31 May 2016

Kainos Group plc

Preliminary Results for the year ended 31 March 2016

Kainos Group plc (KNOS), a leading UK-based provider of IT, consulting and software solutions, is pleased to announce its results for the year ended 31 March 2016.

Financial Highlights

	2016	2015	Change
Total sales orders[1]	£87.2m	£78.3m	+11%
SaaS sales orders	£8.6m	£2.3m	+274%
Revenue	£76.6m	£60.8m	+26%
Gross profit	£37.1m	£32.4m	+14%
Adjusted pre-tax profit[2]	£14.1m	£11.8m	+19%
Statutory profit before tax	£14.3m	£11.8m	+20%
Adjusted diluted earnings per share[2]	10.5p	8.5p	+24%
Diluted earnings per share	10.6p	8.5p	+25%
Proposed final dividend	4.2p		

Notes
[1] *Orders (including third party sales orders) refers to the value of contracts signed with customers (excluding VAT or other taxes).*
[2] *Adjusted to remove the effect of exceptional items £0.7 million (gain) (2015: nil) and share-based payments £0.5 million (2015: nil).*

Operational Highlights

- Strong financial performance, with record levels of revenue, profit and sales orders
- Completed successful IPO on the London Stock Exchange on 10 July 2015
- Extended footprint in central and regional government in the UK, with flagship new customers including the UK's Office for National Statistics and the National Assembly for Wales
- Growing international presence, including new offices in Boston and Amsterdam
- Acquired 35 new clients for the innovative Kainos Smart™ automated testing tool for Workday clients, including Netflix and Shire Pharmaceuticals
- Selected by Apple as a healthcare partner on its global Mobility Partner Program (MPP)
- Customer approval of Group services rated as 'Good or Above' by over 95% of customers
- Recruited 207 new staff, bringing total employee headcount to 777 at year end
- Improved position to 37th in the Sunday Times 'Best Companies' to Work For' rankings (from 50th in 2015)

Brendan Mooney, Chief Executive, said:

"I am delighted to report another year of strong performance, with increasing levels of client demand across each of our operating divisions. Our sales orders this year increased to a record £87.2 million and included a multi-year development framework in UK government; an accelerating rate of orders for Smart, our market-leading Software as a Service (SaaS) product for automated testing of the Workday suite; and two significant contract wins in the last quarter of the financial year for our new Evolve SaaS solution. This year also included a highly significant event in the history of Kainos: the successful completion of an initial public offering (IPO) of the Company's shares.

We are very pleased with progress to date and excited by the opportunities ahead. We are seeing continued stability and improvement in core markets and we are encouraged by the emerging opportunities in the US. Our investment in new products is being validated by an increasing rate of customer uptake, and the feedback on the quality of our products and services remains very high. We remain focused on providing exceptional careers for our staff and exceptional digital products and services for our customers. The Group's pipeline of prospects continues to strengthen across all divisions and the Board believes that the Group is well-positioned for growth in the coming years."

Ends

For further information, please contact:

Kainos	**via FTI Consulting LLP**
Brendan Mooney, Chief Executive Officer	
Richard McCann, Chief Financial Officer	
Brian Gannon, SVP Corporate Development	
Investec Bank plc	**+44 20 7597 0000**
Dominic Emery/Sebastian Lawrence	
Patrick Robb/Matt Lewis	
FTI Consulting LLP	**+44 20 3727 1000**
Matt Dixon/Chris Lane	

Kainos Group plc

www.kainos.com

investorrelations@kainos.com

+44 28 9057 1100

About Kainos

Kainos is a high growth, high margin, UK-based provider of IT services, consulting and software solutions. The Group specialises across multiple sectors in the development of digital technology solutions; software design and agile software development; third party software integration and implementation services; technology support services; and related ancillary services such as project management.

The Group operates through three divisions that provide a combination of software products, development and maintenance services. Each division operates in markets that are experiencing long-term structural and technological change. The Group's employees are able to help customers in these markets solve complex problems using digital technologies.

