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## Annual Report and Accounts 2010

Company Number  
05684823

**Cohort plc**

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**Cohort is an AIM quoted independent high technology business operating in defence and related markets. Its hallmarks are innovation, agility and responsiveness.**

It was formed in 2006 to acquire and grow businesses providing independent technical advice and a cost effective and flexible supply of niche high technology products and services.

It has three well established, wholly owned subsidiaries providing a wide range of services and products for UK and international customers. Its main activities are in defence but it also supplies markets including security, space and transport.

## About Us

Cohort plc is the parent company for three innovative, agile and responsive businesses operating in defence and related markets. It aims to add real value through the experience and contacts of its senior team while providing a light-touch but effective governance framework. Its objective is to deliver consistent and growing value to shareholders through its three operating subsidiaries, MASS, SCS and SEA.

### ● MASS

**MASS Consultants Limited (MASS) is a systems house with a strong defence focus.**

MASS designs, manufactures and supports electronic systems and software, and provides specialist services and training. Its core capabilities are electronic warfare operational support, communications and related electronic systems and highly secure IT systems and software applications. Its commitment to rigorous quality procedures enables delivery against demanding timescales, including many Urgent Operational Requirements (UORs).

MASS was formed in 1983 and is based in St Neots, near Cambridge, with an office in Lincoln. It currently has around 170 permanent employees and 40 deployed associates.

To read more on the MASS division, visit our site at [mass.co.uk](http://mass.co.uk)

### ● SCS

**Systems Consultants Services Limited (SCS) is a technical advisory business operating primarily in the defence and security sectors.**

SCS specialises in providing advisers with sound technical knowledge coupled with experience of its practical application. Its activities are very diverse including the management of major exercises for the armed forces and providing technical input to major projects.

SCS was formed in 1992 and is based in Theale, Berkshire. It currently has around 100 permanent employees and 100 deployed associates.

To read more on the SCS division, visit our site at [scs-ltd.co.uk](http://scs-ltd.co.uk)

## ● SEA

**SEA (Group) Limited (SEA) is a systems engineering and software company operating in defence, space and transport markets.**

SEA delivers systems engineering, software and electronic engineering services and solutions to government and industry, including specialist design and manufacture. A core capability is development of innovative electronic sensor systems (including vibration, radar, sonar, optical and laser devices)

SEA was formed in 1988 and is based in Beckington, near Frome, with offices in North Bristol (near MOD). It currently has around 260 permanent employees.

To read more on the SEA division, visit our site at [sea.co.uk](http://sea.co.uk)

The accessible market for such services and products is large because of growing technical complexity, the outsourcing of scientific and technical expertise by the Government to the private sector and the consolidation of the supply chain, particularly at prime and first tier level, all of which have increased the need of the Government for independent sources of advice and created new opportunities for niche suppliers of technical services and products.

We aim to make targeted acquisitions of companies which have good management and technology but which can benefit from being part of a group with a larger balance sheet and a wider customer base. Our management approach provides a high level of operating autonomy for subsidiaries whilst ensuring the degree of financial oversight required for a quoted company and the exchange of information and practices which make the Group greater than the sum of its parts.

### Our Market Sectors

Defence  
Security  
Information systems  
Space  
Transport

### Our Clients

Our clients include the UK MOD, other UK Government Departments, European Space Agency, NATO and a range of industry customers including major international corporations.



# Chairman's Statement

Nick Prest CBE Chairman

## Summary of Chairman's Statement

- SCS has moved into a new office in Theale which will facilitate improved working practices
- SEA has had a record year for order intake of £39.2m, and has made particularly good progress in its Space division
- MASS posted record figures for sales, profits, cash generation and order intake
- MASS completed the acquisition of Abacus EW, an Electronic Warfare training company

Cohort has experienced a difficult year, with accounting problems and a significant deterioration in trading performance at SCS. SEA also performed below expectations. On the positive side MASS performed strongly and the Group has closed the year with a record order book, which provides a basis for a recovery in profitability.

### Key financials

In the year ended 30 April 2010, Cohort posted revenue of £78.1m (2009 £76.7m). This included revenue of £26.4m (2009 £29.2m) from Systems Consultants Services Limited (SCS), £21.5m (2009 £20.6m) from MASS Consultants Limited (MASS) and £30.2m (2009 £26.9m) from SEA (Group) Limited (SEA). Both MASS and SEA grew their revenues but SCS suffered a decline in sales from 2009 as a result of more difficult market conditions and withdrawal from unprofitable areas of activity.

The Group's adjusted operating profit was £4.1m (2009 £6.3m). This included adjusted operating profit from SCS of £0.1m (2009 £1.5m), from MASS of £3.5m (2009 £2.9m) and from SEA of £1.6m (2009 £3.1m). Cohort Group overheads were £1.1m (2009 £1.2m).

The Group operating profit of £2.9m (2009 £5.0m) was after charging £0.7m in respect of relocation and restructuring.

Profit before tax was £2.7m (2009 £4.6m) and profit after tax was £2.3m (2009 £3.8m).

Basic earnings per share were 5.63 pence (2009 9.28 pence). Adjusted earnings per share were 8.10 pence (2009 12.83 pence). The adjusted earnings per share were based upon profit after tax, excluding amortisation of other intangible assets, exceptional items and share of result of joint ventures.

The net funds at year-end were £3.0m (2009 £3.7m) after the purchase by MASS of its new building for £3.0m.

### Dividends

The Board is recommending a final dividend of 1.4 pence per ordinary share (2009 1.2 pence), making the full year dividend in respect of the year ended 30 April 2010 of 2.05 pence per ordinary share (2009 1.75 pence), a 17% increase. This will be payable on 8 September 2010 to shareholders on the register at 6 August 2010 subject to approval at the Annual General Meeting on 2 September 2010. The Board continues to maintain a progressive dividend policy.

### SCS

SCS had a very difficult year, uncovering significant accounting errors which had disguised a deterioration in profitability caused by a combination of overhead cost increases, under-utilisation of core consulting staff, pricing pressure and the assumption of new business at inadequate margins.

Stanley Carter led a major restructuring of SCS in the final quarter of the financial year which has reduced the cost base significantly, reducing the annual payroll

**"The Group has closed the year with a record order book, which provides a basis for a recovery in profitability."**

cost by £2.0m. We expect a much improved performance from SCS in the current year.

SCS has moved into a new office in Theale which provides a better working environment for the business and will facilitate improved working practices. From 1 June 2010, Andy Thomas took over from Stanley as acting Managing Director of SCS. As announced 28 June 2010, Bill Bird will be joining SCS as full time Managing Director from 6 September 2010. Bill has considerable experience in the defence and consultancy sectors.

#### SEA

SEA underperformed against its financial targets in the year, primarily as a result of cost increases on a small number of fixed price contracts and slower order intake in some areas. A re-organisation has been effected which has resulted in closure of the loss making Offshore division and a restructuring of the three defence divisions into two. At the same time management systems have been modified to ensure tighter project control. SEA has had a record year for order intake of £39.2m, has made particularly good progress in its Space division, and overall has a strong customer offering. We expect its financial performance to improve in the current year.

#### MASS

MASS traded strongly in the year and posted record figures for sales, profits, cash generation and order intake. The company will move into its new premises in the near future and is well

placed to build further on its good position. Shortly after the end of the financial year MASS completed the acquisition of Abacus EW, an Electronic Warfare training company based near MASS at Lincoln. Abacus EW Consultancy Limited (Abacus EW) brings additional capability and export customers to the MASS presence in the Electronic Warfare support market.

#### Board and personnel

There were no changes to the Cohort Board in the course of the year. The Executive team responded well to a difficult series of problems. Stanley Carter stepped in as Managing Director of SCS in December and the Board is grateful to him for his work in overseeing the necessary restructuring. On behalf of the Board I would like to thank all our employees for their hard work and dedication during a none too easy period for Cohort.

#### Outlook

Following a very good year for order intake with total orders of £143.6m (2009: £65.7m) the Group order book at 1 May 2010 stood at £112.7m (2009: £47.2m). This provides a good platform for the future.

The difficulties encountered at SCS, and to a lesser extent at SEA, are a matter of regret to the Board. All shareholders, Board, staff and external stakeholders have been affected. The absolute priority is to return the Group to a satisfactory level of operating performance, which will in turn open up wider strategic options for the business.

**"The Executive team responded well to a difficult series of problems."**

Cohort obtains approximately 70% of its business from the UK defence market, directly or indirectly, and there are obvious uncertainties for the direction of this market generated by the overall climate for UK public expenditure and the Strategic Defence and Security Review (SDSR) currently being conducted by the UK Government. But the proportion of Cohort's business being derived from outside the UK defence market (principally export defence, space and transport) is increasing and the Board's view is that the SDSR can provide opportunities for nimble, cost effective companies such as Cohort. We expect to be able to trade satisfactorily through the review period and grow our business when the landscape becomes clear.

**Nick Prest CBE**  
Chairman

## Chief Executive's Review

Andrew Thomas Chief Executive

### Summary of Chief Executive's Review

- Our businesses are leaner and better equipped for the challenges ahead
- The restructured SCS is now on a much firmer footing
- SEA's submarine and space businesses grew significantly
- MASS has once again had a record year, with some significant orders, notably the £55m contract to provide technical support to the MOD

This has been a challenging year for Cohort. In December 2009 it became apparent that SCS's financial performance in 2008/9, as published in our Annual Report and Accounts, had been significantly overstated. This left us with three immediate issues: identifying the cause and extent of the error, putting corrective measures in place and dealing with the operating problems that had been obscured by the overstatement. We reported on progress in addressing these issues both in our Interim Results on 9 December 2009 and in our Business and Trading Update on 18 March 2010. Although there is still work to do, the restructured SCS with a new Managing Director appointed and its cost base significantly reduced, is now on a much firmer footing.

Despite a promising start to the year SEA too has also experienced operating problems, as a result of project difficulties and slower than anticipated order intake in some areas. We have responded by withdrawing from loss-making activities and rationalising our activities in the marine sector into a single division. As a result, SEA too goes into the new financial year on a more solid basis.

The year has also seen some major successes. MASS has once again had a record year, with some significant orders, notably the £55m contract to provide technical support to the MOD. SEA's Space business continued its rapid and profitable growth, and the company won a strategically important order to provide the External Communication System for Astute submarines. SCS has seen strong performance in its Logistics activities.

The record order book at the year-end provides a good base for the 2010/11 financial year.

### Group overview

Cohort is an independent group whose constituent companies provide a wide range of technical advice, support, managed services and certain niche products, the latter characterised by high-tech design and low volume manufacture. Our approach has been to maximise the autonomy afforded to our subsidiary companies, allowing them the space to be innovative, responsive to customer needs, and agile in their market positioning. At the same time we have sought to provide advice, mentoring and business development support from the strong Cohort central team, and give customers the confidence to place large orders with us that they might have been reluctant to award to smaller privately owned businesses.

We have looked hard at this basic concept as a result of the operating problems that have arisen and have concluded that it remains fundamentally sound.

Nevertheless we have significantly enhanced our central financial controls and monitoring procedures to ensure there is no repetition of the events of last December. We have also appointed a new auditor, KPMG, with the aim of providing additional confidence to shareholders and the Board. Work continues to improve SCS's internal processes and controls under close supervision from Cohort. This supervision will be sustained until we are certain that the issue has been fully resolved.



In August, Cohort's executive team will relocate from its Henley-on-Thames office to make use of spare capacity at SCS's new leased facility in Theale

#### Trading subsidiaries SCS

As reported extensively elsewhere in this Report, SCS has had a difficult year but has nevertheless seen continuing profitable growth in some areas of its activity, including support engineering and logistic information systems. It was a pleasing indication of customer confidence to be awarded a further year's extension to the long running training support contract at the UK's Permanent Joint Headquarters valued at £2.2m.

The company has recently moved from its offices in Henley-on-Thames to Theale, south of Reading. With a significantly reduced cost base and a new and experienced Managing Director appointed, SCS is well placed to face the challenges and uncertainties of the current defence market.

#### SEA

SEA grew its revenue again after a record year in 2008/9, achieving turnover of £30.2m, up 12%. One major contributor to this was its space business, which won a number of orders for European Space Agency programmes and achieved sales well in excess of expectations. SEA's submarine business also grew significantly, thanks to a large and strategically important order for a communications system. SEA's profitability was affected by problems on some of its projects, in particular a loss-making contract for

a customer in the offshore sector, as well as slower than expected order intake in its transport business. Profit was £1.6m, down from its record level of £3.1m in 2008/9.

Towards the end of the year, SEA carried out a restructuring exercise, rationalising several of its divisions to reduce cost and refocus its activities in the defence sector and withdraw from unprofitable activities. With a strong order book it is positioned to deliver an improvement in performance in 2010/11.

#### MASS

MASS has had another record year, with revenue of £21.5m and a trading profit of £3.5m. Good performance was achieved in all three of its divisions. With support from Cohort, in May MASS acquired Abacus EW Consultancy Limited, a Lincoln-based EW training business. Abacus EW is an excellent match for MASS's existing business in this area and brings with it new capabilities, customers and opportunities.

MASS's continuing growth has meant it has become increasingly compressed within its St Neots headquarters. The company has now acquired a new and larger facility adjacent to its existing building that will provide it with a long-term home, with options for expansion if needed.

#### Outlook

We have taken action to deal with the problems that have emerged over the last year. As a result our businesses are leaner and better equipped for the challenges ahead. Nevertheless, UK defence, and public sector spending more widely,

face a turbulent time under the new Government, with a Strategic Defence and Security Review underway and a tough new approach to spending commitments. There will certainly be risks for Cohort. It is possible that crude spending curbs might be introduced that could affect all defence suppliers, though historically these have never been long-lasting. Our operational model, which focuses on customer-friendly, strategically nimble businesses with high-tech capabilities and fast decision-making, is better suited to this new environment than any of the alternatives. Although we have some exposure to defence programmes that may be subject to delay, cancellation or cutbacks, much of our work tends to focus on short-term operational needs which have a high priority and are unlikely to go away. The international situation remains tense and unstable in many regions of the world, and our export activities are growing. There will be domestic opportunities too as government seeks to rationalise its areas of activity; opportunities will emerge for businesses like ours which can carry out the same activities with greater flexibility and cost-effectiveness. Not least, we go into the new financial year with a record order backlog of well over £100m. Overall I am confident that we will emerge strongly from the uncertainties of the coming months, ready to take swift advantage of opportunities, and to thrive when the new landscape becomes clear.

Andrew Thomis  
Chief Executive

**"I am confident that we will emerge strongly from the uncertainties of the coming months, ready to take swift advantage of opportunities, and to thrive when the new landscape becomes clear."**

## Finance Director's Review

Simon Walther Finance Director

The following review explains in further detail the significant financial issues arising during the year ended 30 April 2010 and highlights other matters over and above what is included in the primary financial statements and accompanying notes

### Prior year restatement

The prior year restatement of the Group's result for the year ended 30 April 2009 is analysed in detail in note 10 to the financial statements as well as in other notes

The prior year restatement arose from a series of errors in the Group's subsidiary SCS, resulting in an overstatement of amounts recoverable on contracts for the year ended 30 April 2009 of £1,837,000

All comparative figures for the year ended 30 April 2009 have been restated accordingly. The highlight restatement figures were as follows

	£ 000
Reduction in revenue	1,837
Reduction in profit before tax	1,837
Reduction in amounts recoverable on contracts	1,837
Reduction in tax charge	514
Reduction in tax creditor	514

The tax adjustment to the prior year restatement of £514,000 is 28% of £1,837,000

The restatement was independently reviewed by KPMG. No restatement was required for the year ended 30 April 2008

The impact on the Group's comparative effective tax rates for the total Group tax charge and the current tax charge for the year ended 30 April 2009 is set out in the table below

The overstatement of amounts recoverable on contract arose from errors on fixed price contracts as follows

- i incorrect transfer of data from SCS's old accounting system to its new accounting system,
- ii errors in posting transactions,
- iii a failure to properly review at regular intervals the amounts recoverable on contract for recoverability, and
- iv a failure to review and check cost to complete projections with project management

These errors were identified by management in November 2009 and the Cohort Board confirms there is no evidence of intentional misstatement by the SCS management

SCS replaced its head of finance at the time of identifying the error

Since uncovering the error which masked the underlying poor operational performance, SCS has ended its loss-making activities and carried out a major restructuring and cost reduction exercise. The total number of staff was reduced from almost 140 at the beginning of 2009/10 financial year to below 100

### The impact on the Group's comparative effective tax rates for the total Group tax charge and the current tax charge For the year ended 30 April 2009

	As previously reported £'000	Restatement £ 000	As restated £'000
Profit before tax	6,454	(1,837)	4,617
Total tax charge	1,372	(514)	858
Effective tax rate (%)	21.3		18.6
Profit before tax	6,454	(1,837)	4,617
Current tax charge	1,299	(514)	785
Effective tax rate (%)	20.1		17.0

It is also undertaking an overhaul of its business processes. The priority processes are

- i invoicing,
- ii fixed price contract revenue and profit recognition,
- iii project review, and
- iv project control

#### Revenue

The segmental analysis (note 1) presents the Group's revenue by subsidiary. The revenue is further analysed as shown in the table below.

