12 December 2018

COHORT PLC

HALF YEAR RESULTS

FOR THE SIX MONTHS ENDED 31 OCTOBER 2018

Cohort plc, the independent technology group, today announces its half year results for the six months ended 31 October 2018.

Financial and operational highlights

- Order intake of £45.6m (2017: £39.2m).
- Closing order book of £108.8m (30 April 2018: £102.5m).
- Revenue of £39.5m (2017: £44.0m).
- Adjusted* operating profit of £1.0m (2017: £3.3m).
- Adjusted* earnings per share of 1.99 pence (2017: 5.80 pence).
- Net funds of £4.7m (31 October 2017: £5.7m; 30 April 2018: £11.3m).
- Interim dividend increased by 12% to 2.85 pence per share (2017: 2.55 pence per share).
- Seasonally quieter first half in line with last five financial years mainly due to order timing.
- As announced today, the Group completed the acquisition of 81.84% of Chess Technologies Ltd ("Chess") for total cash consideration of up to £41.9m.

Looking forward

- Historic second half weighting expected to be even greater this year.
- Key orders totalling over £100m already secured or down selected adding to the £45m of orders already won in H1.
- The 30 November order book of £135.4m underpins over £50m of revenue deliverable in the second half, which including revenue delivered to date, is 81% (2017: 83%) of consensus forecast revenue for the full year.
- Prospects for further orders in the second half to further underpin this year and next year are good.
- Performance for 2018/19, before the impact of Chess, is expected to be similar to last year.
- Five months' contribution from 81.84% of Chess in the second half expected to be earnings enhancing.

Nick Prest, Chairman, commented:

"Cohort's result in the first half was lower than in the first half of the previous year, due to a combination of delivery slippage, some at customer request, and order delays.

"We previously referred to a number of key order opportunities which could have a major impact on our prospects for 2018/19 and beyond. These orders alone will total over £100m, on top of the £45m of orders won in the first half, and we expect 2018/19 to be a record year for order intake for Cohort.

"At 30 November our order book was £135.4m (30 April 2018: £102.5m), providing strong underpinning for the second half. We therefore expect, as seen in the last few years, a much stronger performance in the second half.

"Overall, allowing for the fact that we have proportionately more to do in the second half, the Board's considered view is that Cohort's overall performance in 2018/19, before taking account of the acquisition of Chess, will be similar to 2017/18 with the elements in place to deliver further progress in 2019/20.

"The acquisition of Chess represents a significant expansion, adding a profitable and growing fifth standalone business to Cohort's portfolio. It furthers our strategy of expanding in defence products and export markets. We expect it to be earnings enhancing in the current year."

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

* Where appropriate, the comparative figures have been restated in accordance with IFRS 15 (see note 8).

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NOTES TO EDITORS

Cohort plc (www.cohortplc.com) is the parent company of five innovative, agile and responsive businesses based in the UK and Portugal, providing a wide range of services and products for domestic and export customers in defence and related markets.

Chess Technologies provides specialist products and technologies in the areas of electro-optics, tracking and fire control to customers world-wide. It was acquired by Cohort in December 2018. www.chess-dynamics.com & www.vision4ce.com

MASS is a specialist defence and technology business, focused on electronic warfare, information systems and cyber security. Acquired by Cohort in August 2006. www.mass.co.uk

MCL - an expert in sourcing, design and integration of communications and surveillance technology, as well as support and training for UK end users including the MOD and other government agencies. MCL has been part of the Group since July 2014. www.marlboroughcomms.com

SEA is an advanced electronic systems and software house operating in the defence, transport and offshore energy markets. Acquired by Cohort in October 2007.
www.sea.co.uk

EID designs and manufactures advanced communications systems for the defence and security markets. Cohort acquired a majority stake in June 2016. www.eid.pt

Cohort (AIM: CHRT) was admitted to London's Alternative Investment Market in March 2006. It has its headquarters in Reading, Berkshire and employs in total around 950 core staff there and at its other operating company sites across the UK and in Portugal.

Chairman's statement

Cohort's result in the first half was lower than in the first half of the previous year, due to a combination of delivery slippage, some at customer request, and order delays. Key orders have now been received and we expect a much stronger second half.

The Group's 2018/19 first half adjusted operating profit was £1.0m (2017: £3.3m) on lower revenue of £39.5m (2017: £44.0m). Order intake strengthened at £45.6m (2017: £39.2m) and has accelerated since 31 October 2018 with a further £32.8m of orders secured in November. In recent years, the Group's results have been heavily weighted towards the second half and we expect this pattern to be even more pronounced this year.

