Cohort plc

Applying advanced technology to protect and secure

Annual Report and Accounts 2019

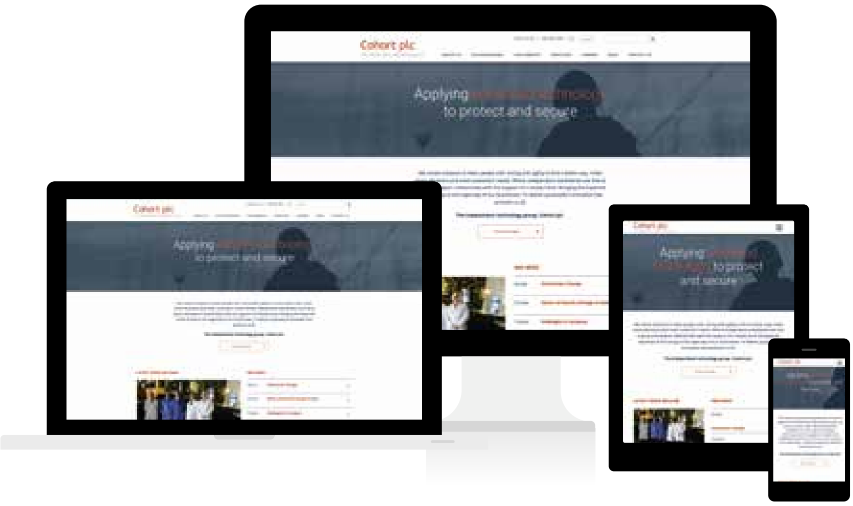
Supporting entrepreneurial businesses to grow and innovate in defence technology, products & services.

Cohort plc

CHESS EID mass MCL sea

We've got a new website

DISCOVER MORE AT COHORTPLC.COM



Sign up on our website to receive email alerts from across the Cohort Group.

Strategic report

Corporate governance

Financial statements

We support the businesses within our Group to grow. With a focus on entrepreneurialism, we foster agility and promote innovation. Our strong balance sheet provides a stable financial foundation. We create an environment of trust where our businesses share knowledge to widen market access and through partnership to open doors globally.

Operational highlights

- Initial contribution from Chess better than expected
- Growth at MASS, MCL and SEA
- Weaker performance at EID
- Adjusted operating profit increased 6% and equivalent earnings per share increased 16%
- Order intake for the year of £189.9m (2018: £76.6m)
- Dividend increased by 11%
- Closing order book of £190.9m (2018[1]: £103.8m)
- Net debt £6.4m following acquisition of Chess

Financial highlights

Adjusted operating profit (£m)[1]

£16.2m

+9%

19	16.2
18[1]	15.2
17[1]	14.4
16[1]	11.7
15	10.1

Order intake (£m)

£189.9m

+148%

19	189.9
18	76.6
17	108.6
16	94.8
15	114.3

Net (debt)/funds (£m)

£(6.4)m

19	(6.4)
18	11.3
17	8.5
16	19.8
15	19.7

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

Our strategy in action

Organic growth

- Consistently grow profits and cash generation organically through our subsidiaries.

Acquisition

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

Maintain confidence

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

BUSINESS MODEL PAGES 10-11

Cohort is the parent company of five innovative, agile and responsive businesses providing a wide range of products for British, Portuguese and international customers in defence, security and related markets. Each of the subsidiary companies within the Group offers a specialist portfolio of unique technologies and services, supplied to prime contractors and direct to end users.

Chess, founded in 1993, provides advance integrated systems and technologies for detecting, tracking, classifying and disrupting a wide range of naval, land and air threats. They design, develop and manufacture precision stabilised and non-stabilised platforms, fire control directors and positioners for electro-optic (EO), radar, communication, security, surveillance and targeting systems, including a wide range of cameras and special sensors. The more complex EO systems are integrated and used as part of complete fire-control systems and may also be integrated into vehicle surveillance, targeting or counter-UAV systems. Chess along with ECS and Blighter Radar provided the first fully integrated C-UAV capability fielded in 2017 and has since gone on to develop and supply multiple systems for rapid deployment, mobile and fixed infrastructure protection from UAVs.

In addition to providing fully verified products, Chess Dynamics provides a complete service including survey, installation, documentation, training, maintenance and support across its entire product range, from standard products to bespoke engineering solutions. They supply equipment, sub-systems and systems to defence forces and prime contractors in the UK and overseas, and on specialist projects direct to the MOD. Led by Graham Beall, Chess joined the Cohort Group in 2018.

READ MORE ON PAGE 20

DISCOVER MORE AT CHESS-DYNAMICS.COM

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

EID is a Portuguese high tech company with deep know-how and long 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 joined the Cohort Group in 2016. EID is led by its Managing Director, António Marcos Lopes.

READ MORE ON PAGE 21

DISCOVER MORE AT EID.PT

MASS is a data technology company with over 35 years' heritage serving the defence and security markets in the UK and around the world.

MASS provides electronic warfare operational support, cyber security, information management, digital forensics and training support to military operations, serving customers primarily in defence and security markets.

They deliver tailored, integrated solutions that are critical to customers' operational advantage. An intrinsic expertise in data management, system engineering and project management enables delivery of through-life capability in the form of high technology solutions, training and trusted managed services, underpinned by a contract research and development capability.

MASS was established in 1983 and joined the Cohort Group as a founder member in 2006. The company head quarters are based in Cambridgeshire and the Electronic Warfare Training Academy is based in Lincolnshire. MASS is led by its Managing Director Chris Stanley.

READ MORE ON PAGE 22

DISCOVER MORE AT MASS.CO.UK

Applying advanced technology to protect and secure

DISCOVER MORE ON OUR SUBSIDIARIES AT COHORTPLC.COM/OUR-BUSINESSES

MCL

Marlborough Communications Limited (MCL) is a leading supplier of advanced electronic communications, information systems and signals intelligence technology to the defence and security sectors.

MCL utilises an unparalleled and ever-expanding international network of specialist technology providers, combined with its own bespoke design, engineering and integration skills, to deliver and support a diverse portfolio of C4IS and ISTAR capabilities that transform its customers' ability to deliver effective operations.

The company's specialist C4IS portfolio includes hearing protection, communication headsets and radio communication devices, while its ISTAR capabilities include signals intelligence and electronic warfare systems, and UAV and counter-UAV technologies.

The 30-strong company supplies high-profile customers – including the UK MOD, government departments, and prime defence contractors – and is adept at identifying the latest technologies and capabilities to suit the unique demands of each customer it works with.

Founded in 1980 and based in Surrey, UK, MCL has been part of the Cohort Group since 2014 and is led by Managing Director Shane Knight.

READ MORE ON PAGE 23

DISCOVER MORE AT MARLBOROUGHCOMMS.COM

sea

SEA delivers products and services into the defence, transport and offshore energy markets using its skills in systems, software, acoustic and electronics engineering, supported by a skilled manufacturing, project management, production and support team.

In the Maritime domain, its engineering capabilities cover a wide range of Maritime Mission Systems requirements, including communications, torpedo and decoy launching systems, sonar systems, Infrastructure and training. In the Land domain, it uses it systems engineering skills, combined with its knowledge and understanding of the operations of dismounted soldiers to provide independent advice and perform research into future dismounted soldier systems and applications. In the transport domain, it uses its skills in signal processing and software engineering to deliver complex data management solutions alongside automated traffic enforcement systems.

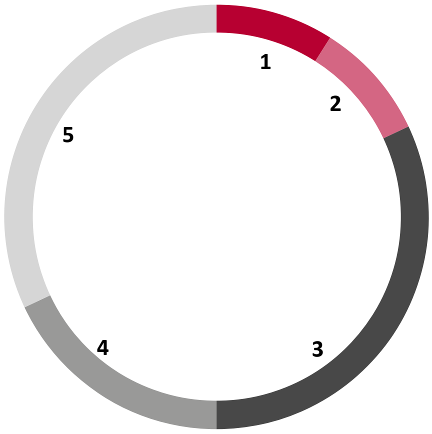
SEA is complementing a strong position in its home market by growing its business overseas.

SEA was founded in 1969 and joined the Cohort Group in 2007. SEA is located in the UK in Somerset, Bristol, Devon and Aberdeenshire, and is led by its Managing Director, Steve Hill.

READ MORE ON PAGE 24

DISCOVER MORE AT SEA.CO.UK

Revenue share



- 1. CHESS[1] **£10.7m**
- 2. EID **£11.5m**
- 3. MASS **£39.0m**
- 4. MCL **£21.7m**
- 5. SEA **£38.3m**

1 Five months only.

Our **markets explained**

The Cohort Group provides a wide range of services and products for UK and international customers in the defence and security markets for land, maritime and air applications. In addition to defence, civil markets are covered including security, transport and the oil & gas industry.

Total revenue by market segment (£m)

Combat Systems

We provide solutions to protect valuable combat assets against threats and execute missions on land, above and below water.

19	**22.9**
18	20.9

C4ISTAR

We provide solutions to enable secure information exchange and situational awareness in the battlespace and for critical infrastructure.

19	**51.1**
18	43.5

Cyber Security & Secure Networks

We provide services to ensure critical and sensitive information infrastructures are protected and secure.

19	**15.5**
18	15.5

Training & Simulation

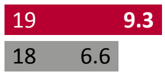
We deliver knowledge, tools and instruction for people to learn new skills in real, virtual and safe environments.

19	**6.5**
18	9.4

Total revenue by market segment (£m)

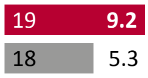
Research, Advice & Support

We help the armed forces to research, define, acquire and support the next generation of capability.



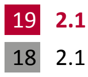
Intelligent Transport Systems

We provide systems to manage road and rail traffic, as well as improve safety.

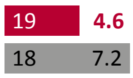


Subsea Engineering

We provide engineering solutions to help sustain subsea oil and gas production.



Other defence, non-defence and security



Chairman's statement
Nick Prest CBE, Chairman

Record order book gives strong base for the coming year

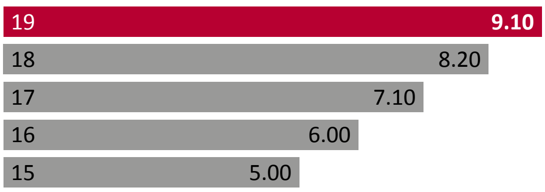
"Chess acquired and record revenue, adjusted operating profit and order intake."

2019 highlights

- Cohort achieved a record adjusted operating profit of £16.2m (2018 restated: £15.2m)
- We acquired an initial 81.84% of Chess in December 2018, initial contribution better than expected
- MASS, MCL and SEA achieved growth in revenue and adjusted operating profit
- Weaker performance at EID

Dividend (pence per ordinary share)

9.10p +11%



Cohort made further progress in 2019, achieving a record adjusted operating profit of £16.2m (2018 restated: £15.2m). MASS, MCL and SEA all posted increases in profits and the result also benefitted from the acquisition of Chess Technologies (Chess) in December 2018, which performed ahead of our expectations.

These gains were partially offset by a much weaker performance at EID caused by lower naval activity and slippage of deliveries on a major contract in its Tactical division. As a result, the Group performance, excluding Chess, was slightly below last year.

We acquired Chess on 12 December 2018 for an initial consideration of just over £20m for 81.84% of the business with an option to acquire the remaining 18.16% on or before 31 October 2021 for a maximum consideration of £9.1m. We also agreed an earn out with the selling shareholders of Chess of up to £12.7m. The magnitude of these further payments will depend on the performance of the business over the three years ending 30 April 2021. Our current view is that the further consideration payable, including earn out, to take control of the whole of Chess in 2021 will be £5.5m.

The Chess transaction accords with our strategy of acquiring businesses, primarily in the defence and security sector, with a strong niche capability and market position. Chess also increases the Group's reach and potential in international markets.

We were pleased with the contribution from Chess, which included order intake, revenue and profit arising from the deployment of Chess's Counter Unmanned Air Vehicle (C-UAV) system at Gatwick just before Christmas in response to drone flights over the airport.

The Group had a record year for order intake, securing £189.9m of orders in 2019 (2018: £76.6m). This intake included £70m of important renewals, primarily at MASS, and also some key wins at MCL for submarine systems and at EID to supply communications equipment to a Middle East customer.

The acquisition of Chess added a further £20m to the Group's order book which closed at an all-time high of £190.9m. This provides a solid base for the coming financial year and beyond.

Key financials

The 2018 comparative figures have been restated following adoption by the Group of IFRS 15 "Revenue from contracts with customers" on 1 May 2018. The impact of this restatement is analysed in note 30 but overall has been immaterial. The comparative figures in this report are the restated figures.

In the year ended 30 April 2019, Cohort achieved revenue of £121.2m (2018 restated: £110.5m), including £39.0m (2018: £37.5m) from MASS Consultants Limited (MASS), £38.3m (2018 restated: £37.3m) from SEA (Group) Limited (SEA), £21.7m (2018: £17.4m) from Marlborough Communications Limited (MCL), £11.5m (2018 restated: £18.3m) from EID and an initial contribution from Chess for five months of £10.7m.

The Group's adjusted operating profit was £16.2m (2018 restated: £15.2m). This included contributions from MASS of £8.2m (2018: £7.1m), SEA £5.5m (2018 restated: £4.4m), MCL £2.3m (2018: £2.1m), EID £1.3m (2018 restated: £4.3m) and a good initial performance at Chess of £1.7m.

Cohort Group overheads were £2.8m (2018: £2.7m).

MASS, which remains the Group's largest profit contributor, saw adjusted operating profit grow 15% on revenue growth of 4%. The enhanced profitability was a result of improved mix, including increased export sales.

MCL's adjusted operating profit grew by 10% on revenue growth of 25%. The marked revenue growth was driven by new long-term work on UK submarines, although the high level of bought-in content on that work and one problem project resulted in MCL's net margin falling to 10.5% (2018: 11.9%).

After some years of little or no growth at SEA, a restructuring exercise was completed in the first half of the financial year, at a cost of £0.5m. As a result, on modest revenue growth of 3%, SEA's adjusted operating profit increased by 25% from £4.4m in 2018 (restated) to £5.5m in 2019. The resulting net return of just over 14% is a marked improvement.

EID had a disappointing year with its profitability falling by nearly 70% from £4.3m in 2018 (restated) to just over £1.3m in 2019. This was a result of a drop in revenue of nearly 40% and reflected a decline in higher margin naval activity and slippage of deliveries on a major land communications order into the 2019/20 financial year.

Chess's initial contribution of just under £1.7m on £10.7m of revenue, a net return of 15.8%, was better than we expected when we acquired the business last December, primarily due to the contribution from C-UAV systems and support at two UK airports, including Gatwick, following drone incursions before Christmas.

The Group's operating profit of £5.9m (2018 restated: £10.3m) is stated after recognising amortisation of intangible assets of £9.5m (2018: £5.3m), exceptional items of £1.5m (2018: £0.1m) and research and development expenditure credits of £0.7m (2018: £0.7m). Net foreign exchange gains of less than £0.1m (2018: net loss of £0.3m) were also recognised. Profit before tax was £5.7m (2018 restated: £10.2m) and profit after tax was £5.1m (2018 restated: £8.1m).

CHESS

We commit to mission critical effectiveness

Supporting London Gatwick with Counter-UAV technology

Between 19 and 22 December 2018, London Gatwick Airport was subject to a sustained drone attack that closed its runways for 33 hours, causing about 1,000 flights to be cancelled or delayed.

By 21 December, Chess had signed contracts and the AUDS C-UAV system was set up and operational at the airport within a few days. The system remains in place as part of the ongoing security solution deployed by London Gatwick Airport.

The AUDS C-UAV solution is a system that has been specifically developed for use by the military and has been deployed by defence organisations to support major operations in the Middle East and elsewhere. The AUDS system is currently delivered through a partnership with three independent British technology companies, Chess Dynamics, Enterprise Control Systems Ltd (ECS) and Blighter Surveillance Systems Ltd.

Stewart Wingate, Chief Executive Officer, Gatwick Airport, commented: "Chess's anti-drone technology and their ability to move quickly and work closely with the airport's security teams were vital in allowing Gatwick to reopen without the support of the military after the airport was attacked in December 2018.

"The anti-drone technology and package of ongoing support provided by Chess Dynamics has also given Gatwick the resilience that a busy international airport needs in order to minimise and mitigate the potential threat from drones."

Graham Beall, Managing Director of Chess, commented: "We continue to work with Gatwick Airport on an ongoing basis providing both technology and consultancy support. An airport is a complex environment and has a unique set of requirements and, as such, the technology deployed is bespoke to the customer's specific requirements. However, our extensive experience with the AUDS C-UAV technology in the military environment has given us the credibility and technical capability to support Gatwick."

Key financials continued

Adjusted earnings per share (EPS) were 33.60 pence (2018 restated: 29.08 pence). The adjusted EPS figure was based upon profit after tax, excluding amortisation of other intangible assets, net foreign exchange movements and exceptional items. Basic EPS were 13.37 pence (2018 restated: 18.95 pence). The adjusted EPS benefitted from a lower tax charge on adjusted earnings of just over 15% (2018: 21%).

Dividends

The Board is recommending a final dividend of 6.25 pence per ordinary share (2018: 5.65 pence), making a total dividend of 9.10 pence per ordinary share (2018: 8.20 pence) for the year, an 11% increase. This will be payable on 18 September 2019 to shareholders on the register at 23 August 2019, subject to approval at the Annual General Meeting on 17 September 2019. The growth in our dividend reflects our policy of bringing the dividend growth into line with our long-term growth expectations of the Group. The dividend has now been increased every year since the Group's IPO in 2006.

Cash

The Group moved into a net debt position following the acquisition of Chess. The closing net debt of £6.4m (2018: net funds of £11.3m) was better than our expectation, as a result of improved working capital, partly from accelerated receipts but also from lower supplier payments as a result of programme delays.

The £16.2m (2018 restated: £15.2m) of adjusted operating profit and an overall working capital outflow resulted in £11.6m (2018: £15.1m inflow) operating cash inflow.

The operating cash inflow was utilised in paying tax, dividends and capital investment, a total outflow of £8.2m (2018: £5.5m), as well as acquiring Chess (£21.0m including acquired net debt).

Looking forward we expect net debt to rise over the first half of the coming financial year as the positive timing advantage in working capital unwinds before returning to a similar level of net debt at the year end. With no other acquisitions we would expect the Group to move back into net funds during the year ended 30 April 2021.

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.

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

I also welcome the management and staff of Chess to the Cohort Group. They showed the importance our people attach to playing their part when deploying at short notice, for long shifts, to assist Gatwick Airport to continue to operate over the Christmas period.

As previously announced Ed Lowe joined the Board of Cohort plc on 1 July 2019, fulfilling the plan announced last year to appoint a new Non-executive Director. Ed has great experience in the defence sector and I look forward to his contribution to the Board and business.

Ed has joined the Audit Committee and taken over from Sir Robert Walmsley as Chairman of the Remuneration & Appointments Committee. Sir Robert has stepped down from both committees after serving on them since 2006. I am grateful for all the work he has put into these roles and the Board is pleased that he is continuing to serve as a Non-executive Director. His experience of the defence sector has been and continues to be of great benefit. Jeff Perrin has taken over from Sir Robert in the role of Senior Independent Director.

Outlook

Markets

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.

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 for the Group continue to develop and the acquisition of Chess has strengthened our position in this respect. Outside of defence, MASS made progress on its digital forensics service for the Metropolitan Police and is now actively promoting this service to police and security forces in the UK and overseas. SEA's ROAD*flow* product made further progress with significant deliveries of its Red Light system to Network Rail for improving safety at level crossings.

As already mentioned, Chess has deployed its C-UAV system at major UK airports and has recently developed its product offering for this market and is looking for customers in the UK and overseas.

Our business from the UK into EU countries remains small (£1.4m in 2019; £1.4m in 2018), and consequently we do not expect 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, and the future defence and security relationship that develops between the UK and the EU. Whether these will be favourable or unfavourable is not possible to say. The responsibility of the Cohort Board is to manage our affairs so that our businesses prosper whatever the political and economic backdrop.

Our collective experience of the defence business, our size and our 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.

We continue to look for opportunities to augment organic growth through targeted acquisitions.

Divisional

Our strong order intake of nearly £190m and a closing order book of nearly £191m give us a strong base for the coming financial year.

We expect MASS, with a record order book, to make progress in the coming year.

MCL had a slightly weaker closing order book than last year but has good opportunities in key UK land programmes and we expect MCL to make progress.

SEA, after restructuring in the current year, has set its overhead base at a more appropriate level for a business with revenue at just below £40m. SEA enters the coming year with lower order cover than we have seen historically, and we expect, at best, to see a flat year for SEA in 2019/20. Looking into the mid-term, SEA is in a good position for a number of overseas naval programmes and success in these will enable SEA to return to growth from 2020/21 onwards.

After a weak year, EID has a strong order book and expects to secure some important long-term Portuguese orders in the first half of this coming year. This gives us confidence that EID will return to a satisfactory level of performance this year.

We expect the Group to benefit from a full year contribution from Chess, albeit at a lower annualised level than the five month contribution to 2018/19 would suggest. That period was stronger than expected because of C-UAV orders. Looking further ahead Chess has strong positions and potential on a range of naval and land programmes with significant customers.

Our record order intake of nearly £190m and an all time high closing order book of £191m gives us a strong base for the coming financial year. We also have a good pipeline of prospects.

Overall, we expect the Group to continue to make progress in the coming year and beyond, taking into consideration the budgetary risks of our main UK customer, the timing of exports and the strong opening order book.

Nick Prest CBE
Chairman

Our core values are integral in uniting our business

We believe in playing our part

We dedicate our expertise to advancing defence technology. It is our contribution to national interest and security, protecting people and keeping them safe. It is our way of making a difference. We work at the highest levels of strategic capability and take great pride in our collective expertise.

We believe in being results driven

If we say we will do something, then we will do it. By being an agile group of smart thinkers, with the ability to create solutions and the tenacity to see things through. We are interested, committed and personally invested in purposeful technology that delivers and makes good commercial sense.

We believe in independent thinking

Small teams do big things when they have the autonomy to think and to see the bigger picture. When they're given the space and encouragement to explore, free of unnecessary process.

Independent thinking and an entrepreneurial spirit help us inspire each other to find better ways of working and create the conditions for new ideas to unfold. It's how we come to better understand the challenges before us and adapt swiftly to reach the most effective solution.

READ MORE ABOUT HOW WE PUT THESE VALUES INTO ACTION ON PAGE 34

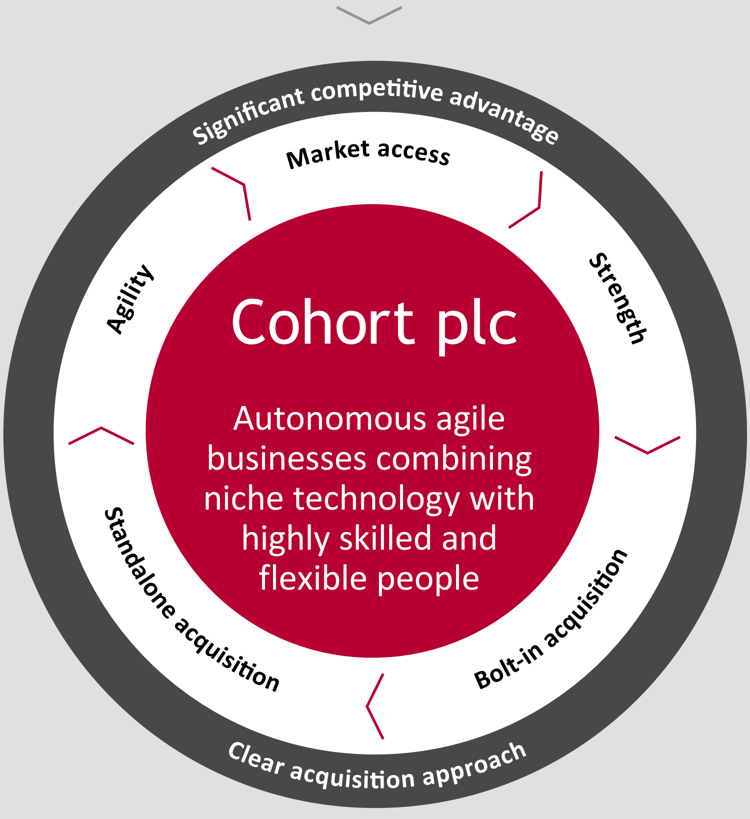
Innovative, responsive and independent businesses combined with the benefits of a listed group

Our mission is clear: 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 business model

Significant competitive advantages

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



A clear 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.

How we create value

Investors

Shareholder returns

- We are committed to delivering value to shareholders and ensuring that they benefit from our success.

Customers and partners

Our engagement principles

- Our engagement principles show what our customers and stakeholders can expect from us when they come to the Cohort Group for support.

People

Our values

- Our capabilities and customer relationships all ultimately derive from our people. Across the Cohort Group, employees can fulfil their potential, develop their careers, make a difference and feel rewarded for what they do.

A clear strategy for growth

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.
- Identifying and pursuing growth opportunities.
- Developing high quality leadership teams and a high performance culture.

Acquisition

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.

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.

We support businesses within our Group to grow

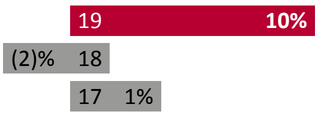
DISCOVER MORE AT COHORTPLC.COM/STRATEGY

Measuring our progress

Change in revenue

Changes in total Group revenue compared to the prior year.

10%



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 increased as a result of the initial contribution from Chess (£10.7m for five months). Excluding Chess, the underlying Group revenue was flat at just over £110m. This year saw growth in all of the Group's UK operations offset by a marked drop at EID in Portugal.

Change in adjusted operating profit

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

6%

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.

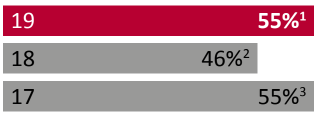
Comment

The increase was, as for revenue, due to the initial contribution from Chess. The underlying Group performance was down 5% on the 2018 (restated) performance with much weaker EID performance offsetting growth at MASS, MCL and SEA. The net margin of the Group was 13.3% (2018 restated: 13.8%).

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.

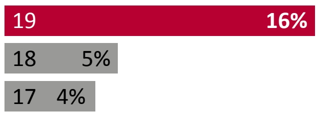
Comment

After very strong order intake in 2018/19, the order book cover for 2019/20 is back over 50%. The coming year includes important order prospects for delivery in year but more importantly for the medium term.

Change in adjusted earnings per share

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

16%



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

The increase in adjusted earnings per share is due to a growth in adjusted operating profit of 6% and a lower tax charge, 15.1% compared with 21.0% in 2018 (restated). The change in the tax charge is due mainly to research and development credits at EID as a result of increased development expenditure in year.

1 Cover on consensus market forecast 2020 revenue of £146.0m at 30 April 2019.

2 Cover on consensus market forecast 2019 revenue of £118.0m at 30 April 2018.

3 Cover on consensus market forecast 2018 revenue of £127.5m at 30 April 2017.

Operating cash conversion

Net cash generated from operations (net of interest and net capital expenditure) before tax as compared to the profit before tax and interest, excluding amortisation of other intangible assets over a rolling four-year period.

72%

19	**72%**
18	105%
17	98%

Why is it measured?

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

Comment

As we expected last year, this year's operating cash conversion has been weaker than the last few years, primarily from the build-up of working capital on some larger programmes, especially at SEA and EID. These may not unwind until the second half of 2019/20.

The reduction is also in part due to dropping 2014/15 from the four year rolling forecast, which was a very strong operating cash inflow at over twice the profit before tax and intangibles for that year.

EID

We commit to mission critical effectiveness

Portuguese Army accreditations

EID's Intercom Systems have been awarded with the highly prized "Army Tested" accreditation by the Portuguese Army. Additionally, the Portuguese Army has selected EID to be the first ever company to have equipment granted "Combat Proven" accreditation. The "Army Tested" accreditation was introduced in 2017 and indicates that the equipment or system complies with specific requirements outlined by the Portuguese Army. The "Combat Proven" accreditation was introduced in 2018. Building on the "Army Tested" compliance, it is awarded to equipment or a system that has successfully been deployed in action in a live military scenario.

In 2018 the "Army Tested" accreditation was awarded to EID´s ICC-251 Compact Intercom System, ICC-201 IP Intercom System and GRC-525 family of combat net radio products.

The "Combat Proven" accreditation was awarded to EID following the Portuguese Army's recent NATO and UN missions abroad. The GRC-525 radio and ICC-201 Intercom Systems, installed on the Pandur II and other armoured vehicles, have proved to be effective, reliable and instrumental to the overall success of the Army's operations.

The awards were presented to EID Managing Director António Marcos Lopes by the Chief of Staff Army, General Nunes da Fonseca, and the Defense Secretary of State, Ana Santos Pinto.

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

Record order intake

"2019 has been another year of progress for Cohort, with a record level of adjusted operating profit and record closing order book."

2019 highlights

- The Group's adjusted operating profit of £16.2m (2018 restated[1]: £15.2m) on revenue of £121.2m (2018 restated[1]: £110.5m) was a net return of 13.3% (2018 restated[1]: 13.8%)
- MASS remains the strongest contributor to the Group's adjusted operating profit and saw continued growth
- Cohort acquired 81.84% of Chess, and the new business made a strong initial contribution
- MCL and SEA both improved their performance
- EID had a weaker year

Operating review

2018/19 has been another year of progress for Cohort, with a record level of revenue, adjusted operating profit and order intake. Revenue grew by 10%. Both revenue and adjusted operating profit benefited from a strong initial five-month contribution from Chess, which was acquired in December 2018.

All of the Group's existing UK businesses delivered growth in revenue and adjusted operating profit. The improvement at SEA was in part due to the restructuring we announced last year, which was completed in the first half of this year.

However, these improvements were offset by the performance at EID whose revenue was down 40% and adjusted operating profit down 70%. As a result, the Group, excluding Chess, produced a mixed performance with revenue flat year on year at £110.5m and trading profit down £0.7m (5%).

The Group's adjusted operating profit grew by 6% to £16.2m (2018 restated[1]: £15.2m) on revenue of £121.2m (2018 restated[1]: £110.5m), a net return of just under 13.3% (2018 restated[1]: 13.8%). The Group's operating profit of £5.9m (2018 restated[1]: £10.3m) is significantly impacted by the amortisation of other intangible assets, a £9.5m charge in 2019 (2018: £5.3m). In this review, therefore, the focus is on the adjusted operating profit of each business, which we consider to be a more appropriate measure of performance year on year. The adjusted operating profit is reconciled to the operating profit in the Consolidated income statement on page 67 and by business in note 1 on pages 73 to 75.

Adjusted operating profit by subsidiary

	Adjusted operating profit			Adjusted operating margin	
	2019 £m	2018 (restated[1]) £m	Change %	**2019 %**	2018 (restated[1]) %
Chess	**1.7**	—	—	**15.8**	—
EID	**1.3**	4.3	(70)	**11.8**	23.6
MASS	**8.2**	7.1	15	**21.0**	18.9
MCL	**2.3**	2.1	10	**10.5**	11.9
SEA	**5.5**	4.4	25	**14.3**	11.8
Central costs	**(2.8)**	(2.7)	(4)	**—**	—
	16.2	15.2	6	**13.3**	13.8

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

The growth at MASS was mainly due to growth in electronic warfare operational support (EWOS) to overseas customers and one-off margin benefit on completion of a long-term support contract. A new contract, won in competition, was subsequently received to continue this work. This growth in higher margin areas offset weaker activity in Training Support.

MCL delivered strong revenue growth, mostly on the supply of systems to the UK submarine programme. An overall higher level of bought-in content on this work and one poorly performing project accounted for the reduction in MCL's net margin from 11.9% last year to 10.5% this year.