Kainos provides its services and products to customers in the UK, the USA and in mainland Europe. At 31 March 2016, headcount excluding contractors numbered 777 staff, working in offices in London, Belfast, Derry, Bristol, Dublin, Boston, Gdansk and Amsterdam.

Overview

The key event of this period was the successful IPO of Kainos on the main market of the London Stock Exchange, which attracted strong interest from the UK institutional investor community. The IPO provided an opportunity to widen share ownership amongst employees through a variety of equity participation schemes, as a result of which 670 staff members became shareholders or gained an equity interest at the time of listing. The IPO also marked a change in governance, with the addition of three new experienced Non-Executive Directors (NEDs) to the Board.

Revenue for the year ended 31 March 2016 grew by 26% to £76.6 million, up from £60.8 million in 2015. Adjusted pre-tax profits increased by 19% to £14.1 million (2015: £11.8 million). Orders for the year ended 31 March 2016 amounted to £87.2 million (2015: £78.3 million), a total that included £5.2 million (2015: £2.3 million) for sales orders of the Smart SaaS product.

In the UK public sector, Kainos continues to see an improvement in market conditions as large central government departments and agencies initiate and progress digitisation programmes. The Group continues to win contracts with existing clients such as the Home Office, and is assisting on a number of large-scale digitisation programmes aligned with the government's Digital-by-Default service standard. The Group has laid the groundwork for extending new engagements in other departments, for example at the Ministry of Justice (MoJ), where Kainos consultants are working alongside civil servants on the Criminal Justice System Efficiency programme. In parallel, Kainos is consolidating its existing relationships with further projects for the Welsh and Northern Irish regional governments. The Group believes that the drive for digitisation in the NHS and local government will gather pace in 2017, and that it is well-placed to benefit from future digital initiatives in the public sector.

Outside government, the Group is experiencing good growth in its Evolve and WorkSmart divisions, particularly in the US and mainland Europe, where it has established offices in Boston and Amsterdam. The number of customers contracted to use the Kainos Smart SaaS automated testing product now stands at 55 and includes well-known names such as Cornell University and Netflix. The WorkSmart services implementation practice continues to extend its roster of clients in the UK and mainland Europe, and now employs more than 75 accredited Workday consultants, making it one of the largest boutique partners in Workday's European ecosystem.

In Evolve, customers are showing a significantly greater interest in a SaaS delivery model rather than the previously dominant perpetual licence model, and this will provide Kainos with greater revenue visibility and more durable, longer-term client relationships in coming years. Evolve's ambitions outside the UK received a significant boost with the recently announced signing of a major contract with a US telehealth provider, which provides a basis on which to build a footprint in the US healthcare market.

Looking forward, the Group expects to see continued stability and improvement in the Digital and WorkSmart divisions, and a period of transition in the Evolve division as it expands its presence in the US and builds a recurring revenue base with the move to a SaaS model.

Strategy

The strategy of the Group is to achieve sustained revenue, profit and cash flow growth in its chosen markets through:

- growing and maintaining the Group's reputation;
- capitalising on its established market position and significant growth opportunities;
- nurturing and expanding its experienced and highly-skilled employee pool;
- building strong, long-term relationships with its customer base;
- exploiting favourable market dynamics and drivers; and
- recruiting high calibre entry-level and experienced staff.

Divisional Review

Digital Services

Digital Services delivers customised online digital solutions, principally for central government, regional government and local government departments and agencies ("UK government"), along with private sector organisations. The solutions provided by Digital Services significantly increase cost-efficiency for its UK government customers and make public services more accessible and easier to use for the UK citizen. The Digital Services division provides similar online digital solutions to private sector organisations, as well as multi-year IT support and managed services.

Digital Services revenue for the year ended 31 March 2016 grew by 11% to £48.5 million (2015: £43.6 million). Gross profits for the division showed a decrease to £21.9 million (2015: £23.1 million), largely reflecting a readjustment of staffing profiles across a single large government programme during the year.

