total debt | **(14)** | — | **(7,033)** | (8,538) |
| Net funds | **19,687** | 16,338 | **(7,033)** | (2,456) |

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

## 24 Operating lease arrangements

| Group | **2015 £'000** | 2014 £ 000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | | |
| – land and buildings | **886** | 537 |
| – other | **215** | 198 |
| | **1,101** | 735 |

### 24 Operating lease arrangements continued

At 30 April 2015 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Land and buildings | | |
| – leases which expire within one year | **207** | — |
| – leases which expire in the second to fifth year inclusive | **888** | 1,328 |
| – leases which expire after five years | **3,618** | 666 |
| | **4,713** | 1,994 |
| Other | | |
| – leases which expire within one year | **30** | 23 |
| – leases which expire in the second to fifth year inclusive | **263** | 209 |
| – leases which expire after five years | **—** | — |
| | **293** | 232 |
| | **5,006** | 2,226 |

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

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 has any renewal or purchase options

| Company | 2015 £'000 | 2014 £ 000 |
|---|---|---|
| Minimum lease payments under operating leases recognised as an expense in the year | | |
| – land and buildings | **38** | 38 |

At 30 April 2015 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

| | 2015 £'000 | 2014 £ 000 |
|---|---|---|
| Land and buildings | | |
| – leases which expire within one year | **—** | — |

### 25 Commitments

There was £Nil of capital commitments at 30 April 2015 (2014 £1,781)

### 26 Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes The contributions for the year of £2,022,000 (2014 £2,092,000) were charged to the income statement Contributions outstanding at 30 April 2015 were £140,316 (2014 £75,000)

### 27 Contingent liabilities

At 30 April 2015 the Group had in place bank guarantees of £175,000 (2014 £175,000) in respect of leased properties and £1,593,000 (2014 £1,180,000) in respect of trading contracts The Group is not aware of any conditions which would realise these contingent liabilities

### 28 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 |
|---|---|---|---|---|
| **2015** | **1,517** | **38** | **3,500** | **88** |
| 2014 | 1,300 | 38 | 3,240 | 52 |

There were no transactions between the Group and its joint venture, Digital Millennium Map LLP (DMM), with the exception of receipt of investment income (see note 11)

The relationship with DMM is 25% joint venture owned by Cohort plc From 1 November 2006 this has been accounted for as an investment, the Group no longer having an active participation in this entity

The Group is expected to have no significant transactions with DMM

## 28 Related party transactions continued

During the year ended 30 April 2015, the Directors of Cohort plc received dividends from the Company as follows

| | 2015 £ | 2014 £ |
|---|---|---|
| S Carter | **469,292** | 394,632 |
| N Prest | **91,722** | 77,129 |
| A Thomis | **2,881** | 1,501 |
| Sir Robert Walmsley | **1,102** | 926 |
| S Walther | **2,723** | 1,178 |
| | **567,720** | 475,366 |

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

| | 2015 £ | 2014 £ |
|---|---|---|
| Salary (including any allowances, benefits and employer's NI) | **1,261,236** | 1,157,028 |
| Employers pension contribution | **91,023** | 87,704 |
| Long-term benefits | **—** | — |
| | **1,352,259** | 1,244,732 |

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

## 29 Acquisition of Marlborough Communications Limited (MCL)

Cohort plc acquired 50 001% of Marlborough Communications (Holdings) Limited, which in turn holds 100% of Marlborough Communications Ltd (MCL), on 9 July 2014

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

| | Book value £ 000 | Fair value £ 000 |
|---|---|---|
| Recognised amounts of identifiable assets acquired and liabilities assumed | | |
| Property, plant and equipment | 146 | 146 |
| Other intangible assets | — | 15,678 |
| Inventory | 94 | 94 |
| Trade and other receivables | 397 | 397 |
| Trade and other payables | (3,130) | (3,430) |
| Deferred tax | — | (3,136) |
| Cash | 3,149 | 3,149 |
| | 656 | 12,898 |
| 50 001% acquired | | 6,449 |
| Goodwill | | 2,398 |
| Total consideration | | 8,847 |
| Satisfied by | | |
| Cash | | 8,847 |
| Total consideration transferred | | 8 847 |
| Net cash outflow arising on acquisition | | |
| Cash consideration | | 8,847 |
| Less cash and cash equivalents acquired | | (3,149) |
| | | 5,698 |