After some difficult years, SEA delivered a 3% growth in revenue and a much improved adjusted operating profit of £5.5m, up 24% on 2018 (£4.4m). Some of this improvement was a result of the restructuring in the first half which delivered £0.6m of overhead saving in the second half. This was somewhat ahead of our expectation of an annualised saving of £1.0m.

The remainder of the profit growth was a result of improved margin, partly a result of a loss-making contract being completed in late 2017/18 and no losses repeated in 2018/19.

EID had a disappointing year. Its adjusted operating profit of just over £1.3m on revenue of £11.5m was significantly down on last year's £4.3m on £18.3m revenue (2018 figures were restated for IFRS 15; see note 30).

The reduction at EID was in both its Tactical and Naval divisions. In Tactical, this was due to slippage into 2019/20 of a significant delivery due to have been made in the last quarter of the year.

In the Naval division, various customer driven delays and slippage of orders accounted for the weaker activity.

The more marked deterioration in profitability at EID is due to the burden of the business overhead.

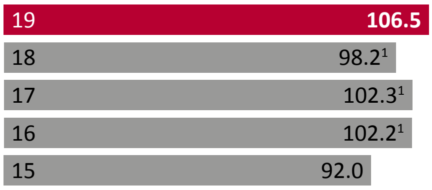
Chess delivered a good initial contribution for its first five months within the Group. Its performance was stronger than we had expected last December and was a result of the C-UAV systems it deployed, along with support personnel, at two UK airports, including Gatwick, over the Christmas period.

Revenue share

Defence & security (£m)

£106.5m

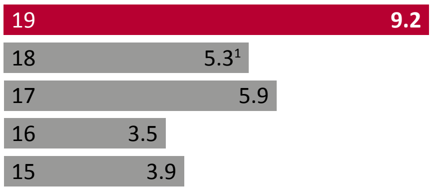
+8%



Transport (£m)

£9.2m

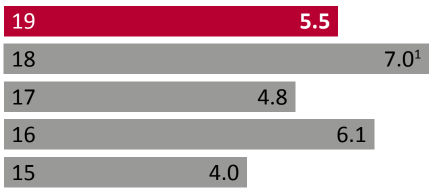
+74%



Other commercial (including offshore energy) (£m)

£5.5m

-21%



1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

Operating review continued

Operating strategy

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

- Chess Technologies (Chess) is a combination of two businesses:
  - Chess Dynamics
  - Vision4ce
- Chess Dynamics designs, develops, manufactures and supports a range of surveillance, detecting and tracking systems for naval and land-based platforms and installations. This capability includes C-UAV systems for countering drones in both the military and civilian environment. Chess Dynamics is based in Horsham and Plymouth.

  Vision4ce is a software house based in Wokingham which designs, develops and supplies tracking and control software for both Chess Dynamics products and systems and third-party applications.

  Chess was founded in 1993 by Graham Beall, its Managing Director.
- EID is a high-tech company with 35 years' experience in the design, manufacture and support of advanced high performance command, control and communications equipment for the global defence and security markets. The Royal Navy is amongst the customers for its naval communications systems, as are the navies of Portugal, the Netherlands, Spain and Belgium, and many other export customers. In total its maritime 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: tactical radio, vehicle intercoms, field communications 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 customers in the UK and overseas. MASS has some unique capabilities that have enabled it to establish strong niche positions in these important areas. It also has an increasing reputation as a leading provider of secure networks, cyber protection and analysis (including digital forensics) to defence and other security customers. MASS delivers 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 and is led by its Managing Director, Chris Stanley.
- MCL is a supplier of advanced electronic communications equipment (including hearing protection systems), information systems and signals intelligence technology, to defence and security customers. 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 of timeframes. MCL was founded in 1980 and is led by its new Managing Director, Shane Knight. MCL's former Managing Director, Darren Allery, remains in the business on a part-time basis having stepped back into a more technical role and remains a valued member of the MCL team.
- SEA specialises in providing advanced technology systems and specialist services to government and industry. Its External Communications System (ECS) is being provided for the Royal Navy's Astute and Vanguard class submarines and will ultimately be fitted to all the Royal Navy's underwater fleet. Its products include sonar systems and torpedo launchers. It also offers defence technology research and technical support services. Outside of defence, it provides software and systems for the transport market, including the successful ROAD*flow* range of traffic enforcement products, and services for the offshore energy market. SEA was founded in 1969 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. High calibre employees find our business model attractive and more rewarding as it allows them 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 with customers where such 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.

Within our markets we have sought to use our agility and innovation to identify niches where 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 ECS for submarines, MCL's range of hearing protection systems and Chess's recent Air Shield and Air Guard solutions for countering drones at airports. 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 THURBON EW database, our torpedo launcher system and our small diameter sonar array (Krait).

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. One example is a £50m plus in-service support contract awarded to MASS this year, a renewal of a contract we have been performing for over 15 years. Others include approximately £80m of contracts awarded to SEA, so far, for ECS across the UK's submarine platforms, over £30m of orders won by MCL for supply and support of hearing protection systems across a range of UK military users, and a recent single order of £15m for supply of systems across the UK submarine fleet.

sea

We nurture agile partnerships

Delivering global success

A key element of SEA's growth strategy has been to develop world-leading products to meet the demands of the overseas market.

Tailoring our offering and business model in local areas is vital to the success of our export strategy, allowing us to deliver products and services in an appropriate and effective way whilst gaining valuable insight for future product development. For example, in Southeast Asia we have built a network of trusted representatives who have in-depth market knowledge, together with an understanding of the best methods to gain market entry and bring new product development to the end user. This allows us to leverage market presence and develop existing contracts in countries such as Malaysia, the Philippines, Thailand and South Korea.

Strategic partnerships with suitable approved companies to meet specific needs of local programmes is an ongoing success story. In 2018 we signed a MoU with Daronmont Technologies to pursue the SEA1000 and SEA5000 submarine and naval shipbuilding programmes in Australia. In Canada, we formed a joint venture company JSK in 2014, in partnership with a local defence SME, Kaycom, to meet the needs of our ongoing support activities for the Canadian Victoria class submarines, and to position ourselves for the Canadian Surface Combatant (CSC) programme. Most recently, we have signed an MoU with SIATT in Brazil to meet the indigenous content for the Tamandaré corvette programme.

We are able to partner with other subsidiaries within the Cohort Group, including EID and MASS. These valuable collaborations allow SEA to offer a wider range of products and total solutions packages to the international market and, as a result, we have active contracts in Canada, Chile, the US, Australia, Malaysia, Thailand, the Philippines and Vietnam to supply our launcher and sonar systems.

Operating review continued

Operating strategy continued

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 would be hard for independent smaller businesses to establish. Our current four UK operating businesses, while remaining operationally independent, have close working relationships and benefit from each other's technical capabilities, customer relationships and market knowledge. We have made further progress in the year on ensuring that EID participates in this collaborative approach and bringing Chess fully into the Group. In the case of Chess, SEA was able to find and deploy ex-service personnel to support Chess's C-UAV solution at two major UK airports, including Gatwick, in the final quarter of the financial year. We will continue to work to promote the Group's services and products in wider markets, including through business development visits. In the past year, Andy Thomis has led visits of both UK and Portuguese teams to Southeast Asia and Canada. Plans are in place for a team visit to Australia later this year, and a large combined presence at the DSEI exhibition in London.

Cooperation between the Group businesses has extended to the sharing of technology. For example, SEA and EID continue to work together on developing a secure communication system for the Royal Navy's new Type 31 Frigate, bringing together EID's expertise in surface ship communications with SEA's knowledge of the UK and especially its security requirements. They are also collaborating on an important trial of SEA's new anti-submarine warfare system, based on its small diameter sonar array (Krait) with the Portuguese Navy, which will take place this summer.

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 current difficult and unpredictable market conditions.

Innovation and technology

With the acquisitions of EID and Chess and the evolving strategy at SEA, the Group has become more focused on technology development to enhance its product and service offerings. One of the benefits of Cohort's operating model is the freedom it gives to our subsidiaries, and this in turn leads to a culture of technological innovation.

Chess, the newest member of the Group, has a history of successful innovation that has created a portfolio of products with real competitive advantage in terms of both performance and price. For instance, the AUDS C-UAV system, developed by Chess and its partners Blighter and ECS, is the only such system in service with the US armed forces. Since the disruption at Gatwick Airport caused by malicious drone use in December 2018, Chess has developed Air Guard and Air Shield, new C-UAV systems designed to protect complex civilian airports within their perimeter and along the aircraft approach path. Chess's subsidiary business Vision4ce has supported C-UAV development with work on high-performance optical tracking and systems to discriminate hostile drones from birds and aircraft using machine learning techniques. Chess has close partnerships with world-leading defence technology businesses in the UK and world-wide to create new and innovative products and systems.

EID, our Portuguese military communications business, is investing in a new vehicle intercom system, based on a resilient architecture and incorporating advanced technology. It provides a capability matched by very few competitor systems at a much more attractive price. EID is preparing to supply the system to its first customers in 2019/20.

At SEA considerable development effort has been focused on the Krait Defence System, an innovative new submarine detection and tracking system optimised for use with light naval vessels. The system is now in its second generation. The use of digital transducers makes construction simpler and more reliable and enables the production of longer arrays, with increased sensitivity and bearing accuracy. It will take part in major customer trials this year, and the future development strategy will be reviewed in light of the results. SEA has also been investing in the development of its ROAD*flow* family of traffic enforcement systems. New variants launched recently include Red Light for level crossing protection, Motion for moving traffic offences, and Fusion, a modular multi-purpose version.

Much of the development effort at MASS and MCL is related to security classified programmes, but innovation activities are underway in both businesses. In MASS's case this includes enhancements to the CounterWorX suite of missile engagement simulation software and the NEWTS electronic warfare training system. MCL works with its partners on innovations to support close combat soldiers, special forces and signals intelligence users.

Many of the Group's innovative products will be on display at the DSEI exhibition in London in September 2019. We welcome current and future customers, partners and investors to visit our stands there.

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.

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.

On 12 December 2018, we announced the acquisition of 81.84% of Chess for an initial consideration of just over £20m.

The acquisition includes an earn-out clause and an option for acquiring the minority interest (18.16%), both based on Chess's performance for the three years ending 30 April 2021. These additional payments are capped at £12.7m and £9.1m respectively. We currently expect to pay £5.5m in total on or before 31 October 2021.

The acquisition model for Chess is very similar to that successfully used for the acquisition of MCL, where we initially acquired 50% in 2014 and the remainder in 2017.

The acquisition of Chess, although a competitive process, was a business we knew well having first held discussions with the owners of Chess in 2013.

Chess fits well with our acquisition strategy and importantly increases the Group's exposure to scalable product and systems and export customers, including the first significant relationship with the US Department of Defence (DoD).

mass

We nurture agile partnerships

Extensive support to large-scale training exercises

MASS Training Support Group has provided large-scale training support to several major Joint Forces exercises, including Exercises SAIF SAREEA 3, the largest UK deployed exercise for nearly 20 years, where 5,500 UK personnel deployed to Oman to work alongside their Omani counterparts across air, land and maritime environments.

They also provided fully tailored packages for JOINT VENTURE 19 in Germany, part of a much larger US/Europe command-led, multi-site, large-scale exercise and Exercise JOINT HORIZON 19, held simultaneously in the UK and Cyprus. In addition, to simulation exercise support for the UK Air Command, Joint Services Command & Staff College in the UK and the National Defence College in Oman.

MASS has been providing real-life and simulation-based training exercise support for many years in both the UK and overseas, through carefully tailored packages in areas covering: scenario writing, planning, real-life support, subject matter experts at both military and diplomatic levels, staff support and observers to assist with the post-exercise review, and realistic, scalable simulation systems.

Revenue

£10.7m

(2019: 5 months)

Adjusted operating profit

£1.7m

(2019: 5 months)

Operating cash flow

£1.3m

(2019: 5 months)

Market areas

- Combat Systems
- C4ISTAR

DISCOVER MORE AT CHESS-DYNAMICS.COM

Chess had a good start to its life within Cohort. It delivered a much stronger result than we expected in December, benefiting from the deployment of C-UAV systems at two UK airports, including Gatwick, in response to drone incidents just before Christmas.

Chess gave an excellent demonstration of the Group's values in delivering this response. Chess staff were deployed at short notice, providing 24-hour cover over the Christmas and New Year holidays. A further positive for the Group was SEA being able to supply expert operational staff to relieve Chess's own stretched resources.

Chess secured and undertook initial deliveries of further C-UAV systems to the US DoD, as well as continuing to deliver on longer-term programmes for the Royal Navy's Type 26 frigate and an export land system.

Our initial experience has confirmed that Chess is a good strategic fit for the Group. Chess is a leading supplier within its market and has a strong ethos of innovation and responsiveness.

Chess has grown rapidly over the last few years which has caused it some growing pains, especially in project control and delivery. Cohort will work with Chess's management over the coming year to strengthen its management and control processes to ensure that Chess can successfully grow whilst still maintaining its agility and innovative approach.

Chess's order book and prospects, especially on some significant overseas land and naval programmes, give us optimism that Chess will grow in the coming year.

EID

Revenue

£11.5m -37%

19	11.5
18	18.3[1]

Adjusted operating profit

£1.3m -70%

19	1.3
18	4.3[1]

Operating cash flow

£(1.7)m -189%

19	(1.7)
18	1.9

Market areas

- Combat Systems
- C4ISTAR

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

DISCOVER MORE AT EID.PT

Following two strong years of performance for EID following its acquisition in July 2016, this year has been disappointing and below our expectations.

The fall in revenue of nearly 40% impacted directly on gross margin, with a drop of 28%. As a result, the net margin of EID fell from 23.5% (2018 restated) to 11.3% with the overhead, which only marginally increased, weighing more heavily on the much lower revenue.

The fall in revenue of nearly £7m was equally split between its Naval and Tactical divisions. In the Naval division, this was mostly completion of radio deliveries for the Portuguese Navy in 2017/18 and customer delay to the M-class frigate programmes for Holland, Belgium and Portugal.

In the Tactical division, a key order was secured in 2018/19, part of which was expected to be delivered in the year but delivery delays have pushed this revenue into 2019/20. This delay accounts for EID's unexpected deterioration since December and the underlying Group, before Chess, falling short of our expectations at the time of our Interim Statement.

The mix of work at EID is expected to continue to change in the coming few years with lower levels of naval support activity and increased deliveries of intercom and radio products. The latter generate a lower margin, since they contain a higher proportion of bought-in material. As a result, the net margin is expected to return to more historically normal levels of around 18% to 20%.

Revenue

£39.0m +4%

19	39.0
18	37.5

Adjusted operating profit

£8.2m +15%

19	8.2
18	7.1

Operating cash flow

£7.4m +4%

19	7.4
18	7.1

Market areas

- Combat Systems
- Cyber Security & Secure Networks
- Training & Simulation

DISCOVER MORE AT MASS.CO.UK

MASS had another year of good growth with adjusted operating profit rising 15% on revenue that grew 4% compared to 2017/18.

The main drivers of growth in revenue were electronic warfare operational support (EWOS), especially for overseas customers and MASS's long-term support contract to the UK MOD.

The EWOS growth was a result of securing orders which had been in discussion for some years, exemplifying the unpredictable nature of export sales. This growth is at higher margins due to the high level of input from MASS technical staff.

The long-term support contract was, after competition, renewed in year for a further eight years and the growth was a result of closing out the old contract. Going forward we expect the revenue in this area to be lower than that seen historically.

MASS's net margin increased to 21.0% (2018: 18.9%), with higher revenue and, particularly, an improved mix increasing its gross margins and more than offsetting a small growth in overheads.

MASS's operating cash flow this year was consistent with last year with the improved profitability driving better cash performance. Looking forward, we expect MASS's operating cash flow to be broadly in line with its profitability.

MASS operated through the year with five divisions. The EWOS division includes the THURBON EW database, SHEPHERD (the provision of a system embodying THURBON to the UK MOD) and MASS's 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 the Metropolitan Police. This division also delivers secure network design, delivery and support and 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. Finally, MASS's Information as a Service division supports a key UK military intelligence platform as well as providing similar information services to other defence and commercial customers.

MASS has implemented a new management and reporting system, the same product as SEA's new system, which went live in May 2019.

Revenue

£21.7m +25%

19	21.7
18	17.4

Adjusted operating profit

£2.3m +10%

19	2.3
18	2.1

Operating cash flow

£4.4m -25%

19	4.4
18	5.9

Market areas

- Combat Systems
- C4ISTAR

DISCOVER MORE AT MARLBOROUGHCOMMS.COM

MCL's revenue grew 25% compared to last year, mostly from initial deliveries of systems for the UK submarine fleet. The bought-in content for these items is much higher and as a result, although the absolute gross margin increased, the gross margin percentage fell.

The overall profitability of MCL improved by 10% off the back of increased volume and margin partly offset by slightly higher overheads. The latter was the result of MCL's increased headcount during 2018 with this year bearing the full annual cost.

MCL secured several key contracts in the year and its total order intake of £26.0m was 1.2 times its revenue.

When we acquired MCL, back in July 2014, one of the primary objectives was to support it in building an order book and business with greater longevity and visibility. This year saw the order book grow from £10.3m (April 2018) to £14.6m (April 2019). Despite this, the visibility of MCL's revenue remains, on average, in the three to six-month range.

The very strong operating cash flow was better than expected and reflected MCL's peak of activity at the end of the financial year, with supplier payments slipping into early 2019/20.

Revenue

£38.3m +3%

19 38.3

18 37.3[1]

Adjusted operating profit

£5.5m +25%

19 5.5

18 4.4[1]

Operating cash flow

£0.8m -80%

19 0.8

18 4.0[1]

Market areas

- Combat Systems
- C4ISTAR
- Training & Simulation
- Research, Advice & Support
- Intelligent Transport Systems
- Subsea Engineering

DISCOVER MORE AT SEA.CO.UK

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

SEA has had a better year. Its revenue did grow, mostly driven by its transport division and with some growth in its research activity. These were partly offset by a further contraction in its submarine activity.

The change in SEA's business over the last few years is analysed as follows:

	2017 (restated[1]) £m	2018 (restated[1]) £m	**2019 £m**
Submarines	16.9	7.3	**4.7**
Research	2.1	2.3	**2.7**
Other	25.7	27.7	**30.9**
SEA total revenue	44.7	37.3	**38.3**

The submarine and research activities are exclusively for the UK MOD.

SEA's year-on-year revenue increase was 3%, but as a result of the restructuring and improved margin mix, the net margin at SEA improved from 11.8% to 14.3%, close to our expectations.

The improved margin mix is a continuation of a trend at SEA over the last few years with increasing product sales, particularly in export and transport, and a lower level of submarine activity, which is subject to contractual limitations on margin.

This trend has been accompanied by less predictability in some of the key revenue and major growth drivers. For instance, SEA's transport contracts are typically on short time-frames from win to delivery, usually a few weeks to months. As a result SEA's opening order book as at 1 May 2019 provides less cover for 2019/20 than we have seen historically and we expect this situation to continue until longer-term naval programmes (UK and export) are secured for communications and Torpedo Launcher System (TLS) products. The former is exclusively, at present, for the UK submarine programme and we do not expect the Dreadnought class work to begin until 2020. For TLS, a number of overseas navies are regenerating their fleets and this provides good opportunities for long-term significant work for SEA.

SEA, as indicated last year, again saw modest growth in its research activity.

SEA's main growth was in transport which increased from £5.3m (2018 restated) to £9.2m in 2019. The growth mostly arose from the delivery of Red Light variants of our ROAD*flow* system for Network Rail to improve safety at level crossings.

In the coming year SEA will trial its new Anti-Submarine Warfare (ASW) system based upon its 16mm diameter Krait sonar array with the Portuguese Navy. This activity will be supported by EID in country and is an important step in positioning SEA as a supplier of ASW capability for smaller ships for which we see demand in many navies.

SEA's Subsea division saw revenue remain flat. The division's gross margin stayed high due to 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.

As we announced last year, restructuring was undertaken at SEA to reduce both direct and indirect headcount. Back-office services at SEA, including finance and purchasing, were concentrated at Barnstaple. The total cost of this restructuring was £0.5m and is expected to realise a saving of £1.0m per annum. The saving in 2018/19 was £0.6m in the second half.

SEA now reports through three divisions based upon their geographical location. These are:

- Communications (from the former Maritime division), Research and Technical Support and Software Solutions and Products divisions under a single manager based at Beckington.
- The remainder of the former Maritime division, Launchers and Advanced Technologies along with Production under a single manager based at Barnstaple.
- Subsea, based at Aberdeen under a single manager.

These changes have enabled SEA to improve its delivery and shape its cost base to its current level of activity.

During 2018/19, SEA progressed the integration of SEA and J+S. A new management and reporting system, the same as MASS's new system, is expected to go live in September 2019 completing this integration.

Revenue by sector and business (Group shown on page 27)

	Chess 2019 £m	Chess 2018 £m	EID 2019 £m	EID 2018 £m	MASS 2019 £m	MASS 2018 £m	MCL 2019 £m	MCL 2018 £m	SEA 2019 £m	SEA 2018 £m
Defence and security	**10.7**	—	**11.4**	16.4	**35.8**	34.6	**21.7**	17.4	**26.9**	29.8
Transport	**—**	—	**—**	—	**—**	—	**—**	—	**9.2**	5.3
Offshore energy	**—**	—	**—**	—	**—**	—	**—**	—	**2.1**	2.1
Other commercial	**—**	—	**0.1**	1.9	**3.2**	2.9	**—**	—	**0.1**	0.1
	10.7	—	**11.5**	18.3	**39.0**	37.5	**21.7**	17.4	**38.3**	37.3

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

	Chess 2019 £m	Chess 2018 £m	EID 2019 £m	EID 2018 £m	MASS 2019 £m	MASS 2018 £m	MCL 2019 £m	MCL 2018 £m	SEA 2019 £m	SEA 2018 £m
Direct to UK MOD	**—**	—	**—**	—	**18.1**	20.1	**20.2**	15.7	**7.8**	6.9
Indirect to UK MOD where the Group acts as a subcontractor or partner	**1.2**	—	**0.2**	0.4	**3.6**	4.2	**0.3**	0.3	**10.9**	15.9
Total to UK MOD	**1.2**	—	**0.2**	0.4	**21.7**	24.3	**20.5**	16.0	**18.7**	22.8
Portuguese MOD	**—**	—	**4.4**	4.5	**—**	—	**—**	—	**—**	—
Security	**4.8**	—	**—**	—	**3.2**	3.3	**1.0**	0.9	**—**	—
Export defence	**4.7**	—	**6.8**	11.5	**10.9**	7.0	**0.2**	0.5	**8.2**	7.0
	9.5	—	**11.2**	16.0	**14.1**	10.3	**1.2**	1.4	**8.2**	7.0
	10.7	—	**11.4**	16.4	**35.8**	34.6	**21.7**	17.4	**26.9**	29.8

Note: EID and SEA 2018 figures have been restated for the impact of IFRS 15 “Revenue from Contracts with Customers” (see note 30).

Note: The percentages applied to the defence and security revenue is based on the total revenue for the Group in each year.

Defence and security revenue is categorised into market segments as follows:

	Year ended 30 April 2019 £m	Year ended 30 April 2019 %	Year ended 30 April 2018 (restated[1]) £m	Year ended 30 April 2018 (restated[1]) %
By market segment				
Combat systems	**22.9**	**19**	20.9	19
C4ISTAR	**51.1**	**42**	43.5	39
Cyber security and secure networks	**15.5**	**13**	15.6	14
Simulation and training	**6.5**	**5**	9.4	9
Research, advice and support	**9.3**	**8**	6.6	6
Other	**1.2**	**1**	2.2	2
Total defence and security revenue	**106.5**	**88**	98.2	89

Note: The percentages applied to the defence and security revenue is based on the total revenue for the Group in each year.

The Group’s total revenue, broken down by type of deliverable is as follows:

	Year ended 30 April 2019 £m	Year ended 30 April 2019 %	Year ended 30 April 2018 (restated[1]) £m	Year ended 30 April 2018 (restated[1]) %
Product	**65.2**	**54**	60.6	55
Services	**56.0**	**46**	49.9	45
Total revenue	**121.2**	**100**	110.5	100

Note: Product includes bespoke product, customised systems and sub-systems and is hardware and/or software.

1 Prior year comparatives have been restated upon the Group’s adoption of IFRS 15 “Revenue from Contracts with Customers” (see note 30).

Revenue by sector and business (Subsidiaries shown on page 26)

	Group			
	2019 £m	**%**	2018 £m	%
Defence and security	**106.5**	**88**	98.2	89
Transport	**9.2**	**7**	5.3	5
Offshore energy	**2.1**	**2**	2.1	2
Other commercial	**3.4**	**3**	4.9	4
	121.2	**100**	110.5	100

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

	Group			
	2019 £m	**%**	2018 £m	%
Direct to UK MOD	**46.1**	**38**	42.7	39
Indirect to UK MOD where the Group acts as a subcontractor or partner	**16.2**	**13**	20.8	19
Total to UK MOD	**62.3**	**51**	63.5	58
Portuguese MOD	**4.4**	**4**	4.5	4
Security	**9.0**	**7**	4.2	4
Export defence	**30.8**	**26**	26.0	23
	44.4	**37**	34.7	31
	106.8	**88**	98.2	89

MCL

We hold innovation at our core

Leading the latest developments in hearing protection technology across UK Armed Forces

With hundreds of military personnel suffering from hearing damage and possibly ruled out of frontline duties, the UK Armed Forces recognise that hearing protection is essential equipment for all.

In partnership with INVISIO Communications, MCL supply hearing protection communications systems utilising advanced acoustic technologies to provide hearing protection coupled with clear communications and 360° situational awareness. These technologies not only alleviate the problem of hearing protection but increase effectiveness of military personnel in combat conditions.

With five contracts in place and with over 50,000 systems fielded, MCL is the largest supplier of hearing protection systems to UK Armed Forces including soldiers, Marines, pilots and aircrew.

Revenue analysis

The overall pattern of sales in 2018/19 was similar to 2017/18 in terms of market segment (see table on page 26). The most noticeable changes were an increase in C4ISTAR activity, mostly at MCL, and an increase in research and advice at SEA. The reductions in this area were in simulation and training, the latter at MASS where there was less exercise activity by the Joint Forces Command, and at SEA in relation to the DECKsim product.

Looking at our defence and security revenue by sector (see table on page 26) we saw a fall in our overall rates to the UK MOD both directly and indirectly. This was mostly in indirect sales and was due to the continued fall in SEA's submarine activity. Direct sales to the MOD were static reflecting the high proportion of our work that was in service provision, which is generally a steady revenue stream.

Sales to Portugal were flat, but we expect this to increase in the coming year with some deliveries on recently won land system orders getting underway.

Both security and export sales saw growth. This was mostly due to the initial contribution of Chess, but MASS and SEA also saw their export sales increase, offsetting a drop at EID, where some naval projects delivered in 2017/18 were not repeated or slipped into 2019/20.

The Group's defence and security business is, and is expected to remain, the largest part of our business, supplying 88% of revenue this year (2018: 89%). Nevertheless, the Group's non-defence revenue was up by 19% compared to last year, with growth mostly coming from SEA's transport activity. Transport sales rose from £5.3m in 2018 to nearly £9.2m in 2019, much of this due to delivery of Red Light ROAD*flow* systems to Network Rail for safety enforcement at level crossings.

Operational outlook

Order intake and order book

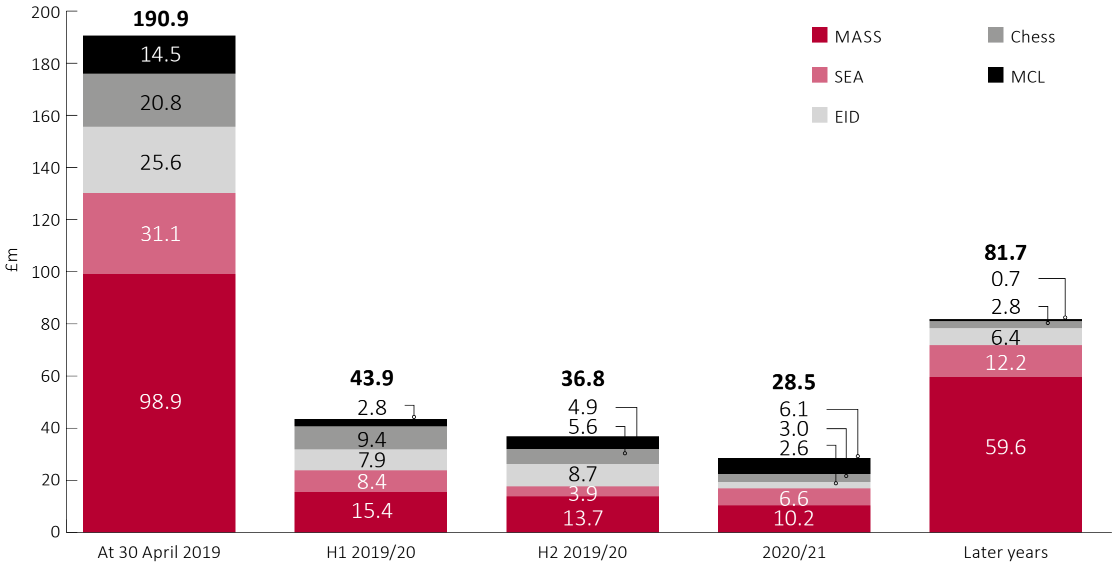
	Order intake		Order book	
	2019 £m	2018 £m	**2019 £m**	2018 (restated[1]) £m
Chess	**11.3**	—	**20.8**	—
EID	**18.9**	8.4	**25.6**	19.0
MASS	**97.0**	29.1	**98.8**	40.9
MCL	**26.0**	12.1	**14.6**	10.3
SEA	**36.7**	27.0	**31.1**	33.6
	189.9	76.6	**190.9**	103.8

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

The 2019 order book includes £20.1m of order book acquired with Chess in December 2018.

The increase in the Group's order intake was across the Group. As we indicated last year, we expected a number of key renewals, especially at MASS, and these were all secured in the year. The order intake was a record for the Group and has returned the order cover for the coming year to over 55%.

Delivery of the Group’s order book into revenue



The above table shows the underpinning of future revenue from the current order book (all figures are £m). The Group’s order intake and order book are the contracted values with customers and do not include any value attributable to frameworks or other arrangements where no enforceable contract exists. The order intake and order book include contractual changes to existing orders including extensions, variations and cancellations.

Chess’s order intake of £11.3m included follow-on orders for its C-UAV system for the US DoD and nearly £4m of orders for C-UAV systems for civilian airports. Chess’s closing order book of £20.8m includes £15.0m for delivery in 2019/20 and Chess is well positioned for several key naval and land programmes which we hope will convert to orders in the coming year. Chess should continue to grow in the coming year, but we do not expect Chess’s full year performance for 2019/20 to reflect what was an abnormally strong five months for 2018/19.

EID’s order intake for this year was just under £19m compared with just over £8m last year. The main items of order intake for EID in 2018/19 were in its Tactical division, securing an order of over £4m to deliver radios for Portuguese armoured vehicles and an important export order for vehicle intercoms, the initial batch of which will now be delivered in 2019/20, later than expected. EID’s order book of £25.6m gives good underpinning for the year ahead, especially in its Tactical division. The coming year is important for EID to secure important naval programmes and extend its current export order for vehicle intercoms. We expect EID to return to growth in 2019/20.

