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Cohort plc

13 December 2017

COHORT PLC

HALF YEAR RESULTS

FOR THE SIX MONTHS ENDED 31 OCTOBER 2017

"Good order prospects – strong second half expected"

Cohort plc, the independent technology group, today announces its final results for the six months ended 31 October 2017.

Highlights include:

- Order intake of £39.2m (2016: £40.5m).
- Closing order book of £132.1m (30 April 2017: £136.5m).
- Revenue of £44.8m (2016: £50.0m).
- Adjusted* operating profit of £3.6m (2016: £3.9m).
- Adjusted* earnings per share of 6.31p (2016: 5.99p).
- Net funds of £5.7m, down on the year end as expected (31 October 2016: £9.9m; 30 April 2017: £8.5m).
- Interim dividend increased by 16% to 2.55 pence per share (2016: 2.20 pence per share) reflecting the Board's confidence in the outlook for Cohort.
- Within the divisions, MASS produced the strongest result. SEA was in line with last year. EID was lower, as expected, whereas MCL was slightly lower than anticipated.
- The Group is well exposed to the main areas of UK MOD focus.
- Completion of recent M&A activity:
    - As announced on 22 August 2017, final £2.5m instalment paid for MCL.
    - As announced on 27 November 2017, a further 23% of EID acquired from the Portuguese Government for £3.5m, taking Group ownership to 80%.

** Adjusted figures exclude the effects of marking forward exchange contracts to market value, other exchange gains and losses, amortisation of other intangible assets and exceptional items.*

Looking forward

Stronger second half performance in prospect, maintaining our expectations for the year:

- Historic second half weighting expected to be repeated.
- Nearly £55m of the 31 October 2017 order book is deliverable in the second half and underpins 83% of the consensus forecast revenue for the full year, slightly better than at the same time last year.
- Prospects for further order intake in the second half across the Group are encouraging – as evidenced by the £10m contract award announced separately today.
- Benefit of five months' contribution from 80% of EID in the second half.

Nick Prest, Chairman, commented:

"The Group's first half results were slightly down on last year. In recent years the Group's results have been heavily weighted towards the second half and we expect this pattern to be repeated this year. The Group's closing order book and recent order wins support this outlook. The recent increased ownership of EID will enhance our earnings per share.

"Overall, allowing for the fact that we have proportionately more to do in the second half, and notwithstanding the pressures in the UK market, the Board's considered view is that Cohort will make further progress in 2017/18, and we maintain our expectations for the full year."

A presentation for analysts is being hosted today 13 December 2017 at 9.15am for 9.30am at MHP's offices.

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NOTES TO EDITORS

Cohort is the parent company of four innovative, agile and responsive businesses based in the UK and Portugal, providing a wide range of services and products for domestic and export customers in defence and related markets.

MASS is a specialist defence and technology business, focused on electronic warfare, information systems and cyber security.
www.mass.co.uk

MCL is an expert in the sourcing, design, integration and support of communications and surveillance technology for the defence and security markets.
www.marlboroughcomms.com

SEA is an advanced electronic systems and software house operating in the defence, transport and offshore energy markets.
www.sea.co.uk

EID designs and manufactures advanced communications systems for the defence and security markets.
www.eid.pt

Chairman's statement

Nick Prest CBE, Chairman

The Group's 2017/18 first half adjusted operating profit was lower than last year at £3.6m (2016: £3.9m) on lower revenue of £44.8m (2016: £50.0m). In recent years, the Group's results have been heavily weighted towards the second half and we expect this pattern to be repeated this year.

The first half included an improved profit performance at MASS, a level performance at SEA and the elimination of the losses incurred at SCS in the first half of last year, offset by reductions in comparative first half performance at EID and MCL. EID's result was partly due to an expected reduction in operating margin from the abnormally high level seen in 2016/17, but sales were also below our expectations due to some rescheduling of deliveries into the second half. At MCL we had expected some reduction in first half performance compared with 2016/17 due to a planned lower level of deliveries of hearing protection systems, but revenue was also affected by a UK customer's rescheduling of work.

As announced on 27 November 2017, we acquired a further 23.09% of EID for a total of £3.5m from the Portuguese Government on the same terms as our original 56.91% stake. The Portuguese Government retains the remaining 20% of EID, which we believe will be helpful to the business. The agreement we have signed with the Portuguese Government provides certain rights to the Government, most of which are typical for a minority interest, while ensuring Cohort has day-to-day control over EID.