MASS was again the main contributor to the Group's adjusted operating profit, although its performance was slightly lower than last year's. As expected, EID's profit performance was also lower with weaker revenue resulting in a small trading loss. EID is expected to have a very strong second half following recent contract wins. MCL broke even on slightly higher revenue than last year, its margin being lower due to more bought-in content. SEA also had a weaker first half on lower revenue. This was mostly the result of further reduction in its submarine activity, partly offset by improved ROADflow sales.

As announced today, we have acquired 81.84% of Chess Technologies Ltd ("Chess") for an initial cash consideration of £20.1m. The senior management of Chess (who were among the sellers) have retained an 18.16% holding in Chess. Cohort will acquire the minority shareholding after 30 April 2021 at a price based on Chess' performance in the preceding three years. The sellers are also entitled to an earn-out based on the performance of the business for the three years ended 30 April 2021, again payable in 2021. Cohort has entered into a shareholders' agreement that provides normal rights to the minority while ensuring Cohort has day-to-day control over Chess.

Key financials

The Group's revenue totalled £39.5m (2017: £44.0m), including £16.0m from MASS, £14.3m from SEA, £3.7m from EID and £5.5m from MCL.

For the six months ended 31 October 2018, the Group's adjusted operating profit was £1.0m (2017: £3.3m). This included contributions from MASS of £2.2m (2017: £2.5m), SEA of £0.4m (2017: £1.0m), break even at MCL (2017: £0.2m) and a small loss of £0.3m at EID (2017: trading profit of £0.9m). Central costs were £1.3m (2017: £1.3m).

Cohort's operating loss, after recognising amortisation of intangible assets (£2.3m) and exceptional items (£0.5m), was £2.0m (2017: profit of £0.4m).

SEA completed its planned restructuring in the early part of the first half at a cost of £0.5m and is now benefiting from the annualised saving of £1.0m per annum.

Adjusted earnings per share for the six months ended 31 October 2018 decreased to 1.99 pence (2017: 5.80 pence). The tax rate in respect of the adjusted operating profit was 18.0% (2017: 34.2%). Basic loss per share was 3.52 pence (2017: earnings per share of 0.92 pence).

We signalled in July that we expected the Group funds to remain flat over the entire year. The net funds outflow in the first half has been slightly greater than we expected due to work slipping into the second half. Before taking into account the acquisition of Chess, we expect there to be a second half operating cash inflow but this will be lower than we had anticipated with some work now expected to be delivered later in the second half and therefore some customer receipts slipping into 2019/20.

The operating cash outflow of £3.4m (2017: inflow of £3.1m) has been added to by dividend payments (£2.3m), tax payments (£0.6m) and capital expenditure (£0.5m).

The acquisition of Chess for an initial cash consideration of £20.1m has been funded by the Group's cash and newly agreed debt facility (£30m) and post-acquisition we expect the Group's net debt to be around £16m at 30 April 2019 and the Group to return to net funds in 2021/22, subject to any further acquisition activity.

Our order intake for the first half was £45.6m (2017: £39.2m), excluding foreign exchange movements, resulting in a closing order book of £108.8m (30 April 2018: £102.5m).

EID

EID's operating loss for the six months ended 31 October 2018 of £0.3m (2017: profit of £0.9m) was due to a decrease in revenue from £6.0m to £3.7m.

EID's weaker performance, which was in both its Naval and Tactical (Land) divisions, resulted from completion of some major projects in 2017/18 and some delivery slippage and order delays in 2018/19.

The Group owned 80% of EID throughout the first half of the year (2017: 57% owned).

EID's order book of £23.5m at 31 October 2018 (2017: £29.7m), combined with its recent order wins, underpins a high percentage of its expected second half revenue and gives us confidence that EID will deliver a stronger performance in the second half, and be profitable over the full year, though at a lower level than 2017/18.

The strong order intake in recent weeks and prospects for the second half provide the base for EID to grow in 2019/20. Portugal, is seeing a relatively strong level of defence spend with upgrades to both maritime and land communication systems, much of this work benefiting EID.

MASS

MASS's adjusted operating profit of £2.2m (2017: £2.5m) was down on last year on slightly lower revenue of £16.0m (2017: £17.2m). Its net margin was broadly maintained at close to 14% for the first half.

The lower revenue was a result of completion of some EW operational support work for one export customer in 2017/18 whilst awaiting both new and follow-on work from other customers. These latter items have been secured in the early part of the second half of the financial year, as recently announced.

MASS continued to see growth in its cyber business. Training Support and other support work for the UK MOD both saw slight declines linked to the timing of work.

MASS's October order book of £35.0m (2017: £42.6m) and recently secured orders underpin 80% of MASS's expected revenue for the year and give us confidence that MASS will show growth on last year.