MASS’s order intake of £97.0m was a record. It included renewals, won in competition, of over £50m plus long-awaited export EWOS orders. MASS’s closing order book of nearly £99m includes over £29m of revenue to be delivered in 2019/20. The coming year for MASS should see further export orders for its EWOS and THURBON offerings and an expansion of its digital forensics offering. Its provision of support to the UK’s Joint Forces Command, a service the Group has provided for over 15 years, will be subject to a competitive renewal, probably in early 2020/21. MASS is expected to continue to grow in the coming year.

At MCL, order intake of £26.0m was higher than last year’s £12.1m. MCL’s order intake was dominated by a large order to provide systems across the UK’s submarine fleet, a programme which will run over a number of years. MCL’s closing order book of £14.6m includes just under £8m to be delivered in 2019/20. Our long-term strategy remains to try and strengthen MCL’s order book and prospects to give it more visibility of future work flows and with some key prospects in UK land programmes, MCL should continue to grow, modestly, in the coming year.

Operational outlook continued

Delivery of the Group's order book into revenue continued

SEA's order intake at £36.7m was above last year's £27.0m and included £5.5m of research activity for the UK MOD and just over £3m of extension and change orders for Submarine communication systems. Various support orders for existing SEA equipment on UK naval platforms totalled over £12m, much of this deliverable over several years. SEA's transport division order intake was just under £9m, half of which was for Red Light ROAD*flow* systems for Network Rail. SEA's order book of £31.1m includes £12.3m for delivery in 2019/20, a historically low level for SEA. SEA has an important year ahead to secure orders for its medium and long-term prospects, especially in naval programmes in the UK and overseas. SEA faces a challenging year and we expect a relatively flat performance.

In the near term, the majority of Cohort's business will continue to be derived from the UK MOD, either directly or indirectly. The Government's Strategic Defence Review published in November 2015 gave high priority to a number of areas where the Group's capabilities are strong, including submarines, special forces, cyber and secure communications. It also brought a welcome increase in planned defence equipment spending. We do expect to see opportunities arising from this increase, but it is also clear that delays and cost growth are limiting the freedom of movement of the UK MOD and armed forces in acquiring new equipment. As we predicted last year, this tightness, coupled to a shortage of commercial staff, has resulted in unpredictable fluctuations between purchase commitments and cash controls during 2018/19. However, we have seen the UK MOD continue to place orders for important and necessary services and capability.

Unlike the year just gone, the coming year is not dependent upon a few significant orders to deliver the in-year performance. However, order infill is required, as always, across the Group, especially at MCL and SEA. The coming year is an important one for longer term orders at EID, Chess and SEA.

Funding resource and policy

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

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

NatWest is the Group's primary bank, especially for clearing purposes and day-to-day transactions. In November 2018 the Group completed a new UK bank facility with Lloyds and NatWest.

The current facility is a revolving credit facility for four years with an option to extend for one year. The amount of the facility is £30m with an option to extend by a further £10m to £40m.

The facility itself provides the Group with a flexible arrangement to draw down for acquisitions and overdraft and, as at 30 April 2019, £25.0m of the facility was drawn leaving £5.0m available to be drawn down.

This facility is available to the UK members of the Group and is fully secured over the Group's assets, including those of Chess but excluding EID's.

The UK Group has separate bilateral facilities with each of NatWest and Lloyds to provide trading facilities for instruments such as forward exchange rates, bank guarantees and letters of credit. In addition, the Group is able to have such facilities with other banks where pricing and operational efficiency warrant it. MCL, for example, has a forward exchange facility with Investec Bank.

The Group takes a prudent approach to treasury policy with its overriding objective being protection of capital. In implementing this policy, deposits are usually held with institutions with credit ratings of at least Baa3. Deposits are generally held on short (less than three months) duration to maturity on commencement. This matches the Group's cash resources with its internal monthly 13-week cash forecasts, retaining flexibility whilst trying to ensure an acceptable return on its cash. Most of the Group's UK cash (that is not on short-term deposit) is managed through a set-off arrangement, enabling the most efficient use of the Group's cash from day to day, under the supervision of the Group's finance function.

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

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

During the year, EID agreed a local overdraft facility of €2.5m with Santander which is available to EID only. This was undrawn at 30 April 2019.

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

The Group's return on net funds during the period was 0.00% to 0.15% (2018: 0.00% to 0.15%).

The Group's net debt as 30 April 2019 of £6.4m is after the acquisition of Chess at a cost of just over £20m plus acquired net debt of £1.0m.

Looking forward, we expect the Group's net debt at 30 April 2020 to be at a similar level to 30 April 2019 with the Group moving back into net funds by 30 April 2021, if there is no further corporate activity.

In addition to its cash resources, the Group has in issue 41.0m ordinary shares of 10 pence each. Of these shares 0.1m (2018: 0.3m) are owned by the Cohort plc Employee Benefit Trust (EBT), which waives its rights to dividends. The EBT purchased a further 0.4m shares in May 2019. In addition, the Group has issued options over ordinary shares through Key Employee Share Option and SAYE schemes to the level of 1.6m at 30 April 2019 (2018: 1.7m).

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

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

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

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

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

The Group, as in the past, has maintained its progressive dividend policy, increasing its dividend this year by 11% to a total dividend paid and payable of 9.10 pence per share (2018: 8.20 pence).

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

Year ended 30 April	Dividend paid and proposed Pence	Growth over previous year %	Earnings cover (based upon adjusted earnings per share)	Cash cover (based upon net cash inflow from operations)
2019	**9.1**	**11**	**3.8**	**2.3**
2018	8.2	15	3.5	4.0
2017	7.1	18	3.9	0.2
2016	6.0	20	4.5	2.8
2015	5.0	19	4.1	9.2
2014	4.2	20	4.6	1.5

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

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

The Group's cash generation in 2019 was, as had been expected, weaker than last year. In summary, the Group's cash performance was as follows:

	2019 £m	2018 (restated[1]) £m
Adjusted operating profit	**16.2**	15.2
Depreciation and other non-cash operating movements	**1.4**	1.4
Working capital movement	**(5.0)**	(0.9)
	12.6	15.7
Acquisition of 81.84% of Chess (including costs of acquisition of £1.0m and acquired net debt of £1.0m)	**(22.0)**	—
Acquisition of EID: 23% in 2018	**—**	(3.5)
Payment of final earn-out for MCL in 2018	**—**	(2.5)
Restructuring of SEA	**(0.5)**	—
Reorganisation of SCS	**(0.5)**	(0.6)
Tax, dividends, capital expenditure, interest, loans and other investments	**(7.3)**	(6.3)
(Decrease)/increase in net funds	**(17.7)**	2.8

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

Funding resource and policy continued

The slightly higher cash outflow in tax, dividends, etc. was due to higher capital expenditure, tax payments and dividends. Looking forward, we retain the flexibility to use newly issued shares as well as EBT shares to satisfy employee share options.

The Group's customer base of governments, major prime contractors and international agencies make its debtor risk low. The year-end debtor days in sales were 22 days (2018: 24 days). This calculation is based upon dividing the revenue by month, working backwards from April, into the trade debtors balance (excluding unbilled income and work in progress) at the year end. This is a more appropriate measure than calculating based upon the annual revenue as it takes into account the heavy weighting of the Group's revenue in the last quarter of each year. The decrease in debtor days reflects invoicing revenue, especially at MCL and MASS, earlier in the final quarter than last year, enabling more receipts to be collected in the financial year.

Tax

The Group's tax charge for the year ended 30 April 2019 of £584,000 (2018: charge of £2,074,000) was at a rate of 10.3% (2018: rate of 20.4%) of profit before tax. This includes a current year corporation tax charge of £2,350,000 (2018: £3,357,000), a prior year corporation tax credit of £9,000 (2018: credit of £391,000) and a deferred tax credit of £1,757,000 (2018: £892,000).

The Group's overall tax rate was below the standard corporation tax rate of 19% (2018: 19%). The reduction is due to an R&D tax credit in Portugal of £0.5m in respect of expenditure incurred this year in developing an enhanced vehicle intercoms system by EID.

The Group this year has reported research and development expenditure credits (RDEC) for the UK in accordance with IAS 20 and shown the credit (£744,000) in cost of sales and adjusted the tax charge accordingly. The 2018 comparatives (£679,000) has been restated accordingly. This results in the reported tax charge for the Group being higher than would have been reported previously and more in line with the headline tax rate for the UK.

The RDEC has been reversed in reporting the adjusted operating profit for the Group to ensure comparability of operating performance year on year.

Looking forward, the Group's effective current tax rate for both 2019/20 and 2020/21 is estimated at 16%. (excluding the impact of RDEC reporting).

This takes account of the expected reduction in headline tax rates in the UK and assuming that the R&D tax credit regime remains unchanged from its current level and scope offset by an increased proportion of profit before tax from EID at higher Portuguese tax rates. The Group maintains a cautious approach to previous R&D tax credit claims for tax periods that are still open, currently 2017/18 and 2018/19.

Exceptional items

The exceptional items this year are £1.0m in respect of acquiring Chess and £0.5m for restructuring SEA in the first half of the year.

Adjusted earnings per share

The adjusted earnings per share (EPS) of 33.60 pence (2018 restated: 29.08 pence) is reported in addition to the basic earnings per share and excludes the effect of exceptional items, amortisation of intangible assets and exchange movement on marking forward exchange contracts to market, all net of tax.

The adjusted earnings per share excludes the non-controlling interest of EID (20%) and Chess (18.16%) for the five months from acquisition.

The reconciliation is as follows:

	Adjusted operating profit £m	Adjusted earnings per share Pence
Year ended 30 April 2018 (restated[1])	15.2	29.08
Contribution from Chess for five months (81.84% owned)	1.7	2.72
100% owned businesses throughout the year ended 30 April 2019	2.2	4.33
EID (80% owned)	(2.9)	(4.51)
Change in tax rate 10.6% (2018: 16.5%)	—	2.08
Dilution from higher weighted average number of shares (due to option exercises)	—	(0.10)
Year ended 30 April 2019	**16.2**	**33.60**
Increase from 2018 to 2019	6%	16%

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

The adjustments to the basic EPS in respect of exceptional items, exchange movements and other intangible asset amortisation are shown in note 8.

Financial estimates and judgements

In preparing the Annual Report and Accounts of Cohort plc for 2019, a number of financial estimates and judgements have been made which are explained in the Audit Committee report on pages 44 to 45.

Accounting policies

The changes in respect of accounting policies are explained in the Audit Committee report on page 45. In particular, the 2018 comparative figures have been restated to reflect the impact of IFRS 15 "Revenue from Contracts with Customers", as shown in note 30.

Additional financial reporting disclosure

The Group makes reference to additional financial reporting over and above that required by the IFRS. These alternative performance measures are explained in the Audit Committee report on page 45.

Our people

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

Andy Thomis
Chief Executive

Simon Walther
Finance Director

Building stronger relationships

Our capabilities and customer relationships all ultimately derive from our people. Across the Cohort Group, employees can make a difference, fulfil their potential, develop their careers and be rewarded for what they do. We are committed to making our businesses stimulating places to work with the benefits of a small, agile company but with the interesting and engaging work opportunities of a large Group.

In December 2018 we welcomed Chess to the Group, and by year end we had 907 permanent employees. We employ a large number of highly qualified engineers, mathematicians and scientists, all working at the highest level of strategic capability committed to responding to our customers' needs. The depth of expertise and passion for defence and security of our people makes the critical difference for our customers. We constantly encourage them to think and do things differently, and to strive for innovative ways to create real value.

Training & development

We want our people to stay with us for the long-term, so we are committed to developing them to help achieve their full potential. Investing in training to develop the next generation is vital to maintain the capabilities we need to deliver our strategy successfully and remain competitive. Our leadership programmes are designed to equip our current and future leaders to adapt their leadership styles and approaches to effectively respond to the business strategic priorities and drive performance in a highly competitive and ever-changing environment. We ran our first Alumni programme this year covering three groups from our 2017 and 2018 Leadership Development programmes, ensuring the networks formed as part of these programmes are maintained and to encourage collaboration across our subsidiaries.

Recognition

We recognise and reward our people for taking the initiative to think differently, deliver solutions that really benefit our customers and improve the way we work. Every year we host the Cohort Business Excellence Awards where we acknowledge the great achievements of teams and individuals across the Group. Nominees consistently demonstrate overwhelmingly how they have contributed, many in a way that has had a real impact on national security. For the first time this year we were able to link one of these awards to our new Cohort Group Values, the purpose being to recognise an especially good example of one of the Group Values – "We believe in playing our part". This was awarded to the Joint Warfare Support Team at MASS for their delivery of two Joint Forces Command training events where they displayed a depth of commitment, teamwork and positive approach to an unusually intensive project. This team's work has made a genuine and substantial contribution to the UK's ability to manage and respond to international crises.

Graduates from across the Group take part in the Leadership Training Day with SERFCA at the Royal Military Academy Sandhurst.

Number of permanent employees

2019:

907

2018:

790

2017:

811

ARMED FORCES COVENANT

EMPLOYER RECOGNITION SCHEME

SILVER AWARD

2017

Cohort is proud to be a signatory of the Armed Forces Corporate Covenant.

The Group donated to charity over

£26,000

in 2019

(2018: £38,000)

Charity & community

The Cohort Group's largest customers are the UK's armed forces and the work we do helps them to carry out their vital tasks more effectively. This is a significant motivating factor for our people, many of whom are current reservists or former members of the armed forces themselves. Our subsidiaries take part in many fundraising and sponsorship activities raising funds for military and veterans' charities, activities which we are pleased to support corporately, either directly or through matching employee efforts.

Cohort is proud be a signatory of the UK Armed Forces Corporate Covenant and as a Group we currently hold two Silver Awards under the Defence Employer Recognition Scheme, Cohort's award having been renewed in 2017.

HMS Oardacious

The Cohort Group, MASS, MCL and SEA are proud to be Silver sponsors of HMS Oardacious. The team are four Royal Navy submariners taking part in the Talisker Whiskey Atlantic Challenge in December 2019, aiming to raise over £100,000 for the Royal Navy and Royal Marines Charity.

DISCOVER MORE ABOUT THE TEAM AND THEIR CHALLENGE AT HMSOARDACIOUS.COM

STEM

We also invest time and money to support Science, Technology, Engineering and Maths (STEM) activities to motivate and inspire the next generation of young scientists and engineers.

In May 2019, SEA was recognised by the North Devon Manufacturers Association for a Business Engagement in STEM Award for its continued work to inspire and motivate young people to pursue a career in engineering. SEA currently has eleven STEM ambassadors and works with eleven schools, as well as Careers South West, to improve STEM opportunities. SEA is also committed to employing two apprentices per year and has a structured and interactive work experience programme.

MASS has committed to sponsor two secondary schools, one in Lincoln and one in St Neots, to provide support for cross-curricular STEM programmes provided by The Learning Partnership. These will be supported by the social learning and community platform Dendrite, which provides STEM career and recruitment pathway information and learning resources for teachers and students.

Board of Directors

Nick Prest CBE Chairman

Nick became Chairman of Cohort on flotation in March 2006.

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

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

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

Andrew Thomis Chief Executive

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

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

Simon Walther Finance Director and Company Secretary

Simon joined Cohort as Finance Director in May 2006.

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

Stanley Carter Non-executive Director

Stanley has been with Cohort since its formation in 2006.

Stanley jointly founded Cohort with Nick Prest and initially served as its Chief Executive before becoming Co-Chairman in 2009. In 2015, Stanley stepped down from Co-Chairman to become a Non-executive Director. Prior to that he was Managing Director of SCS, which he founded in 1992 on leaving the Regular Army. During his military service as a Royal Artillery Officer he held a wide range of posts in the MOD's central staff, in procurement and at government research establishments, and represented the UK on NATO technical committees. He received an award for the invention of a missile launcher from the UK MOD. He has held a number of directorships in technology companies and has degrees in Technology and Behavioural Science and an MSc in Information Systems.

Edward Lowe Independent Non-executive Director

Ed was appointed to the Board on 1 July 2019 and became Chairman of the Remuneration Appointments Committee on 23 July 2019.

Ed joined Racal Electronics in 1980 and, over a 20-year period, undertook a variety of commercial, sales and managerial roles. In 2000, he was appointed Vice President within Thales UK with responsibility for the commercial, sales and strategy functions. In 2005 he was appointed Managing Director of the Thales UK naval activities and led the international business line for naval platforms and services. In 2010 he was appointed Chief Operating Officer for Thales UK with operational responsibility for all Thales UK activities.

Jeff Perrin Independent Non-executive Director and Senior Independent Director

Jeff joined Cohort in July 2015. He is Chairman of the Audit Committee and was appointed Senior Independent Director on 23 July 2019.

A Chartered Certified Accountant, Jeff has held a number of senior financial positions including roles within Unilever, Oriflame, and the defence businesses of GEC and Radstone Technology Plc. In the latter company, he was also Chief Executive for four years until his departure a year after its acquisition by the General Electric Company in 2006. He was Chairman of the private equity-backed defence company, Chess Technologies Limited, from 2008 until its acquisition by Cohort on 12 December 2018.

Sir Robert Walmsley KCB, FREng Non-executive Director

Sir Robert joined the Board of Cohort on flotation in March 2006. He was Chairman of the Remuneration & Appointments Committee until 23 July 2019.

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

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

■ Member of the Board of Directors
■ Member of the Remuneration Appointments Committee
■ Member of the Audit Committee

Executive Management Team

Graham Beall Managing Director of Chess

Graham has held the role of Managing Director of Chess since its foundation in 1993.

Graham is the founder and Group Managing Director of Chess. He began his career as an apprentice at Philips Electronics, becoming its youngest Mechanical Design Engineer, moving into the defence industry in 1984. As Senior Mechanical Engineer Graham managed the development of new generation servo controlled, high accuracy stabilised radar platforms and positioning and tracking systems for the UK and European defence markets. His subsequent roles included Manufacturing Manager and then Lead Engineer for all new development projects. Graham set up Chess in 1993, initially focusing on high precision automation products and solutions for the electronics, medical and aerospace sectors. Under his direction it has evolved into a leading provider of surveillance and tracking systems for defence and security customers worldwide.

António Marcos Lopes Managing Director of EID

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

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

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

Chris Stanley Managing Director of MASS

Chris was appointed as Managing Director of MASS in April 2017.

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

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

Shane Knight Managing Director of MCL

Shane was appointed as Managing Director of MCL in January 2019.

Shane served in the Army until his final appointment as a Captain in the Royal Signals. Throughout his Army career he worked in a range of posts within the electronic warfare arena. He joined MCL in 2003 as Business Development Manager (Communications) and became Sales and Marketing Director in 2011 before his appointment to Managing Director in 2019. Shane has over 15 years business experience in the international defence sector.

Stephen Hill Managing Director of SEA

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

Stephen has held senior managerial positions, predominantly in the international aerospace and defence sector since the mid-1990s. He began his career in 1983 at GEC-Marconi as an Electronics Engineer, eventually becoming Business Director, with responsibility for the Land Systems electro-optics business at Basildon. In 2000, he moved to Thales, where his roles included Managing Director of the Air Operations business at Wells and Vice President with responsibility for the UK Air Systems division. Prior to joining the Cohort Group, he was Chief Executive of CircleBath, a venture capital-backed private hospital in Bath. Stephen has a first class honours degree in Electrical and Electronic Engineering and a master's in Engineering Project Management, and is a qualified Chartered Director.

Corporate governance report
Nick Prest CBE, Chairman

Introduction

From flotation in 2006 Cohort modelled its corporate governance, as far as practicable, on a recommended corporate governance code, though as an AIM-listed company it was not mandatory to do so.

In March 2018, the London Stock Exchange issued revised rules for AIM-listed companies, within which was a requirement (Rule 26) for AIM companies to apply a recognised corporate governance code from 28 September 2018.

Cohort plc chose to apply the QCA Corporate Governance Code, updated in April 2018 (the Code), with immediate effect and our corporate governance report for the year ended 30 April 2018 was based upon the Code, as is this report for the year ended 30 April 2019.

The principal means of communicating our application of the Code are this Annual Report and our website (cohortplc.com).

Overview

As Chairman of Cohort plc, I am responsible for leading the Board so as to ensure that Cohort has in place the strategy, people, structure and culture to deliver value to shareholders and other stakeholders of the Group, as a whole, over the medium to long term. Corporate governance is the collective term for these activities and I welcome the QCA Corporate Governance Code as a useful guide to assist me and the Board of Cohort plc in developing and applying good corporate governance, and in explaining it to our stakeholders.

In the remainder of this report, I have set out the Group's application of the Code, including, where appropriate, cross-reference to other sections of the Annual Report.

Where our practices depart from the expectations of the Code, I have clearly highlighted these and given an explanation as to why, at this time, it is appropriate for the Group to depart from the Code.

The Code sets out ten principles in three broad categories, as follows:

Governance structure
Corporate structure

The Board

Audit Committee

Jeff Perrin (Chairman)
Sir Robert Walmsley[1]
Edward Lowe[2]

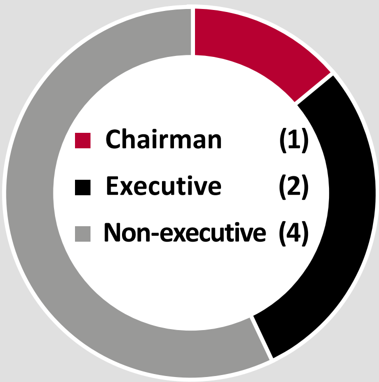
Remuneration & Appointments Committee

Edward Lowe[2] (Chairman)
Sir Robert Walmsley[1]
Stanley Carter
Jeff Perrin
Nick Prest CBE

1 Sir Robert Walmsley stepped down from the Audit Committee and from the Remuneration & Appointments Committee on 23 July 2019.

2 Edward Lowe joined the Audit Committee and the Remuneration & Appointments Committee on 23 July 2019, and became Chairman of the Remuneration & Appointments Committee on 23 July 2019.

Board composition



Deliver growth

1. Establish a strategy and business model which promote long-term value for our shareholders.
2. Seek to understand and meet our shareholders' needs and expectations.
3. Take into account wider stakeholder and social responsibilities and their implications for our long-term success.
4. Embed effective risk management, considering both opportunities and threats, throughout the Group.

Maintain a dynamic management framework

5. Maintain the Board as a well-functioning, balanced team led by the Chair.
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.
8. Promote a corporate culture that is based on ethical values and behaviours.
9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board.

Build trust

10. Communicate how Cohort plc is governed and is performing by maintaining a dialogue with our shareholders and other relevant stakeholders.

Deliver growth

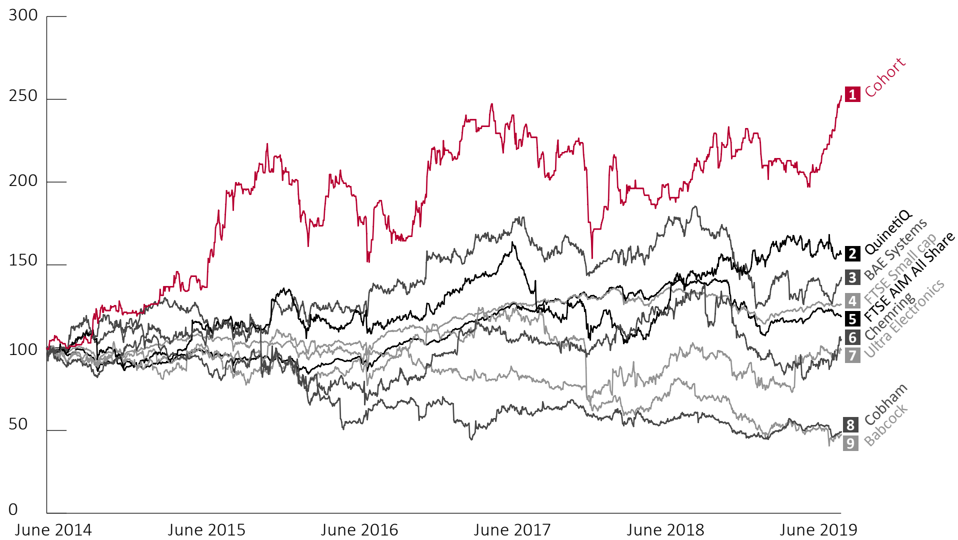
Establish a strategy and business model which promote long-term value for our shareholders
The Group's Business model is set out on page 10 with our strategy alongside on page 11. We believe this does promote long-term value for our shareholders as demonstrated by our five years' financial performance (see page 110) and our key performance indicators on pages 12 to 13 which are shown for the last three years.

Our progressive dividend policy and share performance over the last five years are also indicators of long-term value for our shareholders with total shareholder return shown below.

The Board conducts an annual review of strategy and the business plans of Cohort and its subsidiaries, and in between these formal reviews, strategic issues are frequently discussed by the Board.

We also believe that remaining on AIM is of long-term value to our shareholders as it offers a combination of access to capital markets, flexibility to make acquisitions, incentives and rewards to management through share schemes, and a regulatory environment appropriate to the size of the Company.

Seek to understand and meet our shareholders' needs and expectations
Cohort places a great deal of importance on communication with all shareholders. The Company uses the Annual Report and Accounts, the AGM, the Interim Report, the website (cohortplc.com), social media, webcasts and email news alerts to provide information to shareholders. The Company also meets with its institutional shareholders and analysts and receives feedback from its institutional shareholders, via its Nomad, Investec, on a regular basis.



Overview continued

Deliver growth continued

Seek to understand and meet our shareholders' needs and expectations continued

The primary points of contact with the shareholders are myself, the Chief Executive and the Finance Director. Jeff Perrin, the Senior Independent Director, is available to all shareholders should they have any concerns which communication through the normal channels of Chairman, Chief Executive and Finance Director has failed to resolve, or for which contact through the normal channels would be inappropriate.

The Company receives every year, just prior to its AGM, voting guidance reports from organisations such as the Association of British Pension Funds. These highlight any areas of concern and invite the Company to comment prior to publication.

In the recent past, these concerns have been in respect of:

i. length of service of Independent Non-executive Directors;

ii. membership of Board Committees; and

iii. executive remuneration, specifically no performance conditions applying to the exercise of share options.

Not all of these involve non-compliance with the Code, but we have addressed them all and either introduced changes or explained in this year's Annual Report and Accounts why we do not think it is in our shareholders' interests to do so at this time.

Take into account wider stakeholder and social responsibilities and their implications for our long-term success

Stakeholders other than shareholders include our employees, customers, partners, suppliers and neighbours.

Our employees (see pages 34 and 35) are the key to our success. We are not a capital intensive business but depend upon the skills, capabilities and flexibility of our employees, and our business model depends upon us being agile and responsive.

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

Our customers and suppliers are in many instances long-term partners and an important part of our culture is to establish and maintain relationships of trust.

Embed effective risk management, considering both opportunities and threats, throughout the Group

The Board and Group approach to risk is set out in the Audit Committee report on pages 44 to 45 and in the Risk management section on pages 46 to 51.

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

The Audit Committee, on behalf of the Board, reviews the risk environment faced by the Group on a regular basis and how the Group manages and mitigates these risks.

The key risks of the Group are presented on pages 46 to 51.

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

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

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

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

Maintain a dynamic management framework

The Board of Cohort plc is highly experienced in the defence market. Through the operation of the Board and the Group Executive, which comprises the subsidiary Managing Directors and the Cohort plc Executive Directors, the Board is able to monitor the business and respond in a timely manner to issues and opportunities as and when they arise.

Maintain the Board as a well-functioning, balanced team led by the Chair

The Board

As at 30 April 2019, the Board of Directors comprised of myself, two Executive Directors, Andrew Thomis and Simon Walther, and three Non-executive Directors, Stanley Carter, Jeff Perrin and Sir Robert Walmsley. Ed Lowe joined the Board as a Non-executive Director on 1 July 2019.

The Board considers that Jeff Perrin and Ed Lowe are independent.

All Directors retire by rotation and are subject to election by shareholders at least once every three years. Any Non-executive Directors who are considered by the Board to be independent but who have served on the Board for at least nine years or in conjunction with an Executive Director for nine years or more, will be subject to annual re-election.

Board Committees

The Board has established two Committees: Audit and Remuneration & Appointments, each having written terms of reference, which can be viewed on the Company's website.

The reports of the two Committees are reported separately on pages 44 to 45 for the Audit Committee and pages 54 to 59 for the Remuneration & Appointments Committee.

During the year ended 30 April 2019, the Audit Committee comprised Sir Robert Walmsley and Jeff Perrin. On 23 July 2019, Ed Lowe joined the Committee and on the same day Sir Robert stepped off the Committee, so that the Audit Committee now comprises two Independent Non-executive Directors in accordance with the Code. The Audit Committee's role is set out on page 44 of the Audit Committee report.

During the year ended 30 April 2019, the Remuneration & Appointments Committee comprised Sir Robert Walmsley (Chair), Jeff Perrin, Stanley Carter and me. The role of the Remuneration & Appointments Committee is to:

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

On 23 July 2019, Ed Lowe joined the Remuneration & Appointments Committee and became its Chairman in succession to Sir Robert Walmsley, who stepped down on the same date. The Remuneration Committee therefore has two Independent Non-executive Directors as members, one serving as Chairman. Both Ed Lowe and Jeff Perrin have considerable experience of managing remuneration schemes for senior executives in public and private companies, both large and small.

Nevertheless, the composition of the Remuneration & Appointments Committee is not in accordance with the Code, which requires that only Independent Non-executive Directors should sit on it. Cohort is not a large company and we want to make the best use of the skills we have. Both Stanley Carter and I have considerable experience in dealing with remuneration matters, as well as substantial shareholdings in the Company, and the collective view of the Board is that the present composition of the Committee benefits the Company and its shareholders.

At present, the formal role of Company Secretary is undertaken by Simon Walther, the Finance Director of Cohort plc. In practice the majority of the work is undertaken by the Deputy Company Secretary, who is a full time employee and acts as Secretary to the Board and its Committees and in this capacity deals directly with me and Board and Committee members as required. It may be appropriate at some time in the future to separate the Company Secretary role from the Executive, and we keep this under review.

Attendance at Board and Committee meetings

Board and Committee meetings are scheduled in advance for each calendar year. Additional meetings are arranged as necessary including meetings with subsidiary Managing Directors to review strategic and financial plans. The scheduled Board and Committee meetings and attendance of the members during the year ended 30 April 2019 were as follows:

	Board (10 formal meetings)	Audit Committee (3 meetings)	Remuneration & Appointments Committee (4 meetings)
N Prest CBE (Chairman)	■■■■■■■■■■	—	■■■■
S Carter (Non-executive Director)	■■■■■■■■■■	—	■■■■
Sir Robert Walmsley (Non-executive Director)	■■■■■■■■■■	■■■	■■■■
J Perrin (Non-executive Director)	■■■■■■■■	■■■	■■■■
A Thomis (Chief Executive)	■■■■■■■■■■	—	—
S Walther (Finance Director and Company Secretary)	■■■■■■■■■■	—	—

Jeff Perrin excused himself from two Board meetings during the year when the subject matter was the proposed acquisition of Chess Technologies Limited of which Jeff was Chairman and a shareholder.

The Executive Directors and subsidiary Managing Directors all work full-time for the Group.

The Non-executive Directors have commitments outside Cohort. These are summarised in the Board biographies on page 36. All the Non-executive Directors give the time to fulfil thoroughly their responsibilities to Cohort and as Chairman, I monitor this.

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board undertook a formal evaluation of its performance in 2017. After considering different alternatives the Board made the decision to undertake the evaluation internally, using a process led by me.

