Cohort plc

2017 Highlights

Innovative technologies for defence markets

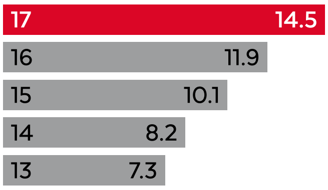
Cohort is the parent company of four innovative, agile and responsive businesses providing a wide range of services and products for British, Portuguese and international customers in defence and related markets.

EID mass MCL sea

Financial highlights

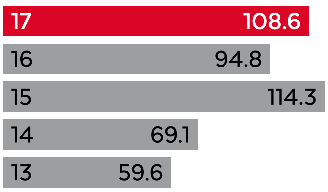
Adjusted operating profit (£m)[1]

£14.5m
+21.8%



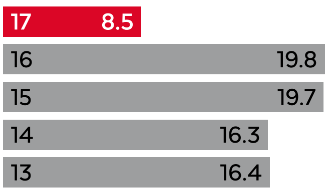
Order intake (£m)

£108.6m
+14.5%



Net funds (£m)

£8.5m
-57%

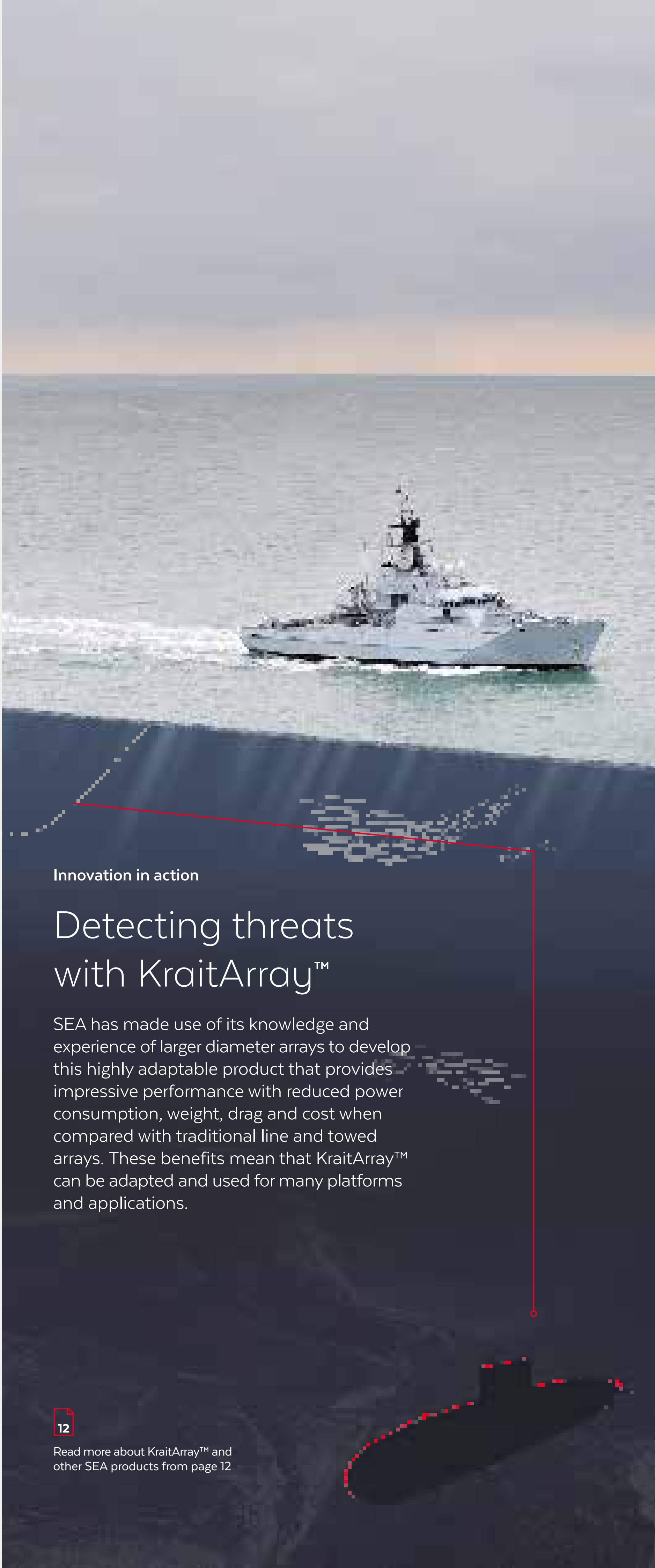


1 Excludes exceptional items, amortisation of other intangible assets and non-trading exchange differences, including marking forward exchange contracts to market.