The significant changes in revenue for the year ended 30 April 2010 compared with the year ended 30 April 2009 are an increase in Aerospace (mainly Space) by 95% and a fall in Transport of 25%, the latter reflecting the completion of a major contract for Transport for London during the year ended 30 April 2010.

Defence revenue overall has remained virtually level with a fall in MOD revenue of 3%, offset by a rise in export defence revenue of 23%.

The analysis of revenue for the year ended 30 April 2009 has been restated (see note 10) reducing revenue by just over £1.8m from the previously reported £78.6m to £76.7m. This adjustment has been reflected in the table below by a reduction in

revenue direct to the UK MOD of £1.1m and indirect to the UK MOD by £0.7m and also a reduction of £1.8m in advisory services.

#### Adjusted operating profit

The adjusted operating profit is presented to reflect the trading profit of the Group and excludes amortisation of other intangible assets and exceptional items. This allows the Group to present its trading performance in a consistent format year on year.

The adjusted operating profit is stated after charging the cost of share-based payments of £259,000 (2009: £184,000) which is allocated to each business in proportion to its employee participation in the Group's share option schemes.

The adjusted operating profit of SEA (and the Group) is after a net charge of £231,000 (2009: credit of £47,000) in respect of marking forward foreign exchange contracts to market at 30 April 2010. The forward foreign exchange contracts are used to hedge the forward sales of currency on Euro denominated trading contracts.

Looking forward, the cost base of SCS has fallen as a result of the restructuring during this year with an annual saving of £2.0m. The moving of SCS from its previous facility in Henley-on-Thames to a more appropriate facility in Theale increases its operating cost by approximately £0.2m per annum.

At MASS, the moving of the business in St Neots from its present leased office to a bespoke freehold facility will increase its annual operating cost by £0.2m per annum.

SEA's cost base is not expected to change significantly with cost savings in loss making divisions being offset by investment in other growing divisions, especially Aerospace and Marine.

#### Exceptional items (see note 3)

The key items charged as exceptional items were as follows:

- Restructuring cost at SCS of £0.3m. In addition to the removal of 26 posts as a result of redundancy, further natural wastage has reduced core staff levels from nearly 140 people to below 100, producing an expected annualised cost saving of £2.0m.
- Restructuring at SEA comprises redundancy costs from the rationalisation of the Offshore division and the three Defence divisions into two: Marine, and Land and Air. The cost of £0.1m reduced the headcount by eight. The annualised saving from this restructuring is expected to be £0.4m. In addition, £0.2m of stock write off in respect of Offshore products was charged as an exceptional item.
- Relocation costs at MASS of over £0.1m have been recognised as an exceptional item due to their one-off nature.

By sector	2010		2009 restated	
	£m	%	£m	%
Direct to the UK MOD	40.3		43.2	
Indirect to the UK MOD, where the Group acts as a sub-contractor or partner	16.8		15.6	
<b>Total to the UK MOD</b>	<b>57.1</b>	<b>73</b>	<b>58.8</b>	<b>77</b>
Export defence customers	7.5		6.1	
<b>Total defence revenue</b>	<b>64.6</b>	<b>83</b>	<b>64.9</b>	<b>85</b>
Transport	3.4		4.5	
Space	8.2		4.2	
Other commercial	1.9		3.1	
<b>Non-defence revenue</b>	<b>13.5</b>	<b>17</b>	<b>11.8</b>	<b>15</b>
<b>Total revenue</b>	<b>78.1</b>	<b>100</b>	<b>76.7</b>	<b>100</b>

By type of work	2010		2009 restated	
	£m	%	£m	%
Technology solutions	34.5	44	30.3	40
Advisory services	17.0	22	20.2	26
Manpower provision	11.6	15	11.8	15
Managed services	9.8	13	9.0	12
Product	5.2	6	5.4	7
<b>Total revenue</b>	<b>78.1</b>	<b>100</b>	<b>76.7</b>	<b>100</b>

## Finance Director's Review continued

### Tax

The Group's tax charge for the year ended 30 April 2010 of £457,000 (2009 £858,000) was at an effective rate of 16.6% of profit before tax (2009 18.6%). This includes a current year corporation tax charge of £961,000 (2009 £785,000), a rate of 35.0% of profit before tax (2009 12.7%), a prior year tax charge of £135,000 (2009 £Nil) and a deferred tax credit of £639,000 (2009 charge of £73,000).

The reported current tax rate is higher than the standard rate (see note 7) due to disallowed items (for tax purposes), in particular general provisions, amortisation of other intangible assets and prudent recognition of research and development (R&D) tax credits. The effective current tax rate, after taking account of appropriate deferred tax items in respect of the current year is approximately 22%.

The Group's overall tax rate was below the standard corporation tax rate of 28%. The majority of the reduction in the effective rate of tax was due to the recognition of brought forward tax losses at SEA and R&D credits at MASS and SEA for the year ended 30 April 2010.

The Group's businesses are only allowed to claim the lower R&D tax credit allowance available to larger companies, currently 30%. This accounts in part for the higher current year corporation tax rate compared with 2009 when the Group

was able to receive the larger relief available to smaller and medium sized entities for the period from 1 August 2008 to 30 April 2009.

Looking forward, the Group's overall tax charge will continue to rise for this reason. Nevertheless, I would expect the Group tax charge to remain at or slightly above 20% and certainly below the standard rate of 28%, based upon expected R&D spend and reliefs remaining available. The Group retains a prudent position in respect of R&D tax credits previously claimed.

The impact on the Group of the recent budget announcement by the Government to reduce headline corporation tax rates over the next four years cannot be fully determined until the R&D tax credit regime going forward is known.

### Provisions

The Group's provisions at 30 April 2010 are as per note 19.

The Group's provisions have increased by 68% since 30 April 2009 reflecting a number of specific issues and prudence in cost to complete recognition on fixed price contracts.

Specific provision changes, accounting for £0.6m of the £1.0m overall increase in provisions, were as follows:

- provision against the NASNET contract at SEA,

- provision for an onerous lease at MASS for its leased property in St Neots,
- redundancy provision at SCS, and
- other property related provisions

### Accounting policies

The following standards, and changes to existing standards and interpretations, are relevant to these financial statements:

- Revised IFRS 3 'Business Combinations' and amendments to IAS 27 - these standards are applicable for accounting periods commencing after 1 July 2009 but have been adopted early from 1 May 2009. These standards affect the future accounting for acquisitions and transactions. There is no retrospective impact.
- Amendments to IAS 1 'Presentation of Financial Statements' - these amendments revise requirements for the presentation of the financial statements and do not affect the Group's overall reported results.
- Amendments to IFRS 2 'Share-based Payments: Vesting Conditions and Cancellations' - these amendments concern certain aspects of the valuation of share-based payments and the impact of a cancellation by a grantee. These amendments have not had a significant impact on the charges recognised to date for share-based payments.

- Amendments to IFRS 7 'Financial Instruments Disclosure' - these amendments require additional disclosure of the basis of fair value measurements and liquidity risks. Note 21 reflects these additional disclosure requirements.

- IFRS 8 'Operating Segments' - this standard amends the requirements for disclosure of segmental performance and does not have any effect on the Group's overall reported results. Note 1 reflects the new requirements.

- Amendment to IAS 23 'Borrowing Costs' - the amendment generally eliminates the option to expense borrowing costs attributable to the acquisition, construction or production of a qualifying asset as incurred, and instead requires the capitalisation of eligible borrowing costs as part of the cost of the specific asset. There is no significant impact, as the Group generally funds qualifying assets from gross cash resources and consequently does not have significant eligible borrowing costs.

The Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable, will have a significant impact on the financial statements.

One key area of management judgement is revenue recognition and more especially profit recognition on long term fixed price

contracts. This judgement is reflected in the level of work in progress and especially contract accruals and provisions.

The other key area of judgement is where work is undertaken on behalf of customers prior to formal contract award. This work is only taken to the balance sheet, for subsequent charging to cost of sales, when revenue is recognised where the prospect of contract award is virtually certain. This level of work is relatively low across the Group amounting to £0.5m of work in progress at 30 April 2010.

#### Treasury facilities

At 30 April 2010 the Group had facilities with its banking provider, RBS as follows:

	£m	Term at commencement of facility
Overdraft facility for working capital requirements	2.5	364 days
Structured debt facility for acquisitions	10.0	364 days with 3 year term out

Of the structured debt facility of £10.0m, £3.0m was drawn to part finance the acquisition of SEA and remains drawn at 30 April 2010. The £2.5m overdraft facility was not drawn at 30 April 2010. In addition, the Group has £0.6m of mortgage debt with RBS which was acquired with SEA.

The Group's facilities are due for renewal in October 2010 and the Board expects them to be renewed.

At 30 April 2010, the Group had in place forward foreign exchange contracts to sell Euro 13.0m at a Pound sterling equivalent value of £11.4m. These forward contracts are used by the Group to manage its risk exposure to foreign currency on trading contracts where it either or both receives and pays currency from customers and suppliers respectively. These forward exchange contracts are entered into when customer contracts are considered effective. The Group does not enter into speculative foreign exchange dealing.

Exposure to interest and foreign exchange risk is not a significant risk of the Group with the Group having net funds. The Group's foreign exchange exposure, primarily at SEA and relating to receivables from the European Space Agency (ESA), is hedged using forward contracts.

The Group's bank covenants were all satisfied at 30 April 2010 and based upon its latest internal forecasts the Group does not anticipate any breaches. The covenants are assessed quarterly with a measured and reported twelve month look back and an assessment of the next twelve months.

The Group takes a prudent approach to treasury policy with its overriding objective being protection of capital. In implementing this policy, deposits are held with at least AA rated institutions and deposits are generally placed on

## Finance Director's Review continued

### Treasury facilities (continued)

short (less than three months) duration to maturity. This matches the Group's cash resources with its internal 13 week cash forecasts retaining flexibility whilst trying to ensure an acceptable return on its cash. All of the Group's cash 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.

Deposit rates during 2009/10 have been low, typically below 0.4% compared with the Group's weighted interest rate on its borrowings of 3.7%. The Group has retained its debt during the period despite the unfavourable comparative interest rates to ensure it has had facilities available to support its working capital demands, invest in new facilities during 2009/10 and acquire Abacus EW in May 2010. The small size of the Abacus EW acquisition was best suited to cash settlement rather than equity which would have been relatively expensive and dilutive at the current share price.

The Group's liquidity remains good with profit conversion to cash remaining above 100% (see KPI measures below). The Group has historically had low levels of working capital with many of its contracts being less than one year in duration and reliability of its customer base making

debt risk low. During 2010, working capital levels have risen slightly, as described below.

### Goodwill and other intangible assets

The Group has recognised goodwill and other intangible assets in respect of the acquisition of MASS and SEA (see note 11). The other intangible assets are in respect of contracts acquired in each case and are to be amortised over the life of the earnings associated with the contracts acquired.

The goodwill, which is not subject to amortisation but to annual impairment testing, arises from the intangible elements of the acquired businesses for which either the value or life is not readily derived. This includes, but is not limited to, reputation, customer relations, contacts and market synergies with existing Group members. The goodwill relating to the acquisitions of MASS and SEA has been tested for impairment as at 30 April 2010 and no impairment is to be recognised in either case. As highlighted in note 11, the impairment test for the goodwill in respect of SEA is more sensitive to the Group's weighted average cost of capital (WACC) with no impairment at the Group's WACC of 11.5%. A slight impairment (£0.3m) in the SEA goodwill would arise if the WACC increased to 13.5%.

### Working capital

The working capital of the Group, defined as inventory plus trade and other receivables less trade and other payables, has risen from £6.6m net assets (after adjusting for the prior year restatement) to £8.1m net assets, an increase of £1.5m (23%), despite only a 2% rise in revenue. The increase in working capital was primarily due to the unwinding of advance receipts and increasing work in progress, particularly at SEA in respect of work with the ESA where supplier payments have been delayed by internal ESA issues.

The year-end days' debtors in sales have decreased slightly from 52 days in 2009 to 50 days in 2010. 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, 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 Group has a working capital facility of £2.5m with RBS which was not utilised during the year. The Group had cash at 30 April 2010 of just over £6.6m (2009: £7.5m). Advance receipts on contracts at the year-end were £1.7m (2009: £2.5m).

Key performance indicator	Description	2010	2009
<b>Change in revenue</b>	Change in total Group revenue compared to the prior year	<b>2%</b>	<b>34%</b>
<b>Change in adjusted operating profit</b>	Change in Group profit before tax, amortisation of other intangible assets, share of result of joint ventures and exceptional items	<b>(34%)</b>	<b>3%</b>
<b>Order book visibility</b>	Orders for next financial year expected to be delivered as revenue, presented as a percentage of consensus market revenue forecasts for the year	<b>58% cover on forecast 2011 revenue of £76.7m</b>	<b>48% cover on forecast 2010 revenue of £82.3m</b>
<b>Change in adjusted earnings per share</b>	Annual change in earnings per share, before amortisation of other intangible assets, share of result of joint ventures and exceptional items	<b>(37%)</b>	<b>(12%)</b>
<b>Operating cash conversion</b>	Net cash generated from operations before tax as compared to the profit before tax	<b>155%</b>	<b>166%</b>

The Group generated £4.0m of cash from operating activities (operating profit was £3.6m before amortisation of intangible assets) which was offset by investment of £4.0m in fixed assets and investments. The net cash outflow reflected the dividends paid of nearly £0.8m.

The indicators shown in the table above have been identified by the Directors as giving the best overall indication of the Group's long-term success. Revenue growth gives a quantified indication of the rate at

which the Group's business activity is expanding. The adjusted profit trend provides an indication of whether additional revenue is being gained without profit margins being compromised, and whether any acquisitions are value enhancing. Order book visibility, based upon expected revenue during the year to come, provides a measure of confidence in the likelihood of achievement of future forecasts. Change in adjusted earnings per share is an absolute measure of the Board's management

of the Group's return to shareholders, including tax and interest. Operating cash conversion measures the ability of the Group to convert profit to cash.

The performance indicators for the year ended 30 April 2009 have been restated for the correction of the overstatement at SCS (see note 10).

**Simon Walther**  
Finance Director

## Operations Review: MASS

Ashley Lane Managing Director MASS

MASS Consultants Limited (MASS) has concluded another highly successful year with trading profit exceeding £3m for the first time. All three of MASS's divisions (Managed Services, Systems Development and Electronic Warfare (EW) Operational Support) performed well.

Early in the year the Managed Services division won its first Building Schools for the Future programme to provide information technology for North Lincolnshire, and towards the end of the year, it renewed an important MOD in-service-support contract valued at £55m over the next nine years.

The Systems Development division made good progress with its goals of adding new customers and increasing its presence in areas of National Security. Other successes included delivery of avionics test rigs for the Future Air Tanker, further strengthening the partnership with Thales, delivery of a new secure communications system for the Tornado aircraft, and a number of contract wins focused on protecting platforms and people both within the UK and in operational theatres around the world.

The EW Operational Support division has continued to deliver advanced training and support to the Royal Thai Air Force and to the Middle East. Our market lead in independent EW operational support and training has been strengthened by the recent acquisition of Abacus EW Consultancy Limited (Abacus EW).

Based in Wellingore near Lincoln, Abacus EW provides consultancy services and operationally based training in communications and radar EW to UK and overseas customers, primarily in the land and maritime environments. Abacus EW and MASS are both market leaders in their respective fields, and this complementary fit extends the value we can offer worldwide customers in independent EW operational support. This independence enables us to provide impartial support, training and tools, building strategic partnerships such as with BAE Systems for the Typhoon aircraft, with Saab for the Gripen aircraft, and others in the naval and land arenas.

Business growth has resulted in a need for larger and better suited office and laboratory space. This has been met by purchasing and equipping a new secure

**MASS has concluded another highly successful year with trading profit exceeding £3m for the first time.**



site in St Neots ready for occupation in late summer 2010. This provides sufficient space for the coming years, and provides flexible options for the future.

Looking forward, we have been successfully down-selected with our partner Logica as one of two contenders for the UK MOD programme to replace its Defence EW Database and make other improvements to its Defence EW Centre. This is an important programme for MASS, and we will continue to give it high priority. We enter 2010/11 with an order book above £75m and, despite a degree of uncertainty over government spending, continue to see the potential for significant growth across all three divisions. Combined with our new facilities, recent acquisition of Abacus EW, and other strong prospects, the outlook for 2010/11 and beyond is good.