In the last quarter of 2016/17, we acquired the remaining minority interest in MCL. The final earn out payment of £2.5m was paid in August 2017 and accounts for the expected reduction in the Group's net funds.

Key financials

The Group's revenue totalled £44.8m (2016: £50.0m), including £17.2m from MASS, £15.7m from SEA, £6.8m from EID and £5.1m from MCL.

For the six months ended 31 October 2017, the Group's adjusted operating profit was £3.6m (2016: £3.9m). This included contributions from MASS of £2.5m (2016: £2.4m), SEA of £1.0m (2016: £1.0m), EID of £1.2m (2016: £1.4m) and £0.2m from MCL (2016: £0.8m). The operating business of SCS was absorbed into MASS and SEA on 1 November 2016 and as a result the £0.5m loss of SCS in the first half of 2016 has not been repeated. For comparison, the contributions of the former SCS operations to MASS and SEA were £0.6m and £0.2m of adjusted operating profit for the six months ended 31 October 2017. Central costs were £1.3m (2016: £1.2m).

Cohort's operating profit, after recognising amortisation of intangible assets (£2.7m), was £0.8m (2016: loss of £3.2m).

Adjusted earnings per share for the six months ended 31 October 2017 increased by 5% to 6.31 pence (2016: 5.99 pence) reflecting the lower proportion of reported Group earnings attributable to the minority in the partially owned EID business. The tax rate in respect of the adjusted operating profit was 18.0% (2016: 18.0%). Basic earnings per share were 1.42 pence (2016: loss per share of 4.50 pence).

As signalled in June of this year when we reported our results for the year ended 30 April 2017, there was an operating cash inflow of £3.1m in the first half of the year (2016: outflow of £3.1m) reflecting an unwinding of the higher year end working capital position. This operating cash inflow has been offset by dividend payments (£2.0m), tax payments (£1.2m), capital expenditure (£0.2m) and the final payment for the acquisition of MCL (£2.5m), reducing the closing half year net funds to £5.7m (30 April 2017: £8.5m). We expect a cash inflow in the second half.

Our order intake for the first half was £39.2m (2016: £40.5m), excluding foreign exchange movements, resulting in a closing order book of £132.1m (30 April 2017: £136.5m). We expect a stronger second half, which has already started well with a number of key renewals and wins secured.

EID
EID's operating performance for the six months ended 31 October 2017 was below the four months ended 31 October 2016, £1.2m compared with £1.4m, despite an increase in revenue of nearly 50% from £4.6m to £6.8m.

In 2016/17 EID generated an operating margin of 30% in the first half and 26% over the full year. This was due to a combination of the cost/revenue pattern arising from it being only a ten month (four months in the first half) reporting period in Cohort ownership and an unusual sales mix, containing a large amount of higher margin maritime support work. We signalled in the 2017 financial results statement that we expected margins to revert to a more normal level in the current year and this has happened with EID generating a margin of 19% in the first half. Together with a smaller sales increase than we expected, resulting from the rescheduling of some deliveries into the second half to meet customer and supplier needs, this has led to a lower first half profit at EID.

The Group continued to own 57% of EID in the first half of this year, as it did for last year. The second half will benefit from the Group owning 80% as from 27 November 2017.

EID's order book of £29.7m at 31 October 2017 underpins all of its expected second half revenue and gives us confidence that EID will deliver at least in line with our expectations for the full year.

MASS
MASS's adjusted operating profit of £2.5m (2016: £2.4m) was above last year on higher revenue of £17.2m (2016: £14.5m). The improved result at MASS included a contribution from the Training Support Business of £0.6m of operating profit, this previously being part of SCS.

Elsewhere MASS continued to deliver well in its key EWOS business and recent developments in this area give us confidence that this business will remain a strong contributor to MASS's overall performance for the year and beyond.

Much of MASS's growth came from its cyber business, which includes the Metropolitan Police Service (MPS) Digital Forensic Programme secured at the end of 2016/17. There are opportunities to provide this service to other UK police forces as well as potentially to overseas customers, although the priority at this stage is full and effective delivery of the MPS programme.

Of MASS's closing order book of £42.6m, £15.0m is deliverable in the second half of the year. This level of underpinning and other opportunities give us confidence that MASS will have a stronger second half.