The UK government's programme of digitisation of public sector services is now firmly established. Involved from the early stages of public sector digitisation, Kainos has completed over 50 projects to date for a variety of departments and agencies. In the period ended 31 March 2016, the Group brought a number of high-profile projects to a successful conclusion, including the modernisation of the national MoT system for the Driver and Vehicle Standards Agency (DVSA), an agency sponsored by the Department for Transport (DfT), and the deployment of an online procurement framework for the Defence Science and Technology Laboratory (DSTL), an agency sponsored by the Ministry of Defence (MoD). Early successes, such as the Register to Vote application, which allows citizens to register to vote online, continue to receive high levels of user satisfaction and are changing the ways citizens interact with government.

The Group's priorities in central government include building senior level relationships to consolidate and extend its position in core accounts. This is bearing fruit, with expanding programmes at the MoJ, where Digital Services is involved in a central role in the department's flagship Reform Programme, and at the Office for National Statistics (ONS), where a specialist Kainos delivery team is participating in the early stages of the Census 2021 programme. The Group continues to develop innovative services for clients such as the DfT, where it deployed its Elastic Cloud offering to migrate services quickly and securely to Amazon Web Services (a first in UK government), and where it is using data analytics techniques to enhance the efficiency and performance of the new MoT system. The Group's role as a leading digital supplier to the UK government was recognised by an award for the Best Digital Company at the Digital Leaders IT Awards 2015.

Digital Services continues to expand its presence in regional government, showing revenue growth of 111% to £7.8 million largely through significant ongoing engagements for the Northern Ireland Civil Service (NICS) and the National Assembly for Wales. Outside the public sector, and increasingly outside the UK, the Group has completed successful engagements with a variety of companies including Aviva and Allied Irish Bank. A successful relationship with Capgemini provided a channel to sell a managed cloud operational service to the Metropolitan Police, and opens the possibility of future cross-industry selling.

Looking forward, the Group is optimistic about the future of digitisation in the UK public sector. Although both major parties strongly endorsed the digitisation programme, the return of a Conservative majority government in the general election in May 2015 eliminated uncertainty around government intentions. Subsequent policy statements on digitisation have emphasised the government's intent to accelerate civil service reform and to continue to drive efficiency by modernising public services through digital innovation.

Evolve

Evolve is Kainos' proprietary software platform, developed in conjunction with medical practitioners and hospital managers. Evolve provides two offerings to healthcare markets comprising Evolve EMR, which is used for digitisation, storage and workflow of patient records and is the UK market leader in the digitisation of patient notes in the Acute sector of the NHS; and Evolve Integrated Care, a cloud-based integrated care solution that is licensed on a subscription basis to clients.

Evolve's revenue for the year ended 31 March 2016 grew by 112% to £19.1 million (2015: £9.0 million). Gross profits for the division increased 115% to £10.1 million (2015: £4.7 million). SaaS sales orders in 2016 amounted to £3.4 million (2015: nil), which comprised primarily orders for the division's new Evolve Integrated Care solution.

As well as delivering a strong financial performance, 2016 is notable for the advances the Evolve division has made in realising its strategy. It has consolidated its position as the leading electronic medical records (EMR) supplier to the NHS, with wins at four new Acute Trusts (Western Sussex, Eastern Sussex, Queen Victoria Hospital and West Middlesex University Hospital). Equally significant is Evolve's continuing relationship with Apple as a mobility partner, one of a handful in the healthcare sector. This involves close co-operation with Apple to develop apps, partnerships and customer opportunities and provides a major boost for the Evolve for iPad™ offering, which allows clinicians to access electronic patient records on the move, and which is now in live operation at the South East Coast Ambulance Service.

In tandem, the launch of Evolve Integrated Care, a new SaaS-based solution for domestic and international markets, resulted in a contract win with InTouch Health (ITH), a California-based telehealth provider. Evolve Integrated Care greatly extends the addressable market for the Evolve platform, and opens the door to ITH's established customer base of 1,500 hospital locations across the USA and globally. Evolve's international ambitions have also been strengthened by the Group's engagement with Cirdan Imaging, a supplier of medical diagnostic hardware and software with a worldwide customer base. Cirdan may seek to resell Evolve offerings in Australia.