Overview continued

Maintain a dynamic management framework continued

Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement continued

The evaluation involved both a numeric and discursive self-assessment by each Board member, in response to a questionnaire, on the role and functioning of the Board and its members and Committees. The results of the review were broadly satisfactory but a number of actions emerged from it, as follows:

1. A comprehensive review of the legal and regulatory environment applying to Cohort, intended to ensure that our policies and procedures address comprehensively these obligations.
2. Following on from this, the production of a Company manual codifying all our policies and procedures, known as the Cohort plc Corporate Governance Handbook.
3. An expanded review of the Group's business risks and mitigations, led by the Audit Committee Chairman.
4. A programme to ensure the necessary level of contact between the Board, and Non-executive Directors in particular, and subsidiaries through visits and meetings with subsidiary Managing Directors.

In practice we monitor the Board on a continuous basis, including succession.

Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities

The Board has a broad range of skills, with particularly deep experience in the defence sector. The balance of skills and experience of the Board is summarised as follows:

	Defence sector	Financial	General management	Other public company (board level)	Public sector
N Prest	■		■	■	■
A Thomis	■		■		■
S Walther	■	■			
Sir Robert Walmsley	■		■	■	■
E Lowe	■		■		
S Carter	■				■
J Perrin	■	■	■	■	

The Board biographies (page 36) give an indication of the breadth of skills and experience.

Cohort is predominantly a defence company and collectively the Board has experience of engineering, financial, commercial, sales and marketing and general management functions in a range of defence companies, large and small, operating in and supplying to a large number of countries throughout the world. We consider this collective experience to be an important contributor to Cohort.

Each member of the Board takes responsibility for maintaining his skill set, which includes roles and experience with other boards and organisations as well as formal training and seminars. We also commission tailored executive coaching for our senior executives from time to time.

I am fully aware that a Board comprising seven men and no women does not reflect current views of best practice and carries some risks in terms of the breadth of capability and views brought to the table. An issue in the defence industrial sector is that, for a variety of reasons, there are not many women in senior positions and our policy so far has been to appoint Board members who have, alongside their other skills, defence experience. We continue to keep the issue under review.

The Deputy Company Secretary, a qualified solicitor, is responsible within the Company for advising the Board on its legal and regulatory responsibilities and on corporate governance matters. The Deputy Company Secretary and the Cohort Human Resources Manager also advise the Non-executive Directors independently of the Executive Directors in any matter in which the Executive Directors are personally interested, for example their own remuneration.

External advice is sought when necessary on legal, personnel, financial and governance matters. The primary sources are the Company's Nomad and the Company's lawyers.

Promote a corporate culture that is based on ethical values and behaviours

The Group has a strong ethical culture, supported by our ethical policy as published on our website (cohortplc.com). We see a company as a social unit with an economic output and the success of our social unit depends on the values of honesty, trust, loyalty and working together, with a healthy balance of competition and cooperation, just as in any other unit of society. We try to run our businesses this way.

The Board, through the Group Executive, undertakes regular reviews and audits in certain specific areas of risk, namely:

Anti-bribery

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

The Group's anti-bribery policy is reviewed at least every two years or more often if necessary. The policy was last reviewed and updated in April 2019.

Cyber risk
As mentioned last year, the Group introduced, in January 2019, a new Information Security Policy (ISP), replacing its previous Security Policy Framework.

The ISP encompasses our responsibilities in respect of the General Data Protection Regulation (GDPR) and other non-personal information we handle.

The ISP covers the physical and cyber security of our information including that held on behalf of third parties. It also addresses business continuity and disaster recovery procedures.

Each business within the Group reports annually to the Board on its compliance with the ISP and this compliance is audited by an internal team of information assurance and cyber experts from MASS. MASS's own ISP is audited externally. Audits for the year ended 30 April 2019 were undertaken in May 2019.

The Group's ISP is frequently reviewed, taking account of best practice and requirements in government and industry.

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

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

Maintain governance structures and processes that are fit for purpose and support good decision making by the Board
The Board discharges its duties through the following management structure:

Group management
The Cohort Board meets at least seven times per calendar year, in addition to business and strategic reviews which are not recorded as formal Board meetings. The Board also holds regular ad-hoc discussions to consider particular issues. We aim as a Board to visit each of the subsidiaries at least once a year, and I and individual Non-executive Directors also make visits to keep up to date with business issues at the subsidiaries. This is important in a decentralised group like Cohort. I and the Non-executive Directors meet at least once a year without the Executive Directors present.

The Board receives a monthly Board pack comprising individual reports from each of the Executive Directors and the subsidiary Managing Directors, together with any other material necessary for the Board to hold fully informed discussions to discharge its duties, including the review of Company strategy to ensure this aligns with creating shareholder value. It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets, major items of expenditure and commitment, major contract bids, acquisitions and disposals. A full schedule of the matters reserved for the Board can be viewed on the Cohort website (cohortplc.com). The Group Executive Committee meets at least four times per calendar year, comprising Cohort Executive Directors and subsidiary Managing Directors.

Subsidiary management
There are monthly Executive Management meetings involving the senior management of each subsidiary. Cohort Executive Directors attend subsidiary Executive Management meetings on a regular basis. The Non-executive Directors and I occasionally attend subsidiary Executive Management meetings.

Build trust
The Board communicates how the Company is governed and how it is performing by maintaining a dialogue with shareholders and other stakeholders through the mechanisms described on pages 39 to 40.

Board Committees
The reports to shareholders of the Audit and Remuneration & Appointments Committees are on pages 44 to 45 and 54 to 59 respectively.

The Board welcomes considered enquiries from shareholders and other stakeholders at any time.

Nick Prest CBE
Chairman

Audit Committee report

Jeff Perrin, Independent Non-executive Director and Senior Independent Director

Auditor's remuneration

	2019 £'000	2018 £'000
Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**56**	19
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	**195**	126
Total audit fees	**251**	145
Interim review fee	**20**	20
Other non-audit fees	**129**	10
Total non-audit fees	**149**	30
Total fees paid to the auditor and its associates	**400**	175
Charged to profit for the year	**400**	175

Introduction

The Audit Committee comprised two Non-executive Directors for the year ended 30 April 2019. Edward Lowe, Independent Non-executive Director, joined the Audit Committee on 23 July 2019, with Sir Robert Walmsley stepping down at the same time. As from 23 July 2019, the Audit Committee will comprise two Independent Non-executive Directors. The Audit Committee is scheduled to meet at least three times a year. It is the Audit Committee's role to provide formal and transparent arrangements for considering how to apply financial reporting under IFRS, the Companies Act 2006, risk and the internal control requirements of the Code and maintaining an appropriate relationship with the independent auditor of the Group.

The Audit Committee is responsible for ensuring that the Group's risks are understood, managed and mitigated as far as practicable.

Jeff Perrin is Chairman of the Audit Committee being a qualified Chartered Certified Accountant and having experience of the defence industry in previous and current roles. The current terms of reference of the Audit Committee were reviewed and updated in June 2017.

Consideration of the financial statements

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

Areas of judgement

Revenue and profit recognition on fixed-price contracts

The judgement applied in recognising revenue on a contract over time as performance obligations are completed is in respect of the input costs incurred and the attributable margin. The latter is particularly a judgement in respect of estimating the cost to complete on a particular contract and the remaining risk and associated contingency. This cost contingency takes account of the stage that the contract has reached and any judgement and uncertainty remaining to deliver the remainder of the contract. It is usual for these cost contingencies to reduce as the contract progresses and risk and uncertainty reduce.

Goodwill

The Group has recognised goodwill and other intangible assets in respect of the acquisitions of Chess, MASS, SEA (including J+S), MCL and EID. The other intangible assets are in respect of contracts acquired, intellectual property rights and specific opportunities and in each case are amortised over the expected life of the earnings associated with the other intangible assets acquired. The goodwill, which is not subject to amortisation but to at least annual impairment testing, arises from the intangible elements of the acquired businesses for which either the value or life is not readily derived. This includes, but is not limited to, reputation, customer relations, contacts and market synergies with existing Group members. The goodwill relating to the acquisitions of MASS, SEA (including J+S), MCL and EID has been tested for impairment as at 30 April 2019; this is an area of judgement. In each case there was no impairment. The Group's 2019 post-tax WACC of 7.9% is lower than the 2018 equivalent of 12.4%, which reflects lower volatility, partly offset by higher interest rates. These post-tax WACC amounts are equivalent to a pre-tax WACC of 12.5% (2018: 17.3%).

Sensitivity was applied to the impairment tests to deliver a material impairment of goodwill as reported in note 9.

Chess was acquired on 12 December 2018. As such the goodwill in respect of this recent acquisition has not been subjected to impairment testing as the business' prospects since acquisition have not materially changed.

Provisions

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

Accounting policies

In the year ending 30 April 2019, the Group applied IFRS 15 "Revenue from Contracts with Customers" for the first time with a restatement, where applicable, of the reported results for the year ended 30 April 2018.

The impact of IFRS 15 is shown in note 30.

IFRS 16 "Leases", which will apply from 1 May 2019, has also been assessed and its expected impact is shown in note 24.

Alternative performance measures (APMs)
The Group reports a number of APMs which are not in accordance with the reporting requirements of IFRS. The Audit Committee has reviewed these during the year ended 30 April 2019 to ensure they are appropriate and that in each case:

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

The most important APMs reported by the Group are as follows:

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

The reconciliation of operating profit (IFRS) to adjusted operating profit is shown in the Consolidated income statement (page 67) for the Group and in note 1 on page 73 for the Group's subsidiaries. The following table shows the Group's adjusted operating profit compared with operating profit for the last five years:

	2019 £m	2018 (restated[1]) £m	2017 (restated[1]) £m	2016 (restated[1]) £m	2015 £m
Adjusted operating profit	**16.2**	15.2	14.4	11.7	10.1
Operating profit	**5.9**	10.3	0.9	5.1	5.9

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

The main difference between the two figures is the amortisation of other intangible assets value which arises on the acquisition of businesses.

The trading performance of the Group is better reflected by the adjusted operating profit.

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

This is reconciled to the headline (IFRS) earnings per share in note 8.

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

The independent auditor presented its audit plan to the Audit Committee prior to the Audit Committee meeting held in December 2018. The plan was reviewed and approved at that meeting with specific areas of focus by the independent auditor discussed in detail for the ensuing audit.

The independent auditor (KPMG LLP) was appointed in March 2010. The audit engagement partner has been changed for the year ended 30 April 2019.

The analysis of KPMG LLP (2018: KPMG LLP) remuneration is shown in the table on page 44.

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

The other non-audit fee charged to profit for the year ended 30 April 2019 included £125,000 in respect of financial due diligence on the acquisition of Chess Technologies Ltd. The audit fee included £22,000 in respect of the audit of the acquisition accounting for the same business. These items (£147,000 in total) have been included in the acquisition costs of Chess Technologies Ltd, reported as an exceptional item in the income statement.

Jeff Perrin
Independent Non-executive Director and Senior Independent Director

Risk management and principal risks

Risk management

The key risks and the management thereof are set out on pages 47 to 51. In addition to these risks, other risks facing the Group are explained elsewhere in the Annual Report and these should be read together to give a complete picture of our risks and their management and control.

Specifically, the economic market risks (including Brexit) are discussed in the Chairman's statement and Business review and the cyber risk of the Group is discussed within the corporate governance report, alongside our ethical and behavioural risks.

Finally, our risk in respect of our key resource, our employees, is contained within this Risk management section but also expanded upon in Business model and the Our people section of this report.

The Board's approach to risk management is summarised by the following framework:

The Group faces a number of risks, the significant ones of which are set out below. The Group reviews, analyses and addresses the risks it faces through the Audit Committee, Board, Group Executive meetings, subsidiary management meetings and subsidiary project and functional reviews.

Depending upon the nature of the risk, review and action may be on an annual basis. In most cases the review is more frequent. Project risks are generally reviewed monthly through the individual project reviews, subsidiary management meetings and reports to the Cohort Board.

Risk management framework

Unchanged Increased Decreased

Nature of risk	Mitigation and progress	Change
Business risk		
Capacity to grow the Group		
As an AIM-listed Group, Cohort's strategy is to grow, both organically and by acquisition. This gives rise to the risk of the Group not having the capacity to grow in line with our strategic objectives. Specific elements of this risk include our ability to win new business, design new and competitive products, and solutions, whilst ensuring that we meet our obligations to our customers and identify and execute suitable value adding acquisitions.	The elements of this broad business risk are addressed below, especially the risks in respect of customers, operations, acquisitions and treasury. At a higher level, our federated model of relatively small, independent businesses enables us to respond more quickly to changing market and business conditions. Each business is able to retain through this independence a good degree of innovation and responsiveness. This model also allows our businesses to keep close to customer requirements and technical changes to enable them to identify the need for new products and solutions and how best this is achieved, whether through our own development or utilising third-party technologies. To ensure that the business growth opportunities are value adding, whether new business, products, services or acquisitions, appropriate controls are in place in both our subsidiaries' businesses and at Group level to lessen the risks of such undertakings.	Unchanged
Market risks		
Customers		
The Group's single most important customer remains the UK MOD. £46.1m of revenue came directly from this source in 2019 (2018: £42.7m), 38% (2018: 39%) of Group revenue. In addition, £16.2m (2018: £20.8m) of Group revenue, 13% (2018: 19%), was sourced ultimately from the UK MOD but received via other contractors. With the continuing constraints of government expenditure and the current uncertainties arising from Brexit there is a risk that further controls on defence expenditure could be introduced, which could have an impact on the Group's ability to win new work or could result in termination of its existing contracts. Any event which effects the Group's reputation with the UK MOD could also put this revenue at risk.	The decrease in the proportion of its revenue to its ultimate primary customer in 2019 compared with 2018 reflects the acquisition of Chess, which had no direct revenue with the UK MOD in the current year, and also growth in export sales, security and transport in the underlying Group. The direct sales to UK MOD increased, mostly a result of increased MCL revenue but also a return to growth in SEA's research activity. The indirect revenue to UK MOD decreased with most of this due to lower submarine activity at SEA, again as expected. As we said last year, we expect this revenue stream to remain low in the next two years as the submarine production work is elongated, mostly due to UK MOD budgeting pressures. The Portuguese MOD, which is also a home market for the Group, was steady at £4.4m (4%) in 2019 (2018: £4.5m; 4%). We expect revenue to the Portuguese MOD to increase in the coming year with land programmes getting underway and naval programmes coming back on track. Non-defence sales (which include security) also increased to £23.7m (20%) from £16.6m (15%). The marked growth was due to security increasing as a result of the initial contribution from Chess in delivering C-UAV systems and services to UK airports including Gatwick. Transport revenue grew significantly on last year, from £5.3m to £9.2m. This was due to the first deliveries of Red Light systems to Network Rail and growth in underlying ROAD*flow* sales from £3.4m to £3.6m. In export markets, £31.9m of revenue (26%) was delivered this year compared with £26.3m (24%) in 2018. This growth was expected, and has been driven by MASS delivering more electronic warfare services, torpedo launcher systems and Krait sonar arrays at SEA and by the introduction of Chess. £33.7m (2018: £33.9m), 28% (2018: 31%) of Group revenue, representing 54% (2018: 53%) of revenue derived from the UK MOD, was in relation to the Astute and other submarine programmes, nuclear deterrent programmes and operational support to the Royal Navy, Royal Air Force and Joint Forces, all of which have been confirmed as high priority areas following the Government's Strategic Defence and Security Review.	Unchanged

Unchanged Increased Decreased

Nature of risk	Mitigation and progress	Change
Operational risks		
Employees		
The Group's main resource is our employees. We are not a capital intensive business and as such our value and our customers' value derives from the ability of the Group to recruit, retain and train employees with the right skills and flexibility. In some of our key areas, resources are limited, and it is a risk if we cannot maintain sufficient numbers and appropriate skills.	As highlighted in "Our people" (pages 34 and 35), we endeavour to provide an environment in which skilled employees are attracted to our business through the nature and variety of work and the level of responsibility we can provide. We maintain close links with our military and security customers, who provide a primary source of domain experts for our businesses. We, in return, are keen to support people initiatives for and within those organisations, including the UK MOD's Military Covenant. We maintain close links with academic institutions in our neighbourhoods and further afield where appropriate skills exist. We have apprenticeship and graduate recruitment schemes which ensure the Group is able to develop its own people to ensure skills are maintained into the future, especially in light of shrinking military establishments.	Unchanged
Suppliers		
As is typical in the defence sector, the Group is reliant on certain key suppliers for specific elements of its technical and product offerings. This reliance is long term, with product duration in this sector often being tens of years.	This risk is managed through close liaison with suppliers, good project management and having contingency plans to contract with alternative suppliers or bring the work in house. The long-term life of many defence products requires a regular review of product life and capability and the Group supports the customer in this respect through funded ongoing product support and re-life tasks.	Unchanged
Operations (Chess, EID, MASS and SEA)		
The subsidiary trading and business risks are similar in the cases of Chess, EID, MASS and SEA. i. Bid risk – the businesses bid on contracts where the scope of work may not be well or fully defined by the customer. ii. Fixed-price contracts – these are often of a long-term nature (greater than 12 months) and typically include delivery of hardware and software, some of which may be developed as part of the contract. iii. Due to the nature of their niche technical skills requirement, Chess, EID, MASS and SEA all have a fixed level of core software and hardware engineering and technical expertise.	This is typical in defence and is managed through bid/no bid reviews at the appropriate level using experienced personnel, including the Cohort Executive and Board. These projects are managed by dedicated project management teams, monthly reviews by the subsidiary board and regular interaction with the customer and key suppliers. Revenue and costs are recognised taking account of risk and the estimated cost at completion (including any contingency). More intensive reviews introduced last year at SEA have arrested unexpected cost overruns we had seen during 2018. This cost base is carefully monitored at budget time and by rolling quarterly forecasts to identify any potential risk of low utilisation and thus under-recovery of cost, or over-utilisation leading to the inability to meet customer commitments. The risk is mitigated, in the short term, by the use of sub-contractor staff. In the long term, a programme of skills assessment and training is in place to ensure continued flexibility of the Group's engineering and technical resources. Chess was acquired in December 2018. Chess brings with it more production, including machining, than seen elsewhere in the Group. During our due diligence and in our first few months of ownership, we have observed weaknesses in Chess's project control process with potential implications for delivery and cost control. We have already taken action to address this and expect to have an improved project control process in place during the coming year. We are also addressing key management roles in respect of production and engineering.	Unchanged

Nature of risk	Mitigation and progress	Change
Operational risks continued		
Operations (MCL)		
MCL's revenue visibility is short at typically three to six months. This carries risk to staff utilisation and predictability of revenue and profit.	MCL's staff levels are low, 2019: 30 (2018: 30), and the people employed are flexible and possess multiple skills enabling them to take on design, integration and support tasks across the full range of MCL's product offering. MCL has a long-term strategy to improve its visibility by securing longer-term contracts, utilising the Group's size and financial stability. Its order cover for 2019/20 is lower than last year's 34% (2018: 42%), but MCL has identified several significant opportunities this year that should allow it to build future revenue visibility.	
Managed service contracts		
The Group (through its subsidiaries, MASS, MCL and SEA) operates a number of off-site managed service contracts. These contracts are long term in nature (typically five years at commencement) and have dedicated project managers. The contracts are fixed price in terms of revenue with opportunities for additional tasks enhancing volume and return. As mentioned last year, MASS had some important long-term managed service contracts to be renewed or replaced. During the year it secured most of these with a small service provision contract being lost in competition. The order value secured from renewals was nearly £70m and further renewals are due in the coming financial year.	The Group carefully manages the partnership with its customer and supplier base in all these cases to ensure the customer receives value for money, with skilled Group staff providing a dedicated, flexible and responsive approach. The primary risk to these managed service contracts is termination or loss through competition. We mitigate this risk through the partnering approach adopted by the Group and our close engagement with customers to ensure their needs are met.	
Export contracts		
The Group's subsidiaries seek to win and deliver solutions and services outside its geographical home markets, the UK and Portugal. The risks that arise for the Group relate to the need to comply with local and domestic legislation, and to ensure we receive payment in circumstances where political and credit risk may be much higher than in our domestic markets. There is also a risk that export licences may not be granted or may be cancelled.	The Group's long-term strategy is to grow its export business, both in terms of volume and markets. This provides mitigation against reliance on any single customer, in particular the UK Ministry of Defence (MOD). Export activity in 2019 represented 26% (2018: 24%) of the Group's total revenue. Revenue derived from the UK and Portuguese defence ministries represent 51% (2018: 58%) and 4% (2018: 4%) of the Group total respectively. Our commercial staff are highly experienced at dealing with the various regulatory processes associated with the export of defence goods and services, including export licence applications and information security requirements. In particular we have a strong Group-wide anti-bribery policy to ensure compliance with the UK's 2010 Bribery Act. The Group has experienced a very low level of bad debts, including from export contracts. We take a case-by-case approach to payment risk, making use of various treasury and commercial arrangements where necessary to ensure payment. We regularly monitor any potential political risk to any of our export markets, and we do not commit resources to markets where export licences might be difficult to obtain.	
Partners		
The Group, especially in the defence sector, often secures business through teaming and partnering with other suppliers and this is often a requirement of securing work with the UK MOD in order to ensure the end customer receives the best solution. This creates a risk that the Group's revenue or profit will be affected by poor performance of a partner business.	The Group takes an active part in these arrangements and, through regular (usually monthly) project review meetings and other communication, ensures that the team (including our partners) delivers as a whole to the customer and to the needs of the individual team members.	

Unchanged Increased Decreased

Nature of risk	Mitigation and progress	Change
Strategic risks		
Acquisitions		
The buying (and selling) of businesses is a risk in respect of value, distraction, integration and ongoing obligations and undertakings.	The Group's acquisition risk is mitigated as far as practicable by the acquisition process being led at the Cohort Board level, making use of a skilled and experienced internal team augmented by external expertise and resources as and when required. Our approach to acquisitions is set out more fully in our Business model section on pages 10 and 11. During the year ended 30 April 2019, the Group acquired 81.84% of Chess. In respect of mitigating the acquisition risk, Cohort had initially engaged with Chess in 2013 and has had discussions with varying levels of intensity over the last five years. Due diligence was conducted by an internal team, many of whom had worked on the acquisitions of EID, J+S and MCL. External due diligence also utilised teams we had worked with previously in the financial and insurance arenas.	Unchanged
Financial risks		
Treasury		
Over the last 12 months, the credit ratings of most of our banks (see note 15) have remained steady. Specifically, in the UK, changes to the banking sector have resulted in the Group's deposits, accounts and banking arrangements being moved into the ring-fenced banks of NatWest and Lloyds, improving the credit ratings and reducing our risk. In November 2018 the Group completed a new bank facility with Lloyds and NatWest. NatWest remains the Group's primary bank, especially for clearing purposes and day-to-day transactions. The facility is a revolving credit facility for four years with an option to extend for one year. The amount is £30m with an option to extend by a further £10m to £40m. The facility itself provides the Group with a flexible arrangement to draw down for acquisitions and overdrafts. This facility is available to all of the Group's UK entities (excluding EID) through an offset arrangement. The current facility expires in November 2022, although the Group has an option to extend it for one year. The facility is secured against all of the Group's UK businesses (and assets) including the Group's shares in EID. EID has facilities with local banks in Portugal, none of which have security over its assets. These facilities are for clearing bank purposes, overdraft, foreign exchange contracts, guarantees and letters of credit. A risk for the Group is that its pools of cash and facilities, both in the UK and Portugal, are insufficient for local needs. Under the facility agreement with its banks, the Group is required to meet certain covenants every quarter. There is a risk that the Group does not meet some or all of the covenants and that the facility is amended or cancelled as a consequence.	The Group takes a very prudent approach to the management of its financial instruments, which are described in note 18. The Group's cash (see note 15) is usually held with at least Baa3-rated institutions (including Portugal) and on deposits usually not exceeding three months. This ensures a very low risk to capital and a reasonable balance of liquidity against interest earned on cash deposits. The Group regularly reviews the ratings and other relevant factors in respect of the banks with which it deposits its cash and on each and every occasion that a short-term deposit is placed. The Group prepares a monthly cash forecast to ensure that cash in the UK and Portugal is sufficient for local needs over the following three-month period. The shareholder agreement in respect of EID enables dividends to be paid from EID to the UK. The Group regularly monitors its covenant position and considers the impact of proposed transactions vis-à-vis upon the banking covenants to ensure that they are not breached. It also has regular (no less than twice yearly) meetings with its banking providers to ensure that any potential issues or risks are identified and communicated early and that any implications for covenants can be addressed. The Group has remained in compliance with its banking covenants in 2019 and expects to continue to do so.	Decreased

Nature of risk	Mitigation and progress	Change
Financial risks continued		
Currency risk		
The Group has contracts with overseas customers and suppliers requiring payment or receipt in currencies other than sterling (in the UK) and euro (in Portugal). The Group's exposure to credit risk at 30 April 2019 in respect of financial derivatives (forward foreign exchange contracts) was £9.6m of payable and £0.4m of receivable (2018: £2.3m of payable and £0.8m of receivable). The financial derivatives at 30 April 2019 were held with NatWest, Lloyds and Investec Bank (30 April 2018: NatWest, Lloyds, Barclays and Investec Bank). These are disclosed in detail in note 18 to the financial statements.	The Group manages its exposure to currency risk by using forward foreign currency exchange contracts. The level of forward cover is determined on an individual contract basis, taking into account the net currency exposure to receipts and purchases. Forward contracts are only put in place when the award of customer contracts has taken place or is considered highly probable. The Group does not enter into speculative forward exchange contracts. The Group's primary exposure is to the US dollar through MCL, which purchases a number of products in the US, and SEA, which sells products to US customers. The Group does not hedge the exposure to euro/sterling fluctuations that arise from its ownership of EID.	—
Revenue		
The Group has risk in respect of: i. milestone and acceptance failure on projects; and ii. unrecoverable trade debts. The recognition of revenue is discussed at length in the accounting policies (page 107) and critical accounting judgements (page 109) and as such may from time to time have a degree of risk. The 2019 net bad debt charge was £Nil (2018: £16,000) on Group revenue of £121.5m (2018 restated[1]: £110.5m). Financial assets exposed to credit risk at 30 April: (see table below)	The Group takes a prudent approach to revenue and credit risk, and any work done at risk is minimal, authorised at the appropriate level and reviewed on a monthly basis. The Group uses project control processes and regularly reviews project progress to ensure recognition of revenue takes account of external milestones and customer acceptance as well as the internal costs incurred. The calibre of the Group's customers and the control processes in respect of revenue capture and invoicing ensures minimal bad debts. The Group also uses letters of credit and other methods of payment guarantee, including customer advances, especially in respect of overseas customers, to ensure any export debt risk is minimised. Significant debt receivable in foreign currency is hedged using forward exchange contracts. The credit risk of the major debtor of the Group, the UK MOD, is considered very low. The Group's risk to trade receivables is higher in some of our non-defence markets where our customers are not all government bodies. The Group also has a risk, even for government business, where we contract via a prime contractor. This risk has been low historically, especially in the defence sector, but collapses such as Carillion highlight that prime contractor risk needs to be monitored.	—

	2019 £m	2018 £m (restated[1])
Trade receivables	**19.9**	17.3
Other receivables including contract assets	**23.1**	17.4
Cash and bank deposits	**18.8**	20.5

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

Directors' report

Introduction

The Directors present their report and the audited financial statements (pages 67 to 110) of Cohort plc for the year ended 30 April 2019. Cohort plc is a company incorporated in and operating from England. Its registered address is One Waterside Drive, Arlington Business Park, Theale, Reading RG7 4SW. The Corporate governance report (including Board Committee reports) are set out on pages 38 to 51 and form part of this report.

Principal activities

The principal activity of the Company is that of a holding company. The principal activities of the Group are described in our Business review on pages 14 to 33.

The Chairman's statement is included in the Overview section on pages 6 to 9.

Dividends

The Directors recommend a final dividend of 6.25 pence (2018: 5.65 pence) per 10 pence ordinary share which, subject to shareholder approval, is due to be paid on 18 September 2019 to ordinary shareholders on the register on 23 August 2019. Together with the interim dividend of 2.85 pence paid on 27 February 2019, the full dividend for the year will be 9.10 pence (2018: 8.20 pence), an increase of 11% over last year.

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

Disclosure	Report	Pages
Directors who served throughout the year	Remuneration & Appointments Committee report	54 to 59
Directors retiring by rotation	Remuneration & Appointments Committee report	54 to 59
Directors' biographies	Board of Directors and Executive Management	36 to 37
Directors' interests	Remuneration & Appointments Committee report	54 to 59
Directors' share options	Remuneration & Appointments Committee report	54 to 59

Table 2: Substantial shareholdings and voting rights

	Percentage of voting rights and issued share capital %	Number of ordinary shares	Nature of holding
S Carter	22.22	9,099,802	Direct
Schroders	15.03	6,155,498	Direct
Canaccord Genuity Wealth Management	10.50	4,300,929	Direct
Liontrust Asset Management	7.50	3,072,779	Direct
FIL Investment International	5.31	2,176,100	Direct
N Prest CBE	5.07	2,076,738	Direct

Research and development

During the year ended 30 April 2019 the Group expenditure on research and development, both on behalf of customers and the Group's own private venture expenditure, was £8.8m (2018: £5.9m).

Going concern

The Group's financial statements have been prepared on the going concern basis. The reasons for this are set out on page 103 of the accounting policies.

Capital structure

Details of issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 19. The Company has one class of ordinary shares, each of which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company.

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

Details of employee share schemes are set out in note 20. The Trustee of the Cohort Employee Benefit Trust (EBT) (see note 21) abstains from voting on the Company's shares held on trust and these shares do not receive any dividend.

At 30 April 2019, the EBT held 98,053 Cohort plc ordinary shares, 0.24% of the issued share capital (2018: 341,128; 0.83%). The maximum number held at any time in the year ended 30 April 2019 was 373,628, 0.91% of the issued share capital. Shares in Cohort plc are acquired and disposed of by the EBT for the purposes of satisfying employee share option and Restricted Share Schemes, details of which are shown in note 21.

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the QCA Corporate Governance Code, the Companies Act 2006 and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Corporate Governance report on pages 38 to 43.

Under its Articles of Association, the Company has authority to issue up to half of its issued shares as new ordinary shares. This approximates to 20.5m shares at 30 April 2019.

There are also a number of other agreements that take effect, alter or terminate upon a change of control of the Company, such as: commercial contracts; bank facility agreements; property lease arrangements; and employee share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid, other than those disclosed in the Remuneration & Appointments Committee report on pages 54 to 59.

International Financial Reporting Standards (IFRS)

The Group and parent company's reported results for the year ended 30 April 2019 are prepared in accordance with IFRS as adopted by the EU.

Directors

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

Details of information in respect of the Directors of the Company are referenced in Table 1 on page 52.

Fixed assets

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

Employee consultation

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

Disabled employees

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

Donations

During the year ended 30 April 2019 the Group made charitable donations of £26,185 (2018: £37,586), mainly in respect of military and local charities. The Group made no political donations during the year (2018: £Nil).

Substantial shareholdings

The Company has been notified as at 7 June 2019, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the voting rights of substantial shareholders of the Company as shown in Table 2 on page 52.

Re-appointment of auditor

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

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

Approved by the Board of Directors on 23 July 2019 and signed on its behalf by:

Simon Walther
Company Secretary

Remuneration & Appointments Committee report

Sir Robert Walmsley KCB, FREng, Non-executive Director

Introduction

The Remuneration & Appointments Committee of the Board is, inter alia, responsible for considering Directors' remuneration packages and making recommendations to the Board. On 23 July 2019, Edward Lowe replaced Sir Robert Walmsley as Chairman of the Remuneration & Appointments Committee. Sir Robert stepped down from the Remuneration & Appointments Committee on the same date. This report has been prepared by Sir Robert, as it relates to remuneration matters dealt with during his period as Chairman.