**"We enter 2010/11 with an order book above £75m, and continue to see the potential for significant growth across all three divisions."**

## Operations Review: SCS

Andrew Thomas Chief Executive

SCS has had an exceptionally challenging year, with the income overstatement and accounting problems that were uncovered in December 2009 concealing a significant operating problem. This was caused by a combination of low-margin and loss-making contracts, a tighter market in certain areas and a very significant accretion of cost, both direct and indirect

Led by Stanley Carter in the role of Interim Managing Director, and starting in January 2010, SCS conducted a major restructuring exercise, reducing manpower from a peak of nearly 140 at the beginning of the year to under 100 now. This has been achieved through a rationalisation of the management structure as well as reductions in client-facing staff. I am delighted that we have agreed the appointment of Bill Bird as the permanent Managing Director. He is a highly able individual with long experience in defence and consultancy and I look forward to working with him when he takes over the role in September 2010. In the meantime I have taken over from Stanley in an interim capacity, combining the roles of Group Chief Executive and Managing Director

of SCS. There remains significant work to do in improving SCS's business processes and practices and I am moving ahead with this with the assistance of the new management team.

With the accounting uncertainties stripped away, it is clear that SCS's operational performance started the year badly and declined, heading to a performance only slightly above breakeven at the half year and deteriorating to a loss at the beginning of the second half. More positively, towards the end of the year SCS began once again to generate a trading profit, even before the full benefit of the restructuring was realised.

Against this difficult background it is encouraging that SCS has achieved considerable success in several areas of its operations. Notably the support engineering and logistic information systems areas performed ahead of expectations, driven by the significant change programmes going on in the relevant areas of the MOD. SCS has been awarded a further extension to its long-running training support activity

● Below  
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Picture credit Patrick Allen /DPL

SCS has been awarded a further extension to its long-running training support activity at the UK's Permanent Joint Headquarters, valued at over £2m.

**"I am delighted that we have agreed the appointment of Bill Bird as the permanent Managing Director."**

at the UK's Permanent Joint Headquarters, valued at over £2m. We have continued to support the Police National Chemical, Biological, Radiological and Nuclear Defence Centre, a relationship which we hope will lead to further opportunities, including with international customers.

In February SCS moved out of its Henley-on-Thames offices into a new and high quality facility at Theale, adjacent to the M4, south of Reading. This provides a modern open plan environment and a number of high quality meeting rooms, enabling SCS to work more effectively and presenting a much improved face to customers. It also has better road and rail links. Following the restructuring this facility has spare capacity, and so the Cohort headquarters team will relocate there this summer.

Looking forward, despite the uncertainty surrounding UK defence spending, SCS has good reason to be optimistic. Although work still needs to be done to optimise the organisation, we have a much reduced cost base and we have the flexibility and responsiveness to move our focus to the services our customers need most. Despite the tighter spending environments in the UK, SCS has continued to identify promising opportunities, not least with export customers.

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The Defence Picture  
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## Operations Review: SEA

Paul Phillips Managing Director SEA

SEA has enjoyed a year of strong revenue growth to £30.2m, a 12% increase on 2009. The Company has made good progress in further developing its market position, particularly in the defence and space sectors.

The increase in revenue, however, was not matched by a growth in profitability and the SEA trading profit for 2010 of £1.6m was markedly down on 2009's £3.1m. This was the result of slippage in achieving orders against forecast over the year (resulting in higher costs against revenue) and cost overruns on a few technically challenging projects which have now been provided for as at 30 April 2010.

Our defence activities continued to develop strongly in the marine, land, air and ISTAR domains. During the year SEA secured a major contract from BAE Systems to supply the External Communications Systems (ECS) for the UK's Astute Class Submarine programme. This was a significant win against strong domestic and international competition. The contract is progressing well with our partners Selex and Thales providing major

inputs to schedule. We have successfully completed the preliminary design review and will be ready for critical design review in July 2010. Whilst our current contract is for the supply of Boat 4 (HMS Audacious) there are reasonable prospects of further build for future submarines. Export opportunities are also being pursued. In the land domain SEA has delivered on the Future Dismounted Close Combat Research programme with considerable exploitation potential in the field of communications.

SEA is well advanced in its programme to deliver continuous vibration recording combined with rotor track and balance equipment for Merlin helicopters. Flight trials commenced in 2009 and we anticipate the bulk of equipment deliveries in 2010.

SEA made significant steps in Aerospace. Of particular note SEA is now responsible for several key roles on the Earthcare Satellite Mission. This joint European-Japanese programme is planned to see a satellite launch in 2013 equipped with four sensor instruments designed to

SEA achieved record order intake of £39.2m leading to a record order book of £24.7m at 30 April 2010.

**“SEA made significant steps in Aerospace. Of particular note SEA is now responsible for several key roles on the Earthcare Satellite Mission.”**

monitor global atmospheric conditions, changes and trends SEA is responsible for the supply of one of these sensors, the Broadband Radiometer instrument and is playing a key role in the development of the other three sensors

A further significant win in the year was the Interface Control Unit (ICU) on the Bepi-Columbo mission to Mercury This is expected to provide a good platform for further deliveries of ICU units into other space programmes

Our space credentials were enhanced by achieving the required operational performance of the 4 Kelvin Cooler Drive Electronics on ESA's Planck Satellite which was launched in May 2009

Transport division has had a tougher year following the completion of its deliveries to Transport for London in 2009 But it achieved some significant steps forward at the end of the year Of particular note was the roll out and deployment, by local authorities, of SEA's ROADflow product The product is intended to ease traffic congestion and improve road safety through the more efficient generation

of penalty notices to those who illegally drive in bus lanes and park in bus stops and restricted areas at road crossings and schools

Towards the year-end SEA formed a Marine division in which we have combined our entire submarine, surface ship, unmanned vehicles and sonar technologies This removed areas of overlap and has given greater critical mass and focus to our technology developments and product support for all of our military and commercial customers

Across all SEA's divisions we have maintained and developed the strategies of holding a mix of application, emerging technologies, concept and feasibility studies, coupled with larger development programmes like ECS

SEA achieved record order intake of £39.2m leading to a record order book of £24.7m at 30 April 2010 and coupled with a more focused business this provides a basis for improved performance in 2010/11

**01 Nick Prest CBE\*\***

Chairman

Nick Prest became Chairman of Cohort on flotation in March 2006. After graduating from Oxford in 1974 Nick joined the 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. In addition to being Chairman of Cohort, Nick is also chairman of Aveva Group plc, a FTSE 250 software company, and of Shephard Group, a privately owned media company specialising in defence and aerospace. Nick is a member of the Governing Council of ADS, the UK defence industry trade association.

**02 Stanley Carter\*\***

Co-Chairman

Stanley Carter became Co-Chairman of Cohort in 2009 having previously been its Chief Executive, a post which he had held since Cohort's formation in 2006. Prior to that he was Managing Director of SCS which he founded in 1992 on leaving the Regular Army, which was acquired by Cohort at the time of its flotation. During his military service as a Royal Artillery officer he held a wide range of operational posts and staff officer appointments in the MOD, including the central staff, procurement, government research establishments and had significant interaction with industry. He also represented the UK on NATO technical committees. He has degrees in Technology and Behavioural Science from Loughborough and the Open University respectively, and an MSc in Information Systems from the Royal Military College of Science.

**03 Andrew Thomis\***

Chief Executive

Andrew Thomis graduated from Imperial College, London in 1987. He spent nine years in the MOD as a fast-stream civil servant, carrying out roles including technology research, scientific policy advice and a spell as a private secretary to the defence procurement minister. He left in 1996 and, following a period with Capita plc's management consultancy arm, he joined Alvis in a role covering strategy, M&A and business development. Andrew left Alvis in 2005, following the takeover by BAE Systems and 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. Following two years as Managing Director of MASS Consultants Limited, a group member company, he returned to Cohort as Chief Executive in May 2009.

**04 Simon Walther\***

Finance Director and Company Secretary

After graduating with a BSc from London, Simon Walther 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. In 1997 he was appointed group financial controller at Alvis. He joined Cohort as Finance Director in May 2006, having considerable industry relevant experience with Alvis and BAE Systems.

**05 Sir Robert Walmsley KCB\*\***

Independent Non executive Director

Sir Robert Walmsley served in the Royal Navy where his final appointment was as controller of the Navy and member of the Navy Board as a vice admiral. He was knighted in 1995. After retiring from the Navy, he was appointed as chief of defence procurement, occupying that position from 1996 until 2003. He served on the British Energy Board from 2003 until 2009. He continues on the board of the General Dynamics Corporation and Ultra Electronic Holdings as well as being a senior adviser at Morgan Stanley International and chairman of the Major Projects Association.

**06 Ashley Lane**

Managing Director of MASS

Ashley Lane graduated from Surrey University with a Masters Degree (Distinction) in Electronic and Electrical Engineering in 1991. On graduation he joined Thorn EMI Electronics as a Systems Engineer working on countermeasures and electronic surveillance systems. He spent four years in technology development and licensing, building the successful wireless technology company UbiNetics. Ashley has held key technical roles on a number of electronics, IT and real-time system projects. He has held positions as Business Manager, Consultancy Division Head, Programme and Project Manager and, for five years Systems Development and Technical Director for MASS. Ashley was appointed as Managing Director of MASS in May 2009.

**07 Paul Phillips**

Managing Director of SEA

Paul Phillips graduated in Mathematics from Herriot-Watt University in 1978. Paul initially began work on sonar development programmes at Plessey Naval Systems before joining SEA in 1989. During his time with SEA, Paul has held a range of management and director positions across Defence and Space as well as undertaking the Technical Director role for a period. Paul has been a Director of SEA since 1993, lastly in the role of leading the Company's defence offering prior to stepping up to the Managing Director role in April 2008.

\* Member of the Cohort plc Board

\* Member of Remuneration &amp; Appointments and Audit Committees

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## Directors' Report

The Directors submit their report and the audited financial statements (pages 32 to 35) of Cohort plc for the year ended 30 April 2010. Cohort plc is a company incorporated in and operating from England. Its registered address is Arlington House, 1025 Arlington Business Park, Theale, Reading RG7 4SA.

### Share capital of the Company and transactions with shareholders

During the year, the Company issued 195,845 shares in order to satisfy employee share option plans that were exercised.

### Principal activities, business review and future developments

The principal activity of the Company is that of a holding company. The principal activities of the Group are described in the 'About us' section (inside front cover). The operational and financial performance of the Group as well as its risks are described in the Chairman's Statement, Chief Executive's Review, Finance Director's Review and Operations Reviews on pages 2 to 17. The Finance Director's Review includes a review of key performance indicators. The resources, future outlook and development of the Group, including acquisition strategy, is reviewed in the same statements on pages 2 to 17. The Group's approach to risk is discussed below.

#### Specific matters of note

On 11 June 2009 the Group paid the earn out on MASS of £0.3m, which was in full and final settlement.

The Group's previously reported result for the year ended 30 April 2009 has been restated, reducing the reported profit before tax by £1,837,000 as a result of overstated amounts recoverable on contracts at SCS (see note 10).

On 1 August 2009 the Group's joint venture undertaking, AGS, sold its business, realising a profit for the Group of £0.2m before tax.

### Results and dividend

The Group's performance was below expectations following the poor trading at SCS and contract difficulties at SEA.

The profit for the year of the Group after dividends paid of £754,000 (2009: £627,000) was £1,537,000 (2009: £3,132,000).

The profit for the year of the Company after dividends paid of £754,000 (2009: £627,000) was £2,455,000 (2009: loss of £75,000).

The trading performance of the Group represents the trading result of the Group's 100% subsidiaries MASS, SCS and SEA less the corporate costs of the Company.

The Directors recommend a final dividend of 1.4 pence (2009: 1.2 pence) per 10 pence ordinary share.

### Research and development

During the year ended 30 April 2010 the Group expenditure on research and development, both on behalf of customers and the Group's own private venture expenditure, was £8.5m (2009: £7.1m).

### Approach to risk

The business risks of the Group can be summarised as follows:

#### External (or market) risk

The Group's external risk is in respect of the following:

##### i Customers

The Group has a number of key customers, mostly in the Government sector. These customers are served either directly e.g. the UK MOD (£40.3m revenue in 2010 (2009: £43.2m), 52% (2009: 56%) of total Group revenue) or indirectly via other contractors, in the case of the UK MOD, £16.8m (2009: £15.6m) of Group revenue (22%, 2009: 20%) was via other contractors. The Group continues to be reliant on its ultimate primary customer, the MOD (73% of Group revenue in 2010, 2009: 76%) but is reducing this reliance by expanding its overseas defence offering as well as other non-defence sectors, including Space and Transport. The Group ensures it engages at all levels of the MOD and remains responsive to its primary customer's needs.

##### ii Suppliers

As is typical in the Defence and Space sectors, the Group is reliant on certain key suppliers for its technical and product offerings. This risk is managed through close liaison with suppliers, good project management and having contingency plans to go to alternative suppliers or bring in-house.

The Group has no significant reliance on any one individual supplier.

##### iii 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 MOD in order to ensure the end customer receives the best of everything.

The Group takes an active part in these arrangements and, through regular (usually monthly) project review meetings and other correspondence, ensures that the team (including our partners) delivers as a whole to the customer and to the individual team members.

#### Internal (or financial and operational) risk

##### i Revenue

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 calibre of the Group's customers and the control processes in respect of revenue capture and invoicing ensures minimal bad debts. The 2010 bad debt charge was £104,000 (2009: £Nil) on Group revenue of £78.1m (2009: £76.7m). The increase in the charge in the year ended 30 April 2010 was primarily due to prudent provisioning against some older items.



## Directors' Report continued

### Approach to risk (continued)

#### Internal (or financial and operational) risk (continued)

##### i Revenue (continued)

The Group also uses letters of credit and other methods of payment guarantee, including customer advances, especially in respect of overseas customers, to ensure any export debt risk is minimised. Significant debt receivable in foreign currency is hedged using forward exchange contracts which are entered into when contracts are deemed effective.

Financial assets exposed to credit risk at 30 April	2010 £m	2009 (restated) £m
Trade receivables	15.4	16.1
Other receivables	7.4	6.3
Cash and bank deposits	6.6	7.5

The other receivables at 30 April 2009 has been reduced by £1.8m as a result of the restatement of amounts recoverable on contracts at SCS (see note 10).

Cash and bank deposits are all with the Group's bank, RBS. In addition, gross indebtedness to the bank was £3.6m at 30 April 2010 (2009: £3.8m).

Of the trade receivables, £4.2m was with the MOD at 30 April 2010 (2009: £8.1m).

##### ii Treasury

The Group takes a very prudent approach to the management of its financial instruments which are described in note 21. The Group's cash is held with at least AA rated institutions and on deposits not exceeding three months. This ensures a very low risk to capital and a reasonable balance of liquidity against interest earned on cash deposits.

During the year, the Group renewed its working capital facility with RBS for £2.5m. This facility is available to all of the Group's entities through an offset arrangement. The current facility expires in October 2010 when it is expected to be renewed.

The Group did not utilise this working capital facility during the year ended 30 April 2010 having an average cash balance of £4.4m, cash balances ranging from a low of £0.5m to a high of £6.9m.

##### iii Currency risk

The Group manages its exposure to currency risk by using forward foreign currency exchange contracts. The level of forward cover is determined contract by contract taking into account the net currency exposure to receipts and purchases. Forward contracts are only put in place when customer contracts are deemed effective. The Group does not enter speculative forward exchange contracts.

The Group's exposure to credit risk at 30 April 2010 in respect of financial derivatives (forward foreign exchange contracts) was £11.4m (2009: £3.5m). The financial derivatives at 30 April 2010 were all held with RBS.

##### iv Interest rate risk

The Group considers interest rate risk loan by loan and, where appropriate, the Group enters interest rate swaps to fix its interest rate exposure.

At 30 April 2010, the Group had in place one interest rate swap against a mortgage secured on its freehold property in Beckington, fixing the interest rate at 6.88%.

##### v Operations

The Group's operational risk is primarily through its three subsidiaries. The subsidiary trading or business risks are similar in the case of MASS and SEA.

MASS and SEA primary risks are:

- i Bid risk - the businesses bid on contracts where the scope of work may not be well or fully defined by the customer. This is typical in Defence and Space and is managed through bid/no bid reviews at the appropriate level using experienced personnel, including the Cohort Executive and Board, for bids above £3.0m.
- ii Fixed price contracts - these are often of a long-term nature (greater than twelve months) and typically include delivery of hardware and software. These projects are managed by dedicated project management, monthly review by the subsidiary Board and regular interaction with the customer and key suppliers. Margin is recognised taking account of risk and cost to complete.
- iii Due to the nature of their niche technical skills requirement, both MASS and SEA have a fixed level of core software engineering and technical expertise. This cost base is carefully monitored at budget time and by rolling quarterly forecasts to identify any potential risk of low utilisation and thus under recovery of cost.