MCL
MCL's first half contribution of £0.2m (2016: £0.8m) on lower revenue of £5.1m (2016: £7.9m) was below our expectations. We did expect some reduction, reflecting the timing of deliveries of hearing protection systems, which were much higher in the first half of last year, but the result for MCL was also impaired by the slippage of some milestones on one of its development projects, where the UK customer rescheduled design acceptance.

Although reasonably well positioned for a much stronger second half, with a closing order book of £18.4m underpinning much of this, MCL is seeing a reduction in expenditure in some of its UK market areas, and this may affect MCL's second half revenue. The delayed development project mentioned above will also see revenue slip into 2018/19.

We nevertheless expect MCL's performance for the year as a whole to be similar to last year.

SEA
SEA's adjusted operating profit of £1.0m (2016: £1.0m) was on slightly lower revenue of £15.7m (2016: £18.0m). The net margin of 6.4% is higher than the first half of last year (5.7%). This improvement was due to increased deliveries of maritime systems to export customers offsetting a further reduction in SEA's research activity.

In SEA's Maritime division, deliveries of torpedo launch systems to export customers began, offsetting a relative lull in its activity on the UK submarine communication programmes due to a gap between substantive completion of design work for the Astute Class and the expected increase in activity on the Dreadnought Class.

SEA, like MCL, is seeing a lower level of spend in the UK, especially in its maritime support framework contracts.

As already mentioned, Research has continued to be weak with most land activity halted and the remaining SEA work focussed in the maritime area. As a result, SEA has taken action to mitigate costs and absorbed the reduced Research work into its Simulation, Support and Product (SSP) division.

Elsewhere in the SSP division, SEA's range of ROADflow products continues to see growth, especially of its new motion system which targets yellow box junctions and banned right turns. This division also contains some former SCS lines of business which contributed £0.2m of adjusted operating profit to this year's first half performance.

The oil and gas sector remains a challenging market, although SEA's business remains profitable, in part due to some reduction in overhead costs.

SEA's closing order book of £41.4m includes £16.6m of revenue to be delivered in the second half, a significant proportion of which is higher margin maritime systems work for export customers. SEA's pipeline of opportunities gives us confidence that it will have a much stronger second half. Overall, we expect SEA's performance to be similar to last year.

Dividend
The Board is proposing an increase of 16% in the interim dividend to 2.55 pence per share (2016: 2.20 pence). This increase reflects the Board's confidence in the outlook for Cohort and its commitment to a progressive dividend policy. The dividend is payable on 28 February 2018 to shareholders on the register at 2 February 2018.

Outlook
The Group's closing order book of £132.1m (30 April 2017: £136.5m), of which £55m is deliverable in the second half, and recent order wins, provide a good level of underpinning to the second half of the year. We therefore expect, as seen in the last few years, a much stronger performance in the second half. We also expect a net cash inflow in the second half. As already mentioned, we have acquired a further 23% of EID increasing our holding in EID to 80%, which will enhance our earnings per share.

In our key markets, we continue to see a focus by the UK MOD on areas in which we have strong and relevant capabilities, in particular submarines, Special Forces, cyber defence and secure communications. In other areas in which we are involved, for example research and product support for some in-service equipment, we have experienced lower demand, with purchases either reduced or delayed or both.

Elsewhere, our other home market, Portugal, is seeing a relatively robust level of spend with upgrades to both maritime and land communication systems, much of this work benefitting EID. The recently announced Portuguese Defence budget shows an increase in procurement spend of around 9% in 2018 over 2017.

We continue to focus on building our presence in export markets through business development activities and development and adaptation of selected product and service offerings. Having completed our recent M&A activity of EID and MCL, we have the resources to continue our search for complementary, selective acquisitions.

Overall, allowing for the fact that we have proportionately more to do in the second half, and notwithstanding the pressures in the UK market, the Board's considered view is that Cohort will make further progress in 2017/18, and we maintain our expectations for the full year.