As announced on 25 October 2018, MASS was selected as preferred bidder against strong competition to continue to provide technical support to a key UK MOD operational requirement. This is a service MASS has provided since 2000 and it is a very positive endorsement of MASS's capability and service ethos that this has been retained. This should be on contract early in the new calendar year and will run from next April until 2027. The final contractual terms are still to be completed but we do expect, going forward, a slightly lower net margin at MASS.

MCL

MCL's first half contribution of just above breakeven (2017: profit of £0.2m) on slightly higher revenue of £5.5m (2017: £5.1m) was below our expectations. MCL's higher revenue was due to the increased activity in supplying equipment to the UK MOD through various frameworks. Although this increased volume is welcome, it does come at a lower margin than much of MCL's other work, hence the deterioration in trading performance.

The trading performance was also impacted by the cancellation, due to changes in customer requirements, of a small contract secured in late 2017/18 and due for delivery in the first half of this year.

MCL's order book of just under £10.0m (2017: £18.4m) and a good pipeline of opportunities gives us confidence that MCL will show growth over last year for the full year.

SEA

SEA's adjusted operating profit of £0.4m (2017: £1.0m) was on slightly lower revenue of £14.3m (2017: £15.7m).

SEA had completed a project for Transport for London in 2017/18 and revenue from submarine communications was lower than in the first half of 2017/18. These were offset by improved activity in research and continued positive momentum in ROADflow sales. SEA's oil and gas activity was flat.

The mix of work resulted in a slight margin deterioration and this was compounded by lower overhead recovery due to the weaker activity in submarine work and naval support.

Although SEA overheads were down as a result of the restructuring, the full impact of this (£1.0m per annum saving) will not be seen until the second half.

SEA's closing order book of £40.7m (2017: £41.4m) includes £17.0m of revenue to be delivered in the second half. SEA's pipeline of opportunities gives us confidence that it will have a much stronger second half. Overall, we expect SEA's performance to be stronger than last year.

Dividend

The Board is declaring an interim dividend increased by 12% to 2.85 pence per share (2017: 2.55 pence). This increase reflects the Board's confidence in the outlook for Cohort and its commitment to a progressive dividend policy. The dividend is payable on 27 February 2019 to shareholders on the register at 1 February 2019.

Outlook

In the 2018 Annual Report and Accounts, we referred to a number of important order opportunities which could have a major impact on our prospects for 2018/19 and beyond. Two of these are now on contract and we have been down selected on three more, including the long term order for MASS announced on 25 October, for which contract finalisation is expected in the coming weeks. These orders alone will total over £100m, on top of the £45m of orders won in the first half, and we expect 2018/19 to be a record year for order intake for Cohort.

At 30 November our order book was £135.4m (30 April 2018: £102.5m), providing strong underpinning for the second half. We therefore expect, as seen in the last few years, a much stronger performance in the second half. We also expect a net operating cash inflow in the second half.

Overall, allowing for the fact that we have proportionately more to do in the second half, the Board's considered view is that Cohort's overall performance in 2018/19, before taking account of the acquisition of Chess, will be similar to 2017/18 with the elements in place to deliver further progress in 2019/20.

The acquisition of Chess represents a significant expansion, adding a profitable and growing fifth standalone business to Cohort's portfolio. It furthers our strategy of expanding in defence products and export markets. We expect it to be earnings enhancing in the current year.

Nick Prest CBE
Chairman

Consolidated income statement

for the six months ended 31 October 2018

	Notes	**Six months ended 31 October 2018 Unaudited £'000**	Six months ended 31 October 2017 Unaudited (restated) £'000	Year ended 30 April 2018 Audited (restated) £'000
Revenue	2	**39,493**	44,016	111,009
Cost of sales		**(26,406)**	(28,643)	(71,983)
Gross profit		**13,087**	15,373	39,026
Administrative expenses		**(15,005)**	(14,935)	(29,429)
Operating (loss)/profit	2	**(1,918)**	438	9,597
Operating (loss)/profit comprises:				
Adjusted operating profit	2	**968**	3,272	15,239
Charge on marking forward exchange contracts to market value at the period end (included in cost of sales)		**(64)**	(178)	(280)
Amortisation of other intangible assets (included in administrative expenses)		**(2,322)**	(2,656)	(5,312)
Exceptional items:				
Cost of acquiring EID (included in administrative expenses)		**—**	—	(50)
Reorganisation of SEA (included in administrative expenses)	2	**(500)**	—	—
Operating (loss)/profit		**(1,918)**	438	9,597
Finance income		**12**	8	14
Finance costs		**(57)**	(39)	(103)
(Loss)/profit before tax		**(1,963)**	407	9,508
Income tax credit/(expense)	3	**353**	(138)	(1,395)
(Loss)/profit for the period		**(1,610)**	269	8,113
Attributable to:				
Equity shareholders of the parent		**(1,433)**	373	7,881
Non-controlling interests		**(177)**	(104)	232
		(1,610)	269	8,113

(Loss)/earnings per share		**Pence**	Pence	Pence
Basic	4	**(3.52)**	0.92	19.37
Diluted	4	**(3.52)**	0.90	19.18

All profit for the period is derived from continuing operations.