The risk is mitigated, in the short-term, to a certain extent by the use of a small number of sub-contractor staff. In the long term, a programme of skills assessment and training is in place to ensure continued flexibility of the engineering resource.

##### SCS

The primary cost risk is in respect of staff utilisation. This risk is managed by retaining a minimal core staff, essential for business support, development and delivering key skills to customers. The majority of deliverable service is provided by non-core staff (associates) where cost is only incurred when the associates are on task earning revenue.

SCS has a small number of fixed price contracts which are managed by specifically tasked project management and reviewed on a regular basis for financial performance and risk to recognised margin. The recognised margins should take account of risks and costs to completion. It was the failure of this process along with the lack of appropriate review which resulted in the overstatement of revenue and profit for the year ended 30 April 2009. This process has now been reinforced in SCS.

**Approach to risk (continued)****SCS (continued)**

The Group (through all three subsidiaries) operates a number of off-site managed service contracts. These contracts are long-term in nature (typically five years at commencement) and are managed through dedicated site project managers. The contracts are fixed price in terms of revenue and cost with opportunities for additional tasks enhancing volume and return. The Group carefully manages the partnership with its customer and supplier base in all these cases to ensure the customer receives value for money and skilled Group staff providing a dedicated, flexible and responsive approach. The primary risk to these managed service contracts is termination which is mitigated by the partnering approach adopted by the Group and our close engagement with the customer to ensure customer requirements remain paramount at all times, as borne out by the recent renewal of an important MOD in-service support contract for the next nine years.

**vi Acquisitions**

The Group's acquisition risk is mitigated as far as practicable by the acquisition process being managed at the Cohort Board level, making use of appropriate external expertise and resources as and when required.

**Going concern**

On the basis of the Group's current internal financial projections (which look forward three years), the banking and cash facilities available to the Group (see the Finance Director's Review) and the level of order book going into the current and future financial years, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

**International Financial Reporting Standards (IFRS)**

The Group and parent company has reported its results for the year ended 30 April 2010 in accordance with IFRS.

**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.

**Payment policy**

In respect of all of its suppliers, the Group's policy is

- to agree the terms of payment when contracting with suppliers,
- to ensure suppliers are made aware of the terms of payment, and
- to abide by the terms of payment.

All suppliers are treated alike in terms of payment with no preference to any one supplier, and the Group does not follow any particular code of practice or standard in its payment policy.

At 30 April 2010, the trade creditors of the Group represented 26 days (2009: 47 days) of purchases.

**Employee involvement**

The Group organises staff communications locally through its subsidiary undertakings. The media used for organised communications includes local intranets, in-house magazines, staff bulletins, presentations and copies of press releases. In addition, regular staff meetings are held and notices are published containing information about matters of interest within the Group and its subsidiaries.

**Disabled people**

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

**Donations**

During the year ended 30 April 2010 the Group made charitable donations of £6,347 (2009: £3,961), mainly in respect of military and local charities. The Group made no political donations during the year (2009: £Nil).

**Post balance sheet events (note 30)**

On 14 May 2010 the Group acquired the entire share capital of Abacus EW Consultancy Limited for an initial cash consideration of £1.0m with a further £1.8m payable over the next three years if the business achieves agreed performance targets.

**Auditor**

A resolution to appoint KPMG Audit Plc as auditor will be proposed at the Annual General Meeting (AGM) following the change from Baker Tilly UK Audit LLP in the year. 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 have confirmed that they have taken all the steps they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Approved by the Board of Directors on 25 June 2010 and signed on its behalf by

Simon Walther  
Company Secretary



# Corporate Governance Report

## Introduction

As Cohort plc is listed on AIM it is neither required to comply with the Combined Code 2006 (the Code) nor issue a statement of compliance with it. Nevertheless, the Board fully supports the principles set out in the Code and seeks to comply wherever this is appropriate, having regard to the size of the Company and the resources available to it. Details are provided below of how the Company applies the Code.

## The Board

The Board of Directors comprises the Chairman, two Executive Directors and two Non-executive Directors, Stanley Carter (Co-Chairman) and Sir Robert Walmsley. The Chairman and the Co-Chairman had consultancy agreements with the Company (see the Remuneration & Appointments Committee Report on pages 26 to 28) to provide services, primarily in respect of strategic business development and acquisition activity. Nick Prest and Stanley Carter are not considered independent.

The Board has determined Sir Robert Walmsley to be independent and he is designated the Senior Independent Director.

The Board meets most months and receives a monthly Board pack comprising individual reports from each of the Executive Directors and the subsidiary Managing Directors together with any other material deemed necessary for the Board to discharge its duties. It is the Board's responsibility to formulate, review and approve the Group's strategy, budgets, major items of expenditure and acquisitions.

All Directors retire by rotation and are subject to election by shareholders at intervals of once every three years.

## Board committees

The Board has established two committees: Audit, and Remuneration & Appointments, each having written terms of delegated responsibilities.

### Audit committee

The Audit committee comprises the Company Chairman and the Non-executive Directors and is scheduled to meet at least twice a year. It is the Audit committee's role to provide formal and transparent arrangements for considering how to apply the financial reporting and internal control requirements of the Code, whilst maintaining an appropriate relationship with the independent auditor of the Group. In order to comply with the requirement of the Code that at least one member has relevant financial experience, the Chairman of the Board sits on the Audit committee.

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 Practice Board. Each year, prior to commencing its audit work, the independent auditor confirms in writing the nature of any non-audit work 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 Company has instituted formal arrangements to facilitate "whistle-blowing" by employees through a contract with a third party service provider. If any call is made to this third party, either the Chief Executive or the Chairman of the Audit committee is notified promptly of the fact and the content of the call, so that appropriate action can be taken.

### Remuneration & Appointments committee

The Remuneration & Appointments committee comprises the Company Chairman and the Non-executive Directors and is scheduled to meet at least once a year. It is the Remuneration & Appointments committee's role to establish a formal and transparent policy on Executive remuneration and to set remuneration packages for individual Directors.

Sir Robert Walmsley is Chairman of both the Audit and Remuneration & Appointments committees.

The attendance of the Directors at Board and committee meetings for the year ended 30 April 2010 was as follows:

	Board	Audit	Remuneration & Appointments
N Prest (Chairman)	15	4	4
S Carter (Co Chairman)	15	4	4
Sir Robert Walmsley (Non-executive Director)	15	4	4
A Thomas (Chief Executive)	15	—	—
S Walther (Finance Director and Company Secretary)	15	—	—

The Board has not established a Nominations committee. This is not considered necessary due to the small size of the Cohort Board. The role of the Nominations committee is undertaken by the Remuneration & Appointments committee and the Chief Executive.

As a result of the overstatement of revenue and profit at SCS for the year ended 30 April 2009, as announced on 3 December 2009 and further clarified on 18 March 2010, the Board (through the Chairman of the Audit Committee) undertook a review of the oversight and control of the Group and its subsidiaries. This report was reviewed by an independent organisation Independent Audit Limited for its appropriateness and thoroughness, and was found to be satisfactory. The resulting report made a number of recommendations, all of which have been agreed by the Board and either have been or are in the process of being implemented.

The key recommendations were as follows:

- closer oversight of subsidiaries by the Cohort Executives, including regular attendance at subsidiary management meetings, and
- review and implementation of business processes at SCS.

The implementation of all of the key recommendations is ongoing.

#### **Management of the Group and its subsidiary undertakings**

The management of the Group and subsidiary undertakings is as follows:

##### **Group management**

- Cohort plc Board meeting at least eight times per year
- Group Executive committee meeting at least four times per year, comprising Cohort plc Executive Directors and subsidiary Managing Directors

##### **Subsidiary management**

- Monthly executive management meetings involving the senior management of each subsidiary. Cohort Executive Directors attend subsidiary executive management meetings on a regular basis.

#### **Shareholder relations**

The Company meets with its institutional shareholders and analysts as appropriate and will use the AGM to encourage communication with private shareholders. In addition, the Company uses the Annual Report and Accounts, Interim Report and website ([www.cohortplc.com](http://www.cohortplc.com)) to provide further information to shareholders.

#### **Internal control and risk management**

The Board is responsible for the system of internal control and for reviewing its effectiveness. Such systems are designed to manage rather than eliminate risks and can provide only reasonable and not absolute assurance against material misstatement or loss. Each year, on behalf of the Board, the Audit committee will review 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 Group does not currently have an internal audit function due to the small size of the administrative function and the high level of Director review and authorisation of transactions.

A comprehensive budgeting process is completed once a year, 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.

# Remuneration & Appointments Committee Report

## Introduction

Companies quoted on AIM are not required to provide a formal remuneration report. However, in line with current best practice, this report provides information to enable a greater level of understanding as to how Directors' remuneration is determined.

The Remuneration & Appointments committee of the Board is responsible for considering Directors' remuneration packages and makes its recommendations to the Board.

## Remuneration policy

Remuneration packages are designed to be competitive and to reward above average performance.

Executive Directors receive salary, medical cover, pension contribution, annual bonuses 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 twelve months' notice in the event of a change of control arising as a result of any person or persons acquiring more than 50% of the voting rights at a general meeting of the Company.

## Pensions

The Group makes contributions to a stakeholder pension scheme (a defined contribution scheme) at a rate of 10% of the Executive Director's contribution.

## Director's interest in the equity of Cohort plc

The Directors in office during the year under review and their interests in the equity of the Company were

	At 30 April 2009	At or date of 30 April appointment 2010 if later
	number of 10p ordinary shares	number of 10p ordinary shares
S Carter	10,665,718	10,645,718
N Prest	2,084,580	2,064,580
A Thomis	35,230	32,230
Sir Robert Walmsley	25,035	20,035
S Walther	25,601	10,000

## Performance incentives

The Group operates a cash bonus scheme and grants share options.

No bonus was payable to the Executive Directors for the year ended 30 April 2010 (2009: £55,320).

The bonuses paid to the Executive Directors for the year ended 30 April 2009 have been agreed by these Directors to be repaid in full. Stanley Carter has repaid his in full (£22,875 as at 30 April 2010). Simon Walther has repaid £1,563 with £17,187 outstanding at 30 April 2010 and will repay in full by 30 April 2011. No interest is accruing on this outstanding balance.

For the year ending 30 April 2011, the bonus payable to the Executive Directors of Cohort plc in respect of that year will be based upon performance compared to budget and the achievement of agreed personal objectives.

**Performance incentives (continued)**

Ordinary shares under option granted during the year ended 30 April 2010 and outstanding at 30 April 2010 were as follows

	At 1 May 2009 or date of appointment Number	Granted Number	Exercised Number	Lapsed/ forfeited Number	At 30 April 2010 Number	Date of grant	Date from which option can be exercised	Exercise period Years
<b>A Thomis</b>								
Cohort plc 2006 share option scheme under the Enterprise Management Incentive (EMI) scheme								
- Option price of £1 23 per share	40,650	—	—	—	40,650	8 Mar 2006	9 Mar 2009	7
- Option price of £1 66 per share	9,036	—	—	—	9,036	21 Aug 2007	22 Aug 2010	7
- Option price of £1 89 per share	10,582	—	—	—	10,582	11 Jul 2008	12 Jul 2011	7
Cohort plc 2006 share option scheme (unapproved)								
- Option price of £1 66 per share	14,056	—	—	—	14,056	21 Aug 2007	22 Aug 2010	7
- Option price of £1 89 per share	15,873	—	—	—	15,873	11 Jul 2008	12 July 2011	7
- Option price of £1 715 per share	—	39,650	—	—	39,650	5 Aug 2009	6 Aug 2012	7
Save as you earn (SAYE) scheme								
- Option price of £1 23 per share	912	—	(912)	—	—	5 May 2006	1 June 2009	
- Option price of £1 33 per share	866	—	—	—	866	12 Feb 2008	1 April 2009	
- Option price of £1 38 per share	—	2,630	—	—	2,630	18 Aug 2009	1 Sept 2012	
	91,975	42,280	(912)	—	133,343			
<b>S Walther</b>								
Cohort plc 2006 share option scheme under the Enterprise Management Incentive (EMI) scheme								
- Option price of £1 41 per share	42,554	—	—	—	42,554	10 Jul 2006	10 Jul 2009	7
- Option price of £1 66 per share	21,084	—	—	—	21,084	21 Aug 2007	22 Aug 2010	7
- Option price of £1 89 per share	13,227	—	—	—	13,227	11 Jul 2008	12 Jul 2011	7
Cohort plc 2006 share option scheme (unapproved)								
- Option price of £1 89 per share	13,228	—	—	—	13,228	11 Jul 2008	12 Jul 2011	7
- Option price of £1 715 per share	—	32,653	—	—	32,653	5 Aug 2009	6 Aug 2012	7
Save as you earn (SAYE) scheme								
- Option price of £1 23 per share	7,601	—	(7,601)	—	—	5 May 2006	1 Jun 2009	
- Option price of £1 38 per share	—	6,576	—	—	6,576	18 Aug 2009	1 Sept 2012	
	97,694	39,229	(7,601)	—	129,322			
<b>S Carter</b>								
Cohort plc 2006 share option scheme under the Enterprise Management Incentive (EMI) scheme								
- Option price of £1 89 per share	40,278	—	—	(40,278)	—	11 Jul 2008	12 Jul 2011	7
Save as you earn (SAYE) Scheme								
- Option price of £1 33 per share	7,218	—	—	(7,218)	—	12 Feb 2008	1 Oct 2011	
	47,496	—	—	(47,496)	—			

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

The gain on the exercise of share options in the year was £4,670.

The mid-market price of Cohort plc 10 pence ordinary shares at 30 April 2010 was 106.5 pence (2009 175.5 pence), the lowest and highest market prices in the year were 79.5 pence and 183.5 pence respectively.

The maximum bonus payable for the year ended 30 April 2011 as a percentage of salary is as follows:

	Group performance %	Personal objectives %	Total %
A Thomis	18.75	6.25	25
S Walther	18.75	6.25	25

No bonuses are payable or share options awardable to the Non-executive Directors.

Bonus schemes for senior management of the subsidiary companies have been established for the year ending 30 April 2011, with a similar framework to that of the Cohort plc Executive Directors, with varying levels of percentage of salary, none exceeding 25%.

## Remuneration & Appointments Committee Report continued

### Chairman and Non-executive Directors

Both Nick Prest and Sir Robert Walmsley were appointed in February 2006. These appointments can be terminated upon three months' notice being given by either party. They received an annual fee of £30,000 each. In addition, Nick Prest provided consultancy services to the Group in accordance with an agreement entered into on 27 February 2006.

Stanley Carter was appointed Non-executive Co-Chairman of Cohort plc on 25 May 2009. As from that date, he received £30,000 per annum as a Non-executive Director of Cohort plc. In addition, Stanley Carter provided consultancy services to the Group in accordance with an agreement entered into on 25 May 2009.

From 9 December 2009 to 31 May 2010, Stanley Carter was the acting Managing Director of SCS. Whilst in this role, Stanley Carter was paid a remuneration of £120,000 per annum and received no fees in respect of his Non-executive role. He continued to receive fees in respect of his consultancy services whilst acting as Managing Director of SCS.

As from 1 May 2010, the annual fees payable to the Chairman and Non-executive Directors are as follows:

Chairman - £60,000

Co-Chairman - £45,000

Non-executive Director - £30,000

The Chairman and Non-executive Directors have agreed for the year ended 30 April 2011 to reduce their fees by 10% to £54,000 (Chairman), £40,500 (Co-Chairman) and £27,000 (Non-executive) respectively.

In addition, the consultancy agreements with Nick Prest and Stanley Carter ceased with effect from 30 April 2010.

### Directors' remuneration

Details of Directors' remuneration are set out below:

	Salary 2010 £	Consultancy fees 2010 £	Bonus 2010 £	Benefits in kind 2010 £	Emoluments 2010 £	Pension contributions 2010 £	Total 2010 £	Total 2009 £
<b>Executive Directors</b>								
A Thomis	159,034	—	—	12,672	171,706	1,708	173,414	—
S Walther	140,000	—	—	643	140,643	1,415	142,058	146,257
I Dale-Staples (resigned 24 June 2009)	—	—	—	—	—	—	—	269,102
<b>Non-executive Directors</b>								
N Prest	30,000	30,000	—	—	60,000	—	60,000	60,000
S Carter	67,887	28,075	—	—	95,962	—	95,962	175,536
Sir Robert Walmsley	30,000	—	—	—	30,000	—	30,000	30,000
<b>Total</b>	<b>426,921</b>	<b>58,075</b>	<b>—</b>	<b>13,315</b>	<b>498,311</b>	<b>3,123</b>	<b>501,434</b>	<b>680,895</b>

On 5 May 2009, Andy Thomis was appointed to the Board of Cohort plc and from 25 May 2009 became the Chief Executive.

From 1 June 2010, Andy Thomis has taken on the responsibility of SCS Managing Director in addition to his Cohort Chief Executive role until the recently appointed full time Managing Director, Bill Bird, commences on 6 September 2010.