Nick Prest CBE
Chairman

Consolidated income statement

for the six months ended 31 October 2017

	Notes	**Six months ended 31 October 2017 Unaudited £'000**	Six months ended 31 October 2016 Unaudited £'000	Year ended 30 April 2017 Audited £'000
Revenue	2	**44,805**	50,039	112,651
Cost of sales		**(29,069)**	(33,673)	(73,676)
Gross profit		**15,736**	16,366	38,975
Administrative expenses		**(14,935)**	(19,607)	(38,012)
Operating profit/(loss)	2	**801**	(3,241)	963
Operating profit comprises:				
Adjusted operating profit	2	**3,635**	3,872	14,489
(Charge)/credit on marking forward exchange contracts to market value at the period end (included in cost of sales)		**(178)**	163	171
Foreign exchange gain on marking cash held (in Euros) for the purchase of EID to market value at the period end (included in administrative expenses)		**—**	15	259
Amortisation of other intangible assets (included in administrative expenses)		**(2,656)**	(5,012)	(11,259)
Exceptional items:				
Cost of acquiring EID (included in administrative expenses)	7	**—**	(79)	(80)
Cost of acquisition of MCL (included in administrative expenses)	8	**—**	—	(47)
Reorganisation of SCS (included in administrative expenses)		**—**	(2,200)	(2,570)
Operating profit/(loss)		**801**	(3,241)	963
Finance income		**8**	37	47
Finance costs		**(39)**	(44)	(46)
Profit/(loss) before tax		**770**	(3,248)	964
Income tax (expense)/credit	3	**(138)**	586	1,144
Profit/(loss) for the period		**632**	(2,662)	2,108
Attributable to:				
Equity holders of the parent		**580**	(1,860)	3,672
Non-controlling interests		**52**	(802)	(1,564)
		632	(2,662)	2,108

Earnings/(loss) per share		**Pence**	Pence	Pence
Basic	4	**1.43**	(4.50)	9.09
Diluted	4	**1.41**	(4.50)	8.97

All profit for the period is derived from continuing operations.

Consolidated statement of comprehensive income

for the six months ended 31 October 2017

	Six months ended 31 October 2017 Unaudited £'000	Six months ended 31 October 2016 Unaudited £'000	Year ended 30 April 2017 Audited £'000
Profit/(loss) for the period	**632**	(2,662)	2,108
Foreign currency translation differences on net assets of EID	**325**	459	95
Other comprehensive income for the period, net of tax	**325**	459	95
Total comprehensive income/(expense) for the period	**957**	(2,203)	2,203
Attributable to:			
Equity shareholders of the parent	**771**	(1,846)	3,959
Non-controlling interests	**186**	(357)	(1,756)
	957	(2,203)	2,203

Consolidated statement of changes in equity

for the six months ended 31 October 2017

	Attributable to the equity shareholders of the parent								
	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
At 1 May 2016	4,096	29,657	(2,735)	1,067	(5,500)	38,394	64,979	5,810	70,789
Loss for the period	—	—	—	—	—	(1,860)	(1,860)	(802)	(2,662)
Other comprehensive income	—	—	—	—	—	14	14	445	459
Total comprehensive expense for the period	—	—	—	—	—	(1,846)	(1,846)	(357)	(2,203)
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Equity dividend	—	—	—	—	—	(1,651)	(1,651)	—	(1,651)
Vesting of Restricted Shares	—	—	—	—	—	110	110	—	110
Own shares purchased	—	—	(109)	—	—	—	(109)	—	(109)
Own shares sold	—	—	335	—	—	—	335	—	335
Net loss on selling own shares	—	—	667	—	—	(667)	—	—	—
Share-based payments	—	—	—	100	—	—	100	—	100
Introduction of non-controlling interest on acquisition of EID	—	—	—	—	—	—	—	5,176	5,176
At 31 October 2016	4,096	29,657	(1,842)	1,167	(5,500)	34,340	61,918	10,629	72,547
At 1 May 2016	4,096	29,657	(2,735)	1,067	(5,500)	38,394	64,979	5,810	70,789
Profit for the year	—	—	—	—	—	3,672	3,672	(1,564)	2,108
Other comprehensive income for the year	—	—	—	—	—	287	287	(192)	95
Total comprehensive income for the year	—	—	—	—	—	3,959	3,959	(1,756)	2,203
Transactions with owners of Group and non-controlling interests, recognised directly in equity									
Equity dividends	—	—	—	—	—	(2,544)	(2,544)	—	(2,544)
Vesting of Restricted Shares	—	—	—	—	—	117	117	—	117
Own shares purchased	—	—	(109)	—	—	—	(109)	—	(109)
Own shares sold	—	—	583	—	—	—	583	—	583
Net loss on selling own shares	—	—	1,119	—	—	(1,119)	—	—	—
Share-based payments	—	—	—	221	—	—	221	—	221
Deferred tax adjustment in respect of share-based payments	—	—	—	(336)	—	—	(336)	—	(336)
Transfer of share option reserve on vesting of options	—	—	—	(169)	—	169	—	—	—
Non-controlling interest introduced on acquisition of EID	—	—	—	—	—	—	—	5,115	5,115
Effect of acquisition of non-controlling interest in MCL	—	—	—	—	5,035	(2,075)	2,960	(5,011)	(2,051)
At 30 April 2017	4,096	29,657	(1,142)	783	(465)	36,901	69,830	4,158	73,988
At 1 May 2017	4,096	29,657	(1,142)	783	(465)	36,901	69,830	4,158	73,988
Profit for the period	—	—	—	—	—	580	580	52	632
Other comprehensive income	—	—	—	—	—	191	191	134	325
Total comprehensive income for the period	—	—	—	—	—	771	771	186	957
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Equity dividend	—	—	—	—	—	(1,999)	(1,999)	—	(1,999)
Vesting of Restricted Shares	—	—	—	—	—	175	175	—	175
Own shares purchased	—	—	(752)	—	—	—	(752)	—	(752)
Own shares sold	—	—	559	—	—	—	559	—	559
Net loss on selling own shares	—	—	616	—	—	(616)	—	—	—
Share-based payments	—	—	—	100	—	—	100	—	100
Effect of acquisition of non-controlling interest in MCL	—	—	—	—	465	—	465	—	465
At 31 October 2017	**4,096**	**29,657**	**(719)**	**883**	**—**	**35,232**	**69,149**	**4,344**	**73,493**