Consolidated statement of comprehensive income

for the six months ended 31 October 2018

	Six months ended 31 October 2018 Unaudited £'000	Six months ended 31 October 2017 Unaudited (restated) £'000	Year ended 30 April 2018 Audited (restated) £'000
(Loss)/profit for the period	**(1,610)**	269	8,113
Foreign currency translation differences on net assets of EID	**113**	325	(167)
Other comprehensive income/(expense) for the period, net of tax	**113**	325	(167)
Total comprehensive (expense)/income for the period	**(1,497)**	594	7,946
Attributable to:			
Equity shareholders of the parent	**(1,321)**	564	7,581
Non-controlling interests	**(176)**	30	365
	(1,497)	594	7,946

Consolidated statement of changes in equity
for the six months ended 31 October 2018

	Attributable to the equity shareholders of the parent								
	Share capital £'000	Share premium account £'000	Own shares £'000	Share option reserve £'000	Other reserves £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
At 1 May 2017 as previously reported	4,096	29,657	(1,142)	783	(465)	36,901	69,830	4,158	73,988
Impact of adopting IFRS 15 'Revenue from Contracts with Customers'	—	—	—	—	—	(199)	(199)	(151)	(350)
At 1 May 2017 as restated	4,096	29,657	(1,142)	783	(465)	36,702	69,631	4,007	73,638
(Loss)/profit for the period	—	—	—	—	—	373	373	(104)	269
Other comprehensive income for the period	—	—	—	—	—	191	191	134	325
Total comprehensive income for the period	—	`—	—	—	—	564	564	30	594
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Equity dividend	—	—	—	—	—	(1,999)	(1,999)	—	(1,999)
Vesting of Restricted Shares	—	—	—	—	—	175	175	—	175
Own shares purchased	—	—	(752)	—	—	—	(752)	—	(752)
Own shares sold	—	—	559	—	—	—	559	—	559
Net loss on selling own shares	—	—	616	—	—	(616)	—	—	—
Share-based payments	—	—	—	100	—	—	100	—	100
Effect of acquisition of non-controlling interest in MCL	—	—	—	—	465	—	465	—	465
At 31 October 2017	4,096	29,657	(719)	883	—	34,826	68,743	4,037	72,780
At 1 May 2017 as previously reported	4,096	29,657	(1,142)	783	(465)	36,901	69,830	4,158	73,988
Impact of adopting IFRS 15 'Revenue from Contracts with Customers'	—	—	—	—	—	(199)	(199)	(151)	(350)
At 1 May 2017 as restated	4,096	29,657	(1,142)	783	(465)	36,702	69,631	4,007	73,638
Profit for the year	—	—	—	—	—	7,881	7,881	232	8,113
Other comprehensive (expense)/income for the year	—	—	—	—	—	(300)	(300)	133	(167)
Total comprehensive income for the year	—	—	—	—	—	7,581	7,581	365	7,946
Transactions with owners of the 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
Acquisition of 23.09% of non-controlling interest in EID	—	—	—	—	—	(1,388)	(1,388)	(2,126)	(3,514)
At 30 April 2018	4,096	29,657	(1,190)	626	—	39,495	72,684	2,246	74,930
At 1 May 2018	4,096	29,657	(1,190)	626	—	39,900	73,089	2,554	75,643
Impact of adopting IFRS 15 'Revenue from Contracts with Customers'	—	—	—	—	—	(405)	(405)	(308)	(713)
At 1 May 2018 as restated	4,096	29,657	(1,190)	626	—	39,495	72,684	2,246	74,930
(Loss)/profit for the period	—	—	—	—	—	(1,434)	(1,434)	(176)	(1,610)
Other comprehensive income for the period	—	—	—	—	—	113	113	—	113
Total comprehensive expense for the period	—	—	—	—	—	(1,321)	(1,321)	(176)	(1,497)
Transactions with owners of the Group and non-controlling interests recognised directly in equity:									
Equity dividend	—	—	—	—	—	(2,299)	(2,299)	—	(2,299)
Vesting of Restricted Shares	—	—	—	—	—	178	178	—	178
Own shares purchased	—	—	(631)	—	—	—	(631)	—	(631)
Own shares sold	—	—	587	—	—	—	587	—	587
Net loss on selling own shares	—	—	678	—	—	(678)	—	—	—
Share-based payments	—	—	—	150	—	—	150	—	150
At 31 October 2018	**4,096**	**29,657**	**(556)**	**776**	—	**35,375**	**69,348**	**2,070**	**71,418**