Of the cash consideration, £7,864,000 was paid on completion and a further earn out of £983,000 paid 30 March 2015

### 29 Acquisition of Marlborough Communications Limited (MCL) continued

Other intangible assets of £15 7m and their estimated useful lives are analysed as follows

| | Other intangible asset £ 000 | Estimated life Years |
|---|---|---|
| Contracts acquired | 1,345 | 1 25 |
| Marketing agreements, future orders and prospects | 14,333 | 4 50 |
| | 15,678 | |

A deferred tax liability of £3 1m in respect of the other intangible asset balance above was established on acquisition and is disclosed as part of the deferred tax liability

The goodwill of £2 4m arising from the acquisition represents the customer contacts, supplier relationships and know how to which no certain value can be ascribed None of the goodwill is expected to be deductible for income tax purposes

The non-controlling interest share of the goodwill of MCL was £2 2m

Acquisition costs of £197,000 in respect of MCL were charged as an exceptional item in the Consolidated income statement

MCL contributed £10 1m of revenue and £1 3m of adjusted operating profit to the Group for the period from 9 July 2014 to 30 April 2015

The Sale and Purchase Agreement in respect of the acquisition of MCL includes an option for the purchase of the remaining shares (49 999%) in MCL the non-controlling interest

This option is exercisable by 31 December 2016 and is capped at £12 5m If the performance of MCL in the period to 30 September 2016 is such that the amount payable for the non-controlling interest's shares exceeds the cap, the Group has the right to negotiate the amount payable at that time or not to acquire the non-controlling interest

The non controlling interest is entitled to participate in any dividends payable by MCL in the period to 30 September 2016

In accordance with IFRS 3 the Group has ascribed a value to the option to acquire the non controlling interest of MCL This value is £12 5m and the option is shown as a non-current liability and, as the non controlling interest has a right to dividends, in the other reserves as "option for acquiring non controlling interest in MCL'

### 30 Acquisition of J+S Limited (J+S)

The Group's subsidiary SEA acquired 100% of J+S Limited (J+S) on 1 October 2014 for a cash consideration of £11 7m No further consideration is payable in respect of this acquisition

| | Book value £ 000 | Fair value £ 000 |
|---|---|---|
| Recognised amounts of identifiable assets acquired and liabilities assumed | | |
| Property plant and equipment | 2 669 | 1,329 |
| Other intangible assets | 1,069 | 6,795 |
| Inventory | 1,956 | 1,231 |
| Trade and other receivables | 1,997 | 1 900 |
| Trade and other payables | (2,510) | (2,988) |
| Provisions | (123) | (123) |
| Deferred tax | (214) | (1,359) |
| Cash | 41 | 41 |
| Bank borrowings and finance leases | (145) | (145) |
| | 4,740 | 6,681 |
| Goodwill | | 5,048 |
| Total consideration | | 11,729 |
| Satisfied by | | |
| Cash | | 11 729 |
| Net cash outflow arising on acquisition | | |
| Cash consideration | | 11,729 |
| Less net cash acquired | | (41) |
| | | 11 688 |

## 30 Acquisition of J+S Limited (J+S) continued

Other intangible assets of £6 8m and their estimated useful lives are analysed as follows

| | Other intangible asset £ 000 | Estimated life Years |
|---|---|---|
| Contracts acquired | 6,795 | 9 5 |

A deferred tax liability of £1 4m in respect of the other intangible asset balance above was established on acquisition and is disclosed as part of the deferred tax liability

The goodwill of £5 0m arising from the acquisition represents the customer contacts, supplier relationships and know-how to which no certain value can be ascribed None of the goodwill is expected to be deductible for income tax purposes

The fair value adjustments applied to the acquired J+S balance sheet reflect a reduction in assets of £3 2m due to policy alignments, write down of assets of £0 3m and the recognition of other intangible assets (net of deferred tax) of £5 4m