Remuneration policy

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

Executive Directors receive salary, medical cover (including an annual medical) and pension contributions as well as being eligible for annual cash bonuses, restricted shares and share options.

Service contracts of the Executive Directors who served in the year

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

Pensions

For the period from 1 May 2018 to 31 March 2019, the Group made contributions to a stakeholder pension scheme (a defined contribution scheme) at a rate of 10% of any Executive Director's contribution plus 3% of the Executive Director's salary per annum to the same scheme. From 1 April 2019, the Company has paid (and will continue to pay) to the Executive Director 4% of annual salary as a retirement allowance. This payment does not count towards the Executive Director's determination of bonus. This is a result of the impact of HMRC tax regulations in respect of a cap on annual pension contributions of £10,000 and an increase in employer auto enrolment contributions to 4% of annual salary from this date.

Directors' interests (unaudited)

	At 30 April 2019 Number of 10p ordinary shares	At 30 April 2018 Number of 10p ordinary shares
S Carter	**9,099,802**	9,105,718
N Prest CBE	**2,076,738**	2,076,738
J Perrin	**4,000**	4,000
A Thomis	**169,702**	145,658
Sir Robert Walmsley	**30,000**	30,000
S Walther	**173,292**	126,907

Directors' interests in the equity of Cohort plc (unaudited)

The Directors in office during the year under review and their interests in the equity of the Company are shown in the table above. The changes in the Executive Directors' equity interests in the Company between 30 April 2018 and 30 April 2019 are analysed as follows:

	A Thomis	S Walther
At 30 April 2018	145,658	126,907
Shares awarded under Restricted Share Scheme	18,779	14,695
Cohort plc shares purchased through Cohort plc SAYE scheme	2,300	468
Shares acquired under Cohort plc 2006 share options scheme	—	30,109
Automatic dividend reinvestment in shares (within an ISA and/or a SIPP)	3,002	1,138
Shares sold on transfer of shares to an ISA/SIPP	(37)	(25)
At 30 April 2019	**169,702**	**173,292**

The Executive's shareholdings at 30 April 2019 represent 257% of Andrew Thomis' and 335% of Simon Walther's annual salaries respectively (at 30 April 2018 the respective levels were 212% and 237%) and are based upon the market price of Cohort plc shares at those respective dates: £3.725 at 30 April 2019 and £3.500 at 30 April 2018.

Of the above shareholdings at 30 April 2019, 26,211 (2018: 22,321) of Andrew Thomis' and 20,541 (2018: 17,599) of Simon Walther's are held on trust by the EBT as part of the Restricted Share Scheme and do not receive a dividend.

There was no change in the interests of the other Directors with the exception of Stanley Carter, whose interests were reduced by 5,916 shares in the year by transfer to non-dependent family members. None of the Chairman's or the Non-executive Directors' shareholdings are held as part of the Restricted Share Scheme (2018: £Nil).

Performance incentives (unaudited)

The Cohort Executive Directors' incentive scheme was agreed by the Board on 19 June 2013 following a recommendation from the Remuneration & Appointments Committee. This scheme has applied for the year ended 30 April 2019 and will also apply for the year ended 30 April 2020.

The Remuneration Committee expects to review the performance incentive scheme of the Executive Directors and other members of the Group Executive Management during the coming financial year.

The incentive scheme comprises two elements:

1. In-year performance

The bonus payable to the Cohort Executive Directors in respect of each and every year will be based upon actual performance compared to budget for adjusted operating profit and operating cash flow (both measures excluding the impact of any in-year acquisitors and disposals) and will be payable up to a maximum of 15% of salary in cash.

2. Long-term performance

The Cohort Executive Directors will be eligible to receive the following annual rewards based upon achieving a long-term annualised profit growth target:

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

ii. Up to 20% of salary as Restricted Shares. The number of shares awarded under the Restricted Share Scheme is calculated by reference to the average share price for the respective year.

   A further 10% of salary over and above the 20% shown in i. and ii. is payable either as cash or Restricted Shares, not both, under the long-term performance scheme where the performance exceeds the 10% target set out below.

iii. A discretionary award of up to 20% of salary as share options. The number of shares under option awarded is calculated by reference to the market price on the day of grant.

The long-term performance awards are based upon a historical growth target over four years. This growth target is used in determining each of the following awards under the scheme:

i. cash; and

ii. Restricted Shares.

The discretionary share option award takes account of the Company's performance, including the achieved growth, the return to shareholders and market circumstances.

There are no future performance targets applied to these awards.

Performance incentives (unaudited) continued

2. Long-term performance continued

These rewards are payable for the year ended 30 April 2019 on a linear basis from zero to 20% of salary as the compound annual growth rate in adjusted profit before interest and tax per share (after excluding non-controlling interests) over a rolling four-year period starting 1 May 2015 goes from zero to 10%.

In the case of the discretionary share option awards, the Committee considers the exercise of the options (which are issued at market price) should not be subject to future performance targets since the movement of the share price after the award date is itself the right parameter to reflect the value of this component of remuneration.

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

The Committee considers the award of Restricted Shares should not be subject to future performance targets as they are a reward for actual achievement targets over a long (four years) period.

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

At the Remuneration & Appointments Committee meeting held on 22 July 2019, the following awards were made to the Executive Directors:

i. A cash bonus of £109,624 was payable to the Executive Directors for the year ended 30 April 2019 (2018: £111,144).

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

	In respect of the year ended 30 April 2019		In respect of the year ended 30 April 2018	
	Actual number of shares	**Estimated value of shares £**	Actual number of shares	Actual value of shares £
A Thomis	**19,274**	**73,800**	18,779	72,000
S Walther	**15,082**	**57,749**	14,695	56,340
	34,356	**131,549**	33,474	128,340

The value of the Restricted Shares awarded were at 30% of salary for the year ended 30 April 2019 (30% for the year ended 30 April 2018).

The total estimated value received by the Executive Directors in respect of the Restricted Share Scheme, including income tax and employee NIC was £248,205 in respect of the year ended 30 April 2019 (2018: £242,151). The Restricted Shares in respect of the year ended 30 April 2018 were approved at the Remuneration & Appointments Committee meeting of 22 May 2018 and were awarded on 20 August 2018. The Restricted Shares in respect of the year ended 30 April 2019 are expected to be awarded in August 2019. The actual number of shares is based on the average mid-market share price for the year ended 30 April 2019, 382.9 pence (2018: 383.4 pence). The total estimated value is based on this average share price and the prevailing tax rates.

iii. Ordinary shares under option granted during the year ended 30 April 2019 and outstanding at 30 April 2019 were as shown in Table 1 on pages 57 and 58.

The mid-market price of Cohort plc 10 pence ordinary shares at 30 April 2019 was 372.5 pence (2018: 350.0 pence); the lowest and highest market prices in the year were 422.0 pence and 345.0 pence respectively.

No bonuses are payable or share options awardable to the Non-executive Directors. Cash and share bonus schemes for other senior management of the subsidiary companies have been established for the year ended 30 April 2020, with a similar framework to that of the Cohort Executive Directors, with varying levels of percentage of salary, none exceeding 45%, subject to the discretion of the Committee.

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

Chairman and Non-executive Directors (unaudited)

Both Nick Prest CBE and Sir Robert Walmsley were appointed in February 2006. Stanley Carter was appointed Non-executive Director of Cohort plc on 22 September 2015 following his decision to step down as Co-Chairman on the same date. Jeff Perrin was appointed Non-executive Director on 1 July 2015. Edward Lowe was appointed Non-executive Director on 1 July 2019. These appointments can be terminated upon three months' notice being given by either party.

Nick Prest and Stanley Carter are due to retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM on 17 September 2019.

Edward Lowe, who was appointed by the Board with effect from 1 July 2019, in accordance with the Articles of the Company, and, being eligible, offers himself for election at the forthcoming AGM on 17 September 2019.

Directors' remuneration

Details of Directors' remuneration are set out in Table 2 on page 59.

Salaries for Andrew Thomis and Simon Walther have been increased to £260,750 and £204,000 per annum respectively for the year ending 30 April 2020. The fees payable to the Chairman and the Non-executive Directors (see Table 2) for the year ending 30 April 2020 are unchanged from this year. Edward Lowe will be paid £45,000 per annum from 1 July 2019.

Table 1: Directors' share options (audited)

	At 1 May 2018 or date of appointment Number	Granted Number	Exercised Number	Lapsed/ forfeited Number	**At 30 April 2019 Number**	Date of grant	Date from which option can be exercised	Exercise period Years
A Thomis								
Cohort plc 2016 share option scheme (approved)								
– Option price of £3.760 per share	7,978	—	—	—	**7,978**	25 Aug 2017	26 Aug 2020	7
Cohort plc 2006 share option scheme (unapproved)								
– Option price of £1.675 per share	24,250	—	—	—	**24,250**	9 Aug 2013	10 Aug 2016	7
– Option price of £1.975 per share	4,153	—	—	—	**4,153**	11 Aug 2014	12 Aug 2017	7
– Option price of £3.725 per share	10,470	—	—	—	**10,470**	20 Aug 2015	21 Aug 2018	7
Cohort plc 2016 share option scheme (unapproved)								
– Option price of £3.400 per share	12,471	—	—	—	**12,471**	15 Aug 2016	16 Aug 2019	7
– Option price of £3.760 per share	1,809	—	—	—	**1,809**	25 Aug 2017	26 Aug 2020	7
– Option price of £3.900 per share	—	9,846	—	—	**9,846**	10 Aug 2018	11 Aug 2021	7
Save As You Earn (SAYE) scheme								
– Option price of £3.380 per share	2,300	—	(2,300)	—	**—**	14 Aug 2015	1 Sep 2018	
– Option price of £3.550 per share	1,176	—	—	—	**1,176**	29 Aug 2016	1 Sep 2019	
– Option price of £4.085 per share	1,480	—	—	—	**1,480**	1 Sep 2017	2 Sep 2020	
– Option price of £3.900 per share	—	1,993	—	—	**1,993**	1 Sep 2018	2 Sep 2021	
	66,087	11,839	(2,300)	—	**75,626**			

Directors' remuneration continued

Table 1: Directors' share options (audited) continued

	At 1 May 2018 or date of appointment Number	Granted Number	Exercised Number	Lapsed/ forfeited Number	**At 30 April 2019 Number**	Date of grant	Date from which option can be exercised	Exercise period Years
S Walther								
Cohort plc 2016 share option scheme (approved)								
Option price of £3.760 per share	7,660	—	—	—	**7,660**	25 Aug 2017	26 Aug 2020	7
Option price of £3.900 per share	—	307	—	—	**307**	10 Aug 2018	11 Aug 2021	7
Cohort plc 2006 share option scheme (unapproved)			—	—	**—**			
– Option price of £0.835 per share	55,172	—	(55,172)	—	**—**	23 Jul 2010	24 Jul 2013	7
– Option price of £0.915 per share	30,252	—	(30,252)	—	**—**	26 Jul 2011	27 Jul 2014	7
– Option price of £1.165 per share	65,000	—	(65,000)	—	**—**	2 Aug 2012	3 Aug 2015	7
– Option price of £1.675 per share	21,750	—	(21,750)	—	**—**	9 Aug 2013	10 Aug 2016	7
– Option price of £1.975 per share	406	—	(406)	—	**—**	11 Aug 2014	12 Aug 2017	7
– Option price of £3.725 per share	8,483	—	—	—	**8,483**	20 Aug 2015	21 Aug 2018	7
Cohort plc 2016 share option scheme (unapproved)								
– Option price of £3.400 per share	9,882	—	—	—	**9,882**	15 Aug 2016	16 Aug 2019	7
– Option price of £3.900 per share	—	7,397	—	—	**7,397**	10 Aug 2018	11 Aug 2021	7
Save As You Earn (SAYE) scheme								
– Option price of £3.380 per share	468	—	(468)	—	**—**	14 Aug 2015	1 Sep 2018	
– Option price of £3.550 per share	1,287	—	—	—	**1,287**	29 Aug 2016	1 Sep 2019	
– Option price of £4.085 per share	440	—	—	—	**440**	1 Sep 2017	2 Sep 2020	
– Option price of £3.900 per share	—	673	—	—	**673**	1 Sep 2018	2 Sep 2021	
	200,800	8,377	(173,048)	—	**36,129**			

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

Both Andrew Thomis and Simon Walther have participated in the Cohort plc Share Incentive Plan (SIP) which was launched on 1 September 2018. As at 30 April 2019, contributions were made by each of £1,200. This would convert to 322 Cohort plc ordinary shares as at 30 April 2019 based on the closing share price of £372.5 pence per share.

The terms of the Cohort plc SIP are set out in note 20.

As announced on 6 July 2018, Simon Walther exercised 172,580 Cohort plc 2006 unapproved share options when the market price of Cohort plc ordinary shares was 365.0 pence per share. Simon Walther disposed of sufficient shares to fund the option exercise, paying all necessary tax and national insurance and realising cash proceeds of £125,003. The balance of 30,109 shares being retained at 30 April 2019.

Simon Walther exercised 468 share options held under the Cohort plc SAYE scheme on 24 November 2018 when the mid-market price of Cohort plc ordinary shares was 405.0 pence per share. All shares were retained.

Andrew Thomis exercised 2,300 share options held under the Cohort plc SAYE scheme on 16 November 2018 when the mid-market price of Cohort plc ordinary shares was 420.0 per share. All shares were retained.

The aggregate amount of gains made by the Directors as a result of exercising share options during the year was £445,409.

Table 2: Directors' remuneration (audited)

	Salary 2019 £	Bonus 2019 £	Restricted Share awards 2019 £	Benefits in kind 2019 £	Retirement allowance 2019 £	Emoluments 2019 £	Pension contributions 2019 £	Total 2019 £
Executive Directors								
A Thomis	**246,000**	**61,500**	**139,245**	**1,841**	**820**	**449,406**	**7,638**	**457,044**
S Walther	**192,495**	**48,124**	**108,960**	**1,841**	**642**	**352,062**	**7,545**	**359,607**
Non-executive Directors								
N Prest	**90,000**	**—**	**—**	**—**	**—**	**90,000**	**—**	**90,000**
S Carter	**45,000**	**—**	**—**	**—**	**—**	**45,000**	**—**	**45,000**
J Perrin	**51,000**	**—**	**—**	**—**	**—**	**51,000**	**—**	**51,000**
Sir Robert Walmsley	**45,000**	**—**	**—**	**—**	**—**	**45,000**	**—**	**45,000**
Total	**669,495**	**109,624**	**248,205**	**3,682**	**1,462**	**1,032,468**	**15,183**	**1,047,651**

Jeff Perrin was paid £6,000 above his usual salary (of £45,000) for supporting the integration of Chess into the Group. This additional work ceased in February 2019.

	Salary 2018 £	Bonus 2018 £	Restricted Share awards 2018 £	Benefits in kind 2018 £	Retirement allowance 2018 £	Emoluments 2018 £	Pension contributions 2018 £	Total 2018 £
Executive Directors								
A Thomis	240,000	62,353	135,849	858	—	439,060	7,920	446,980
S Walther	187,800	48,791	106,302	858	—	343,751	7,589	351,340
Non-executive Directors								
N Prest	90,000	—	—	—	—	90,000	—	90,000
S Carter	45,000	—	—	—	—	45,000	—	45,000
J Perrin	45,000	—	—	—	—	45,000	—	45,000
Sir Robert Walmsley	45,000	—	—	—	—	45,000	—	45,000
Total	**652,800**	**111,144**	**242,151**	**1,716**	**—**	**1,007,811**	**15,509**	**1,023,320**

The Restricted Share awards include tax and employee NIC.

Sir Robert Walmsley KCB, FREng
Non-executive Director

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

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic report and a Directors' report that complies with that law and those regulations.

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

By order of the Board on 23 July 2019.

Andy Thomis
Chief Executive

Simon Walther
Finance Director

Financial statements

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Independent auditor's report

to the members of Cohort plc

1. Our opinion is unmodified

We have audited the financial statements of Cohort plc ("the Company") for the year ended 30 April 2019 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of changes in equity, Company statement of changes in equity, Consolidated and Company statement of financial position, Consolidated and Company cash flow statements, and the related notes, including the accounting policies on pages 103 to 110 in our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 April 2019 and of the Group's profit for the year then ended;

— the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;

— the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework;* and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Materiality: group financial statements as a whole	£700k (2018:£700k) 4.6% (2018: 4.5%) of normalised group profit before tax
Coverage	100% (2018:100%) of group profit before tax

Risks of material misstatement vs 2018

Recurring risks	Revenue recognition – estimation of costs to complete on contracts	◄►
	Revenue recognition – cut-off	◄►
	Carrying value of goodwill	◄►
Event driven risk	The impact of uncertainties due to the UK exiting the European Union on our audit	NEW
Parent company only	Recoverability of parent company's investments in subsidiaries	◄►

2. Key audit matters: including our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters. These matters were addressed in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 9 (Chairman's statement), and page 46 (principal risks).*	**Unprecedented levels of uncertainty** All audits assess and challenge the reasonableness of estimates, in particular as described in the carrying value of goodwill risk below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Sensitivity analysis:** When addressing valuation of goodwill and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the carrying value of goodwill, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.
Revenue recognition – estimation of costs to complete on contracts (£121.2 million; 2018: £110.5 million) *Refer to page 107 (accounting policy) and page 73 (financial disclosures)*	**Subjective estimate** The Group recognises revenue on a number of fixed-price contracts by reference to the degree of completion of each contract. The degree of completion is measured by reference to costs incurred at the balance sheet date as a percentage of the total estimated costs to complete the project. The assumptions underlying the cost to complete estimates involve judgement, and any changes in the assumptions could have a material impact on the revenue recognised in relation to these contracts. The effect of these matters is that, as part of our risk assessment, we determined that the cost to complete estimates have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: — **Control design:** Evaluated and tested the Group's key processes and controls in place over revenue recognition and forecast cost estimation; — **Personnel interviews:** Interviewed the Group's project managers regarding the performance of the projects, particularly focussing on cost forecasting and contingencies, in order to assess the appropriateness of assumptions in project budgets used to allocate revenues earned between periods for long-term contracts; — **Historical comparisons:** Challenged the Group's key assumptions in the percentage of completion calculation, based on a retrospective review of the accuracy of the Group's previous estimates, including movements in margins on certain projects or types of project over time. — **Tests of details:** Assessed the recoverability of contract balances (including for any indication of disputes), by vouching customer acceptance, post year-end invoicing and cash receipt; — **Assessing transparency:** Assessed the adequacy of the Group's disclosures in relation to the risks and steps taken to mitigate those risks in the judgements made in the financial statements.

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	The risk	Our response
Revenue recognition: cut-off *Refer to page 107 (accounting policy) and page 73 (financial disclosures)*	**Cut-off** Pressures on achieving internal and external expectations of results increase the risk of fraudulent revenue recognition. For revenue recognised at a point in time this may occur through the recognition of sales around the year end. For revenue recognised over time this may occur through inappropriate recognition of costs related to a contract.	Our procedures included: — **Control design:** Assessed the design of controls over the matching of sales invoices to related orders and customer-authorised delivery notes. — **Test of details:** Assessed whether sales and cost transactions either side of the balance sheet date as well as credit notes issued after year end are recognised in the correct period. — **Test of details:** Performed data and analytics routines to identify unusual revenue and cost postings around the cut-off period, and vouched any identified to appropriate supporting documentation such as delivery notes, timesheets or other customer correspondence.
Carrying value of goodwill (£41.4 million; 2018: £39.2 million) *Refer to page 105 (accounting policy) and page 79 (financial disclosures).*	**Forecast-based valuation** The recoverable amounts of the Group's Cash-Generating Units to which goodwill is allocated are determined from value in use calculations, which represents a key judgement area as errors in assumptions, particularly relating to forecast cash flows and discount rates, could result in a material misstatement of the goodwill balance. The effect of these matters is that, as part of our risk assessment for audit planning purposes, we determined that valuation of goodwill had a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. In conducting our final audit work, we reassessed the degree of estimation uncertainty to be less than that materiality.	Our procedures included: — **Control design:** Evaluated the Group's budgeting procedures upon which the forecast cash flows are based by assessing whether the forecasts (including growth rate) were consistent with the Group's current business strategies; — **Historical comparisons:** Assessed the reasonableness of the budgets by considering the historical accuracy of the previous forecasts; — **Benchmarking assumptions:** Challenged the Group's selection of discount and growth rates by using external data (including competitor analysis) to determine an appropriate range and comparing the actual rate used to that range; — **Sensitivity analysis:** Performed analysis to assess the sensitivity of the impairment reviews to changes in the discount rate, growth rate and the forecast cash flows; — **Assessing transparency:** Assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.
Recoverability of parent company's investment in subsidiaries (£90.7 million; 2018: £73.0 million) *Refer to page 104 (accounting policy) and page 81 (financial disclosures).*	**Low risk, high value** The carrying amount of the parent company's investments in subsidiaries represents 99% (2017: 99%) of the company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the parent company financial statements, this is considered to be the area that had the greatest effect on our overall parent company audit.	Our procedures included: — **Tests of detail:** Comparing the carrying amount of 100% of investments with the relevant subsidiaries' draft balance sheet to identify whether their net assets, being an approximation of their minimum recoverable amount, were in excess of their carrying amount and assessing whether those subsidiaries have historically been profit-making. — **Assessing subsidiary audits:** Assessing the work performed by the subsidiary audit teams on all of those subsidiaries and considering the results of that work, on those subsidiaries' profits and net assets.

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3. Our application of materiality and an overview of the scope of our audit

Materiality for the group financial statements as a whole was set at £700k (2018: £700k), determined with reference to a benchmark of normalised group profit before tax, normalised to exclude the amortisation of large intangible assets related to contracts acquired as part of business combinations (£9,514k; 2018: £5,312k), of which it represents 4.6% (2018: 4.5%).

Materiality for the parent company financial statements as a whole was set at £350k (2018: £350k), as communicated by the group audit team. This is lower than the materiality we would otherwise have determined by reference to net assets, and represents 0.72% (2018: 0.75%) of the Company's net assets.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £35k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group's 16 (2018: 13) reporting components, we subjected 5 (2018: 6) to full scope audits for group purposes and 11 (2018: 7) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the percentages illustrated opposite.

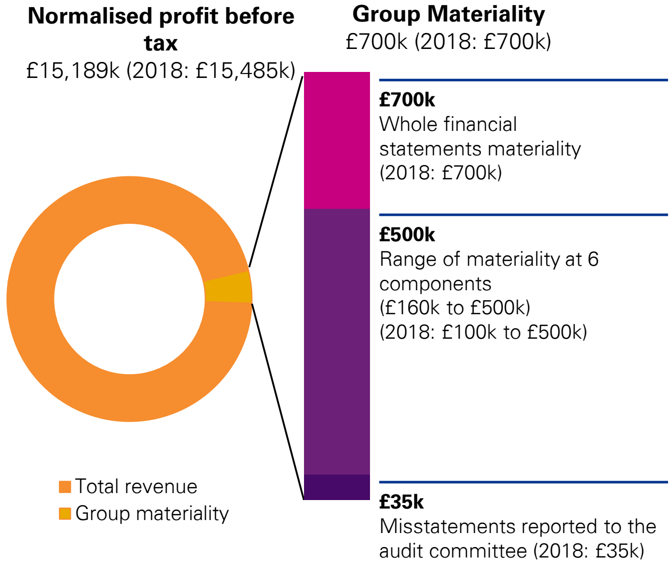
The work on 5 (2018: 5) of the 16 reporting components was performed by a component auditor and the rest, including the audit of the parent company, was performed by the Group team. The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, of £160k to £500k (2018: £100k to £500k), having regard to the mix of size and risk profile of the Group across the components. The group team performed procedures on the items excluded from normalised group profit before tax.

The Group team instructed the component auditor as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materiality, having regard to the mix of size and risk profile of the Group across the components. Video and telephone conference meetings were held with the component auditor. At these meetings, the findings reported to the Group team were discussed in more detail, and any further work required by the Group team was then performed by the component auditor.

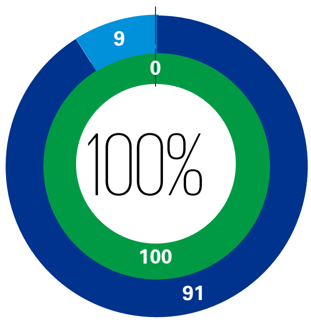
4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

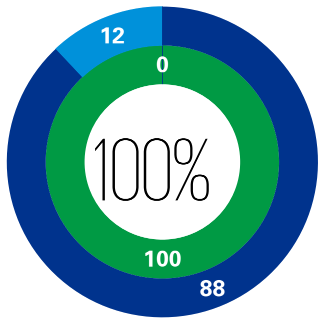
Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation



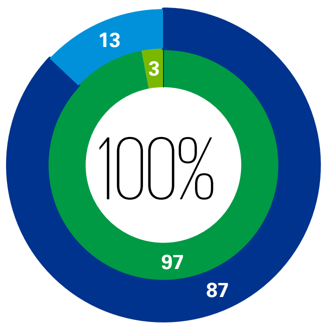
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2019
Specified risk-focused audit procedures 2019
Full scope for group audit purposes 2018
Specified risk-focused audit procedures 2018

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4. We have nothing to report on going concern (continued)

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to adversely affect the Group's and Company's available financial resources over this period was:

— The impact of future defence and security relationships between the UK and the EU.

As this was a risk that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the shorter-term impact of customs delays on import and export of materials.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement on page 103 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 60, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Natasha Jones

Natasha Jones (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Arlington Business Park, Theale, Reading, RG7 4SD
26 July 2019

Consolidated income statement
for the year ended 30 April 2019

	Notes	2019 £'000	2018 (restated[1]) £'000
Revenue	1	**121,182**	110,547
Cost of sales		**(78,143)**	(70,856)
Gross profit		**43,039**	39,691
Administrative expenses		**(37,095)**	(29,429)
Operating profit	1	**5,944**	10,262
Comprising:			
Adjusted operating profit	1	**16,164**	15,225
Amortisation of other intangible assets (included in administrative expenses)	9	**(9,514)**	(5,312)
Research and development expenditure credits (RDEC) (included in cost of sales)		**744**	679
Credit/(charge) on marking forward exchange contracts to market value at the year end (included in cost of sales)	18	**33**	(280)
Exceptional items			
Cost of acquisition of EID (included in administrative expenses)		**17**	(50)
Cost of acquisition of Chess (included in administrative expenses)	29	**(1,000)**	—
Cost of restructuring at SEA (included in administrative expenses)		**(500)**	—
		5,944	10,262
Finance income	4	**27**	14
Finance costs	5	**(296)**	(103)
Profit before tax		**5,675**	10,173
Income tax charge	6	**(584)**	(2,074)
Profit for the year	3	**5,091**	8,099
Attributable to:			
Equity shareholders of the parent		**5,447**	7,710
Non-controlling interests		**(356)**	389
		5,091	8,099

Earnings per share		Pence	Pence
Basic	8	**13.37**	18.95
Diluted	8	**13.29**	18.76

All profit for the year is derived from continuing operations.

The accompanying notes form part of the financial statements.

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

Consolidated statement of comprehensive income
for the year ended 30 April 2019

	2019 £'000	2018 (restated[1]) £'000
Profit for the year	**5,091**	8,099
Foreign currency translation differences on net assets of EID, net of loan used to acquire EID	**(21)**	(167)
Other comprehensive income for the period, net of tax	**(21)**	(167)
Total comprehensive income for the year	**5,070**	7,932
Attributable to:		
Equity shareholders of the parent	**5,559**	7,410
Non-controlling interests	**(489)**	522
	5,070	7,932

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

Consolidated statement of changes in equity
for the year ended 30 April 2019

	Attributable to the equity shareholders of the parent								
Group	Share capital £'000	Share premium account £'000	Own shares £'000	Share option reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 May 2017	4,096	29,657	(1,142)	783	(465)	36,901	69,830	4,158	73,988
Impact of IFRS 15[1] on opening reserves	—	—	—	—	—	(270)	(270)	—	(270)
Restated as at 30 April 2017	4,096	29,657	(1,142)	783	(465)	36,631	69,560	4,158	73,718
Profit for the year (restated[1])	—	—	—	—	—	7,710	7,710	389	8,099
Other comprehensive income for the year	—	—	—	—	—	(300)	(300)	133	(167)
Total comprehensive income for the year	—	—	—	—	—	7,410	7,410	522	7,932
Transactions with owners of Group and non-controlling interests, recognised directly in equity									
Equity dividends	—	—	—	—	—	(3,035)	(3,035)	—	(3,035)
Vesting of Restricted Shares	—	—	—	—	—	175	175	—	175
Own shares purchased	—	—	(1,467)	—	—	—	(1,467)	—	(1,467)
Own shares sold	—	—	697	—	—	—	697	—	697
Net loss on selling own shares	—	—	722	—	—	(722)	—	—	—
Share-based payments	—	—	—	273	—	—	273	—	273
Deferred tax adjustment in respect of share-based payments	—	—	—	(248)	—	—	(248)	—	(248)
Transfer of share option reserve on vesting of options	—	—	—	(182)	—	182	—	—	—
Completion of acquisition of MCL by settlement of non-controlling interests earn-out	—	—	—	—	465	—	465	—	465
Effect of acquisition of 23.09% of non-controlling interest in EID	—	—	—	—	—	(1,388)	(1,388)	(2,126)	(3,514)
At 30 April 2018 (restated[1])	4,096	29,657	(1,190)	626	—	39,253	72,442	2,554	74,996
Profit for the year	—	—	—	—	—	5,447	5,447	(356)	5,091
Other comprehensive income for the year	—	—	—	—	—	112	112	(133)	(21)
Total comprehensive income for the year	—	—	—	—	—	5,559	5,559	(489)	5,070
Transactions with owners of Group and non-controlling interests, recognised directly in equity									
Equity dividends	—	—	—	—	—	(3,464)	(3,464)	—	(3,464)
Vesting of Restricted Shares	—	—	—	—	—	178	178	—	178
Own shares purchased	—	—	(631)	—	—	—	(631)	—	(631)
Own shares sold	—	—	743	—	—	—	743	—	743
Net loss on selling own shares	—	—	730	—	—	(730)	—	—	—
Share-based payments	—	—	—	291	—	—	291	—	291
Deferred tax adjustment in respect of share-based payments	—	—	—	(76)	—	—	(76)	—	(76)
Transfer of share option reserve on vesting of options	—	—	—	(238)	—	238	—	—	—
Acquisition of 81.84% of Chess	—	—	—	—	(4,350)	—	(4,350)	4,214	(136)
At 30 April 2019	**4,096**	**29,657**	**(348)**	**603**	**(4,350)**	**41,034**	**70,692**	**6,279**	**76,971**

The accompanying notes form part of the financial statements.