Consolidated statement of financial position
as at 31 October 2018

	Notes	**31 October 2018 Unaudited £'000**	31 October 2017 Unaudited (restated) £'000	30 April 2018 Audited (restated) £'000
Assets				
Non-current assets				
Goodwill		**39,156**	39,156	39,156
Other intangible assets		**3,846**	8,824	6,168
Property, plant and equipment		**9,490**	9,520	9,597
Deferred tax asset		**640**	813	406
		53,132	58,313	55,327
Current assets				
Inventories		**6,316**	8,228	7,257
Trade and other receivables		**30,785**	38,198	32,548
Derivative financial instruments		**72**	132	51
Cash and cash equivalents		**11,935**	11,450	20,511
		49,108	58,008	60,367
Total assets		**102,240**	116,321	115,694
Liabilities				
Current liabilities				
Trade and other payables		**(21,189)**	(34,085)	(28,137)
Current tax liabilities		**—**	(386)	(265)
Derivative financial instruments		**(179)**	—	(183)
Bank borrowings		**(7,253)**	(5,698)	(9,173)
Provisions		**(1,018)**	(753)	(1,156)
		(29,639)	(40,922)	(38,914)
Non-current liabilities				
Deferred tax liability		**(1,170)**	(1,933)	(1,414)
Bank borrowings		**(13)**	(3)	—
Provisions		**—**	(683)	(436)
		(1,183)	(2,619)	(1,850)
Total liabilities		**(30,822)**	(43,541)	(40,764)
Net assets		**71,418**	72,780	74,930
Equity				
Share capital		**4,096**	4,096	4,096
Share premium account		**29,657**	29,657	29,657
Own shares		**(556)**	(719)	(1,190)
Share option reserve		**776**	883	626
Retained earnings		**35,375**	34,826	39,495
Total equity attributable to the equity shareholders of the parent		**69,348**	68,743	72,684
Non-controlling interests		**2,070**	4,037	2,246
Total equity		**71,418**	72,780	74,930

Consolidated cash flow statement

for the six months ended 31 October 2018

	Notes	**Six months ended 31 October 2018 Unaudited £'000**	Six months ended 31 October 2017 Unaudited £'000	Year ended 30 April 2018 Audited £'000
Net cash (used in)/generated from operating activities	6	**(3,830)**	1,944	13,220
Cash flow from investing activities				
Interest received		**12**	8	14
Purchases of property, plant and equipment		**(445)**	(154)	(747)
Acquisition of non-controlling interest in MCL		**—**	(2,529)	(2,529)
Acquisition of EID, net of cash acquired		**—**	—	(3,514)
Net cash used in investing activities		**(433)**	(2,675)	(6,776)
Cash flow from financing activities				
Equity dividends paid		**(2,299)**	(1,999)	(3,035)
Repayment of borrowings		**(2,000)**	(2)	(3)
Drawdown of borrowings		**12**	2,000	5,514
Purchase of own shares		**(631)**	(752)	(1,467)
Sale of own shares		**587**	559	697
Net cash (used in)/generated from financing activities		**(4,331)**	(194)	1,706
Net (decrease)/increase in cash and cash equivalents		**(8,594)**	(925)	8,150
Represented by:				
Cash and cash equivalents brought forward		**20,511**	12,017	12,017
Cash flow		**(8,594)**	(925)	8,150
Exchange		**18**	358	344
Cash and cash equivalents carried forward		**11,935**	11,450	20,511

Net funds reconciliation

	At 1 May 2018 £000	Effect of foreign exchange rate changes £000	Cash flow £000	**At 31 October 2018 £000**
Cash and cash equivalents	20,511	18	(8,594)	**11,935**
Loan	(9,167)	(81)	2,000	**(7,248)**
Finance leases	(6)	—	(12)	**(18)**
Bank borrowings	(9,173)	(81)	1,988	**(7,266)**
Net funds	11,338	(63)	(6,606)	**4,669**

Notes to the interim report

for the six months ended 31 October 2018

1. Basis of preparation

The financial information contained within this Interim Report has been prepared applying the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the EU and expected to apply at 30 April 2019. As permitted, this Interim Report has been prepared in accordance with the AIM Rules for Companies and is not required to comply with IAS 34 "Interim Financial Reporting" to maintain compliance with IFRS. This Interim Report is presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

For management and reporting purposes, the Group, for the period just ended, operated through its four subsidiaries: EID, MASS, MCL and SEA. These subsidiaries are the basis on which the Company, Cohort plc, reports its primary segmental information.