The 2009 emoluments reported above for Stanley Carter and Simon Walther include £22,875 and £18,750 in respect of bonus received for the year ended 30 April 2009 which have been or are being repaid in full.

Salaries for Andy Thomis and Simon Walther remain unchanged at £170,000 and £140,000 per annum respectively for the year ended 30 April 2011.

## Statement of Directors' Responsibilities

### In respect of the Annual Report and the 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. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements on the same basis.

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

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

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

Under applicable law and regulations, the Directors are also responsible for preparing a directors' report and directors' remuneration report that comply 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.



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## Independent Auditor's Report

To the Members of Cohort plc

We have audited the financial statements of Cohort plc for the year ended 30 April 2010 set out on pages 32 to 60. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

### Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 29, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 April 2010 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us,
- the parent company financial statements are not in agreement with the accounting records and returns,
- 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.

### Matt Lewis (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc  
Statutory Auditor Chartered Accountants  
Arlington Business Park  
Theale RG7 4SD  
25 June 2010

## Consolidated Income Statement

For the year ended 30 April 2010

	Notes	2010 £'000	2009 restated £'000
Revenue	1	78,129	76,734
Cost of sales		(56,666)	(54,001)
Gross profit		21,463	22,733
Administrative expenses (including amortisation of intangible assets and exceptional items)		(18,573)	(17,684)
Operating profit	1	2,890	5,049
Comprising			
Adjusted operating profit	1	4,109	6,263
Amortisation of intangible assets	11	(595)	(540)
Exceptional items	3	(624)	(674)
		2,890	5,049
Share of result of joint ventures	13	—	(224)
Finance income	5	38	95
Finance costs	6	(180)	(303)
Profit before tax		2,748	4,617
Income tax expense	7	(457)	(858)
Profit for the year attributable to the equity shareholders of the parent	4	2,291	3,759
Earnings per share		Pence	Pence
Basic	9	5 63	9 28
Diluted	9	5 62	9 21

All profit for the year is derived from continuing operations

The income statement for the year ended 30 April 2009 has been restated for the revenue and profit before tax overstatement at SCS of £1,837,000 (see note 10) and the associated tax credit of £514,000

## Consolidated Statement of Comprehensive Income

For the year ended 30 April 2010

	2010 £'000	2009 restated £'000
Profit for the year attributable to the equity shareholders of the parent	2,291	3,759
Cash flow hedges - income/(losses) taken to equity (net of tax charge of £23,000, 2009 tax credit of £19,000)	60	(49)
Total comprehensive income for the year attributable to the equity shareholders of the parent	2,351	3,710

# Consolidated and Company Statements of Financial Position

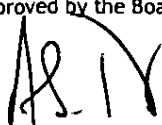

As at 30 April 2010

	Notes	Group			Company		
		2010 £'000	2009 (restated - note 10) £'000	2008 £'000	2010 £'000	2009 £'000	2008 £'000
<b>Assets</b>							
<b>Non-current assets</b>							
Goodwill	11	31,043	31,043	31,043	—	—	—
Other intangible assets	11	632	1,227	1,987	—	—	—
Property, plant and equipment	12	7,930	4,727	4,866	17	22	—
Investment in subsidiaries	13	—	—	—	42,203	42,203	42,422
Deferred tax asset	20	1,015	266	49	5	—	—
		<b>40,620</b>	<b>37,263</b>	<b>37,945</b>	<b>42,225</b>	<b>42,225</b>	<b>42,422</b>
<b>Current assets</b>							
Inventories	14	440	359	146	—	—	—
Trade and other receivables	15	22,837	22,438	20,879	319	2,067	2,051
Derivative financial instruments	21	15	178	131	—	—	—
Cash and cash equivalents		6,656	7,511	6,081	—	6,200	—
		<b>29,948</b>	<b>30,486</b>	<b>27,237</b>	<b>319</b>	<b>8,267</b>	<b>2,051</b>
<b>Total assets</b>		<b>70,568</b>	<b>67,749</b>	<b>65,182</b>	<b>42,544</b>	<b>50,492</b>	<b>44,473</b>
<b>Liabilities</b>							
<b>Current liabilities</b>							
Trade and other payables	16	(15,117)	(16,164)	(13,133)	(341)	(619)	(256)
Current tax liabilities		(1,804)	(993)	(619)	—	—	—
Other loans	17	—	(32)	(41)	—	—	—
Derivative financial instruments	21	(53)	(68)	—	—	—	—
Bank borrowings	18	(3,171)	(3,167)	(3,123)	(6,091)	(16,199)	(5,740)
Provisions	19	(2,411)	(1,528)	(5,783)	—	(280)	(5,005)
		<b>(22,556)</b>	<b>(21,952)</b>	<b>(22,699)</b>	<b>(6,432)</b>	<b>(17,098)</b>	<b>(11,001)</b>
<b>Non-current liabilities</b>							
Other loans	17	—	—	(32)	—	—	—
Bank borrowings	18	(444)	(615)	(792)	—	—	—
Deferred tax liability	20	(1,053)	(920)	(649)	(1)	—	—
Provisions	19	(155)	—	(167)	—	—	(167)
		<b>(1,652)</b>	<b>(1,535)</b>	<b>(1,640)</b>	<b>(1)</b>	<b>—</b>	<b>(167)</b>
<b>Total liabilities</b>		<b>(24,208)</b>	<b>(23,487)</b>	<b>(24,339)</b>	<b>(6,433)</b>	<b>(17,098)</b>	<b>(11,168)</b>
<b>Net assets</b>		<b>46,360</b>	<b>44,262</b>	<b>40,843</b>	<b>36,111</b>	<b>33,394</b>	<b>33,305</b>
<b>Equity</b>							
Share capital	22	4,079	4,059	4,046	4,079	4,059	4,046
Share premium account	23	29,519	29,297	29,158	29,519	29,297	29,158
Hedge reserve	23	11	(49)	—	—	—	—
Share option reserve	23	379	266	200	28	17	21
Retained earnings	23	12,372	10,689	7,439	2,485	21	80
<b>Total equity attributable to the equity shareholders of the parent</b>		<b>46,360</b>	<b>44,262</b>	<b>40,843</b>	<b>36,111</b>	<b>33,394</b>	<b>33,305</b>

The financial statements on pages 32 to 35 were approved by the Board of Directors and authorised for issue on 25 June 2010 and are signed on its behalf by

Andrew Thomis  
Chief Executive

Simon Walther  
Finance Director

Registered company number of Cohort plc 05684823

## Consolidated and Company Statements of Changes in Equity

For the year ended 30 April 2010

	Notes	Group		Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
At 1 May as previously stated		45,585	40,843	33,394	33,305
Prior year adjustment at SCS	10	(1,323)	—	—	—
At 1 May (restated)		44,262	40,843	33,394	33,305
Total comprehensive income for the year attributable to the equity shareholders of the parent as previously reported		2,351	5,033	3,209	552
Prior year adjustment at SCS (net of tax)	10	—	(1,323)	—	—
Total comprehensive income for the year attributable to the equity shareholders of the parent		2,351	3,710	3,209	552
Equity dividends paid	8	(754)	(627)	(754)	(627)
Total recognised income and expense		1,597	3,083	2,455	(75)
Exercise of share options		242	152	242	152
Share-based payments	27	259	184	20	12
At 30 April		46,360	44,262	36,111	33,394

See note 23 for the nature and purpose of the constituent elements of the Group and Company equity balances

# Consolidated and Company Cash Flow Statements

For the year ended 30 April 2010

	Note	Group		Company	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
Net cash generated from operating activities	24	3,961	7,271	4,685	834
Cash flow from investing activities					
Interest received		38	95	16	78
Proceeds on disposals of property, plant and equipment		35	6	—	—
Purchases of property, plant and equipment		(3,795)	(432)	(1)	(23)
Acquisition of subsidiaries, net of cash acquired		(280)	(4,673)	(280)	(4,673)
Net cash used in investing activities		(4,002)	(5,004)	(265)	(4,618)
Cash flow from financing activities					
Dividends paid		(754)	(627)	(754)	(627)
Repayment of borrowings		(199)	(174)	—	—
Proceeds on issue of shares		242	152	242	152
Net cash (used in)/generated from financing activities		(711)	(649)	(512)	(475)
Net (decrease)/increase in cash and cash equivalents		(752)	1,618	3,908	(4,259)
Group funds reconciliation					
		At 1 May 2009 £'000	Cash flow £'000	Exchange losses £'000	At 30 April 2010 £'000
Cash and bank		1,311	5,448	(103)	6,656
Short-term deposits		6,200	(6,200)	—	—
Total cash and cash equivalents		7,511	(752)	(103)	6,656
Other loans		(32)	32	—	—
Bank loan		(3,782)	167	—	(3,615)
Total debt		(3,814)	199	—	(3,615)
Net funds		3,697	(553)	(103)	3,041

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

# Notes to the Financial Statements

For the year ended 30 April 2010

## 1 Segmental analysis

For management and reporting purposes, the Group currently operates through its three subsidiaries, MASS, SCS and SEA. These subsidiaries are the basis on which the Company reports its primary segment information.

The principal activities of the subsidiaries are described on the inside front cover 'About us' and in the Operations Reviews (pages 12 to 17).

Segment information about these subsidiaries is presented below.

2010	MASS £'000	SCS £'000	SEA £'000	Eliminations £'000	Group £'000
Revenue					
External revenue	21,484	26,398	30,247	—	78,129
Inter-segment revenue	—	28	—	(28)	—
	21,484	26,426	30,247	(28)	78,129
Net profit	3,549	90	1,560	—	5,199
Unallocated corporate expenses					(1,090)
Adjusted operating profit	3,549	90	1,560	—	4,109
Amortisation of other intangible assets	(305)	—	(290)		(595)
Exceptional items	(223)	(310)	(291)		(624)
Operating profit/(loss)	3,021	(220)	979	—	2,890
Finance cost (net of income)	—	14	(35)		(142)
Profit/(loss) before tax	3,021	(206)	944	—	2,748
Income tax expense					(457)
Profit after tax					2,291

All are UK operations and all are continuing. The SEA adjusted operating profit of £1,560,000 (2009 £3,124,000) is after charging a loss in respect of marking forward exchange contracts to market of £231,000 (2009 credit of £47,000).

Inter-segment sales are charged at arm's length rates.

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

Other information	MASS £'000	SCS £'000	SEA £'000	Central £'000	Group £'000
Capital additions	2,987	332	475	1	3,795
Depreciation	57	105	389	6	557
Balance sheet				Eliminations	
Assets					
Segment assets	7,872	5,470	19,208	(262)	32,288
Unallocated corporate assets					38,280
Consolidated total assets					70,568
Liabilities					
Segment liabilities	(5,709)	(4,763)	(9,484)	2,142	(17,814)
Unallocated corporate liabilities					(6,394)
Consolidated total liabilities					(24,208)

Unallocated corporate assets primarily comprise goodwill, other intangible assets and cash.

Unallocated corporate liabilities primarily comprise loans and deferred tax liabilities.

## 1. Segmental analysis (continued)

2009 (restated)	MASS £ 000	SCS £ 000	SEA £ 000	Eliminations £'000	Group £ 000
Revenue					
External revenue	20,622	29,208	26,904	—	76,734
Inter-segment revenue	5	114	—	(119)	—
	20,627	29,322	26,904	(119)	76,734
Net profit	2,832	1,506	3,124	—	7,462
Unallocated corporate expenses					(1,199)
Adjusted operating profit	2,832	1,506	3,124	—	6,263
Amortisation of other intangible assets	(250)	—	(290)		(540)
Exceptional items	—	—	—		(674)
Operating profit	2,582	1,506	2,834	—	5,049
Share of result of joint ventures					(224)
Finance cost (net of income)	—	16	(57)		(208)
Profit before tax	2,582	1,522	2,777	—	4,617
Income tax expense					(858)
Profit after tax					3,759

The segmental analysis for the year ended 30 April 2009 has been restated in respect of a prior year adjustment at SCS. The external revenue has been reduced by £1,837,000 from £31,045,000 to £29,208,000 and a corresponding reduction to SCS's net profit from £3,343,000 previously reported to £1,506,000. The impact of this prior year adjustment on SCS's adjusted operating profit and the remainder of the income statement is explained in note 10.

All are UK operations and all are continuing.

Inter-segment sales are charged at arm's length rates.

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

Other information	MASS £ 000	SCS £'000	SEA £'000	Central £ 000	Group £'000
Capital additions	22	52	335	23	432
Depreciation	64	133	365	1	563
<b>Balance sheet</b>				<b>Eliminations</b>	
<b>Assets</b>					
Segment assets	4,480	8,017	15,930	(262)	28,165
Unallocated corporate assets					39,584
Consolidated total assets					67,749
<b>Liabilities</b>					
Segment liabilities	(5,282)	(6,500)	(8,910)	2,142	(18,550)
Unallocated corporate liabilities					(4,937)
Consolidated total liabilities					(23,487)

Unallocated corporate assets primarily comprise goodwill, other intangible assets and cash.

Unallocated corporate liabilities primarily comprise loans and deferred tax liabilities.

The segmental analysis on the assets and liabilities has been restated in respect of prior year adjustment (note 10) at SCS. The segment assets in respect of SCS have been reduced by £1,837,000 from £9,854,000 to £8,017,000 following the write off of work in progress and a reduction in the SCS tax liability by £514,000, reducing SCS segment liabilities from £7,014,000 to £6,500,000.

## Geographical segments

The Group's subsidiaries are all located in the UK. The following table provides an analysis of the Group's revenue by geographical location of the customer.

	2010 £'000	2009 restated £ 000
UK	64,033	67,294
Other EC countries	8,236	4,348
Asia Pacific	5,692	4,881
USA	168	211
	78,129	76,734

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

The UK revenue previously reported for the year ended 30 April 2009 has been restated by £1,837,000, reducing the previously reported revenue of £69,131,000 to £67,294,000 in respect of the prior year adjustment at SCS (see note 10).



# Notes to the Financial Statements continued

For the year ended 30 April 2010

## 1. Segmental analysis (continued)

### Market segments

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

	2010 £'000	2009 restated £'000
Defence	64,624	64,898
Space	8,188	4,219
Transport	3,365	4,558
Other commercial	1,952	3,059
	<b>78,129</b>	<b>76,734</b>

The defence revenue previously reported for the year ended 30 April 2009 has been restated by £1,837,000, reducing the previously reported revenue of £66,735,000 to £64,898,000 in respect of the prior year adjustment at SCS (see note 10)

## 2. Employee benefit expense (including Directors)

	2010 £'000	2009 £'000
Wages and salaries	28,941	28,901
Social security costs	3,248	3,271
Defined contribution pension plan costs	1,585	1,326
Share-based payments	259	184
	<b>34,033</b>	<b>33,682</b>

### Average number of employees (including Directors)

	2010 Number	2009 Number
Other operational	485	487
Managed services	56	49
Total operational	<b>541</b>	<b>536</b>
Administration and support	120	109
	<b>661</b>	<b>645</b>

The above disclosures include Directors' Directors' emoluments and share option details are disclosed separately in the Remuneration & Appointments Committee Report on pages 26 to 28

## 3. Exceptional items

The net exceptional charge comprises

	2010 £'000	2009 £'000
Restructuring at SCS	310	—
Restructuring at SEA	291	—
Relocation of MASS's operations	148	—
Cost of acquisition of Abacus EW	75	—
Profit on sale of AGS	(200)	—
Charge in respect of withdrawing from the Group's joint venture interest in AGS	—	674
	<b>624</b>	<b>674</b>

All exceptional items are in respect of continuing operations

The tax credit in respect of exceptional items is £210,000 (2009 £Nil) and is in respect of the continuing items

## 4 Profit for the year

The profit for the year has been arrived at after charging

	Notes	2010 £'000	2009 £'000
Net foreign exchange losses		162	57
Research and development costs		8,546	7,078
Depreciation	12	557	563
Amortisation of other intangible assets	11	595	540
Cost of inventories recognised as expenses		18,709	16,693
Employee benefit expenses (excluding share-based payments)	2	33,774	33,498
Share-based payments	27	259	184

All of the above charges are in respect of continuing operations

**4 Profit for the year (continued)****Auditors' remuneration**

The analysis of the auditors', KPMG Audit Plc (2009 Baker Tilly UK Audit LLP), remuneration is as follows

	2010 £'000	2009 £'000
Fees payable to the Company's auditor for the audit of the Company's and consolidated accounts	10	17
Fees payable to the Company's auditor for the audit of the Company's subsidiaries	60	60
Total audit fees	70	77
Tax services	—	14
Other services pursuant to legislation	—	6
Corporate finance services	9	—
Total non-audit fees	9	20
Total fees paid to the auditor and its associates	79	97
Charged to profit for the year	79	97
	79	97