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

Company statement of changes in equity
for the year ended 30 April 2019

Company	Share capital £'000	Share premium account £'000	Own shares £'000	Share option reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 May 2017	4,096	29,657	(1,142)	783	(465)	12,452	45,381
Profit for the year	—	—	—	—	—	5,158	5,158
Transactions with owners of the Company, recognised directly in equity							
Equity dividends	—	—	—	—	—	(3,035)	(3,035)
Vesting of Restricted Shares	—	—	—	—	—	175	175
Own shares purchased	—	—	(1,467)	—	—	—	(1,467)
Own shares sold	—	—	697	—	—	—	697
Net loss on selling own shares	—	—	722	—	—	(722)	—
Share-based payments	—	—	—	273	—	—	273
Deferred tax adjustment in respect of share-based payments	—	—	—	(248)	—	—	(248)
Transfer of share option reserve on vesting of options	—	—	—	(182)	—	24	(158)
Completion of acquisition of MCL by settlement of non-controlling interests earn-out	—	—	—	—	465	—	465
Total contributions by and distributions to owners of the Company	—	—	(48)	(157)	465	1,600	1,860
At 30 April 2018	4,096	29,657	(1,190)	626	—	14,052	47,241
Profit for the year	—	—	—	—	—	8,724	8,724
Transactions with owners of the Company, recognised directly in equity							
Equity dividends	—	—	—	—	—	(3,464)	(3,464)
Vesting of Restricted Shares	—	—	—	—	—	178	178
Own shares purchased	—	—	(631)	—	—	—	(631)
Own shares sold	—	—	743	—	—	—	743
Net loss on selling own shares	—	—	730	—	—	(730)	—
Share-based payments	—	—	—	291	—	—	291
Deferred tax adjustment in respect of share-based payments	—	—	—	(76)	—	—	(76)
Transfer of share option reserve on vesting of options	—	—	—	(238)	—	47	(191)
Acquisition of 81.84% of Chess	—	—	—	—	(4,350)	—	(4,350)
Total contributions by and distributions to owners of the Company	—	—	842	(23)	(4,350)	4,755	1,224
At 30 April 2019	**4,096**	**29,657**	**(348)**	**603**	**(4,350)**	**18,807**	**48,465**

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

The accompanying notes form part of the financial statements.

Consolidated and Company statement of financial position

as at 30 April 2019

		Group		Company	
	Notes	**2019 £'000**	2018 (restated[1]) £'000	**2019 £'000**	2018 £'000
Assets					
Non-current assets					
Goodwill	9	**41,354**	39,156	**—**	—
Other intangible assets	9	**20,588**	6,168	**—**	—
Property, plant and equipment	10	**10,956**	9,597	**263**	51
Investment in subsidiaries	11	**—**	—	**90,725**	73,004
Deferred tax asset	17	**365**	406	**39**	98
		73,263	55,327	**91,027**	73,153
Current assets					
Inventories	12	**13,452**	5,877	**—**	—
Trade and other receivables	13	**42,971**	34,693	**2,776**	1,048
Derivative financial instruments	18	**—**	51	**—**	—
Cash and cash equivalents	15	**18,763**	20,511	**—**	—
		75,186	61,132	**2,776**	1,048
Total assets		**148,449**	116,459	**93,803**	74,201
Liabilities					
Current liabilities					
Trade and other payables	14	**(35,225)**	(28,836)	**(3,868)**	(1,581)
Current tax liabilities		**—**	(265)	**—**	—
Derivative financial instruments	18	**(99)**	(183)	**—**	—
Bank borrowings	15	**(61)**	(9,173)	**(35,970)**	(24,819)
Provisions	16	**(818)**	(1,156)	**—**	(124)
		(36,203)	(39,613)	**(39,838)**	(26,524)
Non-current liabilities					
Deferred tax liability	17	**(4,041)**	(1,414)	**—**	—
Bank borrowings	15	**(25,126)**	—	**—**	—
Provisions	16	**(608)**	(436)	**—**	(436)
Other creditors	29	**(5,500)**	—	**(5,500)**	—
		(35,275)	(1,850)	**(5,500)**	(436)
Total liabilities		**(71,478)**	(41,463)	**(45,338)**	(26,960)
Net assets		**76,971**	74,996	**48,465**	47,241
Equity					
Share capital	19	**4,096**	4,096	**4,096**	4,096
Share premium account		**29,657**	29,657	**29,657**	29,657
Own shares	21	**(348)**	(1,190)	**(348)**	(1,190)
Share option reserve		**603**	626	**603**	626
Other reserves	29	**(4,350)**	—	**(4,350)**	—
Retained earnings		**41,034**	39,253	**18,807**	14,052
Total equity attributable to the equity shareholders of the parent		**70,692**	72,442	**48,465**	47,241
Non-controlling interests		**6,279**	2,554	**—**	—
Total equity		**76,971**	74,996	**48,465**	47,241

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

The accompanying notes form part of the financial statements.

The financial statements on pages 67 to 110 were approved by the Board of Directors and authorised for issue on 23 July 2019 and are signed on its behalf by:

Andy Thomis
Chief Executive

Simon Walther
Finance Director

Company number
05684823

Consolidated and Company cash flow statements
for the year ended 30 April 2019

		Group		Company	
	Notes	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Net cash from operating activities	23	**8,635**	13,220	**12,362**	5,423
Cash flow from investing activities					
Interest received		**27**	14	**16**	6
Purchases of property, plant and equipment	10	**(2,058)**	(747)	**(275)**	(10)
Acquisition of Chess (including net debt acquired)	29	**(20,885)**	—	**(20,041)**	—
Acquisition of EID		**—**	(3,514)	**—**	—
Investment in Thunderwaves S.A. (holding company in Portugal for EID)		**—**	—	**—**	(3,514)
Acquisition of MCL		**—**	(2,529)	**—**	(2,529)
Net cash used in investing activities		**(22,916)**	(6,776)	**(20,300)**	(6,047)
Cash flow from financing activities					
Dividends paid	7	**(3,464)**	(3,035)	**(3,464)**	(3,035)
Purchase of own shares	21	**(631)**	(1,467)	**(631)**	(1,467)
Sale of own shares	21	**743**	697	**743**	697
Drawdown of borrowings	15	**18,017**	5,514	**18,000**	5,514
Repayment of borrowings	15	**(2,027)**	(3)	**(2,000)**	—
Net cash generated from financing activities		**12,638**	1,706	**12,648**	1,709
Net (decrease)/increase in cash and cash equivalents		**(1,643)**	8,150	**4,710**	1,085
Represented by:					
Cash and cash equivalents and short-term borrowings brought forward		**20,511**	12,017	**(15,652)**	(16,737)
Cash flow		**(1,643)**	8,150	**4,710**	1,085
Exchange		**(105)**	344	**—**	—
Cash and cash equivalents and short-term borrowings carried forward		**18,763**	20,511	**(10,942)**	(15,652)

	At 1 May 2018 £'000	Effect of foreign exchange rate changes £'000	Cash flow £'000	Debt acquired (note 29) £'000	**At 30 April 2019 £'000**
Net funds reconciliation					
Group					
Cash and bank	20,511	(105)	(1,643)	—	**18,763**
Short-term deposits	—	—	—	—	**—**
Cash and cash equivalents	20,511	(105)	(1,643)	—	**18,763**
Loan	(9,167)	139	(15,973)	(27)	**(25,028)**
Finance lease	(6)	—	(17)	(136)	**(159)**
Debt	(9,173)	139	(15,990)	(163)	**(25,187)**
Net (debt)/funds	11,338	34	(17,633)	(163)	**(6,424)**
Company					
Cash and bank	—	—	—	—	**—**
Short-term deposits	—	—	—	—	**—**
Cash and cash equivalents	—	—	—	—	**—**
Loan	(9,167)	139	(16,000)	—	**(25,028)**
Overdraft debt	(15,652)	—	4,710	—	**(10,942)**
	(24,819)	139	(11,290)	—	**(35,970)**
Net debt	(24,819)	139	(11,290)	—	**(35,970)**

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

The accompanying notes form part of the financial statements.

1. Segmental analysis

For management and reporting purposes, the Group, during the year ended 30 April 2019, operated through its five trading subsidiaries: Chess, EID, MASS, MCL, and SEA. For Chess, the period of reporting was for approximately five months, from 12 December 2018 to 30 April 2019. These subsidiaries are the basis on which the Company reports its primary business segment information in accordance with IFRS 8. Whilst each subsidiary internally reports by reference to the sectors it sells to, these are considered by the Board to have similar economic characteristics in terms of the nature of the services and their customer base and therefore disaggregated information is not regularly reported to the Board. On this basis, the Board, which is deemed to be the chief operating decision maker, considers each subsidiary a separate operating segment.

The principal activities of the subsidiaries are described in the Strategic report (pages 2 to 35).

Business segment information about these subsidiaries is presented below:

2019	Chess (five months only) £'000	EID £'000	MASS £'000	MCL £'000	SEA £'000	Eliminations £'000	Group £'000
Revenue							
External revenue	**10,674**	**11,530**	**38,936**	**21,715**	**38,327**	**—**	**121,182**
Inter-segment revenue	**—**	**—**	**15**	**—**	**404**	**(419)**	**—**
	10,674	**11,530**	**38,951**	**21,715**	**38,731**	**(419)**	**121,182**
Segment adjusted operating profit	**1,682**	**1,357**	**8,175**	**2,282**	**5,492**	**—**	**18,988**
Unallocated corporate expenses	**—**	**—**	**—**	**—**	**—**	**—**	**(2,824)**
Adjusted operating profit	**1,682**	**1,357**	**8,175**	**2,282**	**5,492**	**—**	**16,164**
Charge on marking forward exchange contracts to market value at the year end	**—**	**—**	**—**	**(53)**	**86**	**—**	**33**
Costs of acquisition of EID	**—**	**—**	**—**	**—**	**—**	**—**	**17**
Costs of acquisition of Chess	**—**	**—**	**—**	**—**	**—**	**—**	**(1,000)**
Costs of restructuring at SEA	**—**	**—**	**—**	**—**	**(500)**	**—**	**(500)**
Amortisation of other intangible assets	**(4,870)**	**(990)**	**—**	**(2,430)**	**(1,224)**	**—**	**(9,514)**
Research and development expenditure credits (RDEC)	**59**	**—**	**34**	**—**	**577**	**—**	**744**
Operating profit/(loss)	**(3,129)**	**367**	**8,209**	**(201)**	**4,431**	**—**	**5,944**
Finance cost (net of income)	**(9)**	**—**	**5**	**—**	**5**	**—**	**(269)**
Profit/(loss) before tax	**(3,138)**	**367**	**8,214**	**(201)**	**4,436**	**—**	**5,675**
Income tax charge							**(584)**
Profit after tax							**5,091**

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

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

Other information	Chess (five months only) £'000	EID £'000	MASS £'000	MCL £'000	SEA £'000	Central £'000	Group £'000
Capital additions	**55**	**85**	**336**	**139**	**1,168**	**275**	**2,058**
Depreciation	**57**	**107**	**116**	**69**	**741**	**57**	**1,147**

Balance sheet	Chess £'000	EID £'000	MASS £'000	MCL £'000	SEA £'000	Eliminations £'000	Group £'000
Assets							
Segment assets	**14,392**	**9,943**	**12,424**	**3,489**	**28,600**	**(1,747)**	**67,101**
Goodwill and other intangible assets	**21,262**	**3,719**	**12,500**	**2,398**	**22,063**	**—**	**61,942**
Current tax asset							**278**
Deferred tax asset							**365**
Cash							**18,763**
Consolidated total assets	**35,654**	**13,662**	**24,924**	**5,887**	**50,663**		**148,449**
Liabilities							
Segment liabilities	**(7,847)**	**(5,634)**	**(8,253)**	**(8,363)**	**(6,623)**	**(5,530)**	**(42,250)**
Deferred tax liability							**(4,041)**
Bank borrowings							**(25,187)**
Consolidated total liabilities	**(7,847)**	**(5,634)**	**(8,253)**	**(8,363)**	**(6,623)**		**(71,478)**

The above figures include 100% of Chess and EID. The non-controlling interest, 18.16% for Chess and 20.00% for EID, is reported separately in the income statement and Group reserves.

1. Segmental analysis continued

2018 (restated[1])	EID £'000	MASS £'000	MCL £'000	SEA £'000	Eliminations £'000	Group £'000
Revenue						
External revenue	18,298	37,553	17,381	37,315	—	110,547
Inter-segment revenue	—	15	—	25	(40)	—
	18,298	37,568	17,381	37,340	(40)	110,547
Segment adjusted operating profit	4,315	7,113	2,072	4,418	—	17,918
Unallocated corporate expenses	—	—	—	—	—	(2,693)
Adjusted operating profit	4,315	7,113	2,072	4,418	—	15,225
Charge on marking forward exchange contracts to market value at the year end	—	—	(85)	(195)	—	(280)
Costs of acquisition of EID	—	—	—	—	—	(50)
Amortisation of other intangible assets	(1,562)	—	(2,430)	(1,320)	—	(5,312)
Research and development expenditure credits (RDEC)	—	220	—	313	—	679
Operating profit/(loss)	2,753	7,333	(443)	3,216	—	10,262
Finance cost (net of income)	—	—	3	3	—	(89)
Profit/(loss) before tax	2,753	7,333	(440)	3,219	—	10,173
Income tax charge						(2,074)
Profit after tax						8,099

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers." See note 30 for details regarding the restatement.

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

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

Other information	EID £'000	MASS £'000	MCL £'000	SEA £'000	Central £'000	Group £'000
Capital additions	82	58	20	577	10	747
Depreciation	112	85	61	831	27	1,116

Balance sheet (restated[1])	EID £'000	MASS £'000	MCL £'000	SEA £'000	Eliminations £'000	Group £'000
Assets						
Segment assets	9,512	11,311	2,193	27,183	19	50,218
Goodwill and other intangible assets	4,709	12,500	4,828	23,287	—	45,324
Deferred tax asset						406
Cash						20,511
Consolidated total assets	14,221	23,811	7,021	50,470		116,459
Liabilities						
Segment liabilities	(7,543)	(7,377)	(4,802)	(9,905)	(984)	(30,611)
Current tax liabilities						(265)
Deferred tax liability						(1,414)
Bank borrowings						(9,173)
Consolidated total liabilities	(7,543)	(7,377)	(4,802)	(9,905)		(41,463)

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers." See note 30 for details regarding the restatement.

The above figures include 100% of EID. A further 23.09% of EID was acquired on 24 November 2017. The non-controlling interest (20.00% to 43.09%) is reported separately in the income statement and Group reserves.

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

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

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

1. Segmental analysis continued

Geographical segments

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

	2019 From the UK £'000	2019 From Portugal £'000	2019 Total £'000	2018 (restated[1]) From the UK £'000	2018 (restated[1]) From Portugal £'000	2018 (restated[1]) Total £'000
UK	**87,725**	**162**	**87,887**	76,460	400	76,860
Portugal	**—**	**4,429**	**4,429**	—	6,917	6,917
Other EC countries including NATO	**4,294**	**3,534**	**7,828**	3,427	3,658	7,085
Asia Pacific	**14,614**	**3,168**	**17,782**	10,575	4,163	14,738
Africa	**30**	**131**	**161**	11	2,264	2,275
North and South America	**2,990**	**105**	**3,095**	1,776	896	2,672
	109,653	**11,529**	**121,182**	92,249	18,298	110,547

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

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

Market segments

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

	2019 £'000	2018 (restated[1]) £'000
Defence (including security)	**106,505**	98,164
Transport	**9,168**	5,304
Offshore energy	**2,133**	2,063
Other commercial	**3,376**	5,016
	121,182	110,547

The Group's total revenue, broken down by type of deliverable, is as follows:

	2019 £'000	2018 (restated[1]) £'000
Product	**65,109**	60,639
Services	**56,073**	49,908
Total revenue	**121,182**	110,547

Product includes bespoke product, customised systems and sub-systems and is hardware and/or software.

Further information on revenue by market segment and capability can be found in the Strategic report (page 26).

Major customers

Revenue from major customers included in the Group's business segments for the year ended 30 April 2019 is as follows:

	2019					2018 (restated[1])				
	UK MOD £'000	Portuguese MOD £'000	Customer A £'000	Customer B £'000	Customer C £'000	UK MOD £'000	Portuguese MOD £'000	Customer A £'000	Customer B £'000	Customer C £'000
Chess	**—**	**—**	**892**	**—**	**—**	—	—	—	—	—
EID	**—**	**4,429**	**—**	**—**	**—**	—	5,248	—	—	—
MASS	**18,000**	**—**	**6,001**	**—**	**—**	20,093	—	4,069	—	2,350
MCL	**20,192**	**—**	**—**	**—**	**—**	15,694	—	—	—	—
SEA	**7,804**	**—**	**3,205**	**4,653**	**3,605**	7,002	—	6,195	3,942	—
	45,996	**4,429**	**10,098**	**4,653**	**3,605**	42,789	5,248	10,264	3,942	2,350

Customers B and C in 2019 are not the same as customers B and C in 2018.

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

2. Employee benefit expense (including Directors)

	2019 £'000	2018 £'000
Wages and salaries	**36,461**	34,903
Social security costs	**4,035**	3,979
Defined contribution pension plan costs	**2,322**	2,723
Share-based payments	**291**	273
	43,109	41,878

Average number of employees (including Directors)

	2019 Number	2018 Number
Other operational (including production)	**444**	439
Managed services	**137**	130
Total operational	**581**	569
Administration and support	**234**	226
	815	795

The above disclosures include Directors. Directors' emoluments and share option details are disclosed separately in the Remuneration & Appointments Committee report on pages 54 to 59, where the relevant disclosures have been highlighted as audited.

3. Profit for the year

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

	Notes	2019 £'000	2018 £'000
Net foreign exchange (gains)/losses	18	**(33)**	280
Research and development costs		**8,844**	5,936
Depreciation of property, plant and equipment	10	**1,147**	1,116
Amortisation of other intangible assets	9	**9,514**	5,312
Cost of inventories recognised as expenses		**45,642**	33,001
Staff costs (excluding share-based payments)	2	**42,818**	41,605
Share-based payments	20	**291**	273

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

The fees payable to the auditor for audit and non-audit services are disclosed in the Audit Committee report on page 44.

4. Finance income

	2019 £'000	2018 £'000
Interest on bank deposits	**27**	14

All finance income is in respect of continuing operations.

5. Finance costs

	2019 £'000	2018 £'000
Loans and finance leases	**296**	103

All finance costs are in respect of continuing operations.

6. Income tax charge

	2019 £'000	2018 £'000
UK corporation tax: in respect of this year	**2,729**	2,251
UK corporation tax: in respect of prior years	**(10)**	(389)
Portugal corporation tax: in respect of this year	**(410)**	1,106
Portugal corporation tax: in respect of prior years	**1**	11
Other foreign corporation tax: in respect of this year	**31**	—
Other foreign corporation tax: in respect of prior years	**—**	(13)
	2,341	2,966
Deferred tax: in respect of this year	**(1,713)**	(1,156)
Deferred tax: in respect of prior years	**(44)**	264
	(1,757)	(892)
	584	2,074

The corporation tax is calculated at 19.0% (2018: 19.0%) of the estimated assessable profit for the year, as disclosed below.

The current tax in respect of the year ended 30 April 2019 includes £169,000 credit (2018: £Nil) in respect of exceptional items.

The deferred tax includes a credit of £1,688,000 in respect of amortisation of other intangible assets (2018: £1,063,000), and a current year charge of £6,000 (2018: credit of £53,000) in respect of marking forward exchange contracts to market value at the year end. The deferred tax is further explained in note 17.

The tax charge for the year is reconciled to profit per the Consolidated income statement for the year ended 30 April 2019 as follows:

	2019 £'000	2018 £'000
Profit before tax on continuing operations	**5,675**	10,173
Tax at the UK corporation tax rate of 19.0% (2018: 19.0%)	**1,078**	1,933
Tax effect of expenses that are not deductible in determining taxable profit	**56**	34
Tax effect of R&D tax credits in Portugal	**(483)**	—
Tax effect of exceptional items that are not recognised in determining taxable profit	**116**	10
Tax effect of other timing differences not reflected in deferred tax	**(96)**	—
Tax effect of change in tax rate; 2019: change in time profile of deferred tax assets and/or liabilities (2018: change in time profile of deferred tax assets and/or liabilities)	**3**	19
Tax effect of statutory deduction for share options exercised	**(70)**	(66)
Tax effect of foreign tax rates	**41**	281
Tax effect of deferred tax movement on share options to be exercised	**(8)**	(10)
Tax effect of other prior year adjustments, including R&D tax credits	**(53)**	(127)
Tax charge for the year	**584**	2,074

The UK corporation tax for the year ended 30 April 2019 is calculated at 19.0%, based upon twelve months at 19.0%. The UK corporation tax rate for the year ended 30 April 2018 is calculated at 19.0%, based upon twelve months at 19.0%.

In addition, a deferred tax charge of £76,000 (2018: £248,000) was recognised directly in equity.

7. Dividends

	2019 £'000	2018 £'000
Amounts recognised as distributions to equity holders in the period:		
Final dividend in respect of the year ended 30 April 2018 at 5.65 pence per ordinary share (2017: 4.90 pence)	**2,300**	1,999
Interim dividend in respect of the year ended 30 April 2019 at 2.85 pence per ordinary share (2018: 2.55 pence)	**1,164**	1,036
	3,464	3,035
Proposed final dividend for the year ended 30 April 2019 at 6.25 pence per ordinary share (2018: 5.65 pence per ordinary share)	**2,554**	2,295

The proposed final dividend is subject to approval by shareholders at the AGM to be held on 17 September 2019 and has not been included as a liability in these financial statements. If approved, this dividend will be paid on 18 September 2019 to shareholders on the register as at 23 August 2019.

The Cohort Employee Benefit Trust, which holds ordinary shares in Cohort plc representing 0.24% (2018: 0.83%) of the Company's called up share capital, has agreed to waive all dividends due to it in accordance with an arrangement dated 20 November 2009.

8. Earnings per share

The earnings per share are calculated as follows:

	2019			2018 (restated[1])		
	Weighted average number of shares Number	**Earnings £'000**	**Earnings per share pence**	Weighted average number of shares Number	Earnings £'000	Earnings per share pence
Basic earnings (net profit attributable to equity holders of Cohort plc)	**40,749,551**	**5,447**	**13.37**	40,679,428	7,710	18.95
Share options	**224,086**			413,334		
Diluted earnings	**40,973,637**	**5,447**	**13.29**	41,092,762	7,710	18.76

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

The weighted average number of shares for the years ended 30 April 2019 and 30 April 2018 is after deducting the own shares, which are held by the Cohort Employee Benefit Trust.

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

		2019			2018 (restated[1])		
	Notes	**Weighted average number of shares Number**	**Earnings £'000**	**Earnings per share pence**	Weighted average number of shares Number	Earnings £'000	Earnings per share pence
Basic earnings		**40,749,551**	**5,447**	**13.37**	40,679,428	7,710	18.95
(Credit)/charge on marking forward exchange contracts at the year end (net of tax charge of £6,000 (2018: £53,000 credit))	18		**(27)**			227	
Acquisition costs of EID			**(17)**			50	
Acquisition costs of Chess (net of tax of £74,000)	29		**926**			—	
Costs of restructuring at SEA (net of tax of £95,000)			**405**			—	
Amortisation of other intangible assets (net of income tax credit of £1,476,000 (2018: £945,000))			**6,956**			3,844	
Adjusted earnings		**40,749,551**	**13,690**	**33.60**	40,679,428	11,831	29.08
Share options		**224,086**			413,334		
Diluted adjusted earnings		**40,973,637**	**13,690**	**33.41**	41,092,762	11,831	28.79

The adjusted earnings are in respect of continuing operations. The research and development expenditure credit (RDEC) has no effect on adjusted earnings per share as it is Nil after tax.

The following table shows the adjustment to earnings for calculating the adjusted earnings per share. The calculation excludes the non-controlling interest in respect of the amortisation of other intangible assets.

	2019					2018				
	Amortisation of other intangible asset (note 9) £'000	**Deferred tax credit thereon £'000**	**Net £'000**	**Non-controlling interest £'000**	**Attributable to equity shareholders of the Group £'000**	Amortisation of other intangible asset (note 9) £'000	Deferred tax credit thereon £'000	Net £'000	Non-controlling interest £'000	Attributable to equity shareholders of the Group £'000
Chess	**4,870**	**(925)**	**3,945**	**(716)**	**3,229**	—	—	—	—	—
EID	**990**	**(223)**	**767**	**(154)**	**613**	1,562	(351)	1,211	(405)	806
MCL	**2,430**	**(346)**	**2,084**	**—**	**2,084**	2,430	(461)	1,969	—	1,969
SEA	**1,224**	**(194)**	**1,030**	**—**	**1,030**	1,320	(251)	1,069	—	1,069
	9,514	**(1,688)**	**7,826**	**(870)**	**6,956**	5,312	(1,063)	4,249	(405)	3,844

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

9. Goodwill and other intangible assets

	Goodwill						Other intangible assets					
	SEA £'000	MASS £'000	MCL £'000	EID £'000	Chess £'000	Group £'000	SEA £'000	MASS £'000	MCL £'000	EID £'000	Chess £'000	Group £'000
Cost												
At 1 May 2017	24,063	12,500	2,398	2,195	—	41,156	7,955	4,340	15,678	10,247	—	38,220
At 1 May 2018	24,063	12,500	2,398	2,195	—	41,156	7,955	4,340	15,678	10,247	—	38,220
Acquisition of Chess	—	—	—	—	2,198	2,198	—	—	—	—	23,934	23,934
At 30 April 2019	**24,063**	**12,500**	**2,398**	**2,195**	**2,198**	**43,354**	**7,955**	**4,340**	**15,678**	**10,247**	**23,934**	**62,154**
Amortisation												
At 1 May 2017	2,000	—	—	—	—	2,000	5,411	4,340	10,818	6,171	—	26,740
Charge for the year ended 30 April 2018	—	—	—	—	—	—	1,320	—	2,430	1,562	—	5,312
At 1 May 2018	2,000	—	—	—	—	2,000	6,731	—	13,248	7,733	—	32,052
Charge for the year ended 30 April 2019	—	—	—	—	—	—	1,224	—	2,430	990	4,870	9,514
At 30 April 2019	**2,000**	**—**	**—**	**—**	**—**	**2,000**	**7,955**	**4,340**	**15,678**	**8,723**	**4,870**	**41,566**
Net book value												
At 30 April 2019	**22,063**	**12,500**	**2,398**	**2,195**	**2,198**	**41,354**	**—**	**—**	**—**	**1,524**	**19,064**	**20,588**
At 30 April 2018	22,063	12,500	2,398	2,195	2,198	39,156	1,224	—	2,430	2,514	—	6,168

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

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

81.84% of Chess was acquired 12 December 2018. The acquisition accounting is shown in note 29.

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

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

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

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

	Basis of estimate
Cash flow	As in previous years, the cash flows for the years ended 30 April 2020, 2021 and 2022 are based upon the cash-generating units' budgets and forecasts for those years. These cash flows are based upon the revenue, margin and overhead cost forecasts for each business taking account of the run-off of order book, renewal of existing business and winning of new business. Historically, these cash flow forecasts have been a reasonable forecast of actual performance over the period of measurement. Costs reflect inflation rates, currently assumed at 2% (2018: 2%). With regard to the revenue, margin and overhead cost forecasts, the key assumptions underlying these inputs are that current projects contracted will continue as per agreement, that government defence spending will remain largely consistent in the future and that each cash-generating unit will continue to be as successful in competing for new contracts as it has been historically. Currently, a reasonable proportion of revenue for 2020 is already under contract and, as such, the main assumptions related to revenue volumes are in periods for 2021 and after where there is greater uncertainty and risk.
Growth rate	The cash flows for each UK-based cash-generating unit from years four to twenty inclusive are based upon the forecast cash flow for the year ended 30 April 2022 to which a growth rate of 1.5% is applied each year (2018: 1.5%). This rate reflects a prudent view of recent UK growth rates and is below the historically higher UK growth rate of 2.25%. The growth rate is similar for all of the UK-based cash-generating units as a significant proportion of their business is with the same customer, the UK MOD. As a significant proportion of the business is with the UK Government, a more prudent growth rate has been used to reflect lower expected growth rates of UK Government expenditure. In the case of EID, its main customer is the Portuguese MOD. As such, the growth rate assumed for EID's future cash flows is 1.0% (2018: 1.0%), reflecting the expected growth rate for Portuguese Government expenditure.

9. Goodwill and other intangible assets continued

WACC comprises a number of elements as follows:

	Basis of estimate
Value of equity	Calculated as the issued share capital of the Group (Cohort plc) multiplied by the closing share price at 30 April 2019 of £3.725 (2018: £3.500).
Risk free interest rate	Based upon ten-year UK Government gilt rate of 1.78% (2018: 1.42%).
Beta factor	Derived from analyst estimates provided by the Group's Nomad (Investec) and reflects a range of outcomes from 0.26 to 0.33 (2018: 0.44 to 0.60).
Equity risk premium	The equity risk premium of the Group of 11.28% (2018: 10.36%) to which is added a further range of risk premium of 4% to 8% to reflect customer market risk and the low liquidity and risk of AIM stocks.
Cost of debt	The Group is in a net debt position. The Group loans at 30 April 2019 have an average interest cost of 2.037% per annum as at that date (2018: 1.552%).

The Group's pre-tax WACC applied to each cash-generating unit's cash flows was 12.5% (2018: 17.3%). The Group WACC has been deemed appropriate to use for each cash-generating unit as all funding is cross guaranteed and therefore the same cost of funding is incurred by each cash-generating unit. The decrease in the Group's pre-tax WACC is mainly due to the lower volatility (Beta factor) of Cohort plc shares, partly offset by higher interest rates.

On the basis of these tests, no impairment of goodwill has arisen in the year ended 30 April 2019 in respect of any of EID, MASS, MCL or SEA. Sensitivity was applied to the impairment tests to deliver a material impairment of goodwill. If the post-tax WACC is increased to 12.0%, SEA's goodwill is impaired by just over £5m. SEA's goodwill is the most sensitive to impairment due to its current high level of segmental current assets. This impairment would arise if the equity risk increased by 13% at the upper end of the post-tax WACC range.

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

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

Chess was acquired 12 December 2018. The goodwill in respect of this acquisition has not been subjected to impairment testing as the business prospects since acquisition have not materially changed. The other intangible asset in respect of Chess is in respect of contracts acquired and expected opportunities to be secured. The other intangible asset of Chess will be fully amortised by 30 April 2024.

The split of the net book value of other intangibles, where it comprises both contracts/opportunities to be secured and contracts acquired, is as follows:

	2019		2018	
	MCL £'000	**Chess £'000**	MCL £'000	Chess £'000
Contracts acquired	**—**	**5,021**	—	—
Customer relationships	**—**	**14,043**	2,430	—
	—	**19,064**	2,430	—

10. Property, plant and equipment

Group	Land and buildings £'000	Fixtures and equipment £'000	Total £'000
Cost			
At 1 May 2017	9,908	5,797	15,705
Additions	3	744	747
Disposals	—	(152)	(152)
Foreign exchange movement	—	17	17
At 1 May 2018	9,911	6,406	16,317
Acquired	83	411	494
Additions	—	2,058	2,058
Disposals	—	(125)	(125)
Foreign exchange movement	—	(12)	(12)
At 30 April 2019	**9,994**	**8,738**	**18,732**
Depreciation			
At 1 May 2017	1,721	4,046	5,767
Charge in the year	298	818	1,116
Eliminated on disposal	—	(159)	(159)
Foreign exchange movement	—	(4)	(4)
At 1 May 2018	2,019	4,701	6,720
Charge in the year	302	845	1,147
Eliminated on disposal	—	(86)	(86)
Foreign exchange movement	—	(5)	(5)
At 30 April 2019	**2,321**	**5,455**	**7,776**
Net book value			
At 30 April 2019	**7,673**	**3,283**	**10,956**
At 30 April 2018	7,892	1,705	9,597

The net book value of the Company's property, plant and equipment was £263,000 at 30 April 2019 (2018: £51,000). This was after additions of £275,000, disposals of £6,000 and a depreciation charge of £57,000 for the year ended 30 April 2019.

The net book value of fixed assets held under finance leases at 30 April 2019 was £180,000 (2018: £Nil).

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

The valuation (in accordance with International Valuation Standards) of the Group's land and buildings at 30 April 2019 supports the above net book value.