Consolidated statement of financial position

as at 31 October 2017

	Notes	**31 October 2017 Unaudited £'000**	31 October 2016 Unaudited £'000	30 April 2017 Audited £'000
Assets				
Non-current assets				
Goodwill		**39,156**	39,075	39,156
Other intangible assets		**8,824**	17,727	11,480
Property, plant and equipment		**9,520**	10,377	9,938
Deferred tax asset		**813**	1,054	833
		58,313	68,233	61,407
Current assets				
Inventories		**7,397**	6,105	5,296
Trade and other receivables		**38,908**	31,793	38,010
Derivative financial instruments		**132**	133	148
Cash and cash equivalents		**11,450**	13,699	12,017
		57,887	51,730	55,471
Total assets		**116,200**	119,963	116,878
Liabilities				
Current liabilities				
Trade and other payables		**(33,251)**	(31,259)	(34,285)
Current tax liabilities		**(386)**	(407)	—
Bank borrowings		**(5,698)**	(3,782)	(3,540)
Provisions		**(753)**	(1,778)	(1,377)
Other creditors	8	—	(5,500)	(465)
		(40,088)	(42,726)	(39,667)
Non-current liabilities				
Deferred tax liability		**(1,933)**	(4,111)	(2,483)
Bank borrowings		**(3)**	(6)	(5)
Provisions		**(683)**	(573)	(735)
		(2,619)	(4,690)	(3,223)
Total liabilities		**(42,707)**	(47,416)	(42,890)
Net assets		**73,493**	72,547	73,988
Equity				
Share capital		**4,096**	4,096	4,096
Share premium account		**29,657**	29,657	29,657
Own shares		**(719)**	(1,842)	(1,142)
Share option reserve		**883**	1,167	783
Other reserve: option for acquiring non-controlling interest in MCL	8	—	(5,500)	(465)
Retained earnings		**35,232**	34,340	36,901
Total equity attributable to the equity shareholders of the parent		**69,149**	61,918	69,830
Non-controlling interests		**4,344**	10,629	4,158
Total equity		**73,493**	72,547	73,988