Acquisition costs of £427,000 in respect of J+S were charged as an exceptional item in the Consolidated income statement

J+S contributed revenue of £7 9m and adjusted operating profit of £0 1m to the Group's adjusted operating profit for the period from 1 October 2014 to 30 April 2015 This contribution has been reported as part of SEA in the segmental analysis (note 1)

## 31 Disposal of SEA's Space business

On 30 April 2014 the Group's subsidiary SEA signed an agreement to sell its Space business, in its entirety, to Thales Alenia Space UK Limited (TAS) On signing, the Group received £2 5m of £5 0m agreed consideration and, in return, passed effective control of SEA's Space business to TAS As a result of TAS taking effective control from 30 April 2014, the Group has accounted for the disposal in its entirety in the year ended 30 April 2014

The disposal completed on 6 June 2014 with the satisfaction of certain contract assignments and novations On completion the Group received the balance of consideration receivable, a further £2 5m

A further £1 5m in respect of a working capital adjustment was received on 30 April 2015

During the year ended 30 April 2015, SEA recognised exceptional income of £44,000 (2014 loss of £1,386,000) in completing the disposal of its Space business

# 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 15 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 2015, if a new facility is not put in place by this date 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, and (b) 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 is currently in negotiations with its bankers regarding a new facility, which is larger than the existing facility At this stage the Company has not sought any written commitment that this new facility will be confirmed However, the Company has held discussions with its bankers about its future funding requirements and no matters have been drawn to its attention to suggest that a new facility 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 Strategic report on pages 4 to 24 The financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described in the Strategic report on pages 19 to 21

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

## Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 30 April 2015 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

The Group s subsidiaries will prepare their statutory financial statements in accordance with IFRS, as adopted by the EU, as from 1 May 2015

## 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 2015 which have had no significant impact on the amounts reported in these financial statements by the Group

## Bank borrowings

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

## Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred unless, where appropriate, interest costs are capitalised into assets, fixed and current

## Business combinations

The acquisition of subsidiaries is accounted for using the purchase method The cost of the acquisition is measured as the aggregate of the fair values, at the completion date of assets acquired, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquired subsidiary The costs of acquisition are charged to the Consolidated income statement as an exceptional item in accordance with IFRS 3 (Revised)

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable intangible assets, assets, liabilities and contingent liabilities recognised If, after reassessment, which is a point in time greater than 12 months after the completion date, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds or is below the cost of the business combination, the excess or shortfall is recognised immediately in the income statement as an exceptional item

Adjustments to the provisional value of assets and liabilities acquired in a business combination when the final values have become known within 12 months are adjusted as if the accounting had been completed at the acquisition date and the comparative information for prior periods is restated accordingly

Any change in consideration, where previously estimated, is immediately recognised as an exceptional item in the income statement

Where less than 100% of a subsidiary is acquired but the Group has effective control, that subsidiary is accounted for as if 100% were acquired with the non controlling interest recognised appropriately

### Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and on-demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value Deposits are included within cash and cash equivalents where the maturity from commencement of the deposit is three months or less

### Derivative financial instruments and hedge accounting
The Group's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures The Group does not use derivative financial instruments for speculative purposes

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net income

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise and are disclosed separately in deriving the Group's adjusted operating profit

### Equity instruments
Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs

### Exceptional items
Items which are both material and non-recurring are presented as exceptional items within the relevant income statement category The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance Events which may give rise to the classification of items as exceptional, if of a significantly material value, include gains or losses on the disposal of a business, restructuring of a business, transaction costs, litigation and similar settlements asset impairments and onerous contracts

### Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes party to the contractual provisions of the instrument

### Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities

### 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 re-translated at the rates prevailing on the balance sheet date

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in the income statement for the year

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts The Group s accounting policies in respect of such derivative financial instruments are described above

These forward foreign exchange contracts are revalued to fair value at each balance sheet date with any movement included in the Consolidated income statement as part of the cost of sales and disclosed separately in deriving the Group's adjusted operating profit

### Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable intangible assets, assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses Goodwill which is recognised as an asset is reviewed for impairment biannually Any impairment is recognised immediately in the income statement as an exceptional item and is not subsequently reversed

For the purpose of impairment testing, goodwill is allocated to each of the Group's subsidiaries as appropriate Subsidiaries (cash generating units) to which goodwill has been allocated are tested for impairment biannually, or more frequently when there is an indication that the unit may be impaired If the recoverable amount of the subsidiary is less than the carrying amount of the subsidiary, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the subsidiary and then to the other assets of the subsidiary pro rata on the basis of the carrying amount of each asset in the subsidiary An impairment loss recognised for goodwill is not reversed in a subsequent period The impairment of goodwill is a critical judgement and estimate and is discussed in detail below

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal

### Impairment of tangible and intangible assets excluding goodwill
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment (if any)

Recoverable amount is the higher of fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted

If the recoverable amount of an asset (or subsidiary) is estimated to be less than its carrying amount, the carrying amount of the asset (subsidiary) is reduced to its recoverable amount An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

Where an impairment loss subsequently reverses, the carrying amount of the asset (subsidiary) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (subsidiary) in prior years A reversal of an impairment loss is recognised as income immediately

### Intangible assets
Intangible assets are recognised in respect of contracts, intellectual property rights and other measurable intangibles arising on business combinations The value of these intangible assets is determined by the estimated value to the Group going forward and the intangible assets are written off on a straight-line basis over the estimated useful life As discussed 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

### 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

### Revenue recognition
Revenue is recognised at the fair value of the consideration received or receivable for the provision of goods and services, excluding discounts, VAT and other sales related taxes

Sales of goods are recognised when goods are delivered and title has passed

The Group applies either IAS 11 'Construction Contracts' or IAS 18 'Revenue' to account for revenue depending on the nature of the arrangement with the customer The Group's arrangements fall into four main categories

#### 1 Time hire
Revenue is recognised in accordance with IAS 18 when the services are provided, i e when the employees undertake the work

#### 2 Managed services
In managed services, revenue is generally a fixed price for the provision of specific ongoing defined services (not the construction of an asset) over an agreed period These services include the provision of technical engineering support, maintaining help desks and consultancy Where the services comprise an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the period that the services are provided Where the services comprise one or more significant acts, revenue is recognised as each act is completed

#### 3 Product
Goods are delivered to customers and, on their acceptance by the customer, revenue is recognised At that point, the Group does not have any continuing involvement or control over the goods and all significant risks and rewards have been transferred to the customer

#### 4 System design, build, test and delivery
These contracts are typically for building complex custom designed assets which are usually components for use in larger customer owned assets These contracts are accounted for under IAS 11 The Group's contracts of this nature are generally fixed price and without "standalone" values for each element as the contracts are negotiated and ultimately delivered/accepted as a single package

In these contracts the revenue is recognised using the "percentage of completion" method in IAS 11

In almost all cases the percentage of completion is based on input measures (i e costs incurred as a proportion of estimated total costs) In some cases, an output measure based on surveys of work performed 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)

### Revenue recognition continued

#### 4 System design, build, test and delivery continued

In some cases, Group contracts can be divided into multiple elements with standalone values using either the principle in IAS 18 13 or the following criteria based on IAS 11 7–10

- separate 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

### 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 69 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 have expired, the relevant remaining contingencies are removed from the forecast total contract costs It is a critical judgement of the Directors as to both the level of contingency recognised and its retention or not

#### Acquisition of other intangible assets
Intangible assets other than goodwill that are obtained through acquisition are capitalised on the balance sheet These other intangible assets are valued on acquisition using a discounted cash flow methodology which depends on future assumptions about the revenue from contracts, prices and costs and on the Group's cost of capital These assumptions reflect management s best estimates but depend on inherent uncertainties which may not be within the control of management

### 2 Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows

#### Impairment of goodwill
The Group has significant goodwill balances, the life of which it considers to be indefinite It assesses biannually the recoverability of the balance, or more frequently in the event of an occurrence indicating impairment The assessment involves comparing the carrying amount of the asset with its recoverable amount, which is the greater of its value in use and net realisable value by reference to external measures