Looking forward, Evolve plans to build its presence in traditional and new markets. Funding for new technology is expected to remain scarce in the NHS, despite an announcement from the Secretary of State for Health in February 2016 pledging over £4 billion to accelerate the adoption of digital solutions in the NHS. However, early indications are that the demand for an integrated care platform to streamline digital records across primary and secondary healthcare organisations will grow, and Evolve is in a strong position to capitalise on this opportunity.

Customers' increasing interest in a SaaS delivery model rather than in the previously dominant perpetual licence model also extends outside the NHS. Evolve will deploy its SaaS Integrated Care platform at InTouch and Cirdan, both contracts extending over a five-year period. Such SaaS contracts provide Kainos with greater revenue visibility and more durable, longer-term client relationships. To capitalise on these and similar opportunities, the Group plans to invest further in both product development and sales and marketing. These two initiatives, particularly the transition to SaaS, while improving the quality of Evolve's future earnings, are likely to have a short-term impact on Evolve's revenue, profits and cash generation in the financial year ending 31 March 2017. The directors believe this change to the Evolve delivery model is in the best interests of the Group to maximise Evolve's market penetration and strengthen the commercial position over the coming years.

WorkSmart

The Group's WorkSmart division (previously known as Workday Implementation Services) provides consulting, project management, integration, support and testing services for Workday Inc.'s software suite. Workday Inc. provides cloud-based software for Human Capital Management (HCM) and Financial Management software, which enables enterprises to organise their staff efficiently and support financial reporting requirements. Kainos is the only boutique Workday partner headquartered in the UK, responsible for implementing Workday's innovative SaaS platform for enterprise customers. WorkSmart has also developed Kainos Smart ("Smart"), a proprietary software tool that automates the testing of Workday deployments and regular updates.

WorkSmart revenue for the year ended 31 March 2016 grew by 10% to £9.0 million, (2015: £8.2 million). Gross profits for the division showed a 9% increase to £5.1 million (2015: £4.7 million), largely reflecting increased consulting activity and the cumulative effect of recurring Smart revenue. Sales orders for the division's Smart product more than doubled to £5.2 million (2015: £2.3 million).

The WorkSmart division's performance over the course of 2016 has been underpinned by very strong growth in Workday Inc., which increased its own revenue by 48% from its previous financial year. Demand for Kainos WorkSmart services from ecosystem partners such as Meteorix in the first half of the year was bolstered by significant prime engagements with United Drug Group (UDG) and Glencore in the second half. The number of Large Enterprise (LE) customers (those with more than 3,000 employees) now stands at 20, up from 15 at 31 March 2015.

In addition to expanding geographically, Workday Inc. has configured its core offering for smaller organisations (those with up to 3,000 staff). This is being actively promoted as the Medium Enterprise (ME) programme, previously the Lifecycle Deployment Program (LDP), and significantly widens the addressable market for WorkSmart's offerings. In January 2016, the division confirmed its participation in the Workday ME initiative as one of only three accredited partners for this programme in Europe, and has subsequently closed two significant ME deals.

Recruitment remains a priority in the face of strong demand, and the division anticipates an increase of up to 50% in the number of accredited Workday consultants over the course of 2017. It made a number of strategic hires in the year ended 31 March 2016, including a Head of Professional Services in the UK and a country manager in Benelux. Based in the Group's new office in Amsterdam, the growing Benelux team gained its first significant prime engagement in March, contracting to deploy a Workday HCM solution for TomTom, a global provider of electronic navigation and mapping products.

Overall, the division added 35 new Smart SaaS clients during the year including Netflix, Palantir and Toyota Financial Services. The total number of Smart customers now stands at 55, extending the Group's lead in this niche in the Workday ecosystem and contributing to a growing recurring revenue stream. The level of activity in the US driven by interest in Smart has justified an investment in Boston, where Kainos opened an office in June 2015.