Consolidated cash flow statement

for the six months ended 31 October 2017

	Notes	**Six months ended 31 October 2017 Unaudited £'000**	Six months ended 31 October 2016 Unaudited £'000	Year ended 30 April 2017 Audited £'000
Net cash generated from/(used in) operating activities	6	**1,944**	(4,314)	659
Cash flow from investing activities				
Interest received		**8**	33	47
Purchases of property, plant and equipment		**(154)**	(456)	(875)
Acquisition of non-controlling interest in MCL	8	**(2,529)**	—	(5,080)
Acquisition of EID, net of cash acquired	7	—	(4,045)	(4,045)
Net cash used in investing activities		**(2,675)**	(4,468)	(9,953)
Cash flow from financing activities				
Equity dividends paid		**(1,999)**	(1,651)	(2,544)
Repayment of borrowings		**(2)**	(1)	(3)
Loan drawdown for acquisition of non-controlling interest in MCL	8	**2,000**	—	—
Purchase of own shares		**(752)**	(109)	(109)
Sale of own shares		**559**	335	583
Net cash used in financing activities		**(194)**	(1,426)	(2,073)
Net decrease in cash and cash equivalents		**(925)**	(10,208)	(11,367)
Represented by:				
Cash and cash equivalents brought forward		**12,017**	23,109	23,109
Cash flow		**(925)**	(10,208)	(11,367)
Exchange		**358**	798	275
Cash and cash equivalents carried forward		**11,450**	13,699	12,017

Notes to the interim report

for the six months ended 31 October 2017

1. Basis of preparation

The financial information contained within this Interim Report has been prepared applying the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU and expected to apply at 30 April 2018. As permitted, this Interim Report has been prepared in accordance with the AIM Rules for Companies and is not required to comply with IAS 34 'Interim Financial Reporting' to maintain compliance with IFRS. This Interim Report is presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

For management and reporting purposes, the Group, for the period just ended, operated through its four subsidiaries: EID, MASS, MCL and SEA. These subsidiaries are the basis on which the Company, Cohort plc, reports its primary segment information. For the period ended 31 October 2016, SCS was reported separately by the Group. The SCS business was reported as part of MASS and SEA as from 1 November 2016.

Going concern

The Company has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Company is well placed to manage its business risks successfully.

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 of accounting in preparing this Interim Report.

In accordance with Section 434 of the Companies Act 2006, the unaudited results do not constitute statutory financial statements of the Company. The six months' results for both years are unaudited.

(A) Statutory accounts

The financial information set out above does not constitute the Group's statutory accounts for the year ended 30 April 2017. KPMG LLP has reported on these accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

(B) Statement of compliance

The accounting policies applied by the Group in its consolidated financial statements for the year ended 30 April 2017 are in accordance with IFRS as adopted by the European Union. The accounting policies have been applied consistently to all periods presented in the consolidated financial statements.

The Interim Report was approved by the Board and authorised for issue on 13 December 2017.

2. Segmental analysis of revenue and adjusted operating profit

	Six months ended 31 October 2017 Unaudited £'000	Six months ended 31 October 2016 Unaudited £'000	Year ended 30 April 2017 Audited £'000
Revenue			
EID	**6,759**	4,630	16,023
MASS	**17,192**	14,488	32,655
MCL	**5,148**	7,911	14,761
SCS	—	5,034	5,034
SEA	**15,706**	18,009	44,419
Inter-segment revenue	—	(33)	(241)
	44,805	50,039	112,651
Operating profit comprises:			
Trading profit/(loss) of:			
EID	**1,203**	1,406	4,234
MASS	**2,549**	2,400	5,908
MCL	**167**	753	2,053
SCS	—	(455)	(455)
SEA	**1,014**	1,020	5,294
Central costs	**(1,298)**	(1,252)	(2,545)
Adjusted operating profit	**3,635**	3,872	14,489
(Charge)/credit on marking forward exchange contracts to market value at the period end	**(178)**	163	171
Foreign exchange gain on marking cash held (in Euros) for the purchase of EID to market value at the period end	—	15	259
Amortisation of intangible assets	**(2,656)**	(5,012)	(11,259)
Exceptional items	—	(2,279)	(2,697)
Operating profit/(loss)	**801**	(3,241)	963

All revenue and adjusted operating profit is in respect of continuing operations. SCS's revenue and adjusted operating profit have been reported as part of MASS and SEA as from 1 November 2016. SCS is not reported separately for the six months ended 31 October 2017.

The operating profit as reported under IFRS is reconciled to the adjusted operating profit as reported above by the exclusion of marking forward exchange contracts to market value at the period end, other exchange gains and losses, exceptional items and the amortisation of other intangible assets.

The adjusted operating profit is presented in addition to the operating profit to provide the trading performance of the Group as derived from its constituent elements on a comparable basis from period to period.

The Group's adjusted operating profit includes the cost of share options of £100,000 for the six months ended 31 October 2017 (six months ended 31 October 2016: £100,000; year ended 30 April 2017: £221,000) and is applied to each reporting segment in proportion to the number of employees in the Group's various share option schemes.