Going concern

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing this Interim Report.

The Group's UK bank facility was renewed during November 2018. The new facility of £30m is with Natwest and Lloyds.

The facility is for debt (including overdraft) and is in addition to separate bilateral facilities with each bank for trade finance items such as guarantees and foreign exchange instruments.

The covenants on the new facility are similar to the previous facility whilst the pricing is slightly lower.

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

(A) Statutory accounts

The financial information set out above does not constitute the Group's statutory accounts for the year ended 30 April 2018. KPMG LLP has reported on these accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Sections 498(2) or (3) of the Companies Act 2006.

(B) Statement of compliance

The accounting policies applied by the Group in its consolidated financial statements for the year ended 30 April 2018 are in accordance with IFRS as adopted by the European Union. The accounting policies have been applied consistently to all periods presented in the consolidated financial statements with appropriate adjustment for IFRS 15 (see note 8) applied to comparative figures where restated.

The Interim Report was approved by the Board and authorised for issue on 12 December 2018.

2. Segmental analysis of revenue and adjusted operating profit

	Six months ended 31 October 2018 Unaudited £'000	Six months ended 31 October 2017 Unaudited (restated) £'000	Year ended 30 April 2018 Audited (restated) £'000
Revenue			
EID	**3,671**	5,970	18,295
MASS	**16,055**	17,192	37,568
MCL	**5,485**	5,148	17,381
SEA	**14,303**	15,706	37,805
Inter-segment revenue	**(21)**	—	(40)
	39,493	44,016	111,009
Operating profit comprises:			
Trading profit/(loss) of:			
EID	**(274)**	840	4,314
MASS	**2,181**	2,549	7,113
MCL	**32**	167	2,072
SEA	**381**	1,014	4,433
Central costs	**(1,352)**	(1,298)	(2,693)
Adjusted operating profit	**968**	3,272	15,239
Charge on marking forward exchange contracts to market value at the period end	**(64)**	(178)	(280)
Amortisation of intangible assets	**(2,322)**	(2,656)	(5,312)
Exceptional items	**(500)**	—	(50)
Operating (loss)/profit	**(1,918)**	438	9,597

All revenue and adjusted operating profit is in respect of continuing operations.

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

The exceptional item is a charge of £0.5m at SEA in respect of restructuring its operations. This included consolidating most of its back office functions on a single site.

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

The Group's adjusted operating profit includes the cost of share options of £150,000 for the six months ended 31 October 2018 (six months ended 31 October 2017: £100,000; year ended 30 April 2018: £273,000) and is applied to each reporting segment in proportion to the number of employees in the Group's various share option schemes.

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

Revenue analysis by sector and type of deliverable

	Six months ended 31 October 2018 Unaudited		Six months ended 31 October 2017 Unaudited (restated)		Year ended 30 April 2018 Audited (restated)	
	£m	**%**	£m	%	£m	%
By sector						
UK defence	**22.3**	**56**	24.1	55	63.7	57
Portugal defence	**1.7**	**4**	2.4	6	4.7	5
Export defence customers	**6.8**	**17**	9.4	21	25.9	23
Security	**1.9**	**6**	1.9	4	4.2	4
Defence and security revenue	**32.7**	**83**	37.8	86	98.5	89
Transport	**3.9**		3.1		5.4	
Offshore energy	**0.9**		0.8		2.1	
Other commercial	**2.0**		2.3		5.0	
Non-defence revenue	**6.8**	**17**	6.2	14	12.5	11
Total revenue	**39.5**	**100**	44.0	100	111.0	100

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

	Six months ended 31 October 2018 Unaudited		Six months ended 31 October 2017 Unaudited (restated)		Year ended 30 April 2018 Audited (restated)	
	£m	**%**	£m	%	£m	%
By market segment						
Maritime combat systems	**9.3**	**24**	11.6	26	30.6	28
C4ISTAR	**10.4**	**26**	12.1	28	34.0	30
Cyber security and secure networks	**7.2**	**18**	7.4	17	15.6	14
Simulation and training	**2.3**	**6**	3.5	8	9.4	9
Research, advice and support	**3.3**	**8**	2.3	5	6.7	6
Other	**0.2**	**1**	0.9	2	2.2	2
Total defence and security revenue	**32.7**	**83**	37.8	86	98.5	89