Looking forward, WorkSmart will seek to consolidate its position as a leading boutique implementation services provider in Europe, and take advantage of its unique capability with Smart, the only automated testing product for Workday globally. Continued strong growth of Workday Inc. provides an opportunity to expand the pace and range of WorkSmart successes in the coming year.

Summary and Outlook

The directors believe that the Group is well placed to deliver growth in the coming years. The Group's Digital Services division has established a trusted reputation in central and regional government, and continues to benefit from the UK government's policy of wholesale digitisation of public services. For the first time, this policy extends into the NHS, where the Kainos Evolve solution is a market leader, so the Group is uniquely placed to reap the benefits of its strong credentials in both healthcare and central government sectors. The WorkSmart division has established itself as one of the leading boutique implementation services providers in Europe, and is in a commanding position with Smart, the only automated testing product for Workday globally. The SaaS version of Evolve, the Evolve Integrated Care platform, has also achieved early success, winning a flagship deal in the US. A gradual increase in recurring revenue is expected in the coming years as customers transition to SaaS offerings.

In summary, the Group sees continued stability and improvement in core markets and is encouraged by the emerging opportunities in the US and by the strengthening sales pipeline across all divisions. Going forward, it will remain focused on providing exceptional careers for staff and exceptional digital products and services for customers.

Financial Review

In 2016 Kainos achieved revenue of £76.6 million, 26% ahead of that delivered in the prior year (2015: £60.8 million). This was underpinned by continued favourable conditions in the public sector, supported by healthy growth for both Evolve and WorkSmart divisions. The recurring revenue generated from SaaS orders has more than doubled and this trend is expected to continue in 2017.

Services revenue in the year ended 31 March 2016 amounted to £60.2 million (2015: £53.4 million). Third party revenue (derived from sales of third party goods and services) increased by 138% to £9.1 million (2015: £3.8 million), and licence revenue (predominantly for the Group's Evolve product and related modules) increased by 86% to £5.5 million (2015: £3.0 million). Growth in SaaS revenue (predominantly from the Group's Smart automated test solution) increased by 169% to £1.7 million (2015: £0.6 million), with Smart Annual Recurring Revenue (ARR) of £2.5 million at 31 March 2016 (2015: £0.9 million).

On a regional basis, 15% of revenue is now accounted for outside the UK. Revenue in the US grew by 8% to £4.0 million, and in the Republic of Ireland revenue increased by 23% to £5.4 million. The UK remains the most dominant region, with revenue growing by 24% in 2016.

Adjusted pre-tax profit has increased by 19% to £14.1 million (2015: £11.8 million). In December 2015, the Group completed the disposal of its investment in SpeechStorm for £2.0 million, which was recognised as an exceptional gain during the period.[1] The adjusted pre-tax profit has been measured before exceptional items of £0.7 million (gain) (2015: nil) and excludes share-based payments of £0.5 million (2015: nil). The statutory pre-tax profit was £14.3 million (2015: £11.8 million), an increase of 20%. Investment in product development increased by 103% to £2.3 million (2015: £1.1 million), all of which was expensed in the period.

The headline effective tax rate for 2016 was 13% (2015: 18%). The headline rate includes the exceptional gain on the SpeechStorm sale and higher level of Research & Development tax credits than in 2015.

Adjusted diluted earnings per share (adjusted to exclude exceptional items and share-based payments) increased by 24% to 10.5p (2015: 8.5p). Kainos believes this measure of earnings per share provides a better long-term indication of underlying performance. The diluted earnings per share increased by 25% to 10.6p (2015: 8.5p).

In February 2016, the Group acquired 10% of the share capital of Cirdan Imaging Limited, a privately-owned supplier of medical diagnostic hardware and software for £0.9 million. Cirdan's international presence and credentials in the healthcare industry offer the potential to strengthen the Evolve proposition in new global markets.

The Group has a robust statement of financial position with £15.0 million of cash, no debt and net assets of £25.9 million. Trade debtors and accrued income at 31 March 2016 were £14.5 million (2015: £11.6

[1] Greeneden UK Acquisition Company Limited acquired the entire share capital of SpeechStorm, in which Kainos had a minority stake.

million) and £5.2 million (2015: £4.1 million) respectively, which in total increased in line with revenue in 2016. Capital expenditure amounted to £1.0 million (2015: £0.9 million).