The chief operating decision-maker as defined by IFRS 8 has been identified as the Board.

Revenue analysis by sector and type of deliverable

	Six months ended 31 October 2017 Unaudited		Six months ended 31 October 2016 Unaudited		Year ended 30 April 2017 Audited	
	£m	**%**	£m	%	£m	%
By sector						
UK defence and security	**26.0**	**58**	32.3	65	67.4	60
Portugal defence and security	**2.9**	**6**	1.2	2	2.4	2
Export defence customers	**9.7**	**22**	11.1	22	32.1	28
Defence and security revenue	**38.6**	**86**	44.6	89	101.9	90
Transport	**3.1**		2.3		5.9	
Offshore energy	**0.8**		1.2		1.9	
Other commercial	**2.3**		1.9		3.0	
Non-defence revenue	**6.2**	**14**	5.4	11	10.8	10
Total revenue	**44.8**	**100**	50.0	100	112.7	100

The defence and security revenue is further analysed into the following:

	Six months ended 31 October 2017 Unaudited		Six months ended 31 October 2016 Unaudited		Year ended 30 April 2017 Audited	
	£m	**%**	£m	%	£m	%
By market segment						
Maritime combat systems	**12.4**	**28**	13.0	26	32.9	29
C4ISTAR	**12.1**	**27**	16.7	33	39.8	35
Cyber security and secure networks	**7.4**	**16**	6.4	13	13.7	12
Simulation and training	**3.5**	**8**	4.0	8	9.2	8
Research, advice and support	**2.3**	**5**	3.6	7	4.9	5
Other	**0.9**	**2**	0.9	2	1.4	1
Total defence and security revenue	**38.6**	**86**	44.6	89	101.9	90

The Group's total revenue in terms of type of deliverable is analysed as follows:

	Six months ended 31 October 2017 Unaudited		Six months ended 31 October 2016 Unaudited		Year ended 30 April 2017 Audited	
	£m	**%**	£m	%	£m	%
Product (hardware and/or software)	**10.3**	**23**	13.9	28	32.8	29
Customised systems or sub-systems (hardware and/or software)	**13.5**	**30**	12.6	25	31.9	28
Services	**21.0**	**47**	23.5	47	48.0	43
Total revenue	**44.8**	**100**	50.0	100	112.7	100

3. Income tax expense/(credit)

The income tax expense/(credit) comprises:

	Six months ended 31 October 2017 Unaudited £'000	Six months ended 31 October 2016 Unaudited £'000	Year ended 30 April 2017 Audited £'000
Current tax: in respect of this period	**371**	97	1,466
Current tax: in respect of prior periods	—	—	(845)
Portugal corporation tax: in respect of this year	**289**	310	965
Other foreign corporation tax: in respect of this year	—	—	13
	660	407	1,599
Deferred taxation: in respect of this period	**(522)**	(993)	(2,798)
Deferred taxation: in respect of prior years	—	—	55
	(522)	(993)	(2,743)
	138	(586)	(1,144)

The income tax expense for the six months ended 31 October 2017 is based upon the anticipated charge for the full year ending 30 April 2018.

4. Earnings per share

The earnings per share are calculated as follows:

	Six months ended 31 October 2017 Unaudited £'000	Six months ended 31 October 2016 Unaudited £'000	Year ended 30 April 2017 Audited £'000
Earnings			
Basic and diluted earnings/(loss)	**580**	(1,810)	3,672
Charge/(credit) on marking forward exchange contracts and cash held for the acquisition of EID to market value at the period end/acquisition date (net of income tax)	**143**	(142)	(344)
Exceptional items (net of income tax):			
Reorganisation of SCS	—	1,840	2,058
Cost on acquisition of EID	—	79	80
Cost on acquisition of MCL	—	—	47
Group's share of amortisation of intangible assets (net of income tax)	**1,845**	2,443	5,773
Adjusted basic and diluted earnings	**2,568**	2,410	11,286

	Number	Number	Number
Weighted average number of shares			
For the purposes of basic earnings per share	**40,718,133**	40,260,946	40,400,179
Share options	**547,477**	601,956	553,515
For the purposes of diluted earnings per share	**41,265,610**	40,862,902	40,953,694

The weighted average number of ordinary shares for the six months ended 31 October 2017 excludes 193,169 ordinary shares held by the Cohort plc Employee Benefit Trust (which do not receive a dividend) for the purposes of calculating earnings per share (six months ended 31 October 2016: 504,844; year ended 30 April 2017: 315,248).