The corporate finance services for the year ended 30 April 2010 were in respect of the acquisition of Abacus EW

Fees payable to KPMG Audit Plc and Baker Tilly UK Audit LLP and their 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

**5. Finance income**

	2010 £'000	2009 £'000
Interest on bank deposits	16	83
Other interest receivable	22	12
	38	95

All finance income is in respect of continuing operations

**6. Finance costs**

	2010 £'000	2009 £'000
Interest on loans wholly repayable in more than five years	10	28
Bank and short-term interest	170	275
	180	303

All finance costs are in respect of continuing operations

**7. Income tax expense**

	2010 £'000	2009 restated £'000
Current tax in respect of this year	961	785
Current tax in respect of prior periods	135	—
Deferred tax (see note 20)	(639)	73
	457	858

The corporation tax is calculated at 28% (2009 28%) of the estimated assessable profit for the year, as disclosed below

The current tax in respect of the year ended 30 April 2010 includes £210,000 credit (2009 £Nil) in respect of exceptional items

The current tax for the year ended 30 April 2009 has been reduced from £1,299,000 previously reported to £785,000 by £514,000

The £514,000 adjustment is in respect of the imputed tax at 28% on the prior year adjustment of £1,837,000 at SCS (see note 10)

# Notes to the Financial Statements continued

For the year ended 30 April 2010

## 7 Income tax expense (continued)

The current tax charge for the year is reconciled to the profit before tax per the income statement as follows

Group	2010 £'000	2010 %	2009 (restated) £'000	2009 %
Profit before tax	2,748		4,617	
Tax at UK corporation tax rate of 28% (2009 28%)	769	28.0	1,293	28.0
Tax effect of expenses not allowable for tax purposes	102		45	
Tax effect of depreciation in excess of capital allowances	13		26	
Tax effect of research and development credits	(508)		(1,168)	
Tax effect of brought forward losses on current tax	(40)		—	
Tax effect of amortisation of other intangible assets	167		151	
Tax effect of share-based payments	73		52	
Tax effect of share options exercised	(26)		(19)	
Tax effect of other short term timing differences	446		153	
Tax effect of disallowed share of joint venture undertakings	—		63	
Tax effect of disallowed exceptional items	(35)		189	
Tax effect of prior periods	135		—	
Income tax expense and effective tax rate for the year	1,096	39.9	785	17.0

The tax charge is all in respect of continuing operations

## 8. Dividends

	2010 £'000	2009 £'000
Amounts recognised as distributions to equity holders in the period		
Final dividend in respect of the year ended 30 April 2009 at 1.20p per ordinary share (2008 1.00p per ordinary share)	489	405
Interim dividend in respect of the year ended 30 April 2010 at 0.65p per ordinary share (2009 0.55p per ordinary share)	265	222
	754	627
Proposed final dividend for the year ended 30 April 2010 at 1.40p per ordinary share (2009 1.20p per ordinary share)	571	487

The proposed final dividend is subject to approval by shareholders at the AGM to be held on 2 September 2010 and has not been included as a liability in these financial statements

If approved, this dividend will be paid on 8 September 2010 to shareholders on the register as at 6 August 2010

## 9. Earnings per share

The earnings per share are calculated as follows

	2010			2009		
	Weighted average number of shares Number	Earnings £'000	Earnings per share Pence	Weighted average number of shares Number	Earnings (restated) £'000	Earnings per share (restated) Pence
Basic earnings (net profit attributable to equity holders of Cohort plc)	40,727,969	2,291	5.63	40,491,561	3,759	9.28
Share options	55,361	—	—	310,247	—	—
Diluted earnings	40,783,330	2,291	5.62	40,801,808	3,759	9.21

The earnings for the year ended 30 April 2009 have been reduced by £1,323,000, the prior year adjustment of £1,837,000 less tax of £514,000. The earnings per share have been correspondingly adjusted, the basic earnings per share being reduced from 12.55p per share to 9.28p per share (see note 10)

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.

### 9. Earnings per share (continued)

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

Notes	2010			2009		
	Weighted average number of shares Number	Earnings £'000	Earnings per share Pence	Weighted average number of shares Number	Earnings (restated) £'000	Earnings per share (restated) Pence
Basic earnings	40,727,969	2,291	5 63	40,491,561	3,759	9 28
Exceptional items (net of income tax of £210,000)	3	414	—	—	674	—
Amortisation of other intangible assets	11	595	—	—	540	—
Share of result of joint ventures (net of income tax)	—	—	—	—	224	—
Adjusted earnings	40,727,969	3,300	8 10	40,491,561	5,197	12 83
Share options	55,361	—	—	310,247	—	—
Diluted adjusted earnings	40,783,330	3,300	8 09	40,801,808	5,197	12 74

The adjusted earnings, as for the basic earnings above (see note 10) have been reduced by £1,323,000 from £6,520,000 to £5,197,000 and the adjusted earnings per share have been correspondingly reduced from 16 10 pence per share to 12 83 pence per share. The adjusted earnings are in respect of continuing operations.

The adjustment for the exceptional items (net of income tax) is analysed in note 3.

### 10. Prior year restatement

As originally announced on 3 December 2009 and clarified on 18 March 2010, the Group had previously overstated its revenue and profit before tax in its subsidiary SCS by £1,837,000. The overstatement was identified as an overstatement of amounts recoverable on contracts. The reasons for the overstatement are discussed in the Finance Director's Review (pages 6 to 11).

The previously reported results for the year ended 30 April 2009 have been restated as follows:

Consolidated income statement for the year ended 30 April 2009

	As previously reported £'000	Restatement £'000	As restated £'000
Revenue	78,571	(1,837)	76,734
Cost of sales	(54,001)	—	(54,001)
Gross profit	24,570	(1,837)	22,733
Administrative expenses (including amortisation of other intangible assets and exceptional items)	(17,684)	—	(17,684)
Operating profit	6,886	(1,837)	5,049
Comprising			
Adjusted operating profit	8,100	(1,837)	6,263
Amortisation of other intangible assets	(540)	—	(540)
Exceptional items	(674)	—	(674)
Operating profit	6,886	(1,837)	5,049
Share of result of joint ventures	(224)	—	(224)
Finance income	95	—	95
Finance costs	(303)	—	(303)
Profit before tax	6,454	(1,837)	4,617
Income tax expense	(1,372)	514	(858)
Profit for the year attributable to the equity shareholders of the parent	5,082	(1,323)	3,759
Earnings per share	Pence	Pence	Pence
Basic	12 55	(3 27)	9 28
Diluted	12 46	(3 25)	9 21

The restatement of revenue and operating profit is in respect of SCS and is for UK and Defence revenue streams. The segmental analysis (note 1) and other relevant notes for the year ended 30 April 2009 have been restated accordingly.

# Notes to the Financial Statements continued

For the year ended 30 April 2010

## 10. Prior year restatement (continued)

Consolidated statement of financial position as at 30 April 2010

	As previously reported £'000	Restatement £'000	As restated £'000
<b>Assets</b>			
Non-current assets			
Goodwill	31,043	—	31,043
Other intangible assets	1,227	—	1,227
Property, plant and equipment	4,727	—	4,727
Deferred tax asset	266	—	266
	37,263	—	37,263
Current assets			
Inventories	359	—	359
Trade and other receivables	24,275	(1,837)	22,438
Derivative financial instruments	178	—	178
Cash and cash equivalents	7,511	—	7,511
	32,323	(1,837)	30,486
<b>Total assets</b>	<b>69,586</b>	<b>(1,837)</b>	<b>67,749</b>
<b>Liabilities</b>			
Current liabilities			
Trade and other payables	(16,164)	—	(16,164)
Current tax liabilities	(1,507)	514	(993)
Other loans	(32)	—	(32)
Derivative financial instruments	(68)	—	(68)
Bank borrowings	(3,167)	—	(3,167)
Provisions	(1,528)	—	(1,528)
	(22,466)	514	(21,952)
Non-current liabilities			
Bank borrowings	(615)	—	(615)
Deferred tax liability	(920)	—	(920)
	(1,535)	—	(1,535)
<b>Total liabilities</b>	<b>(24,001)</b>	<b>514</b>	<b>(23,487)</b>
<b>Net assets</b>	<b>45,585</b>	<b>(1,323)</b>	<b>44,262</b>
<b>Equity</b>			
Share capital	4,059	—	4,059
Share premium account	29,297	—	29,297
Hedge reserve	(49)	—	(49)
Share option reserve	266	—	266
Retained earnings	12,012	(1,323)	10,689
<b>Total equity attributable to the equity shareholders of the parent</b>	<b>45,585</b>	<b>(1,323)</b>	<b>44,262</b>

## 11 Goodwill and other intangible assets

	Goodwill			Other intangible assets		
	SEA £'000	MASS £'000	Group £'000	SEA £'000	MASS £'000	Group £'000
<b>Cost</b>						
At 1 May 2008	18,895	12,148	31,043	1,160	1,560	2,720
At 1 May 2009 and 30 April 2010	18,895	12,148	31,043	1,160	1,340	2,500
<b>Amortisation</b>						
At 1 May 2008	—	—	—	145	588	733
Charge for the year ended 30 April 2009	—	—	—	290	250	540
At 1 May 2009	—	—	—	435	838	1,273
Charge for the year ended 30 April 2010	—	—	—	290	305	595
At 30 April 2010	—	—	—	725	1,143	1,868
<b>Net book value</b>						
At 30 April 2010	18,895	12,148	31,043	435	197	632
At 30 April 2009	18,895	12,148	31,043	725	502	1,227

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

The adjustment for the year ended 30 April 2009 in respect of other intangible assets of previously acquired subsidiaries reflects the settlement of the MASS earn-out at £280,000 (including costs), £220,000 less than the provision (£500,000) established at the time of acquisition. The amortisation has been adjusted accordingly.

The amortisation charge described on page 43 is disclosed as 'Amortisation of other intangible assets' in the income statement.

## 11 Goodwill and other intangible assets (continued)

The Group tests goodwill annually 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 key assumptions for the value in use calculations are those regarding discount rates, growth rates and any other factors which may affect future performance as known of in the current period

The Group's subsidiaries have prepared cash flow forecasts as part of the recent annual budgetary process, as approved by management. This provides the next three years' cash flow forecasts which have been extrapolated forward at an estimated long-term growth rate of 2.25% (2009: 2.25%). The cash flow forecasts are prepared on a consistent basis based upon each subsidiary's budget. To this has been applied the Group's estimated weighted average cost of capital of 11.5% (2009: 11.0%).

The Group's WACC is an estimate based upon the Company's current equity risk, market interest rates, Company debt interest rates and market equity risk. The same rate of WACC and long-term growth rate have been applied to the assessment of the carrying value of goodwill for both MASS and SEA, since the businesses have similar market experience and exposures.

On the basis of these tests, no impairment of goodwill has arisen in the year ended 30 April 2010. The test on the goodwill in respect of SEA revealed a low level of headroom of the discounted cash flow compared with the carrying value of goodwill and an increase in the weighted average cost of capital to 13.5% would result in a small impairment of £0.3m.

The other intangible assets also arise on the acquisition of the subsidiaries and are analysed above.

These intangible assets are in respect of acquired contracts of each of MASS and SEA and contracts to be secured in respect of MASS.

The other intangible assets are amortised over the expected lives of acquired contracts and contracts to be secured, as follows:

	Other intangible assets £'000	Expected life Years	Remaining period of amortisation at 30 April 2010 Years
<b>MASS</b>			
Contracts acquired	1,060	4	0.25
Contracts to be secured	280	7	3.25
	<b>1,340</b>		
<b>SEA</b>			
Contracts acquired	1,160	4	1.50

The contracts to be secured were in respect of certain overseas opportunities for which further consideration was payable if secured in accordance with the terms of the acquisition of MASS. This figure was reduced from the estimate of £500,000 at the date of acquisition to £280,000 following settlement of the MASS earn-out on 5 June 2009.

## 12. Property, plant and equipment

Group	Land and buildings £'000	Equipment, fixtures and fittings £'000	Total £'000
<b>Cost</b>			
At 1 May 2008	4,307	2,976	7,283
Additions	2	430	432
Disposals	—	(142)	(142)
At 1 May 2009	4,309	3,264	7,573
Additions	2,393	1,402	3,795
Disposals	—	(567)	(567)
At 30 April 2010	<b>6,702</b>	<b>4,099</b>	<b>10,801</b>
<b>Depreciation</b>			
At 1 May 2008	346	2,071	2,417
Charge in the year	82	481	563
Eliminated on disposal	—	(134)	(134)
At 1 May 2009	428	2,418	2,846
Charge in the year	82	475	557
Eliminated on disposal	—	(532)	(532)
At 30 April 2010	<b>510</b>	<b>2,361</b>	<b>2,871</b>
<b>Net book value</b>			
At 30 April 2010	<b>6,192</b>	<b>1,738</b>	<b>7,930</b>
At 30 April 2009	3,881	846	4,727

The Company's property, plant and equipment was £17,000 at 30 April 2010 (2009: £22,000).

The depreciation charge is disclosed within 'administrative expenses' in the income statement.

## Notes to the Financial Statements continued

For the year ended 30 April 2010

### 12. Property, plant and equipment (continued)

The additions to 'land and buildings' includes £2,388,000 in respect of Enterprise House which was not occupied by MASS as at 30 April 2010. The land element of Enterprise House is estimated at £0.8m. Additions to equipment, fixtures and fittings included £599,000 in respect of Enterprise House refurbishment. No depreciation was charged in respect of this asset for the year ended 30 April 2010. The property, plant and equipment has been pledged to secure the Group's banking facilities.

### 13. Investment in subsidiaries and joint ventures

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Subsidiary undertakings	—	—	42,203	42,203
Joint ventures	—	—	—	—
	—	—	42,203	42,203

The Group's joint venture investment, AGS sold its business at 1 August 2009, realising a profit before tax for the Group of £200,000. As at 30 April 2010, AGS owes the Group £997,000 (2009: £1,071,000) which was fully provided against at 30 April 2010 and 30 April 2009.

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

Name of Company	Country of registration	Type of shares	Proportion of shareholding and voting rights held	Nature of business
<b>Directly owned</b>				
Systems Consultants Services Limited (SCS)	England	Ordinary	100%	Technical consultancy
MASS Limited	England	Ordinary	100%	Holding company of MASS Consultants Limited
SEA (Group) Limited (SEA)	England	Ordinary	100%	Holding company of Systems Engineering and Assessment Limited, Beckington Castle Limited and various dormant subsidiaries
<b>Held through a subsidiary</b>				
MASS Consultants Limited (MASS)	England	Ordinary	100%	Electronic warfare, managed services, secure communications and IT support services
Systems Engineering & Assessment Limited	England	Ordinary	100%	Deliverer of systems engineering, software and electronic engineering services and solutions to Defence, Space, Transport and Off-shore sectors
Beckington Castle Limited	England	Ordinary	100%	Property company holding freehold of Beckington Castle
Advanced Geospatial Solutions Limited (AGS)	England	Ordinary	50%	Formerly 3D mapping technology (business of AGS sold 1 August 2009)
Digital Millennium Map LLP (DMM)	England	Ordinary	25%	2D digital mapping - in administration

DMM and AGS, which are both retained as investments of the Group, are not accounted for under the equity method of accounting as the Group ceased to have an active participation from 1 November 2006 and 30 April 2009 respectively.

On 14 May 2010 the Group acquired 100% of the ordinary shares of Abacus EW Consultancy Limited through its subsidiary MASS Consultants Limited. Abacus EW is incorporated in England and carries on electronic warfare training services.

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

For information, the performance of DMM for the year ended 30 April 2010 was as follows:

	Year ended 30 April 2010 £'000	Cumulative to 30 April 2010 £'000
Unrecognised share of profit/(loss)	40	(268)
Revenues	164	2,540
Expenses	(5)	(3,614)
Profit/(loss)	159	(1,074)
	2010 £'000	2009 £'000
Total assets	121	44
Total liabilities	(33)	(3)

The Group has received and continues to receive a return on its original investment in DMM.

**13. Investment in subsidiaries and joint ventures (continued)**

For information, the performance of AGS for the year ended 30 April 2010 was as follows

	Year ended 30 April 2010 £'000	Cumulative to 30 April 2010 £'000
Unrecognised share of profit/(loss)	20	(590)
Revenues	—	889
Expenses	40	(2,069)
Profit/(loss)	40	(1,180)
	2010 £'000	2009 £'000
Total assets	5	28
Total liabilities	(1,144)	(1,208)

AGS sold its business 1 August 2009. The Group retains its investment in AGS and may receive in the future further consideration in respect of the business disposal.