Operational highlights

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

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



Innovation in action

Detecting threats with KraitArray™

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

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

Our mission:

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

Our businesses

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

EID

eid.pt

Revenue (£m)

£16.0m

for ten months

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

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

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

Business areas
- Tactical Communications
- Naval Communications

MASS

mass.co.uk

Revenue (£m)

£32.5m

+1%

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

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

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

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

MCL

marlboroughcomms.com

Revenue (£m)

£14.8m

+8%

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

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

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

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

sea sea.co.uk

Revenue (£m)

£44.4m

-9%

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

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

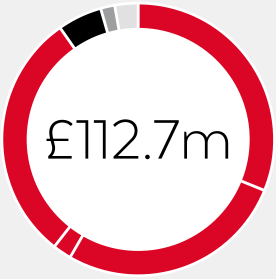
SEA was founded in 1988 and is led by its Managing Director, Steve Hill.

Business areas

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

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

Total revenue by market (£m)



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

1 Where the Group acts as a subcontractor or partner.

Total revenue by capability (£m)

Capability	Businesses	Description	2017	2016
Defence products and systems	EID MASS MCL SEA	The design, supply and support of such equipment, systems and its associated embedded software, as well as the integration of commercial 'off the shelf' equipment for specialist applications.	63.6	47.0
Application software	EID MASS MCL SEA	The design and supply of specialist software systems such as MASS's work on Project SHEPHERD and SEA's work for its transport and defence customers.	11.1	8.7
Secure networks	EID MASS MCL SEA	The provision of advice and system implementation to protect against cyber attack and other threats.	9.7	7.9
Operational support	EID MASS MCL SEA	The provision of direct support to active operations which takes place at MASS through its Electronic Warfare Operational Support activities, and at SEA in defence and offshore energy.	9.0	11.3
Specialist expertise	EID MASS MCL SEA	The provision of expert individuals as part of a customer's team.	6.8	12.0
Training	EID MASS MCL SEA	This includes formal, on-the-job and scenario-based training services. An example is MASS's provision of exercise-based training for the UK's Joint Forces Command.	6.4	10.7
Studies and analysis	EID MASS MCL SEA	Other self-contained studies, consultancy and analytical work such as SEA's work on the Protector UAV.	4.7	8.9
Applied research	EID MASS MCL SEA	The management and execution of scientific investigation work aimed at specific objectives.	1.4	6.1

Sustained strong business performance

Highlights

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

> The Cohort businesses have strong and relevant capabilities, established positions on some key long-term UK MOD programmes, and a good pipeline of new opportunities.
>
> As always, my thanks go to all staff within the businesses. Their hard work, skill and ability to deliver what the customer needs are what continues to drive the performance of our Group.

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

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

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

Key financials

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

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

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

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

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

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

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

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

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

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

> The strong initial contribution from EID exceeded our expectations. A relatively high gross margin was the result of a rich mix of work, with higher than usual levels of naval system support work and deliveries of vehicle intercom and related systems to export customers.

Dividends

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

EID

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

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

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

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

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

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

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

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

MASS

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

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

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

MCL

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

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

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

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

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

SEA

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

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

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

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

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

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

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

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

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

Cash

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

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

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

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

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

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

Board, management and staff

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

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

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

Outlook

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

As regards Brexit, Defence trade has not been part of the single market and, in any case, our business from the UK into EU countries is currently small (£3.1m in 2017; £1.0m in 2016). We do not therefore anticipate any direct effects upon Cohort from the Brexit process. In the longer term there could be indirect effects, resulting from the broad economic and political consequences of Brexit. Whether these will be favourable or unfavourable is not possible to say. The job of the Cohort Board is to manage our affairs so that our businesses prosper whatever the political and economic backdrop.