	Six months ended 31 October 2017 Unaudited Pence	Six months ended 31 October 2016 Unaudited Pence	Year ended 30 April 2017 Audited Pence
Earnings/(loss) per share			
Basic	**1.42**	(4.50)	9.09
Diluted	**1.41**	(4.50)	8.97
Adjusted earnings per share			
Basic	**6.31**	5.99	27.93
Diluted	**6.22**	5.90	27.56

5. Dividends

	Six months ended 31 October 2017 Unaudited Pence	Six months ended 31 October 2016 Unaudited Pence	Year ended 30 April 2017 Audited Pence
Dividends per share proposed in respect of the period			
Interim	**2.55**	2.20	2.20
Final	—	—	4.90

The interim dividend for the six months ended 31 October 2017 is 2.55 pence (six months ended 31 October 2016: 2.20 pence) per ordinary share. This dividend will be payable on 28 February 2018 to shareholders on the register at 2 February 2018. The dividend reinvestment plan election deadline is 9 February 2018.

The final dividend charged to the income statement for the year ended 30 April 2017 was 6.30 pence per ordinary share, comprising 2.20 pence of interim dividend for the six months ended 31 October 2016 and 4.10 pence of final dividend for the year ended 30 April 2016.

6. Net cash generated from/(used in) operating activities

	Six months ended 31 October 2017 Unaudited £'000	Six months ended 31 October 2016 Unaudited £'000	Year ended 30 April 2017 Audited £'000
Profit/(loss) for the period	**632**	(2,662)	2,108
Adjustments for:			
Tax expense/(credit)	**138**	(586)	(1,144)
Depreciation of property, plant and equipment	**577**	627	1,207
Amortisation of intangible assets	**2,656**	5,012	11,259
Net finance costs/(income)	**31**	7	(1)
Share-based payment	**100**	100	221
Derivative financial instruments and foreign exchange movements	**178**	(178)	(430)
(Decrease)/increase in provisions	**(675)**	(292)	297
Operating cash flow before movements in working capital	**3,637**	2,028	13,517
Increase in inventories	**(2,101)**	(2,356)	(1,386)
(Increase)/decrease in receivables	**(1,151)**	2,910	(3,002)
Increase/(decrease) in payables	**2,818**	(5,652)	(5,815)
	(434)	(5,098)	(10,203)
Cash generated from/(used in) operations	**3,203**	(3,070)	3,314
Tax paid	**(1,220)**	(1,200)	(2,609)
Interest paid	**(39)**	(44)	(46)
Net cash generated from/(used in) operating activities	**1,944**	(4,314)	659

7. Acquisition of part of the non-controlling interest in Empresa de Investigação e Desenvolvimento de Electrónica S.A. (EID)

As announced on 27 November 2017, the Group acquired a further 23.09% of EID from the non-controlling interest (the Portuguese Government) for €3.97m (£3.53m). This further acquisition was on the same terms as the initial 56.89% stake in EID, signed 4 August 2015.

The Group now owns 80.0% of EID with the Portuguese Government (through the Portuguese MOD) owning the remaining 20.0% (non-controlling interest).

On acquiring this additional stake in EID, a shareholder agreement has been put in place which gives the Portuguese Government similar rights to a minority shareholder whilst ensuring that Cohort retains day-to-day management control.

In acquiring the further 23.09% of EID, the Group drew down €3.95m (£3.51m) on its loan facility.

8. Acquisition of the non-controlling interest in Marlborough Communications Ltd (MCL)

On 31 January 2017, the Group acquired the non-controlling interest (49.999%) in MCL. An amount of £2,471,000 was shown as payable at 30 April 2017 to the former shareholders of MCL. The final amount of £2,529,000 was paid on 21 August 2017 and at the same time the Group drew down £2,000,000 of its loan facility with the banks, which remained drawn as at 31 October 2017.

Independent review report to Cohort plc

for the six months ended 31 October 2017

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 31 October 2017 which comprises the consolidated income statement, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 October 2017 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and the AIM Rules.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly report in accordance with the AIM Rules.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The Directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with the recognition and measurement requirements of IFRSs as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Andrew Campbell-Orde for and on behalf of KPMG LLP Chartered Accountants
Arlington Business Park
Theale
Reading RG7 4SD
13 December 2017