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

	Six months ended 31 October 2018 Unaudited		Six months ended 31 October 2017 Unaudited (restated)		Year ended 30 April 2018 Audited (restated)	
	£m	**%**	£m	%	£m	%
Product (hardware and/or software)	**9.2**	**23**	10.3	23	32.0	29
Customised systems or sub-systems (hardware and/or software)	**7.4**	**19**	12.7	29	29.1	26
Services	**22.9**	**58**	21.0	48	49.9	45
Total revenue	**39.5**	**100**	44.0	100	111.0	100

3. Income tax (credit)/expense

The income tax (credit)/expense comprises:

	Six months ended 31 October 2018 Unaudited £'000	Six months ended 31 October 2017 Unaudited £'000	Year ended 30 April 2018 Audited £'000
UK corporation tax: in respect of this period	**195**	371	1,812
UK corporation tax: in respect of prior periods	—	—	(629)
Portugal corporation tax: in respect of this period	**(90)**	289	1,106
Portugal corporation tax: in respect of prior periods	—	—	11
Other foreign corporation tax: in respect of prior periods	—	—	(13)
	105	660	2,287
Deferred taxation: in respect of this period	**(458)**	(522)	(1,156)
Deferred taxation: in respect of prior periods	—	—	264
	(458)	(522)	(892)
	(353)	138	1,395

The income tax credit for the six months ended 31 October 2018 is based upon the anticipated charge for the full year ending 30 April 2019.

4. Earnings per share

The earnings per share are calculated as follows:

	Six months ended 31 October 2018 Unaudited £'000	Six months ended 31 October 2017 Unaudited (restated) £'000	Year ended 30 April 2018 Audited (restated) £'000
Earnings			
Basic and diluted (loss)/earnings	**(1,433)**	373	7,881
Charge on marking forward exchange contracts to market at the period end (net of income tax)	**52**	143	227
Exceptional items (net of income tax):			
Reorganisation of SEA	**405**	—	—
Cost on acquisition of EID	—	—	50
Group's share of amortisation of intangible assets (net of income tax)	**1,787**	1,845	3,844
Adjusted basic and diluted earnings	**811**	2,361	12,002

	Number	Number	Number
Weighted average number of shares			
For the purposes of basic earnings per share	**40,666,957**	40,718,133	40,679,428
Share options	**213,513**	547,477	413,334
For the purposes of diluted earnings per share	**40,880,470**	41,265,610	41,092,762

The weighted average number of ordinary shares for the six months ended 31 October 2018 excludes 156,411 ordinary shares held by the Cohort plc Employee Benefit Trust (which do not receive a dividend) for the purposes of calculating earnings per share (six months ended 31 October 2017: 193,169; year ended 30 April 2018: 341,128).

	Six months ended 31 October 2018 Unaudited Pence	Six months ended 31 October 2017 Unaudited (restated) Pence	Year ended 30 April 2018 Audited (restated) Pence
(Loss)/earnings per share			
Basic	**(3.52)**	0.92	19.37
Diluted	**(3.52)**	0.90	19.18
Adjusted earnings per share			
Basic	**1.99**	5.80	29.50
Diluted	**1.98**	5.72	29.21

5. Dividends

	Six months ended 31 October 2018 Unaudited Pence	Six months ended 31 October 2017 Unaudited Pence	Year ended 30 April 2018 Audited Pence
Dividends per share proposed in respect of the period			
Interim	**2.85**	2.55	2.55
Final	—	—	5.65

The interim dividend for the six months ended 31 October 2018 is 2.85 pence (six months ended 31 October 2017: 2.55 pence) per ordinary share. This dividend will be payable on 27 February 2019 to shareholders on the register at 1 February 2019. The dividend reinvestment plan election deadline is 8 February 2019.

The final dividend charged to the income statement for the year ended 30 April 2018 was 7.45 pence per ordinary share, comprising 2.55 pence of interim dividend for the six months ended 31 October 2017 and 4.90 pence of final dividend for the year ended 30 April 2017.