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

11. Investment in subsidiaries and joint ventures

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Subsidiary undertakings	**—**	—	**90,725**	73,004
Joint ventures	**—**	—	**—**	—
	—	—	**90,725**	73,004

11. Investment in subsidiaries and joint ventures continued

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

Name of company	Registered office	Country of registration	Type of shares	Proportion of shareholding and voting rights held	Nature of business
Directly owned					
Systems Consultants Services Limited (SCS)	One Waterside Drive Reading RG7 4SW	England	Ordinary	100%	Formerly a provider of technical consultancy. Operating divisions transferred to SEA and MASS in November 2016
MASS Limited	One Waterside Drive Reading RG7 4SW	England	Ordinary	100%	Holding company of MASS Consultants Limited
SEA (Group) Ltd. (SEA)	Beckington Castle Frome BA11 6TA	England	Ordinary	100%	Holding company of Systems Engineering & Assessment Ltd and Beckington Castle Ltd
Marlborough Communications (Holdings) Limited	Dovenby Hall Horley RH6 9UU	England	Ordinary	100%	Holding company of Marlborough Communications Limited
Thunderwaves, S.A.	6. Ruo do Alecia 26E 1200-018, Lisbon	Portugal	Ordinary	100%	The holding company of EID
Chess Technologies Limited (Chess)	One Waterside Drive Reading RG7 4SW	England	Ordinary	81.84%	Holding company of Chess Dynamics Ltd, Chess Dynamics Inc and Vision4ce Ltd
Held through a subsidiary					
MASS Consultants Limited (MASS)	Enterprise House Cambridgeshire PE19 6BN	England	Ordinary	100%	Electronic warfare, managed services, secure communications, digital forensics and IT support services
Systems Engineering & Assessment Ltd	Beckington Castle Frome BA11 6TA	England	Ordinary	100%	Deliverer of systems engineering, software and electronic engineering services and solutions to the defence and transport markets and is also the holding company of J+S Limited
J+S Limited	Riverside Road Barnstaple EX31 1LY	England	Ordinary	100%	Subsidiary of Systems Engineering & Assessment Ltd. Business transferred to Systems Engineering & Assessment Ltd on 1 May 2018. Holds investment in SEA's Canadian operations
Marlborough Communications Limited (MCL)	Dovenby Hall Horley RH6 9UU	England	Ordinary	100%	Designs, sources and supports advanced electronic and surveillance technology
Beckington Castle Ltd	Beckington Castle Frome BA11 6TA	England	Ordinary	100%	Property company holding freehold of Beckington Castle and SEA's Bristol office
Chess Dynamics Limited	Quadrant House North Heath Business Park North Heath Lane Horsham West Sussex RH12 5QE	England	Ordinary	100%	Design and production of detection and tracking systems, as well as counter UAV solutions for defence security markets
Empresa de Investigação e Desenvolvimento de Electrónica, S.A. (EID)	Quinta dos Medronheiros-Lazarim 2820-486 Charneca da Caparica Lisbon	Portugal	Ordinary	80%	Designs and manufactures advanced communications systems for the defence and security markets
8963665 Canada Inc.	1100, Boul Rene-Levesque O, Porte 2500, Montreal (Quebec), H3B 5C9	Canada	Ordinary	100%	The holding company of the Group's investment in JSK Naval Support Inc.
JSK Naval Support Inc.	193 Brunswick Blvd Quebec, Canada H9R 5N2	Canada	Ordinary	50%	A joint venture between SEA and a Canadian supplier to deliver and support SEA products into the Canadian Navy and services
Vision4ce Limited	Unit 4 Wokingham Commercial Centre Molly Millars Lane Wokingham RG41 2RF	England	Ordinary	100%	Software solutions for detection, tracking and C-UAV systems
Chess Dynamics Inc	7060 S Tucson Way A Centennial CO 80112	USA	Ordinary	100%	US representative of Chess's UK business

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

11. Investment in subsidiaries and joint ventures continued

Company

The Company's investments in subsidiaries are as follows:

	Chess £'000	MASS £'000	MCL £'000	SCS £'000	SEA £'000	Thunderwaves £'000	Total £'000
At 1 May 2017	—	14,597	16,382	2,641	26,551	9,323	69,494
Acquired	—	—	99	—	—	3,514	3,613
Share-based payments	—	104	20	18	92	14	248
Vested in year	—	(69)	(14)	(20)	(56)	—	(159)
Deferred tax on share-based payments charged directly to equity	—	(95)	—	(16)	(81)	—	(192)
At 1 May 2018	—	14,537	16,487	2,623	26,506	12,851	73,004
Acquired	18,702	—	—	—	—	—	18,702
Share-based payments	—	109	24	—	88	33	254
Vested in year	—	(95)	(13)	—	(83)	—	(191)
Deferred tax on share-based payments charged directly to equity	—	(5)	—	—	—	—	(5)
Repaid by subsidiary to Cohort	—	—	—	(1,039)	—	—	(1,039)
At 30 April 2019	**18,702**	**14,546**	**16,498**	**1,584**	**26,511**	**12,884**	**90,725**

Cohort plc acquired 81.84% of Chess on 12 December 2018. Cohort paid £20,041,000 for Chess including a shareholder loan of £2,489,000. In addition to the £17,552,000 paid for 81.84% of Chess's shares, Cohort accrued £1,150,000 in respect of an earn out payable, making a total investment by Cohort plc, the Company, for 81.84% of Chess of £18,702,000.

12. Inventories

	2019 £'000	2018 £'000
Finished goods and raw materials	**13,452**	5,877

The inventory at 30 April 2019 is after a stock provision of £1,130,000 (2018: £733,000).

13. Trade and other receivables

	Group		Company	
	2019 £'000	2018 (restated[1]) £'000	**2019 £'000**	2018 £'000
Trade receivables (net of provision for doubtful debts)	**19,930**	17,314	**—**	—
Contract receivables	**13,044**	11,963	**—**	—
Prepayments and accrued income	**9,719**	5,416	**150**	158
Current tax assets	**278**	—	**—**	—
Amounts due from subsidiary undertakings	**—**	—	**2,626**	890
	42,971	34,693	**2,776**	1,048

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers." See note 30 for details regarding the restatement.

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

The average credit period taken on sales of goods is 22 days (2018: 24 days). Of the trade receivables balance, £5.3m was considered overdue at 30 April 2019 (30 April 2018: £3.3m). The decrease in the debtor days is due to the earlier invoicing in the final quarter by MCL, EID and SEA. Overdue is defined as trade receivables still outstanding beyond invoice terms (typically 30 days). The allowance for doubtful debt is determined by management's best estimates, by reference to the particular receivables over which doubt may exist. None of the other receivables were past due.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. One of the largest trade receivable, to which the Group is exposed at 30 April 2019, is the UK MOD with a balance outstanding of £1.6m (2018: £3.7m). Other customers who represent more than 5% of the total balance of trade receivables include:

	2019 £m	2018 £m
Customer A	**2.4**	1.5
Customer B	**1.2**	1.4
Customer C	**1.2**	1.1
Customer D	**1.0**	1.0

Customers A B, C and D in 2019 are not the same as customers A, B, C and D in 2018.

13. Trade and other receivables continued

Trade receivables include £5.2m (2018: £5.5m) denominated in foreign currency. The predominate currency of the trade receivables is pounds sterling.

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

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

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

Ageing of past due but not impaired receivables	**2019 £'000**	2018 £'000
30–60 days	**2,923**	2,436
60–90 days	**504**	85
>90 days	**1,826**	819
	5,253	3,340

Movement in the allowance for doubtful debts (reported within trade receivables)	**2019 £'000**	2018 £'000
Balance at 1 May	**340**	310
Impairment losses recognised	**—**	35
On acquisition of Chess	**689**	—
Utilised on write off of debt	**(42)**	—
Released on recovery of debt previously provided	**—**	(19)
Foreign exchange movement	**(7)**	14
Balance at 30 April	**980**	340

Contract receivables	**2019 £'000**	2018 £'000
Opening balance	**11,963**	10,172
Acquired	**1,440**	—
Contract receivable recognised in revenue	**12,806**	11,864
Contract receivable invoiced	**(13,150)**	(10,073)
Foreign exchange movement	**(15)**	—
Closing balance	**13,044**	11,963

The Group order book at 30 April 2019 and its expected recognition as revenue in future periods is shown in the Business review on page 29. The order book at 30 April 2018 (restated for IFRS 15) is shown on page 102.

14. Trade and other payables

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Advance receipts	**4,620**	3,164	**—**	—
Trade payables and accruals	**17,418**	9,380	**260**	103
Social security and other taxes	**2,190**	3,384	**103**	124
Accruals and deferred income	**10,997**	12,908	**1,921**	1,354
Amounts due to subsidiary undertakings	**—**	—	**1,584**	—
	35,225	28,836	**3,868**	1,581

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing contract costs. Advance receipts reflect invoicing ahead of work done in accordance with contracted terms. The average credit period taken for trade purchases is 43 days (2018: 45 days). The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms (see Risk management, pages 46 to 51).

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

Social security and other taxes include employment taxes and VAT.

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

14. Trade and other payables continued

Total payable includes £4.5m (2018: £0.8m) denominated in foreign currency.

Advanced receipts	2019 £'000	2018 £'000
Opening balance	**3,164**	2,199
Advanced acquired	**—**	—
New advances	**4,620**	3,164
Advances consumed in delivery of contract	**(3,164)**	(2,199)
Closing balance	**4,620**	3,164

15. Bank borrowings

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Bank overdrafts	**—**	—	**10,942**	15,652
Bank loans	**25,028**	9,167	**25,028**	9,167
Finance leases	**159**	6	**—**	—
	25,187	9,173	**35,970**	24,819

These borrowings are repayable as follows:

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
On demand or within one year	**61**	9,173	**10,942**	24,819
In the second year	**61**	—	**—**	—
In the third to fifth years inclusive	**25,065**	—	**25,028**	—
	25,187	9,173	**35,970**	24,819
Less: amounts due for settlement within 12 months (shown under current liabilities)	**(61)**	(9,173)	**(10,942)**	(24,819)
Amount due for settlement after 12 months	**25,126**	—	**25,028**	—

The weighted average interest rates paid were as follows:

	2019 %	2018 %
Bank overdrafts (variable)	**2.45**	2.10
Bank loans (variable)	**2.15**	1.55
Finance leases (fixed)	**5.50**	4.60

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

On 15 November 2018, the Group entered into its current banking facility. The £30.0m facility is provided equally by Lloyds and NatWest banks. The facility is provided for four years with options to extend for a further year and is secured over all of the Group's assets excluding EID, which is not part of the facility arrangement and maintains its own facilities locally in Portugal. The facility is available to the Group (excluding EID) in respect of acquisition financing and overdraft. The facility also includes an option to extend the facility by a further £10.0m to £40.0m in total. The Group is not obliged to make any repayments prior to the facility's expiration in November 2022 and is disclosed as repayable in the third to fifth years inclusive.

The facility terms are similar to the Group's previous facility which expired 15 November 2018.

At 30 April 2019 the facility has been drawn on as follows:

	Of which drawn is £m
Revolving credit facility loan	25.0
Overdraft	—
	25.0

At 30 April 2019, the Group had available £5.0m of undrawn bank facility. The Directors consider the carrying amount of bank borrowings approximate to their fair values.

The Group has entered into separate bilateral arrangements with each of its banks, Lloyds and NatWest, for ancillary facilities including bonding, letters of credit and foreign exchange contracts.

Similar bilateral arrangements exist for EID with its bank in Portugal. In addition, EID has an overdraft facility of €2.5m with Santander which is renewable on a six-month rolling basis. This facility was undrawn at 30 April 2019.

15. Bank borrowings continued

The Group's cash at 30 April 2019 of £18.8m is held with the following banks:

	2019 £'000	2018 £'000	Moody's long-term credit rating of bank as at 2019
National Westminster Bank plc	**15,445**	11,913	A1
Barclays Bank PLC	**993**	16	A1
Lloyds Bank plc	**185**	131	Aa3
Clydesdale Bank plc	**—**	1	Baa3
Novo Banco	**11**	11	Caa2
Santander Bank	**801**	1,491	Baa3
Banco Comercial Português	**478**	6,087	Baa3
Caixa Geral de Depósitos Bank	**822**	857	Ba1
Other banks and cash	**28**	4	
	18,763	20,511	

16. Provisions

Group	Reorganisation of SCS £'000	Warranty £'000	Other contract related provisions £'000	Total £'000
At 1 May 2017	1,263	743	106	2,112
Charged to the income statement	—	227	438	665
Utilised	(612)	(491)	(106)	(1,209)
Foreign exchange movement	—	24	—	24
At 1 May 2018	651	503	438	1,592
On acquisition	—	200	821	1,021
Charged/(released) to the income statement	(109)	89	(330)	(350)
Utilised	(542)	(131)	(154)	(827)
Foreign exchange movement	—	(10)	—	(10)
At 30 April 2019	**—**	**651**	**775**	**1,426**
Provisions due in less than one year	—	651	167	818
Provisions due in greater than one year	—	—	608	608
At 30 April 2019	**—**	**651**	**775**	**1,426**
Provisions due in less than one year	215	503	438	1,156
Provisions due in greater than one year	436	—	—	436
At 30 April 2018	651	503	438	1,592

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

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

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

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

The provision in respect of the reorganisation of SCS was fully utilised in the year following the relocation of Cohort's head office, the onerous lease being settled.

17. Deferred tax

	Accelerated tax depreciation £'000	Other intangible assets £'000	Revaluation of building £'000	Other short-term timing differences £'000	Share options £'000	Derivatives £'000	Group £'000
At 1 May 2017	1	(2,167)	(316)	362	442	28	(1,650)
Credit to the income statement in respect of the current tax year	21	1,063	7	14	10	53	1,168
Charge to the income statement in respect of prior tax years	(8)	—	—	(199)	—	(57)	(264)
Effect of tax rate charge due to change in estimated lives of underlying assets and/or liabilities	(10)	—	—	(2)	(7)	—	(19)
Foreign exchange movement	3	—	—	2	—	—	5
Recognised in the income statement	6	1,063	7	(185)	3	(4)	890
Recognised in equity	—	—	—	—	(248)	—	(248)
At 1 May 2018	7	(1,104)	(309)	177	197	24	(1,008)
On acquisition	(52)	(4,297)	—	—	—	—	(4,349)
Credit/(charge) to the income statement in respect of the current tax year	(98)	1,688	8	120	8	(6)	1,720
Credit to the income statement in respect of prior tax years	—	—	—	42	1	1	44
Effect of tax rate charge due to change in estimated lives of underlying assets and/or liabilities	—	—	—	(3)	—	—	(3)
Foreign exchange movement	—	—	—	(4)	—	—	(4)
Recognised in the income statement	(98)	1,688	8	155	9	(5)	1,757
Recognised in equity	—	—	—	—	(76)	—	(76)
At 30 April 2019	**(143)**	**(3,713)**	**(301)**	**332**	**130**	**19**	**(3,676)**

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

	2019 £'000	2018 £'000
Deferred tax assets	**365**	406
Deferred tax liabilities	**(4,041)**	(1,414)
	(3,676)	(1,008)

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

The Company's deferred tax balance at 30 April 2019 was an asset of £39,000 (2018: £98,000) being £18,000 (2018: £12,000) in respect of other short-term timing differences, accelerated tax depreciation of £5,000 (2018: £5,000) and share options of £16,000 (2018: £81,000).

The corporation tax rate in the UK for the year ended 30 April 2019 was 19.0% (2018: 19.0%) which has been applied by Cohort in calculating its income tax (see note 6). A reduction in the UK corporation tax rate from 19% (effective 1 April 2017) to 17% (effective 1 April 2020) was enacted in September 2016. The deferred tax assets and liabilities are calculated using 19% for balances expected to reverse on or before 31 March 2020 and 17% for those reversing after this date.

For deferred tax balances in respect of EID (Portugal), the rate used was 22.20% (2018: 22.45%).

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

18. Derivative financial instruments

The Group has derivative financial instruments as follows:

	2019 £'000	2018 £'000
Assets		
Foreign currency forward contracts	**—**	51
Liabilities		
Foreign currency forward contracts	**(99)**	(183)

The changes in marking the outstanding foreign currency forward contracts to fair value (which are based upon quoted market valuations) are credited or charged to the Consolidated income statement as "credit/(charge) on marking forward exchange contracts to market value at the year end". They are in respect of trading contracts undertaken by the Group and in respect of MCL and SEA, and are disclosed within their respective operating profits in the segmental analysis (see note 1; 2018: MCL and SEA). They are considered to be level 1 classification. The credit (2018: charge) to the Consolidated income statement for the year ended 30 April 2019 was as follows:

	2019 £'000	2018 £'000
Foreign currency forward contracts	**33**	(280)

Currency derivatives

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

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

2019	Sell £'000	Buy MYR'000	Buy £'000	Sell €'000	Buy £'000	Sell US$'000	Sell £'000	Buy US$'000
At forward exchange rates								
At 1 May 2018	(1,026)	(6,315)	526	588	309	496	(1,290)	(1,818)
Contracts matured in period	1,026	6,315	(526)	(588)	(309)	(496)	1,290	1,818
New contracts in period	—	—	388	433	—	—	(9,603)	(12,587)
At 30 April 2019	**—**	**—**	**388**	**433**	**—**	**—**	**(9,603)**	**(12,587)**
Fair value adjustment	—		(15)		—		(84)	
At 30 April 2019 at spot rate	**—**		**373**		**—**		**(9,687)**	

The total fair value adjustment is £99,000 (2018: £132,000) and the change in the forward exchange fair values for the year ended 30 April 2019 is £33,000 (30 April 2018: £280,000), which is included in the operating profit of the Group as a credit (2018: charge).

2018	Sell £'000	Buy MYR'000	Buy £'000	Sell €'000	Buy £'000	Sell US$'000	Sell £'000	Buy US$'000
At forward exchange rates								
At 1 May 2017	—	—	371	434	1,251	1,718	(2,458)	(3,081)
Contracts matured in period	—	—	(371)	(434)	(1,251)	(1,718)	2,458	3,081
New contracts in period	(1,026)	(6,315)	526	588	309	496	(1,290)	(1,818)
At 30 April 2018	(1,026)	(6,315)	526	588	309	496	(1,290)	(1,818)
Fair value adjustment	(144)		(8)		51		(31)	
At 30 April 2018 at spot rate	(1,170)		518		360		(1,321)	

18. Derivative financial instruments continued

Liquidity risk

The maturity of the outstanding contracts was as follows:

At 30 April 2019	Sell £'000	Buy MYR'000	Buy £'000	Sell €'000	Buy £'000	Sell US$'000	Sell £'000	Buy US$'000
Within one year	—	—	388	433	—	—	(4,543)	(5,955)
Within two years	—	—	—	—	—	—	(5,060)	(6,632)
Greater than two years	—	—	—	—	—	—	—	—
At 30 April 2019 at forward rate	**—**	**—**	**388**	**433**	**—**	**—**	**(9,603)**	**(12,587)**

At 30 April 2018	Sell £'000	Buy MYR'000	Buy £'000	Sell €'000	Buy £'000	Sell US$'000	Sell £'000	Buy US$'000
Within one year	(1,026)	(6,315)	526	588	309	496	(1,290)	(1,818)
Within two years	—	—	—	—	—	—	—	—
Greater than two years	—	—	—	—	—	—	—	—
At 30 April 2018 at forward rate	(1,026)	(6,315)	526	588	309	496	(1,290)	(1,818)

The following significant exchange rates applied at 30 April:

	2019		2018		
	US$	**Euro**	Malaysian Ringgit	US$	Euro
Exchange rates at 30 April	**0.7698**	**0.8621**	0.1853	0.7267	0.8795

Sensitivity analysis

A 10% strengthening of sterling against the above currencies at 30 April 2019 would decrease the reported operating profit by £847,000 (2018: increase the reported operating profit by £147,000) in respect of marking these forward contracts to market value.

19. Share capital

	2019 Number	2018 Number
Allotted, called up and fully paid 10 pence ordinary shares	**40,959,101**	40,959,101

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

	Number
At 1 May 2017	40,959,101
Share options exercised	—
At 1 May 2018	40,959,101
Share options exercised	—
At 30 April 2019	**40,959,101**

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

During the year ended 30 April 2019, no ordinary shares (2018: Nil) in Cohort plc were issued to satisfy share options.

20. Share options

The Group grants new share options under the Cohort plc 2016 share option scheme to senior management and key employees. Previous options have been granted under the Cohort plc 2006 share option scheme. The Group also operates a Save As You Earn (SAYE) scheme and a Share Incentive Plan (SIP) both of which are available to all employees.

The following options were outstanding at 30 April 2019:

				30 April 2019			30 April 2018		
Scheme and grant date	Exercise price £	Vesting date	Expiry date	**Vested**	**Not vested**	**Total**	Vested	Not vested	Total
Cohort plc 2006 share option scheme									
23 Jul 2010	0.835	24 Jul 2013	23 Jul 2020	**43,299**	**—**	**43,299**	100,471	—	100,471
26 Jul 2011	0.915	27 Jul 2014	26 Jul 2021	**22,000**	**—**	**22,000**	52,252	—	52,252
2 Aug 2012	1.165	3 Aug 2015	2 Aug 2022	**68,500**	**—**	**68,500**	138,801	—	138,801
9 Aug 2013	1.675	10 Aug 2016	9 Aug 2023	**78,550**	**—**	**78,550**	111,000	—	111,000
11 Aug 2014	1.975	12 Aug 2017	11 Aug 2024	**44,930**	**—**	**44,930**	80,936	—	80,936
31 Oct 2014	2.425	1 Nov 2017	31 Oct 2024	**—**	**—**	**—**	8,000	—	8,000
20 Aug 2015	3.725	21 Aug 2018	20 Aug 2025	**192,534**	**—**	**192,534**	—	246,469	246,469
Cohort plc 2016 share option scheme									
15 Aug 2016	3.400	16 Aug 2019	15 Aug 2026	**—**	**220,459**	**220,459**	—	263,103	263,103
25 Aug 2017	3.760	26 Aug 2020	25 Aug 2027	**—**	**288,563**	**288,563**	—	339,632	339,632
10 Aug 2018	3.900	11 Aug 2021	10 Aug 2028	**—**	**319,353**	**319,353**	—	—	—
				449,813	**828,375**	**1,278,188**	491,460	849,204	1,340,664
Save As You Earn (SAYE) scheme									
13 Aug 2013	1.545			**—**	**—**	**—**	—	17,472	17,472
11 Aug 2014	2.075			**—**	**28,913**	**28,913**	1,734	34,695	36,429
14 Aug 2015	3.380			**—**	**35,372**	**35,372**	—	115,597	115,597
29 Aug 2016	3.550			**—**	**101,041**	**101,041**	—	127,839	127,839
25 Aug 2017	4.085			**—**	**86,368**	**86,368**	—	107,682	107,682
1 Sep 2018	3.900			**—**	**70,441**	**70,441**	—	—	—
				—	**322,135**	**322,135**	1,734	403,285	405,019
				449,813	**1,150,510**	**1,600,323**	493,194	1,252,489	1,745,683

The SAYE options have maturity periods of three or five years from the date of grant. The Group plan provides for a grant price equal to the closing market price of the Group shares on the trading day prior to the date of grant. In the case of the SAYE schemes, the price is determined on the date before the invitation to participate which was on 10 August 2018. The vesting period is generally three years, five years in the case of some SAYE options.

If options under the Cohort plc 2006 or 2016 share option schemes remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest.

The Group launched an all employee Share Incentive Plan (SIP) on 1 September 2018. The scheme provides for participating employees to save up to £150 per month throughout each annual accumulation period. At the end of each accumulation period (30 August each year), the amount saved will be used to purchase Cohort plc ordinary shares at the lower of the mid-market share price on the first and last day of accumulation period.

The shares to be issued under the Group's SIP scheme are provided by the Cohort Employee Benefit Trust (see note 21).

20. Share options continued

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

	2019		2018	
	Options	**Weighted average exercise price £**	Options	Weighted average exercise price £
Outstanding at 1 May	**1,745,683**	**2.94**	1,730,355	2.55
Granted during the year	**414,264**	**3.90**	452,421	3.84
Forfeited during the year	**(147,138)**	**3.66**	(79,655)	3.28
Exercised during the year	**(371,626)**	**2.00**	(338,164)	2.06
Expired during the year	**(40,860)**	**3.68**	(19,274)	3.30
Outstanding at 30 April	**1,600,323**	**3.32**	1,745,683	2.94
Exercisable at 30 April	**449,813**	**2.39**	493,194	1.34

The weighted average share price at the date of exercise for share options exercised during the year was £2.00 (2018: £2.06). The options outstanding at 30 April 2019 had a weighted average exercise price of £3.32 (2018: £2.94) and a weighted average remaining contractual life of six years (2018: six years).

The exercised options in the year were satisfied by transferring shares from the Cohort Employee Benefit Trust (see note 21).

In the year ended 30 April 2019, options were granted as follows: 75,111 on 1 September 2018 under the SAYE scheme and 339,153 on 10 August 2018 under the Cohort plc 2016 share option scheme. The option price for the SAYE scheme was £3.900 per share which was the mid-market price on the day before the scheme invitation was made on 10 August 2018. The option price for the options issued under the Cohort plc 2016 share option scheme was £3.900, the mid-market price the day before the grant.

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

	2019	2018
Average share price	**£3.83**	£3.83
Weighted average exercise price	**£3.32**	£2.94
Expected volatility	**26.0%**	32.0%
Risk free rate	**0.91%–1.84%**	0.84%–1.96%
Leaver rate (per annum)	**10.0%**	10.0%
Dividend yield	**0.94%**	0.92%

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

The Group recognised a cost of £291,000 (2018: £273,000) relating to share-based payment transactions which are all equity settled, an equivalent amount being transferred to the share option reserve.

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

21. Own shares

	£'000
Balance at 1 May 2017	1,142
Acquired in the year	1,467
Sold in the year	(697)
Loss on shares sold in the year	(722)
Balance at 30 April 2018	1,190
Acquired in the year	631
Sold in the year	(743)
Loss on shares sold in the year	(730)
Balance at 30 April 2019	**348**

The own shares reserve represents the cost of shares in Cohort plc purchased in the market and held by the Cohort Employee Benefit Trust to satisfy options under the Group's share option (see note 20), Restricted Share Schemes (see the Remuneration & Appointments Committee report on pages 54 to 59) and the Group's SIP scheme.

The number of ordinary shares in Cohort plc held by the Employee Benefit Trust at 30 April 2019 was 98,053 (2018: 341,128).

Tranches of Cohort plc ordinary shares were acquired by the Employee Benefit Trust as follows: 32,500 on 23 May 2018 and 142,471 on 6 July 2018, at costs of £3.41 and £3.65 per share respectively, a total investment of £630,852.

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

Exercise price per share Pence	Number of shares sold	Proceeds £'000	(Loss)/profit on sale of shares £'000
83.5	57,172	48	(151)
91.5	30,252	28	(78)
116.5	70,301	82	(163)
154.5	17,472	27	(35)
167.5	32,450	54	(59)
197.5	36,006	71	(57)
207.5	1,734	3	(3)
242.5	8,000	19	(9)
338.0	78,230	264	(14)
340.0	9,278	32	(1)
355.0	594	2	—
372.5	27,967	104	5
376.0	2,036	8	—
408.5	134	1	—
	371,626	743	(565)

In addition, 46,420 (2018: 53,456) ordinary shares in Cohort plc were transferred at nil value realising a loss on sale of shares of £164,879 for the purpose of satisfying shares awarded to the Executive Directors (see the Remuneration & Appointments Committee report on pages 54 to 59) and senior management under the Group's Restricted Share Scheme. The total loss on satisfying share options and Restricted Shares by the Employee Benefit Trust was £730,000 (2018: £722,000).

88,690 (2018: 67,793) of the shares held by the Employee Benefit Trust at 30 April 2019 remain to be issued under the Restricted Share Scheme, on which an estimated loss of £315,027 (2018: £236,548) will be recognised as they are issued.

As at 30 April 2019, an estimated 14,000 shares (2018: Nil) held by the Employee Benefit Trust expect to be used under the Share Incentive Plan on which an estimated gain of £2,500 (2018: £Nil) would be recognised as they are issued.

The market valuation of the ordinary shares in Cohort plc held by the Employee Benefit Trust at 30 April 2019 was £389,761 (2018: £1,193,948).

On 14 May 2019, the Cohort Employee Benefit Trust acquired a further 393,076 Cohort plc ordinary shares at 380.5 pence per share, a total investment of £1.5m. As at that date, the Cohort Employee Benefit Trust held 491,129 Cohort plc ordinary shares (1.2% of the total shares in issue).

The cost of operating the Employee Benefit Trust during the year ended 30 April 2019 was £21,990 (2018: £21,500) and this cost is included within "Administrative expenses" in the Consolidated income statement.

22. Reserves

The Group (consolidated) and Company statements of changes in equity are disclosed as primary statements on pages 69 and 70. Below is a description of the nature and purpose of the individual reserves:

- Share capital represents the nominal value of shares issued, including those issued to the Cohort Employee Benefit Trust (see note 19).
- Share premium includes the amounts over the nominal value in respect of share issues. In addition, costs in respect of share issues are debited to this account.
- Own shares held by the Group represent shares in Cohort plc. All the shares are held by the Cohort Employee Benefit Trust (see note 21).
- Share option reserve represents the cumulative share-based payment charged to reserves less the transfer to retained earnings on vesting of options.
- The other reserve represented the final earn-out payable on the acquisition of the non-controlling interest (18.16%) of Chess. This reserve is expected to be fully utilised by 30 April 2022.
- Retained earnings include the realised gains and losses made by the Group and the Company.

23. Net cash from operating activities

	Group		Company	
	2019 £'000	2018 (restated[1]) £'000	**2019 £'000**	2018 £'000
Profit for the year	**5,091**	8,099	**8,724**	5,158
Adjustments for:				
Income tax charge	**584**	2,074	**(11)**	5
Depreciation of property, plant and equipment	**1,147**	1,116	**57**	27
Amortisation of other intangible assets and goodwill	**9,514**	5,312	**—**	—
Net finance expense	**269**	89	**270**	95
Derivative financial instruments and other non-trading exchange movements	**(33)**	280	**—**	—
Share-based payment	**291**	273	**37**	25
(Decrease)/increase in provisions	**(1,186)**	(520)	**(560)**	574
Operating cash flows before movements in working capital	**15,677**	16,723	**8,517**	5,884
Increase in inventories	**(2,812)**	(581)	**—**	—
(Increase)/decrease in receivables	**(794)**	3,064	**(1,048)**	(680)
Increase/(decrease) in payables	**(451)**	(4,081)	**5,179**	320
	(4,057)	(1,598)	**4,131**	(360)
Cash generated by operations	**11,620**	15,125	**12,648**	5,524
Income taxes paid	**(2,689)**	(1,802)	**—**	—
Interest paid	**(296)**	(103)	**(286)**	(101)
Net cash inflow from operating activities	**8,635**	13,220	**12,362**	5,423

1 Prior year comparatives have been restated upon the Group's adoption of IFRS 15 "Revenue from Contracts with Customers". See note 30 for details regarding the restatement.