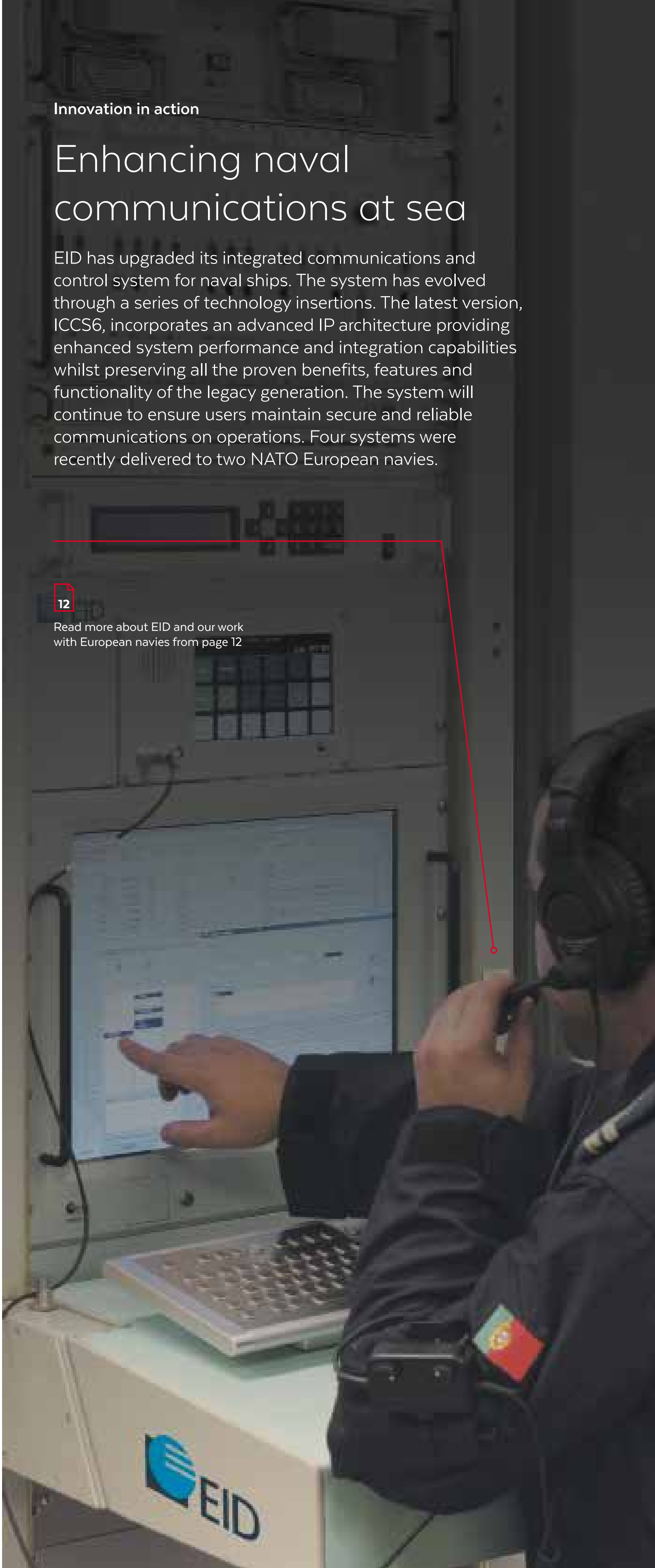
Our collective experience of Defence business, our size and decentralised management structure, which together enable us to make quick decisions, and our focus on niche product and service offerings, for which demand is increasing both domestically and internationally, are the keys to this.

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

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

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

Nick Prest CBE
Chairman



Innovation in action

Enhancing naval communications at sea

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

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

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

Our business model

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

Our acquisition approach

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

Standalone acquisitions

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

Bolt-in acquisitions

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

Bringing significant competitive advantages

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

Agility

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

Strength

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

Market access

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

Delivering stakeholder returns

We are committed to delivering value to shareholders and ensuring they benefit from our success in the form of dividends

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

Our strategy

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

Organic growth

Consistently grow profits and cash generation organically through our subsidiaries.

Delivered through

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

What we did in 2016/17

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

Our priorities for 2017/18

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

Acquisitions

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

Delivered through

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

What we did in 2016/17

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

Our priorities for 2017/18

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

Maintain confidence

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

Delivered through

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

What we did in 2016/17

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

Our priorities for 2017/18

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

10

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

Measuring our progress

Change in revenue

Changes in total Group revenue compared to the prior year.

–%

Why is it measured?

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

Comment

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

Change in adjusted operating profit

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

22%

Why is it measured?

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

Comment

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

Order book visibility

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

55%

Why is it measured?

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

Comment

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

Change in adjusted earnings per share

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

3%

Why is it measured?

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

Comment

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

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

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

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

Operating cash conversion

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

27%

17	27%
16	73%

Why is it measured?

Operating cash conversion measures the ability of the Group to convert profit into cash.

Comment

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

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

Innovation in action

Reducing congestion with ROADflow Motion

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

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

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

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

A good pipeline of prospects for continued progress

Highlights

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

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

Operating review

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

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

Adjusted operating profit by subsidiary:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

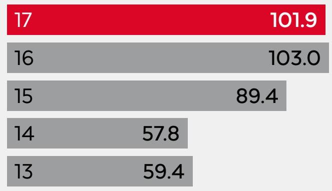
In contrast, MCL delivered strong adjusted operating profit growth of 50% on an 8% increase in revenue. This was mostly due to favourable mix with higher margin support work being delivered in the final quarter, which is historically the strongest period for MCL.