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

	Six months ended 31 October 2018 Unaudited £'000	Six months ended 31 October 2017 Unaudited (restated) £'000	Year ended 30 April 2018 Audited (restated) £'000
(Loss)/profit for the period	**(1,610)**	269	8,113
Adjustments for:			
Tax (credit)/expense	**(353)**	138	1,395
Depreciation of property, plant and equipment	**550**	577	1,116
Amortisation of intangible assets	**2,322**	2,656	5,312
Net finance costs	**45**	31	89
Share-based payment	**150**	100	273
Derivative financial instruments and foreign exchange movements	**64**	178	280
Decrease in provisions	**(574)**	(675)	(520)
Operating cash flow before movements in working capital	**594**	3,274	16,058
Decrease/(increase) in inventories	**111**	(2,932)	(1,961)
Decrease/(increase) in receivables	**2,580**	(441)	5,209
(Decrease)/increase in payables	**(6,418)**	3,302	(4,181)
	(3,727)	(71)	(933)
Cash (used in)/generated from operations	**(3,133)**	3,203	15,125
Tax paid	**(640)**	(1,220)	(1,802)
Interest paid	**(57)**	(39)	(103)
Net cash (used in)/generated from operating activities	**(3,830)**	1,944	13,220

7. Post balance sheet event

On 12 December 2018, the Group acquired 81.84% of Chess Technologies Group for an initial consideration of £20.1m. In addition, an earn out of up to £12.7m is payable in the year ended 30 April 2022 based upon the Chess' performance for the three years ended 30 April 2021.

Cohort will acquire the minority shareholding after 30 April 2021 at a price based upon Chess' performance for the three years ended 30 April 2021. This payment is capped at just under £9.1m.

The acquisition was funded from the Group's own cash and debt resources.

For the year ended 30 April 2018, Chess' revenue was £18.2m and its profit before interest and tax £2.4m.

8. IFRS 15 'Revenue from Contracts with Customers'

As highlighted in the Annual Report of July 2018, the Group has adopted IFRS 15 as from 1 May 2018. The adjustments to the prior year reported results have been reflected throughout this report where referred to as 'restated'.

The adjustment in respect of IFRS 15 is to reduce the opening reserves at 1 May 2017 by £350,000.

The adjustment in respect of IFRS 15 for the six months ended 31 October 2017 and the year ended 30 April 2018 is the same, with all of the adjustment arising in the first half of the financial year ended 30 April 2018.

Revenue has been reduced by £789,000 and cost of sales by £426,000 leading to a reduction in operating profit and adjusted operating profit of £363,000. A similar reduction has been reported in the profit before tax for the respective period. The tax effect is immaterial.

A similar adjustment has been flowed through the 'Statement of Comprehensive Income' and 'Cash Flow Statement', including 'Net cash (used in)/generated from operating activities' (see note 6).

An appropriate proportion of the adjustment has been applied to the non-controlling interest.

8. IFRS 15 'Revenue from Contracts with Customers' (continued)

This adjustment reflects performance obligations achieved on contracts compared with previous milestone recognition points which did not match these performance obligations as determined under IFRS 15.

As a result of the IFRS 15 adjustment the comparative earnings per share have reduced as follows (see note 4).

The basic earnings per share have been reduced by 0.50 pence for the six months ended 31 October 2017 and for the year ended 30 April 2018.

The diluted earnings per share have been reduced by 0.51 pence for the six months ended 31 October 2017 and 0.49 pence for the year ended 30 April 2018.

The basic adjusted earnings per share have been reduced by 0.51 pence for the six months ended 31 October 2017 and 0.50 pence for the year ended 30 April 2018.

The diluted adjusted earnings per share have been reduced by 0.50 pence for the six months ended 31 October 2017 and 0.49 pence for the year ended 30 April 2018.

In respect of the segmental analysis (see note 2), the revenue has reduced sales to Portugal defence by £524,000 and export defence customers by £265,000.

The adjustment is all in 'Maritime Combat Systems' and in respect of 'Customised Systems or Sub-Systems'.

In the balance sheet, the reduction in net assets at 31 October 2017 and 30 April 2018 is £713,000.

The actual adjustments are an increase in stock of £831,000, a reduction in trade and other receivables of £110,000 and an increase in trade and other payables of £834,000.

In the reserves, £405,000 of the reduction is in respect of the total equity attributable to the equity shareholders of the parent and £308,000 to the non-controlling interests.

The actual IFRS 15 adjustment of £0.7m in total compares with £0.5m estimated in the 2018 Annual Report and Accounts. In both cases the adjustment was expected to have a positive impact on the reported results for the year ended 30 April 2019. Of the adjustment of £0.7m, £0.5m has been reported in the six months ended 31 October 2018. At 30 April 2018, the £0.5m adjustment was also expected to impact positively in the six months ended 31 October 2018.

Independent review report to Cohort plc

for the six months ended 31 October 2018

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly report for the six months ended 31 October 2018 which comprises the consolidated income statement, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 31 October 2018 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of International Financial Reporting Standards (IFRSs) as adopted by the EU and the AIM Rules

Scope of review

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

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

Directors' responsibilities

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

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

Our responsibility

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

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

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Andrew Campbell-Orde
for and on behalf of KPMG LLP
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12 December 2018