Dividend

During the year £13.3 million of dividends were paid (2015: £1.3 million), comprising pre-IPO dividends of £11.2 million and an interim dividend of £2.1 million. The proposed final dividend of 4.2p per share, if approved by shareholders, will be payable on 21 October 2016 to shareholders on the register on 30 September 2016 (ex-dividend date 29 September 2016).

Consolidated statement of comprehensive income

	Note	2016 (£000s)	2015 (£000s)
Continuing operations			
Revenue	2	76,594	60,778
Cost of sales	2	(39,485)	(28,329)
Gross profit	2	**37,109**	**32,449**
Operating expenses excluding share-based payments	2	(23,050)	(20,646)
Share-based payments		(524)	-
Operating expenses		(23,574)	(20,646)
Operating profit before exceptional items		**13,535**	**11,803**
Exceptional gain on disposal of investment	5	1,981	-
Exceptional expenses in relation to IPO	5	(1,297)	-
Exceptional items	5	684	-
Operating profit	2	**14,219**	**11,803**
Finance income		42	46
Finance expense		-	(12)
Profit before tax		14,261	11,837
Taxation on ordinary activities	6	(1,834)	(2,072)
Profit and total comprehensive income for the year		**12,427**	**9,765**
Earnings per share			
Basic	8	10.7p	8.9p
Diluted	8	10.6p	8.5p

Consolidated statement of financial position

	Note	2016 (£000s)	2015 (£000s)
Non-current assets			
Property, plant and equipment		2,086	1,751
Investments		900	-
Other non-current assets		379	3,466
		3,365	5,217
Current assets			
Trade and other receivables	9	15,048	12,062
Prepayments		1,970	1,519
Corporation tax		1,355	-
Accrued income		5,222	4,051
Cash and bank balances		15,045	16,793
		38,640	34,425
Total assets		**42,005**	**39,642**
Current liabilities			
Trade creditors and accruals	10	(7,901)	(7,761)
Deferred income		(4,218)	(4,347)
Corporation tax		-	(226)
Other tax and social security		(3,637)	(2,975)
Derivative financial instruments		-	(98)
Other provisions		-	(158)
		(15,756)	(15,565)
Non-current liabilities			
Other provisions		(297)	(347)
Deferred tax liability		(29)	-
		(326)	(347)
Total liabilities		(16,082)	(15,912)
Net assets		**25,923**	**23,730**
Equity			
Share capital		590	549
Share premium account		1,607	-
Capital reserve		668	575
Share-based payment reserve		524	-
Retained earnings		22,534	22,606
Total equity		**25,923**	**23,730**

Consolidated statement of changes in equity for the year ended 31 March 2016

	Share capital	Share premium	Capital reserve	Share-based payments	Retained earnings	Total equity
Balance at 31 March 2014	**(£000s)**	**(£000s)**	**(£000s)**	**(£000s)**	**(£000s)**	**(£000s)**
(audited)	**525**	**396**	**54**	**-**	**14,155**	**15,130**
Balance at 31 March 2014 (restated) [(1)]	**525**	**-**	**450**	**-**	**14,155**	**15,130**
Profit and total comprehensive income	-	-	-	-	9,765	9,765
Current tax for equity-settled share-based payments	-	-	-	-	185	185
Deferred tax for equity-settled share-based payments	-	-	-	-	(174)	(174)
Issue of share capital	24	-	125	-	-	149
Dividends	-	-	-	-	(1,325)	(1,325)
Balance at 31 March 2015 (audited)	**549**	**521**	**54**	**-**	**22,606**	**23,730**
Balance at 31 March 2015 (restated) [(1)]	**549**	**-**	**575**	**-**	**22,606**	**23,730**
Profit and total comprehensive income	-	-	-	-	12,427	12,427
Premium on shares issued prior to reorganisation	-	-	100	-	-	100
Share-based payment expense	-	-	-	524	-	524
Current tax for equity-settled share-based payments	-	-	-	-	917	917
Deferred tax for equity-settled share-based payments	-	-	-	-	(107)	(107)
Issue of share capital	41	1,607	(7)	-	-	1,641
Dividends	-	-	-	-	(13,309)	(13,309)
Balance at 31 March 2016	**590**	**1,607**	**668**	**524**	**22,534**	**25,923**