Value in use is determined using discounted cash flow techniques that involve the estimation of future cash flows over a long period and an appropriate discount rate

Future cash flows are estimated based on historical experience, internal estimates and data from external sources Such estimates are subject to change as a result of changes in economic and competitive conditions Higher estimates of future cash flows will increase the value in use of goodwill, but lower estimates of cash flows will reduce the value in use and increase the risk of impairment

Discount rates (weighted average cost of capital) are applied to the cash flows to arrive at the value in use An increase in the discount rate will reduce the value in use of the goodwill, and will therefore increase the risk of the value in use falling below the carrying value and resulting in an impairment provision being required A reduction in the discount rate decreases the likelihood of impairment

Future changes in interest rates, the premium that markets place on equity investments relative to risk free rates and the specific assessment of the capital markets as to the Group's risk relative to other companies can affect 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 9

#### Other
Where a reasonably possible change in a key assumption could give rise to a change in the amount reported, this is disclosed within the relevant note to the accounts

## Standards and interpretations issued as at 25 June 2015 not applied to these financial statements
A number of other standard amendments and International Financial Reporting Interpretations Committee (IFRIC Interpretations) have been issued and are yet to be applied by the Group The most significant of these are

1 IFRS 15 'Revenue from Contracts with Customers' This standard is effective from 1 January 2017 and will first apply to the Group's financial reporting for the year ending 30 April 2018

2 Leases for lessors This remains a proposed change No effective date for a standard has been published 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 LLP
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 Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

**Public and investor relations**
MHP Communications
6 Agar Street
London WC2N 4HN

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

### Share register

Capita Asset Services maintains the register of members of the Company

If you have any questions about your personal holding of the Company's shares, please contact

**Capita Asset Services**
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 20 8639 3399 )
Lines are open 9 00am to 5 30pm, Monday to Friday, excluding public holidays

**Facsimile** +44 (0) 20 8639 2220

**Email** shareholderenquiries@capita co uk

If you change your name or address or if details on the envelope enclosing this report, including your postcode, are incorrect or incomplete, please notify the registrars in writing

### Daily share price listings

- The Financial Times – AIM, Aerospace and Defence
- The Times – Engineering
- Daily Telegraph – AIM section
- London Evening Standard – AIM section

### Financial calendar

**Annual General Meeting**
22 September 2015

**Final dividend payable**
30 September 2015

**Expected announcements of results for the year ending 30 April 2016**

**Preliminary half-year announcement**
December 2015

**Preliminary full-year announcement**
June 2016

### Registered office

**Cohort plc**
Arlington House
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

## Five-year record

| | **2015** | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Headline results (£'000)** | | | | | |
| Revenue | **99,938** | 71,555 | 70,866 | 75,408 | 65,135 |
| Adjusted operating profit | **10,085** | 8,171 | 7 336 | 6,513 | 5,034 |
| **Adjusted earnings per share (pence)** | | | | | |
| Basic | **20 45** | 19 15 | 17 94 | 15 52 | 10 69 |
| Diluted | **20 00** | 18 66 | 17 68 | 15 50 | 10 69 |
| **Statutory earnings per share (pence)** | | | | | |
| Basic | **14 04** | 14 75 | 20 76 | 11 30 | 6 79 |
| Diluted | **13 74** | 14 37 | 20 46 | 11 28 | 6 79 |
| Net operating cash flow (£'000) | **18,798** | 2 576 | 4,090 | 8,424 | 6 512 |
| Net funds (£'000) | **19,687** | 16,338 | 16,426 | 14,140 | 6,733 |
| Order intake (£m) | **114 0** | 69 1 | 59 6 | 79 3 | 55 6 |
| Order book (£m) | **134 0**[1] | 81 7[2] | 95 7 | 107 1 | 103 2 |

1 The order book at 30 April 2015 is after including the acquired order books of MCL (£5 4m) on 9 July 2014 and J+S (£32 6m) on 1 October 2014

2 Order book at 30 April 2014 excludes SEA s Space business order book of £10 6m (2013 included £10 4m in respect of SEA s Space business)

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