**Company**

The Company's investments in subsidiaries are as follows

	2010 £'000	2009 £'000
MASS	14,328	14,328
SCS	1,584	1,584
SEA	26,291	26,291
	42,203	42,203

**14. Inventories**

	2010 £'000	2009 £'000
Finished goods	440	359

The inventory at 30 April 2010 is after a stock provision of £227,000 (2009 £20,000). The stock provision includes £207,000 in respect of the offshore division of SEA, closed before the year-end. The offshore stock provision was charged as an exceptional item (see note 3).

**15 Trade and other receivables**

	Group		Company	
	2010 £'000	2009 (restated) £'000	2010 £'000	2009 £'000
Amounts due from subsidiary undertakings	—	—	246	2,028
Trade receivables	15,418	16,082	—	—
Amounts recoverable on contracts	6,171	5,218	—	—
Prepayments and accrued income	1,248	1,138	73	39
	22,837	22,438	319	2,067

The Group trade receivables at 30 April 2009 have been reduced by £1,837,000 from £16,082,000 previously reported to £14,245,000 as a result of the write off of amounts recoverable on contracts at SCS which were recorded in error (see note 10).

The average credit period taken on sales of goods is 50 days (2009 52 days). Of the trade receivables balance, £4.2m was considered overdue at 30 April 2010 (2009 £3.3m). An allowance has been made for estimated recoverable amounts from the sale of goods and services of £104,000 (2009 £Nil). This allowance is determined by management's best estimate, by reference to the particular receivables over which doubt may exist. None of the other trade and other receivables were past due.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair values. The largest trade receivable to which the Group is exposed at 30 April 2010 is the MOD, with a balance outstanding of £4.2m (2009 £8.1m).

Trade receivables include £4.1m (2009 £1.1m) denominated in foreign currency.



## Notes to the Financial Statements continued

For the year ended 30 April 2010

### 16. Trade and other payables

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Advance receipts	1,680	2,509	—	—
Trade payables	8,372	7,623	50	55
Other payables	24	14	24	14
Social security and other taxes	2,123	2,499	44	15
Accruals	2,918	3,519	223	535
	15,117	16,164	341	619

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 26 days (2009: 47 days).

Trade, other payables, taxes and accruals are all due for settlement within twelve months of the year-end, the majority within three months. The advance receipts will unwind over the next twelve months.

Social security and other taxes includes employment taxes and VAT.

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

Total payable includes £1.5m (2009: £0.1m) denominated in foreign currency.

### 17. Other loans

The other loans are in respect of financing assets acquired in the past by SEA. They are not finance leases and are not secured over the asset financed or any other asset of the Group.

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Other loans	—	32	—	—

These borrowings are repayable as follows:

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
On demand or within one year	—	32	—	—
In the second year	—	—	—	—
	—	32	—	—
Less: amounts due for settlement within twelve months (shown under current liabilities)	—	(32)	—	—
Amount due for settlement after twelve months	—	—	—	—

All borrowings are in sterling.

The weighted average interest rates paid were as follows:

	2010 %	2009 %
Other loans	6.99	7.10

The Directors consider the carrying amount of other loans approximates to their fair values.

**18. Bank borrowings**

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Bank overdrafts	—	—	3,091	13,199
Bank loans	3,615	3,782	3,000	3,000
	3,615	3,782	6,091	16,199

These borrowings are repayable as follows

	Group		Company	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
On demand or within one year	3,171	3,167	6,091	16,199
In the second year	130	171	—	—
In the third to fifth years inclusive	258	302	—	—
After five years	56	142	—	—
	3,615	3,782	6,091	16,199
Less amounts due for settlement within twelve months (shown under current liabilities)	(3,171)	(3,167)	(6,091)	(16,199)
Amount due for settlement after twelve months	444	615	—	—

All borrowings are in sterling and secured over all the fixed and floating assets of the Group

The weighted average interest rates paid were as follows

	2010 %	2009 %
Bank overdrafts	—	—
Bank loans	3.70	6.03

The bank overdrafts are repayable on demand. The Group operates a sterling current account offset facility. The interest rate applicable to the overdraft facility when drawn is at 2.25% (2009: 1.75%) above the Bank of England base rate.

The bank loans of the Group are as follows

- i) £3.0m structured debt facility of 364 days with an option to term the loan out (fix the repayment period of the borrowing) for up to three years during the 364 day period, at a floating rate of 2.00% to 2.75% above LIBOR, fixed in advance on one to six month terms, and
- ii) £0.6m in mortgages repayable over 15 years with completion dates of 26 February 2012 and 8 July 2017 for £0.1m and £0.5m respectively

The interest rates on these mortgages are floating at 1.5% above LIBOR with £476,000 fixed via an interest rate swap at 6.38%.

The weighted average period until maturity of the fixed interest loan was six years and for the variable rate loans was one year.

At 30 April 2010, the Group had available £2.5m of undrawn committed overdraft facility and £7.0m of undrawn committed structured debt facility. The Directors consider the carrying amount of bank borrowings approximate their fair value.

The Group's net funds at 30 April 2010 of £3.0m are all with RBS.

**19. Provisions**

Group	SEA earn out £'000	MASS earn out £'000	Withdrawal from AGS £'000	Restructuring £'000	Onerous lease commitment £'000	Warranty £'000	Other contract related provisions £'000	Total £'000
At 1 May 2008	4,672	500	—	—	—	101	677	5,950
Charged to the income statement	—	—	210	—	—	42	218	470
Adjustment to other intangible assets	—	(220)	—	—	—	—	—	(220)
Earn-out payment	(4,672)	—	—	—	—	—	—	(4,672)
At 1 May 2009	—	280	210	—	—	143	895	1,528
Charged/(credited) to the income statement	—	—	(66)	105	215	247	1,243	1,744
Utilised	—	—	(122)	—	—	(85)	(320)	(527)
Reclassification from trade and other payables	—	—	—	—	—	—	101	101
Earn-out payment	—	(280)	—	—	—	—	—	(280)
At 30 April 2010	—	—	22	105	215	305	1,919	2,566
Provisions due less than one year	—	—	22	105	60	305	1,919	2,411
Provisions due greater than one year	—	—	—	—	155	—	—	155
At 30 April 2010	—	—	22	105	215	305	1,919	2,566
Provisions due less than one year	—	280	210	—	—	143	895	1,528
Provisions due greater than one year	—	—	—	—	—	—	—	—
At 30 April 2009	—	280	210	—	—	143	895	1,528

## Notes to the Financial Statements continued

For the year ended 30 April 2010

### 19 Provisions (continued)

The balance at 1 May 2008 has been restated from £5,548,000 to £5,950,000 by a £402,000 increase in the set up on acquisition provision in respect of other contract related provisions acquired with SEA

The SEA earn-out was earned in full and paid on 11 July 2008

The MASS earn-out was in respect of the obligation of the Group to settle deferred consideration payable to the vendors of MASS on receiving certain overseas contracts as set out in the sale and purchase agreement pertaining to the acquisition. On 5 June 2009, agreement was reached to pay the vendors of MASS £280,000 (after costs) in full settlement of the earn-out. The earn-out was paid on 11 June 2009.

The warranty provisions are management's best estimates of the Group's liability under warranties granted on software and other products supplied and is based upon past experience. The timing of such expenditure is uncertain although warranties generally have a time limit of no more than twelve months, unless a longer warranty period is purchased by the customer.

The 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. The timing of these is uncertain but expected to be resolved within twelve months of the balance sheet date. Other contract related provisions include property dilapidation provisions.

The restructuring provision is in respect of SCS and is expected to be utilised in the next twelve months.

The onerous lease commitment is in respect of MASS's continuing lease obligations on its property in St Neots which it is vacating in the summer of 2010 to enter its new freehold property, Enterprise House. Plans to enter Enterprise House have been in place since November 2009 and the relocation is proceeding to plan.

The provisions do not include the Abacus EW earn out of up to £1.8m (see note 30) which was acquired after the year-end on 14 May 2010.

Company	SEA earn-out £'000	MASS earn-out £'000	Total £'000
At 1 May 2008	4,672	500	5,172
Adjustment to other intangible assets	—	(220)	(220)
Earn-out payment	(4,672)	—	(4,672)
At 1 May 2009	—	280	280
Adjustment to other intangible assets	—	—	—
Earn-out payment	—	(280)	(280)
At 30 April 2010	—	—	—
At 30 April 2010	—	—	—
Provisions due less than one year	—	—	—
Provisions due greater than one year	—	—	—
At 30 April 2009	—	—	—
Provisions due less than one year	—	280	280
Provisions due greater than one year	—	—	—
	—	280	280

### 20. Deferred tax

	Accelerated tax depreciation £'000	Other intangible assets £'000	Revaluation of building £'000	Other short term timing differences £'000	Tax losses £'000	Derivatives £'000	Group £'000
At 1 May 2008	43	—	(649)	6	—	—	(600)
(Charge)/credit to the income statement	(283)	—	—	260	—	(50)	(73)
Credit to equity	—	—	—	—	—	19	19
At 1 May 2009	(240)	—	(649)	266	—	(31)	(654)
(Charge)/credit to the income statement	13	(177)	—	271	467	65	639
Debit to equity	—	—	—	—	—	(23)	(23)
At 30 April 2010	(227)	(177)	(649)	537	467	11	(38)

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes.

	2010 £'000	2009 £'000
Asset	1,015	266
Liability	(1,053)	(920)
	(38)	(654)

**20. Deferred tax (continued)**

At the balance sheet date the Group had unused trading tax losses within its subsidiaries of £1.6m (2009 losses of £1.7m) available for offset against future profits and recognised as a deferred tax as at 30 April 2010 (not recognised at 30 April 2009 due to uncertainty regarding recoverability of tax losses). These tax losses can all be carried forward indefinitely.

The deferred tax liability in respect of the revaluation of 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 2010 was an asset of £4,000 (2009 £Nil) being in respect of other short-term timing differences.

**21 Derivative financial instruments**

	2010 £'000	2009 £'000
<b>Assets</b>		
Foreign currency forward contracts	—	178
Interest rate swap	15	—
Deferred tax on interest rate swap (see note 20)	(4)	—
	11	178
<b>Liabilities</b>		
Foreign currency forward contracts	(53)	—
Interest rate swap	—	(68)
Deferred tax on interest rate swap (see note 20)	—	19
	(53)	(49)

**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:

	2010		2009	
	£'000	£'000	£'000	£'000
At forward exchange rates				
At 1 May	3,493	4,100	2,228	3,000
Transferred to the income statement in respect of matured contracts	(2,894)	(3,350)	(2,078)	(2,800)
New contracts	10,771	12,279	3,343	3,900
At 30 April	11,370	13,029	3,493	4,100
Fair value adjustment	(53)		178	
At 30 April at closing spot rate	11,317		3,671	

As at 30 April, the maturity of the outstanding contracts was as follows:

	2010		2009	
	£'000	£'000	£'000	£'000
Within one year	9,286	10,629	2,894	3,350
One to two years	1,437	1,650	599	750
Greater than two years	647	750	—	—
	11,370	13,029	3,493	4,100

£231,000 has been charged to the income statement in respect of marking the outstanding contracts at 30 April 2010 (2009 credit of £47,000) to fair value with a corresponding adjustment to the fair value derivative financial instrument recognised in the balance sheet, a liability of £53,000 at 30 April 2010 (2009 asset of £178,000). This charge of £231,000 (as was the credit of £47,000 in 2009) was disclosed within the SEA adjusted operating profit in the segmental analysis (see note 1).

**Interest rate swaps**

The Group uses an interest rate swap to manage its exposure to interest rate movements on its mortgage borrowings.

A contract with nominal value of £476,000 (2009 £612,000) has fixed interest payments at a rate of 6.38% for periods up until August 2016.

The fair value of the swap entered into at 30 April 2010 is estimated at £491,000 (2009 £544,000). These amounts are based on market values of equivalent instruments at 30 April 2010.

This interest rate swap is designated and effective as a cash flow hedge. The change in fair value (£83,000) has been recognised as a credit to equity with a corresponding debit to derivative financial instruments. The balance sheet at 30 April 2010 contained a debit balance of £15,000 (2009 credit balance of £68,000) in respect of derivative financial instruments.

# Notes to the Financial Statements continued

For the year ended 30 April 2010

## 22. Share capital

	2010 Number	2009 Number
Allotted, called up and fully paid 10p ordinary shares	40,786,788	40,590,943

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

	Number
At 1 May 2008	40,456,417
Share options exercised	134,526
At 1 May 2009	40,590,943
Share options exercised	195,845
At 30 April 2010	40,786,788

The following share options were unexercised at 30 April 2010

Description of option	Options over 10p ordinary Date of grant	Option (exercise) shares Number	Price £	Exercise period
Cohort plc 2006 Share option scheme	8 March 2006	136,178	1 230	9 March 2009 to 8 March 2016
	10 July 2006	42,554	1 410	10 July 2009 to 9 July 2016
	25 January 2007	19,337	1 810	25 January 2010 to 24 January 2017
	19 February 2007	215,475	1 770	20 February 2010 to 19 February 2017
	21 August 2007	76,525	1 660	22 August 2010 to 21 August 2017
	11 July 2008	423,199	1 890	12 July 2011 to 11 July 2018
	5 August 2009	517,199	1 715	6 August 2012 to 5 August 2009
		1,430,467		
Save as you earn (SAYE) scheme	5 May 2006	71,724	1 23	
	26 January 2007	147,164	1 45	
	12 February 2008	349,914	1 33	
	18 August 2009	310,237	1 38	
		879,039		
		2,309,506		

## 23. Reserves

Group	Share premium account £'000	Share option reserve £'000	Hedge reserve £'000	Profit and loss account (restated - note 10) £'000	Total reserves (restated - note 10) £'000
At 1 May 2008	29,158	200	—	7,439	36,797
Share options exercised	139	—	—	—	139
Equity dividends	—	—	—	(627)	(627)
Cash flow hedges - losses taken to equity (net of tax)	—	—	(49)	—	(49)
Share-based payments	—	184	—	—	184
Transfer of share option reserve on vesting of options	—	(118)	—	118	—
Profit for the year (see note below)	—	—	—	3,759	3,759
At 1 May 2009	29,297	266	(49)	10,689	40,203
Share options exercised	222	—	—	—	222
Equity dividends	—	—	—	(754)	(754)
Cash flow hedges - losses taken to equity (net of tax)	—	—	60	—	60
Share-based payments	—	259	—	—	259
Transfer of share option reserve on vesting of options	—	(146)	—	146	—
Profit for the year	—	—	—	2,291	2,291
At 30 April 2010	29,519	379	11	12,372	42,281

The profit for the year ended 30 April 2009 has been restated for the overstatement at SCS (note 10), profit for the year being reduced from £5,082,000 to £3,759,000 by a reduction of profit before tax (£1,837,000) less a reduction in the tax charge in respect of this adjustment (£514,000)

**23 Reserves (continued)**

Company	Share premium account £'000	Share option reserve £'000	Profit and loss account £'000	Total reserves £'000
At 1 May 2008	29,158	21	80	29,259
Share options exercised	139	—	—	139
Equity dividends	—	—	(627)	(627)
Share-based payments	—	12	—	12
Transfer of share option reserve on vesting of options	—	(16)	16	—
Profit for the year	—	—	552	552
At 1 May 2009	29,297	17	21	29,335
Share options exercised	222	—	—	222
Equity dividends	—	—	(754)	(754)
Share-based payments	—	20	—	20
Transfer of share option reserve on vesting of options	—	(9)	9	—
Profit for the year	—	—	3,209	3,209
At 30 April 2010	29,519	28	2,485	32,032

**24 Net cash generated from operating activities**

	Group		Company	
	2010 £'000	2009 (restated - note 10) £'000	2010 £'000	2009 £'000
Profit for the year	2,291	3,759	3,209	552
Adjustments for				
Share of results of joint ventures	—	224	—	—
Tax expense/(credit)	457	858	(10)	(148)
Depreciation of property, plant and equipment	557	563	6	1
Amortisation of other intangible assets	595	540	—	—
Net finance cost	142	208	121	167
Share-based payment	259	184	20	12
Derivative financial instruments	231	(47)	—	—
Increase in provisions	1,318	612	—	—
Operating cash flows before movements in working capital	5,850	6,901	3,346	584
Increase in inventories	(288)	(213)	—	—
(Increase)/decrease in receivables	(399)	(2,247)	1,414	594
(Decrease)/increase in payables	(736)	3,541	62	(99)
	(1,423)	1,081	1,476	495
Cash generated from operations	4,427	7,982	4,822	1,079
Tax paid	(286)	(408)	—	—
Interest paid	(180)	(303)	(137)	(245)
Net cash generated from operating activities	3,961	7,271	4,685	834

**25. Commitments**

There were £328,000 of capital commitments at 30 April 2010 (2009 £Nil). These were mainly in respect of the refurbishment of Enterprise House, MASS's new facility in St Neots.