Revenue share

Defence & Security revenue (£m)

£101.9m

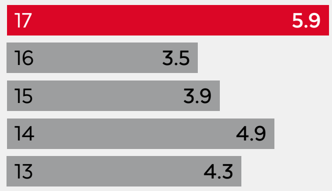
-1.1%



Transport revenue (£m)

£5.9m

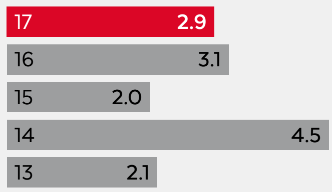
+68.6%



Other commercial revenue (£m)

£2.9m

-6.5%



Operating review continued

Adjusted operating profit by subsidiary continued

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

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

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

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

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

Operating strategy

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

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

EID operates through two market-facing divisions:

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

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

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

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

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

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

Within our markets we have sought to use our agility and innovation to identify niches where future prospects are attractive and where we have some sustainable competitive advantage. These can be for products, services or high value one-off projects to design bespoke equipment or software. Examples include MASS's electronic warfare operational support offerings, SEA's External Communication System (ECS) for submarines and MCL's range of hearing protection systems. We have also been active in finding new customers for the capabilities we have developed, both in export markets and for non-defence purposes. During the recent year we have continued to widen the customer base for our network security offering and extended the application of our ROADflow product to address moving traffic offences, in particular yellow box junctions and banned right turns.

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

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

Acquisitions

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

Innovation in action

Protecting the hearing of the armed forces

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

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Read more about other MCL products and partnerships from page 12

Operating review continued

Acquisitions continued

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

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

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

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

Divisional review

EID

	2017 £m	2016 £m
Revenue	**16.0**	–
Adjusted operating profit	**4.2**	–
Operating cash flow	**4.1**	–

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

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

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

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

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

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

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

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

Divisional review

MASS

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

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

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

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

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

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

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

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

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

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

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

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

Divisional Review
MCL

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

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

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

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

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

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

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

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

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

Divisional review
SEA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operating review continued

Revenue by market and business continued

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

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

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

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

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

Revenue breakdown by capability

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

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

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

Notable changes between 2016 and 2017 were:

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

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

Innovation in action

Delivering digital evidence to police forces

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

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

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
Shoosmiths LLP
Apex Plaza
Forbury Road
Reading RG1 1SH

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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
Barclays
Level 27, 1 Churchill Place
London E14 5HP

Lloyds Bank
The Atrium
Davidson House
Forbury Square
Reading RG1 3EU

RBS
Abbey Gardens
4 Abbey Street
Reading RG1 3BA

Shareholders' enquiries
If you have an enquiry about the Company's business, or about something affecting you as a shareholder (other than queries which are dealt with by the registrars), you should contact the Company Secretary by letter to the Company's registered office or by email to info@cohortplc.com.

Share register
Capita Asset Services maintains the register of members of the Company.

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

Capita Asset Services
Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300 (calls cost 12 pence per minute plus your phone company's access charge). (From outside the UK: +44 20 8639 3399, calls will be charged at the applicable international rate). Lines are open 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Email: shareholderenquiries@capita.co.uk

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

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

Financial calendar

Annual General Meeting
7 September 2017

Final dividend payable
13 September 2017

Expected announcements of results for the year ending 30 April 2018

Preliminary half year announcement
12 December 2017

Preliminary full year announcement
3 July 2018

Registered office
Cohort plc
2 Waterside Drive
Arlington Business Park
Theale
Reading RG7 4SW

Registered company number of Cohort plc
05684823

Cohort plc is a company registered in England and Wales.

	2017	2016	2015	2014	2013
Headline results (£'000)					
Revenue	**112,651**	112,577	99,938	71,555	70,866
Adjusted operating profit	**14,489**	11,902	10,085	8,171	7,336
Adjusted earnings per share (pence)					
Basic	**27.93**	27.18	20.45	19.15	17.94
Diluted	**27.56**	26.67	20.00	18.66	17.68
Statutory earnings per share (pence)					
Basic	**9.09**	19.14	14.04	14.75	20.76
Diluted	**8.97**	18.78	13.74	14.37	20.46
Net operating cash flow (£'000)	**659**	6,718	18,798	2,576	4,090
Net funds (£'000)	**8,472**	19,805	19,687	16,338	16,426
Order intake (£m)	**108.6**	94.8	114.3	69.1	59.6
Order book (£m)	**136.5**[1]	116.0	134.0[2]	81.7[3]	95.7

1 The order book at 30 April 2017 is after including the acquired order book of EID (£23.1m) on 28 June 2016.

2 The order book at 30 April 2015 is after including the acquired order books of MCL (£5.4m) on 9 July 2014 and J+S (£32.6m) on 1 October 2014.

3 The order book at 30 April 2014 excludes SEA's Space business order book of £10.6m (2013 included £10.4m in respect of SEA's Space business).

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Cohort plc 2017 Highlights