24. Operating lease arrangements

Group	**2019 £'000**	2018 £'000
Minimum lease payments under operating leases recognised as an expense in the year:		
Land and buildings	**1,150**	1,088
Other	**132**	183
	1,282	1,271

24. Operating lease arrangements continued

At 30 April 2019 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 £'000	2018 £'000
Land and buildings:		
Within one year	**502**	293
In the second to fifth year inclusive	**1,669**	2,533
After five years	**4,614**	574
	6,785	3,400
Other:		
Within one year	**182**	171
In the second to fifth year inclusive	**378**	177
	560	348
	7,345	3,748

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

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

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

Company	**2019 £'000**	2018 £'000
Minimum lease payments under operating leases recognised as an expense in the year:		
Land and buildings	**62**	38

The recognised expense in 2018 and 2019 is lower than the actual payment made due to offsetting the expense against the onerous lease provision established on the reorganisation of SCS. This provision was fully utilised when Cohort relocated its head office in October 2018.

At 30 April 2019 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 £'000	2018 £'000
Land and buildings:		
Within one year	**87**	203
In the second to fifth year inclusive	**286**	454
	373	657

From 1 May 2019, the Group will apply IFRS 16 "Leases". IFRS 16 "Leases" was issued in January 2016 and will be implemented by the Group from 1 May 2019. This accounting standard will replace IAS 17 "Leases" and will require lease liabilities and "right of use" assets to be recognised on the balance sheet for almost all operating leases. This is expected to result in an increase in assets and liabilities as set out below.

The cost of operating leases currently included within operating costs will be split and the financing element of the operating charge will be reported within finance expense.

Cohort plc will implement IFRS 16 applying the cumulative catch-up approach.

Operating leases will be valued on "right of use" assets as at 1 May 2019 and a lease liability recognised at the same time.

24. Operating lease arrangements continued

On the transition date of 1 May 2019, the Group expects to recognise the following:

	£'000
Right of use assets:	
Land and buildings	5,328
Fixtures and equipment	469
	5,797
Lease liability	(6,085)
Reduction in net assets (and equity)	(288)

The reduction in net assets arises from the value of right of use assets brought onto the balance sheet being lower than the value of lease liabilities due to the different rates of run off.

The net impact of IFRS 16 on profit before tax is not material at less than £0.1m reduction. For the year ended 30 April 2020 the operating profit is expected to improve by just over £0.1m and the finance charge to increase by less than £0.2m as a result of implementing IFRS 16.

25. Commitments

There was £334,000 of capital commitments at 30 April 2019 (2018: £Nil).

26. Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £2,322,000 (2018: £2,723,000) were charged to the Consolidated income statement. Contributions outstanding at 30 April 2019 were £332,691 (2018: £274,764).

27. Contingent liabilities

At 30 April 2019 the Group had in place bank guarantees of £1,221,000 (2018: £1,920,000) in respect of trading contracts. The Group is not aware of any conditions which would realise these contingent liabilities.

28. Related party transactions

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

	Management fees received from subsidiaries £'000	Dividends received from subsidiaries £'000	Group relief received from subsidiaries £'000
2019	**2,246**	**10,111**	**235**
2018	2,508	5,500	85

During the year ended 30 April 2019, the Directors of Cohort plc received dividends from the Company as follows:

	2019 £	2018 £
S Carter	**773,986**	678,376
N Prest CBE	**176,523**	154,717
A Thomis	**10,199**	8,942
Sir Robert Walmsley	**2,550**	2,235
S Walther	**9,245**	8,104
J Perrin	**340**	298
	972,843	852,672

Further details of the remuneration of the Directors are set out in the Remuneration & Appointments Committee report (pages 54 to 59).

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

	2019 £	2018 £
Salary (including any allowances, benefits and employer's NIC)	**1,831,941**	1,715,769
Employer's pension contribution	**48,866**	49,624
Termination payments	**—**	—
	1,880,807	1,765,393

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

29. Acquisition of Chess Technologies Limited (Chess)

As announced on 12 December 2018, Cohort plc acquired 81.84% of Chess for an initial cash consideration of just over £20.0m. The Group has recognised 100% of Chess' results and net assets from that date as it has effective control.

Under the sale and purchase agreement, up to a further £12.7m is payable to the shareholders of Chess as an earn out based upon its trading performance over the three years ended 30 April 2021. Based upon latest forecasts, this earn out is estimated at £1.15m as at 30 April 2019.

The acquisition accounting is as follows:

	Book value £'000	Provisional fair values £'000
Recognised amounts of identifiable assets and liabilities assumed:		
Property, plant and equipment	563	494
Other intangible assets	4,154	23,934
Inventory	5,195	4,214
Trade and other receivables	9,390	8,641
Trade and other payables	(6,628)	(7,699)
Provisions	—	(1,021)
Deferred tax	(52)	(4,349)
Loan	(27)	(27)
Finance leases	(136)	(136)
Overdraft	(844)	(844)
	11,615	23,207
81.84% of net assets acquired		18,993
Goodwill		2,198
Total consideration		21,191
Satisfied by:		
Cash		20,041
Deferred consideration		1,150
Total consideration transferred		21,191
Net cash outflow arising on acquisition:		
Cash consideration paid		20,041
Plus: overdraft acquired		844
		20,885

The loan and finance leases acquired (£163,000) are shown as debt acquired in the net fund reconciliation on page 72.

The fair value adjustments reflect policy alignments and adjustments arising out of Cohort's due diligence work on the acquisition. These include additional provisions against inventory and trade and other receivables balances on account of the age of certain balances and uncertainty over recovery, recognition of accruals and liabilities (trade and other payables) and provisions for warranty, contract losses and dilapidations (provisions).

The most significant fair value adjustment is in respect of the other intangible assets and is analysed as follows:

	Book value £'000	Fair value £'000
Goodwill held by Chess	56	—
Research & development expenditure	4,098	—
Contracts acquired	—	8,091
Customer relationships	—	15,843
	4,154	23,934

29. Acquisition of Chess Technologies Limited (Chess) continued

The other intangible assets of £23.9m acquired and their estimated useful lives are as follows:

	Other intangible asset £'000	Estimated life years
Contracts	8,091	6
Customer relationships	15,843	6
	23,934	

A deferred tax liability of £4.3m in respect of the other intangible assets balance above was established and is disclosed as part of the fair value deferred tax liability.

The other intangible assets acquired are based upon the following:

Contracts	The estimated profit in the acquired order book of Chess, discounted at an appropriate WACC over the expected life of the order book. This intangible asset will be amortised over that useful life at a rate to reflect the expected generation of profit from the order book.
Customer relationships	The estimated profit in identified future orders and prospects, discounted at an appropriate WACC over the expected life of the future order or prospect. This intangible asset will be amortised over that useful life at a rate to reflect the expected generation of profit from those future orders and prospects.

The research and development expenditure acquired is considered to have no fair value as future cash flows arising from this asset cannot be identified and assigned to any particular asset.

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

The sale and purchase agreement for the acquisition of Chess includes a put and call option for the purchase of the remaining shares (18.16%) in Chess, the non-controlling interest.

This option is exercisable by 31 October 2021 and is capped at £9.1m. The amount payable is dependent upon the performance of the Chess business for the three years ended 30 April 2021.

The non-controlling interest is entitled to participate in any dividends payable by Chess in the period to 30 April 2021.

In accordance with IFRS 3, the Group has ascribed a value to the option to acquire the non-controlling interest of Chess. This value is £4.35m and the option is shown as a non-current liability and, as the non-controlling interest has a right to dividends, in the other reserves as "option for acquiring non-controlling interest in Chess".

The Group has applied the present-access method to the acquisition of Chess and thus the non-controlling interest is deemed not to be part of the acquisition transaction and the liability arising from the option is not included in the consideration transferred but is accounted for separately.

The values assigned to both the earn out and option are estimates based upon Chess's actual performance for the year ended 30 April 2019 plus the latest forecasts for the Chess business for the two years ended 30 April 2021 as adopted by the Board. These estimates, which are considered to be significant unobservable inputs in accordance with IFRS 13, will be reviewed annually, based upon the actual performance of Chess and its latest forecast, and any adjustment necessary, made at that time. In accordance with IFRS 13 "Fair Value Measurement" this is a level 3 liability but has not been discounted as the effect is immaterial.

The Group has considered it not appropriate to apply a discount rate to these financial liabilities as the effect would be immaterial.

The acquisition cost of £1.0m in respect of Chess was charged as an exceptional item in the Consolidated income statement. This cost includes £0.4m in respect of renewing the Group's banking facility (see note 15). £18.0m of this facility was utilised in acquiring Chess.

Chess contributed £10.7m of revenue and £1.7m of adjusted operating profit for the period from 12 December 2018 to 30 April 2019.

30. Changes in accounting policies and restatements

This note explains the impact of changes in accounting policies on prior periods.

Impact on financial statements

As a result of changes in the Group's accounting policies, prior year comparative information has been restated for the adoption of IFRS 15 "Revenue from Contracts with Customers".

The impact of IFRS 9 was not material and no restatement was required.

The following tables show the adjustments recognised for each individual line item. Line items that are not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Consolidated income statement

	Year ended 30 April 2018		
	As previously stated £'000	Impact of IFRS 15 £'000	Restated on adoption of IFRS 15 £'000
Revenue	111,798	(1,251)	110,547
Cost of sales	(71,730)	874	(70,856)
Gross profit	40,068	(377)	39,691
Opening profit	10,639	(377)	10,262
Adjusted operating profit	15,602	(377)	15,225
Profit before tax	10,550	(377)	10,173
Income tax charge	(2,074)	—	(2,074)
Profit for the year	8,476	(377)	8,099

	Year ended 30 April 2018		
	As previously stated £'000	Impact of IFRS 15 £'000	Restated on adoption of IFRS 15 £'000
Attributable to:			
Equity shareholders of the parent	8,087	(377)	7,710
Non-controlling interests	389	—	389
	8,476	(377)	8,099

	Pence	Pence	Pence
Earnings per share:			
Basic	19.88	(0.93)	18.95
Diluted	19.68	(0.92)	18.76

Consolidated statement of comprehensive income

	Year ended 30 April 2018		
	As previously stated £'000	Impact of IFRS 15 £'000	Restated on adoption of IFRS 15 £'000
Profit for the year	8,476	(377)	8,099
Total comprehensive income for the year	8,309	(377)	7,932
Attributable to:			
Equity shareholders of the parent	7,787	(377)	7,410
Non-controlling interests	522	—	522
	8,309	(377)	7,932

30. Changes in accounting policies and restatements continued

Consolidated statement of financial position

	Year ended 30 April 2018		
	As previously stated £'000	Impact of IFRS 15 £'000	Restated on adoption of IFRS 15 £'000
Current assets			
Inventories	6,426	(549)	5,877
Trade and other receivables	33,258	1,435	34,693
	60,246	886	61,132
Total assets	115,573	886	116,459
Current liabilities			
Trade and other payables	(27,303)	(1,533)	(28,836)
	(38,080)	(1,533)	(39,613)
Total liabilities	(39,930)	(1,533)	(41,463)
Net assets	75,643	(647)	74,996
Equity			
Retained earnings	39,900	(647)	39,253
Total equity attributable to the equity shareholders of the parent	73,089	(647)	72,442
Non-controlling interests	2,554	—	2,554
Total equity	75,643	(647)	74,996

Note 8 – Earnings per share

	Year ended 30 April 2018		
	As previously stated	Impact of IFRS 15	Restated on adoption of IFRS 15
Basic earnings (£'000)	8,087	(377)	7,710
Diluted earnings (£'000)	8,087	(377)	7,710
Adjusted earnings (£'000)	12,208	(377)	11,831
Diluted adjusted earnings (£'000)	12,208	(377)	11,831
Weighted average number of shares	40,679,428	—	40,679,428
Share options	413,334	—	413,334
Diluted weighted average number of shares	41,092,762	—	41,092,762
Basic earning per share – pence	19.88	(0.93)	18.95
Diluted earning per share – pence	19.68	(0.92)	18.76
Adjusted earnings per share – pence	30.01	(0.93)	29.08
Diluted earnings per share – pence	29.71	(0.92)	28.79

The Group has adopted IFRS 15 "Revenue from Customer Contracts" fully retrospectively. Comparatives for the year ended 30 April 2018 have been restated accordingly.

30. Changes in accounting policies and restatements continued

Note 8 – Earnings per share continued

The following expedients within the standard have been used:

- Revenue in respect of completed contracts that begin and end in the same accounting period have not been restated.
- Revenue in respect of completed contracts with variable consideration reflects the transaction price at the date the contracts were completed.

The accounting policy in respect of revenue from 1 May 2018 is set out in our Accounting policies on page 107.

The impact of IFRS 15 for the Group was that revenue previously recognised on milestones achieved (an output basis) is now recognised according to the costs incurred, plus appropriate margin (an input basis) where those contracts involve the transfer of value to customers over time.

The main impact of the restatement is already shown for the financial statements on pages 98 to 99.

In respect of the notes to the accounts, the main impacts are upon the following:

Note 1 – Segmental analysis

Note 8 – Earnings per share

Note 12 – Inventories

Note 13 – Trade and other receivables

Note 14 – Trade and other payables

In addition, the impact on retained earnings is shown in the Consolidated statement of changes in equity and is summarised below.

Also, the five-year record (on page 110) has been impacted as shown below.

Note 1 – Segmental analysis for the year ended 30 April 2018

	EID £'000	MASS £'000	MCL £'000	SEA £'000	Group £'000
Revenue:					
As previously reported	19,084	37,568	17,381	37,805	111,798
Impact of IFRS 15	(786)	—	—	(465)	(1,251)
As restated	18,298	37,568	17,381	37,340	110,547
Segment adjusted operating profit:					
As previously reported	4,677	7,113	2,072	4,433	15,602
Impact of IFRS 15	(362)	—	—	(15)	(377)
As restated	4,315	7,113	2,072	4,418	15,225
Operating profit/(loss):					
As previously reported	3,115	7,333	(443)	3,231	10,639
Impact of IFRS 15	(362)	—	—	(15)	(377)
As restated	2,753	7,333	(443)	3,216	10,262
Profit/(loss) before tax:					
As previously reported	3,115	7,333	(440)	3,234	10,550
Impact of IFRS 15	(362)	—	—	(15)	(377)
As restated	2,753	7,333	(440)	3,219	10,173

30. Changes in accounting policies and restatements continued

Segment assets and liabilities as at 30 April 2018

	EID £'000	MASS £'000	MCL £'000	SEA £'000	Group £'000
Segment assets:					
As previously reported	8,687	11,311	2,193	27,122	49,332
Impact of IFRS 15	825	—	—	61	886
As restated	9,512	11,311	2,193	27,183	50,218
Segment liabilities:					
As previously reported	(6,010)	(7,377)	(4,802)	(9,905)	(29,078)
Impact of IFRS 15	(1,533)	—	—	—	(1,533)
As restated	(7,543)	(7,377)	(4,802)	(9,905)	(30,611)

As a result of the restatement, the change in the consolidated total assets and liabilities is the same as shown above, with no impact of IFRS 15 on goodwill and other intangible assets.

Notes 12, 13 and 14 – Inventories, trade and other receivables and trade payables have been combined for convenience

	Year ended 30 April 2018			
	As previously reported £'000	Impact of reclassification £'000	IFRS 15 remeasurement £'000	Restated on adoption of IFRS 15 £'000
Inventories	6,426	—	(549)	5,877
Amounts recoverable on contracts	3,684	(3,684)	—	—
Contract assets	—	10,528	1,435	11,963
Prepayments and accrued income	12,260	(6,844)	—	5,416
Advance receipts	(1,297)	(1,867)	—	(3,164)
Accruals and deferred income	(13,242)	1,867	(1,533)	(12,908)

The impact of adoption of IFRS 15 on the Group's retained earnings at 30 April 2018 and 30 April 2017 is as follows:

	2018 £'000	2017 £'000
Retained earnings as previously reported	39,900	36,901
Recognition of revenue for over time contracts based on costs incurred and including attributable margin	(647)	(270)
Adjustment to retained earnings upon adoption of IFRS 15	(647)	(270)
Retained earnings – IFRS 15 (restated)	39,253	36,631

30. Changes in accounting policies and restatements continued

The impact on the Group's five-year record is as follows:

	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Revenue:				
As previously reported	111,798	112,651	112,577	99,938
Impact of IFRS 15	(1,251)	343	(750)	—
As restated	110,547	112,994	111,827	99,938
Adjusted operating profit:				
As previously reported	15,602	14,489	11,902	10,085
Impact of IFRS 15	(377)	(90)	(180)	—
As restated	15,225	14,399	11,722	10,085
Operating profit:				
As previously reported	9,960	963	5,246	5,865
Impact of IFRS 15	(377)	(90)	(180)	—
As restated	9,583	873	5,066	5,865

	Pence	Pence	Pence	Pence
Basic adjusted earnings per share:				
As previously reported	30.01	27.93	27.18	20.45
Impact of IFRS 15	(0.93)	(0.22)	(0.41)	—
As restated	29.08	27.71	26.77	20.45
Diluted adjusted earnings per share:				
As previously reported	29.71	27.56	26.67	20.00
Impact of IFRS 15	(0.92)	(0.22)	(0.40)	—
As restated	28.79	27.34	26.27	20.00
Basic statutory earnings per share:				
As previously reported	19.88	9.09	19.14	14.04
Impact of IFRS 15	(0.93)	(0.22)	(0.41)	—
As restated	18.95	8.87	18.73	14.04
Diluted statutory earnings per share:				
As previously reported	19.68	8.97	18.78	13.74
Impact of IFRS 15	(0.92)	(0.22)	(0.40)	—
As restated	18.76	8.75	18.38	13.74

	2018 £m	2017 £m	2016 £m	2015 £m
Order book:				
As previously reported	102.5	136.5	116.0	134.0
Impact of IFRS 15	1.3	(0.3)	0.8	—
As restated	103.8	136.2	116.8	134.0

Basis of accounting

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). The Company has elected to prepare its parent company financial statements in accordance with FRS 101; these are presented on pages 67 to 110. On publishing the parent company financial statements here, together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements. The Company is a public company limited by shares.

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

As highlighted in note 15 to the financial statements, the Company meets its day-to-day working capital requirements through a facility which is due for renewal in November 2022. Both the current domestic economic conditions and continuing UK Government budget pressures, including defence, create uncertainty, particularly over the level of demand for the Group's products.

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

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

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Strategic report on pages 2 to 35 and Risk management on pages 46 to 51. The financial position of the Company, its cash flows, its liquidity position and its borrowing facilities are also described in the Strategic report on pages 2 to 35.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 30 April 2019. Subsidiaries acquired during the year are consolidated from the date of acquisition, using the purchase method (see "Business combinations" below).

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

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

Transactions eliminated on consolidation

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

Adoption of new and revised standards

Various new and revised standards and interpretations have been adopted by the Group in the year ended 30 April 2019 which have had no significant impact on the amounts reported in these financial statements by the Group with the exception of IFRS 15 "Revenue from Contracts with Customers", the impact of which is shown in note 30.

Bank borrowings

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

Borrowing costs

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

Business combinations

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

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss as an exceptional item.

The Group measures the non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquired business in the event of liquidation, at its proportionate interest in the recognised amount of the identifiable net assets of the acquired business at the acquisition date.

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

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

Cash and cash equivalents

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

Derivative financial instruments and hedge accounting

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

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

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

Equity instruments

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

Exceptional items

The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance, reported as the adjusted operating profit. Events which may give rise to the classification of items as exceptional, if of a significantly material value, include gains or losses on the disposal of a business or the restructuring of a business, transaction costs, litigation and similar settlements, asset impairments and onerous contracts.

Financial instruments

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

Financial liabilities and equity instruments

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

Foreign currencies
The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency), which is sterling for the whole Group excluding Cohort's direct subsidiary Thunderwaves and indirect subsidiary EID, which both have the functional currency of the euro. For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company and the presentational currency for the consolidated financial statements, with any exchange difference included in the Consolidated comprehensive statement of income.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date.

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

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

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

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

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

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

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

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

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

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

Intangible assets
Intangible assets are recognised in respect of contracts, intellectual property rights and other measurable intangibles arising on business combinations. The value of these intangible assets is determined by the estimated value to the Group going forward. The intangible assets are written off over the estimated useful life on the basis of the consumption of the estimated value to the Group. As discussed on page 44, the valuation of intangible assets is an area of critical judgement and estimate for the Directors.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost of finished goods and work in progress includes overheads appropriate to the stage of manufacture. Net realisable value is based upon estimated selling price less the further cost expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items. Stock is accounted for on a first in, first out basis.

Joint ventures
The Group accounts for joint ventures where it has a participating interest using the equity method of accounting and discloses the net investment in non-current assets.

Where the investment in a joint venture is negative, the negative investment, to the extent it is a liability of the Group, is offset against any trade and other receivables held by the Group in respect of that joint venture.

The Group accounts for joint ventures in which it no longer has a participating interest by recognising any investment and assets or liabilities due to or from the Group.

Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee
Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Pension contributions
Payments are made to the Company's stakeholder pension schemes, all of which are defined contribution schemes. Amounts are charged to the income statement as incurred.

Property, plant and equipment
Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their fair value at the date of acquisition, plus any subsequent cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, on the following bases:

Buildings	2%–4%
Fixtures, fittings and equipment	20%–50%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement as an exceptional item.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) which arises as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material. In respect of specific types of provisions, the policy is as follows:

Warranty
Provisions for the expected cost of warranty obligations under local sale of goods legislation and specifically contracted warranty undertakings are recognised at the date of sale of the relevant product or service. The provision is the Directors' best estimate of the expenditure required to settle the Group's obligation.

Other contract related provisions including contract loss provisions
These include the following:

The Group undertakes a number of contracts where contractual and/or third-party obligations arise as a result of delivering the contract. This provision includes amounts for losses on contracts which are recognised in full immediately when it is probable that total contract costs will exceed total contract revenue. In some cases, after a product has been delivered and revenue has been recognised, the Group receives claims (including warranty issues) from customers in respect of work done. Where the amount required to settle the claim is uncertain or the Group disputes the amount of the claim, provision is made for the best estimate of the amount that will be required to settle the claim.

Contract loss provisions are reviewed on a regular basis to determine whether the provision is still adequate or excessive. Contract loss provisions and subsequent adjustments to them are charged as cost of sales in the income statement.

Where such an obligation relates to a discontinued operation then the charge will be disclosed as an exceptional item.

Research and development expenditure
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's own development activity is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software, product and new processes) and is technically and commercially feasible;
- it is probable that the asset created will generate future economic benefits and the Group has available to itself sufficient resources to complete the development and to subsequently sell and/or use the asset created; and
- the development cost of the asset can be measured reliably.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Revenue and profit recognition
From 1 May 2018, the Group has applied IFRS 15 "Revenue from Contracts with Customers". The prior year figures have been restated accordingly as shown in note 30.

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

Performance obligations
Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

The Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations.

Transaction price
At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as price escalation, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin.

Whilst payment terms vary from contract to contract, on some of the Group's contracts, an element of the transaction price is received in advance of delivery. The Group therefore has contract liabilities disclosed as advance receipts (note 13). The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. UK Ministry of Defence contracting rules prohibit the inclusion of financing in the sales price.

Revenue and profit recognition
Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs (typically services or support contracts) or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts).

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the period. Revenue and attributable margin are calculated by reference to estimates of transaction price and total expected costs to complete the contract, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer.

If over time the criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Software licences

The Group sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of right to access licences is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship and revenue in respect of right to use licences is recognised upfront on delivery to the customer.

A software licence is considered to be a right to access the Group's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property;
- the licence directly exposes the customer to the effects of those activities; and
- those activities do not result in the transfer of a good or service to the customer.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates is recognised in one of the following ways:

1. prospectively, as an additional, separate contract;
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary contract by contract and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 "Inventories".

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

Share-based payments

The Group has applied the requirements of IFRS 2 "Share-based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2006.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest and adjusted for the non-market-based vesting conditions.

Fair value is measured by use of the Quoted Companies Alliance binomial model (a Black Scholes model). The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The cost of share-based payments is charged to the income statement with a corresponding credit applied to the share option reserve. The appropriate element of the reserve is transferred to the retained profit of the Group when the share options to which the reserve relates vest.

Taxation

The tax expense represents the sum of the tax currently payable and the deferred tax expense or credit.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Taxation continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Trade and other receivables

Trade receivables are initially measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the estimated recoverable amount.

Where revenue recognised over time on a contract exceeds the value that has been invoiced, the excess is recognised as a contract asset and is included within trade and other receivables.

Accrued income is recognised on revenue recognised at a point in time where a delivery or service has been made and revenue can be recognised, but no invoice has been raised.

Trade and other payables

Trade and other payables are initially measured at fair value. Subsequent measurement is based on changes in the fair value and any changes recognised in the Consolidated income statement. To the extent that receipts from customers exceed relevant revenue whether invoiced or a contract asset, then this is included as an advance receipt within trade and other payables.

Deferred income will arise on point in time contracts where customers have been invoiced, usually as a result of supplier costs incurred by the Group but where the service/delivery has been made.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The Directors have identified the following critical judgements and estimates in applying the Group’s accounting policies that have the most significant impact on the amounts recognised in the financial statements.

1. Critical accounting judgements

Revenue recognition

Judgement is applied in whether to recognise revenue over time or at a point in time with respect to contracts and other sales agreements in place. This will make reference to the contractual arrangements on each contract and which revenue recognition method is most appropriate for that contract or sales agreement.

Fair values on acquisition

Judgement is applied in recognising the fair value of assets and liabilities on acquisition. This judgement will make use of the experience of the Directors, knowledge of the business acquired and the due diligence exercise during the acquisition process. Provisional fair values are recognised on the initial reporting of any acquisition, allowing the Directors to reassess any judgements or estimates made in the first twelve months of ownership.

Acquisition of other intangible assets

Intangible assets other than goodwill that are obtained through acquisition are capitalised on the balance sheet. These other intangible assets are valued on acquisition using a discounted cash flow methodology which depends on future assumptions about the revenue from contracts, prices and costs and on the Group’s cost of capital. At the time of an acquisition, the Directors use the business’s projected gross margin from contracts acquired or future prospects. These gross margin figures will depend upon each contract’s cost to complete estimate at that point in time and the Directors will apply judgement in whether those costs to complete are appropriate or not. The Directors will also take into account the expected timing of the recognition of revenue (and gross margin) on each contract or future prospect.

Provisions

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

1. Critical accounting judgements continued

Research & development

The recognition of research and development expenditure as an internally generated intangible asset requires the Directors to make judgements, especially with respect to whether the asset created will generate future economic benefit. This is a key judgement in this respect as the time between development and any income can be considerable (over five years) and often the income generating asset may have considerably evolved from the asset originally created. As a result of this, the Group almost always expenses research and development in the period it is incurred.

2. Key sources of estimation uncertainty

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

Revenue and profit recognition

The judgement applied in recognising revenue on a contract over time as performance obligations are completed is in respect of the input costs incurred and the attributable margin. The latter is particularly a judgement in respect of estimating the cost to complete on a particular contract and the remaining risk and associated contingency. The Directors make use of monthly project (contract) control processes in each business within the Group to monitor and review cost to complete estimates and the utilisation or release of risk contingencies with each contract. This cost contingency takes account of the stage that the contract has reached and any judgement and uncertainty remaining to deliver the remainder of the contract. It is usual for these cost contingencies to reduce as the contract progresses and risk and uncertainty reduces.

Other

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

Standards and interpretations issued as at 23 July 2019 not applied to these financial statements

A number of other standard amendments and IFRS Interpretations Committee (IFRS IC) interpretations have been issued and are yet to be applied by the Group. The most significant of these is:

IFRS 16 “Leases”. This standard was issued on 13 January 2016 and is effective from 1 January 2019 and will first apply to the Group’s financial reporting for the year ending 30 April 2020. The estimated impact of this standard on the Group is reported in note 24.

IFRS IC 23 “Uncertainty over Income Tax Treatments”. This interpretation was issued on 7 June 2017 and is effective from 1 January 2019 and will first apply to the Group’s financial reporting for the year ending 30 April 2020. The Group currently takes a cautious approach to recognition of R&D tax credits for periods that are still open. As at 30 April 2019, a provision of £234,000 was recognised against R&D tax credit claims made in the final and early build computations for 2017/18 and 2018/19. The Group considers this level of provision as not material.

Five-year record

	2019	2018 (restated[4])	2017 (restated[4])	2016 (restated[4])	2015
Headline results (£’000)					
Revenue	**121,182**	110,547	112,994	111,827	99,938
Adjusted operating profit	**16,164**	15,225	14,399	11,722	10,085
Operating profit	**5,944**	10,262	873	5,066	5,865
Adjusted earnings per share (pence)					
Basic	**33.60**	29.08	27.71	26.77	20.45
Diluted	**33.41**	28.79	27.34	26.27	20.00
Statutory earnings per share (pence)					
Basic	**13.37**	18.95	8.87	18.48	14.04
Diluted	**13.29**	18.76	8.75	18.14	13.74
Dividend per share (pence)	**9.1**	8.2	7.1	6.0	5.0
Net operating cash flow (£’000)	**8,635**	13,220	659	6,718	18,798
Net (debt)/funds (£’000)	**(6,424)**	11,338	8,472	19,805	19,687
Order intake (£m)	**189.9**	76.6	108.6	94.8	114.3
Order book (£m)	**190.9**[1]	103.8	136.2[2]	116.8	134.0[3]

1 The order book at 30 April 2019 is after including the acquired order book of Chess (£20.1m) on 12 December 2018.

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

3 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.

4 Prior year comparatives have been restated upon the Group’s adoption of IFRS 15 “Revenue from Contracts with Customers”. See note 30 for details regarding the restatement.

Glossary of terms

C4IS	Command, control, communications, computers and information systems
C4ISTAR	Command, control, communications, computers, intelligence, surveillance, target acquisition and reconnaissance
COMINT	Communications intelligence
C-UAV	Counter Unmanned Air Vehicle
DoD	United States Department of Defence
DSCIS	Defence School of Communications and Information Systems
DSEI	Defence and Security Equipment International event
DTES	Digital traffic enforcement systems
ECS	External communications system
EW	Electronic warfare
EWOS	Electronic warfare operational support
FILS	Future individual lethality system
ISTAR	Intelligence, surveillance, target acquisition and reconnaissance
JEWCS	Joint Electronic Warfare Core Staff
MOD	Ministry of Defence
NATO	North Atlantic Treaty Organisation
PES	Parking enforcement solution
RAF	Royal Air Force
RN	Royal Navy
SERFCA	South East Reserve Forces and Cadets Association
SIGINT	Signals intelligence
SSAFA	Soldiers, Sailors, Airmen and Families Association
SSP	Software solutions and products
VR	Virtual reality

Please visit the listed web sites for more information on products mentioned in this report:

Chess – chess-dynamics.com
AUDS
Air Guard
Air Shield

EID – eid.pt

MASS – mass.co.uk
CounterWorX
NEWTS
SHEPHERD
THURBON

MCL – marlboroughcomms.com

SEA – sea.co.uk
KRAIT defence system
Torpedo launcher system
Road*flow*

Shareholder information, financial calendar and advisers

Advisers

Nominated adviser and broker

Investec
30 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

Registrars

Link Asset Services
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34 Beckenham Road
Beckenham
Kent BR3 4TU

Public and investor relations

MHP Communications
6 Agar Street
London WC2N 4HN

Bankers

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

NatWest Bank
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

Link 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:

Link Asset Services

Shareholder Solutions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Telephone: 0871 664 0300 (calls are charged at 12 pence per minute plus your phone provider's access charge). (From outside the UK: +44 371 664 0300, 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@linkgroup.co.uk

If you change your name or address or if details on the envelope enclosed with 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

17 September 2019

Final dividend payable

18 September 2019

Expected announcements of results for the year ending 30 April 2021

Preliminary half year announcement

12 December 2019

Preliminary full year announcement

July 2020

Registered office

Cohort plc

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Arlington Business Park
Theale
Reading RG7 4SW

Registered company number of Cohort plc

05684823

Cohort plc is a company registered in England and Wales.

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