**26. Operating lease arrangements**

Group	2010 £'000	2009 £'000
Minimum lease payments under operating leases recognised as an expense in the year		
- land and buildings	1,080	759
- other	147	151
	1,227	910

## Notes to the Financial Statements continued

For the year ended 30 April 2010

### 26. Operating lease arrangements (continued)

At 30 April 2010 the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	2010 £'000	2009 £'000
Land and buildings		
- leases which expire within one year	35	33
- leases which expire in the second to fifth year inclusive	637	796
- leases which expire after five years	3,874	2,995
	<b>4,546</b>	<b>3,824</b>
Other		
- leases which expire within one year	29	16
- leases which expire in the second to fifth year inclusive	223	76
- leases which expire after five years	—	202
	<b>252</b>	<b>294</b>
	<b>4,798</b>	<b>4,118</b>

Significant leasing arrangements held by the Group are in respect of its operating facilities in St Neots, Lincoln, Bristol, Theale and Henley-on-Thames

The lease on MASS's current operating property in St Neots (Grove House) is £67,200 per annum and is due to cease on 31 May 2013. MASS is due to enter their new freehold property (Enterprise House) which was purchased in the final quarter of 2009 and has since been refurbished, in the Summer of 2010.

In respect of all the Group's operating leases (including the Company's), there is no contingent rent payable, no escalation clauses and no restrictions for further leasing or restrictions on the Group's ability to access debt or pay dividends.

None of the significant operating leases entered into by the Group have any renewal or purchase options.

Company	2010 £'000	2009 £'000
Minimum lease payments under operating leases recognised as an expense in the year		
- land and buildings	79	73

At 30 April 2010 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	2010 £'000	2009 £'000
Land and buildings		
- leases which expire within one year	26	23

### 27. Share-based payments

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

	2010		2009	
	Options	Weighted average exercise price £	Options	Weighted average exercise price £
Outstanding at 1 May	2,010,783	1.56	1,678,769	1.40
Granted during the year	980,700	1.59	575,014	1.89
Forfeited during the year	(480,978)	1.67	(108,474)	1.41
Exercised during the year	(195,845)	1.23	(134,526)	1.13
Expired during the year	(5,100)	1.23	—	—
Outstanding at 30 April	2,309,560	1.58	2,010,783	1.56
Exercisable at 30 April	504,247	1.54	242,660	1.26

The weighted average share price at the date of exercise for share options exercised during the year was £1.72 (2009 £1.60).

The options outstanding at 30 April 2010 had a weighted average exercise price of £1.58 (2009 £1.56) and a weighted average remaining contractual life of six years (2009 six years).

In the year ended 30 April 2010, options were granted as follows: 617,777 on 5 August 2009 and 362,923 on 18 August 2009. The fair value of the options granted on those dates were £1.715 and £1.38 respectively. In the year ended 30 April 2009, 575,014 options were granted on 11 July 2008 at a fair value on that date of £1.89 per option.

**27. Share-based payments (continued)**

The inputs into the Quoted Companies Alliance model, a Black Scholes based binominal model, are as follows

	2010	2009
Weighted average share price	£1 43	£1 82
Weighted average exercise price	£1 58	£1 56
Expected volatility	20% - 38%	20%
Risk free rate	2 91% - 5 75%	2 91% - 5 75%
Leaver rate (per annum)	6 5% - 10 0%	6 5%
Dividend yield	0 26% - 0 62%	0 26% - 0 33%

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 has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group recognised a cost of £259,000 (2009 £184,000) relating to share-based payment transactions which are all equity settled, an equivalent amount being transferred to the share option reserve (see note 23).

**28. Pension commitments**

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £1,585,000 (2009 £1,326,000) were charged to the income statement. Contributions outstanding at 30 April 2010 were £153,000 (2009 £195,000).

**29 Related party transactions**

Transactions between the Company and its subsidiaries are as follows

	Management fees received from subsidiaries £'000	Dividends received from subsidiaries £'000	Group relief surrendered to subsidiaries £'000
2010	1,200	3,300	23
2009	800	1,000	148

Transactions between the Group and its joint ventures are disclosed below

	Purchases £'000	Sales £'000	Investment in year £'000	Changes in loans/current account/sales ledger £'000
Advanced Geospatial Solutions (AGS)				
2010	—	—	—	(196)
2009	—	—	—	(67)
Digital Millennium Map LLP (DMM)				
2010	—	—	(26)	—
2009	—	—	(30)	(42)

The change in the loans, current accounts and sales ledgers reflects purchases, sales and support costs to the related party undertakings less any receipts received.

The relationships are described as follows

- AGS - the interest in which is owned by SCS, a 50% joint venture. From 1 May 2009 this has been accounted for as an investment, the Group no longer having an active participation in this entity.
- DMM - the interest in which is owned by SCS, a 25% joint venture. From 1 November 2006 this has been accounted for as an investment, the Group no longer having an active participation in this entity.

The Group is expected to have no significant transactions with either AGS or DMM.

The Group had a leasing agreement (dated 27 February 2006) with the Court House Partnership to lease the Court House at an annual rent of £57,000 for an initial period of five years, terminable by the Group with six months' notice at no penalty. Stanley Carter (a Director of Cohort plc) is a partner in the Court House Partnership. SCS vacated the Court House on 31 March 2010 with its lease commitment ceasing at that point. The Group's dilapidation obligations in respect of the Court House are still to be determined and an estimate has been provided for at 30 April 2010. The transactions with Directors of the Company are disclosed in the Remuneration & Appointments Committee Report on pages 26 to 28.



## Notes to the Financial Statements continued

For the year ended 30 April 2010

### 29. Related party transactions (continued)

During the year ended 30 April 2010, the Directors of Cohort plc received dividends from the Company as follows

	2010 £	2009 £
S Carter	197,076	165,009
N Prest	38,325	32,001
A Thomis	616	345
Sir Robert Walmsley	378	277
S Walther	403	155
	<b>236,798</b>	<b>197,787</b>

Further details of the remuneration of the Directors are set out in the Remuneration & Appointments Committee Report (pages 26 to 28)

The aggregate remuneration details of the key management of the Group were as follows

	2010 £	2009 £
Salary (including any allowances, benefits and employers NI)	943,749	1,074,792
Employers pension contribution	22,299	23,942
Long-term benefits	—	—
Termination payments or benefits	30,000	119,254
Share option cost	37,073	37,432
	<b>1,033,121</b>	<b>1,255,420</b>

The key management of the Group is the Board of Cohort plc plus the Managing Director of each subsidiary

### 30. Post balance sheet events

On 14 May 2010 the Group's subsidiary, MASS Consultants Limited completed the acquisition of the entire share capital of Abacus EW Consultancy Limited for an initial cash consideration of £1.0m and deferred cash consideration of up to £1.8m payable over three years from completion according to the performance of Abacus EW over the three year period to 30 April 2013

At the time of publishing this Annual Report, the completion accounts have not been finalised and the estimated details of the transaction are as follows

- Costs of acquisition of £100,000 £75,000 of acquisition costs have been charged as an exceptional item for the year ended 30 April 2010 in respect of this acquisition in accordance with IFRS 3 (Revised)
- Acquired net assets, including cash of £22,000
- Other intangible assets of just under £2.9m to be written off over two to three years depending upon the respective lives of each other intangible asset Other intangible assets comprises acquired contracts, intellectual property rights in respect of software and key employees
- The goodwill of £29,000 (before deferred tax liability) is not to be amortised but tested annually for impairment in future periods
- Deferred tax liability of approximately £800,000 in respect of the other intangible asset to be recognised on acquisition and accounted for as part of the acquired goodwill

Abacus EW will be reported as part of the Group's MASS segment in future reporting periods and its accounting year-end has been aligned with the Group's at 30 April

### 31 Contingent liabilities

At 30 April 2010 the Group has in place an advance payment guarantee of £175,000 (2009 £Nil) with RBS This guarantee was in respect of SCS's new leased property, Arlington House

## Accounting Policies

### Basis of accounting

Both the parent company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRSs). On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form part of these approved financial statements.

As highlighted in note 18 to the financial statements, the Company meets its day to day working capital requirements through an offsetting facility which is due for renewal in October 2010. Both the current economic conditions and strategic defence review create uncertainty particularly over (a) the level of demand for the Group's products, (b) the exchange rate between sterling and Euro and thus the consequence for certain long term contracts, and (c) the availability of bank finance in the foreseeable future.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility. The Company will open renewal negotiations with the bank in due course and has at this stage not sought any written commitment that the facility will be renewed. However, the Company has held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position is set out in the Business Review on pages 12 to 17. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Financial Directors' Review on pages 6 to 11.

In addition the Finance Director's Review of the financial statements 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 2010. Subsidiaries acquired during the year are consolidated from the date of acquisition, using the purchase method (see business combinations below).

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. This is necessary as the Group's subsidiaries continue to prepare statutory financial statements in accordance with UK GAAP.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### 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. As from 1 May 2009, the costs of acquisition have been charged to the Group 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 twelve 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.

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

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

## Accounting Policies continued

### 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 at least annually. 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 annually, 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.

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.

### Revenue recognition

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

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

Revenue from contracts is recognised as the activity progresses to reflect the partial performance of contractual obligations. In the case of long-term contracts, revenue is recognised appropriate to the stage of completion when the outcome of the contract can be assessed with reasonable certainty.

In most cases, revenue for the Group is based upon costs incurred with appropriate contingency applied where key deliverables have not yet been achieved.

Profit recognition on contracts generally follows revenue recognition with appropriate prudence applied to take account of contract cost to complete, risks and uncertainties.

### 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.

### Foreign currencies

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency), which is currently sterling for the whole Group. For the purpose of the consolidated financial statements, the results and financial position of each Group Company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Exchange differences arising on the settlement of monetary items, and on the retranslation 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 (see page 60 for details of the Group's Accounting Policies in respect of such derivative financial instruments).

### 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.

## Taxation

The tax expense represents the sum of the tax currently payable and the deferred tax expense or credit

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interest in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## Pension contributions

Payments are made to the Company's stakeholder pension schemes, all 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.

## 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 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.

## Accounting Policies continued

### Intangible assets

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

### 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). An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### Share-based payments

The Group has applied the requirements of IFRS 2 'Share-based Payments'. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 May 2006.

The Group issues equity-settled and cash-settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period based on the Group's estimate of shares that will eventually vest and adjusted for the non market-based vesting conditions.

Fair value is measured by use of the Quoted Companies Alliance binomial model. The expected life used in the models has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions and behavioural considerations.

A liability equal to the portion of the goods and services received is recognised at the current fair value determined at each balance sheet date for cash-settled, share-based payments.

The cost of share-based payments is charged to the income statement with a corresponding credit applied to the share option reserve. The appropriate element of the reserve is transferred to the retained profit of the Group when the share options to which the reserve relates vest.

### Exceptional items

Cohort's trade is the provision of technical advice and support, and the design, development and manufacture of niche products. As part of its operations, the Group may dispose of or recognise impairment of subsidiaries, or significant parts of subsidiaries, associates (including joint ventures and investments) and fixed assets as well as other significant non-trading transactions including significant restructuring costs, either as part of continuing operations or discontinued operations.

These items form part of the Group's operating activities and are reported in arriving at the Group's profit from operations, however, management does not consider these items to be part of trading activities. The gains or losses on such items can be significant and arise in different reporting periods and would consequently have a material impact upon the absolute amount of and trend in the Group's trading profit from operations.

Any gains or losses (including transaction costs) on these non-trading items are disclosed as a separate line item (in aggregate) in the income statement with analysis in a note to the accounts.

### Significant estimates and judgements

The preparation of the financial statements requires management to make estimates and judgements that affect the reported amounts of assets, liabilities, revenue and expenses, some of which are difficult, complex, or subjective. For this reason actual results could differ from estimates and this might have a material impact on our results.

Management has identified the following areas where critical assumptions or estimates are made:

**Significant estimates and judgements (continued)****Revenue and profit recognition on long-term contracts**

The Group applies a consistent process to accounting for revenue and profit recognition on long-term contracts. In making these estimates and judgements, management relies on underlying processes and procedures and makes use of internal and external expert resource in arriving at the final accounting estimate or judgement. These balances are regularly reviewed to ensure the value is appropriate. The sensitivity in applying these judgements is broad with estimates usually being contract specific.

**Acquisition of intangibles**

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

**Recoverability of goodwill**

We have significant goodwill balances the life of which we consider to be indefinite. We assess annually the recoverability of the balance, or more frequently in the event of an occurrence indicating impairment. The assessment involves comparing the carrying amount of the asset with its recoverable amount, which is typically its value in use. Value in use is determined using discounted cash flow techniques that involve the estimation of future cash flows over a long period and an appropriate discount rate to apply.

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

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

Future changes in interest rates, the premium that markets place on equity investments relative to risk free rates and the specific assessment of the capital markets as to our risk relative to other companies can affect our discount rate. Increases in interest rates or the risk premiums applied by capital markets would result in an increase in our discount rate and vice versa. These factors are largely outside our control or ability to predict and can therefore have a significant impact on the estimated fair value of goodwill.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of finished goods and work in progress includes overheads appropriate to the stage of manufacture. Net realisable value is based upon estimated selling price less further cost expected to be incurred to completion and disposal. Provision is made for obsolete and slow-moving items.

**Provisions**

Provisions are recognised when the Group has a present obligation 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.

**Financial instruments**

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

**Trade and other receivables**

Trade receivables are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the estimated recoverable amount.

Long-term contracts are assessed on a contract by contract basis and reflected in the profit and loss account by recording revenue and related costs as contract activity progresses. Revenue is ascertained in a manner appropriate to the stage of completion of the contract, and credit taken for profit earned to date when the outcome of the contract can be assessed with reasonable certainty. The amount by which revenue exceeds payments on account is classified as 'amounts recoverable on contracts' and included within trade and other receivables, to the extent that payments on account exceed relevant revenue, the excess is included as an advance receipt within trade and other payables. The amount of long-term contracts, at cost net of amounts transferred to cost of sales, less provision for foreseeable losses and payments on account not matched with revenue, is included within trade and other receivables as amounts recoverable on contracts.

**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 included within cash and cash equivalents have less than three months to maturity.

## Accounting Policies continued

### 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.

### 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 accrual 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.

### Trade payables

Trade payables are initially measured at fair value.

### Equity instruments

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

### 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 forecasted 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.

### 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.

### Standards and interpretations issued at 30 April 2010 not applied to these financial statements

The following changes and amendments to IFRS that have not been reflected in these financial statements and are likely to have an impact on the Group in the future:

#### Impact on the Group

Standard	Timing	Effect	Financial effect
IFRS 9 'Financial Instruments'	First apply to year ended 30 April 2014 Early adoption permitted	First of 3 phases to replace IAS 39 'Financial Covenants, Recognition and Measurement'. Plan is for all of IAS 39 to be replaced during 2010 by extending IFRS 9. It simplifies the categories of financial asset classification relating it to the cash flow characteristics of the asset.	No financial impact. May require further disclosure but Group has few financial assets.

The above standard will not apply to the Group's interim statement for six months ended 31 October 2011 to be published in December 2011.

A number of other standard amendments and IFRICs (International Financial Reporting Interpretation Committee) have been issued and are yet to be applied by the Group.

As discussed elsewhere, the Group has adopted IFRS 3 (Revised) 'Business Combinations and amendments to IAS 27' early, applying these standards from 1 May 2009.

## Advisers

### Registered Company Number of Cohort plc

05684823

Cohort plc is a company registered in England and Wales

### Nominated Adviser and Broker

Investec

2 Gresham Street

London EC2V 7QP

### Auditor

KPMG Audit Plc

Chartered Accountants

Arlington Business Park

Theale

Reading RG7 4SD

### Legal Advisers

Olswang

90 High Holborn

London WC1V 6XX

### Registrars

Capita Registrars

Northern House

Woodsome Park

Fenay Bridge

Huddersfield HD8 0LA

### Public and Investor Relations

Hogarth Partnership Limited

1 London Bridge

London SE1 9BG

### Bankers

RBS NatWest

Abbey Gardens

4 Abbey Street

Reading RG1 3BA

## Shareholder Information and Financial Calendar

### 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 Registrar), you should contact the Company Secretary by letter to the Company's registered office or by e-mail to [info@cohortplc.com](mailto:info@cohortplc.com)

### Share Register

Capita Registrars maintain the register of members of the Company

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

Capita Registrars

The Registry

34 Beckenham Road

Beckenham

Kent BR3 4TU

Tel 0870 162 3100 (for calls within the UK)

+44 20 8639 2157 (for calls from overseas)

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

### Daily Share Price Listings

The Financial Times - AIM, Aerospace and defence

The Times - Engineering

Daily Telegraph - AIM section

### Financial Calendar

Annual General Meeting

2 September 2010

Final dividend payable

8 September 2010

Expected announcement of results for the year ending 30 April 2011

Half year announcement

December 2010

Full year preliminary announcement

June 2011

### Registered Office

Cohort plc

Arlington House

1025 Arlington Business Park

Theale

Reading RG7 4SA