1) *In connection with the admission to the London Stock Exchange, the Group undertook a reorganisation of its corporate structure which resulted in Kainos Group plc becoming the ultimate holding company of the Group. The transaction is accounted for as a capital reorganisation with the consolidated financial statements (including comparative information) of the Group reflecting the predecessor carrying amounts of Kainos Software Limited.*

Consolidated cash flow statement at 31 March 2016

	2016 (£000s)	2015 (£000s)
Net cash from operating activities	**9,761**	**13,114**
Investing activities		
Purchases of trading investments	(900)	-
Proceeds on disposal of investment	1,981	-
Purchases of property, plant and equipment	(1,022)	(917)
Net cash from / (used in) investing activities	**59**	**(917)**
Financing activities		
Dividends paid	(13,309)	(1,325)
Proceeds on issue of shares	1,741	149
Net cash from used in financing activities	**(11,568)**	**(1,176)**
Net (decrease) / increase in cash and cash equivalents	(1,748)	11,021
Cash and cash equivalents at beginning of year	16,793	5,772
Cash and cash equivalents at end of year	**15,045**	**16,793**

Notes to the consolidated financial statements

1. General information and basis of preparation

Kainos Group plc ("the Company") is a company incorporated and domiciled in the UK (company registration number 09579188), having its registered office at 4th Floor, 111 Charterhouse Street, London EC1M 6AW.

The preliminary results announcement for the year ended 31 March 2016 has been prepared by the directors based on the results and position which are reflected in the statutory accounts. The statutory accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRS).

The financial information for the years to 31 March 2016 and 31 March 2015 does not constitute statutory accounts and has been extracted from the Company's consolidated accounts for the year to 31 March 2016.

Statutory accounts for the year to 31 March 2015 have been delivered to the Registrar of Companies, and those for the year to 31 March 2016 will be delivered following the Company's Annual General Meeting. The auditor has reported on those accounts: its report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

The financial statements are presented in Pounds Sterling and rounded to the nearest thousand. The consolidated financial statements consolidate those of the Company and its subsidiaries (together "Kainos", or "the Group").

2. Segment reporting

All of the Group's revenue during the period 31 March 2016 was derived from continuing operations. Kainos is structured into three divisions: Digital Services, Evolve and WorkSmart (previously Workday Implementation Services).

Digital Services delivers full system developments of customised online digital solutions, principally for UK government and private sector organisations. Digital Services is helping to change the way UK citizens engage with UK government departments and agencies by migrating paper-based systems and transactions to online platforms that are capable of handling high volumes of data and transactions and are also more accessible, easier to use and less costly.

Evolve is Kainos' proprietary software platform, developed in conjunction with medical practitioners and hospital managers. Evolve provides two offerings to healthcare markets comprising Evolve EMR, which is used for digitisation, storage and workflow of patient records and is the UK market leader in the digitisation of patient notes in the Acute sector of the NHS; and Evolve Integrated Care, a cloud-based integrated care solution that is licensed on a subscription basis to clients.

The WorkSmart division provides consulting, project management, integration, support and testing services for Workday Inc. SaaS products. WorkSmart has also developed Smart, a proprietary tool that automates the testing of Workday software deployments and subsequent software updates. Workday Inc.'s software suite includes HCM and Financials software products. Kainos is the only boutique Workday partner headquartered in the UK.

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

2016 ***12 months to 31 March***		**Digital Services (£000s)**	**Evolve (£000s)**	**WorkSmart (£000s)**	**Consolidated (£000s)**
Revenue		48,504	19,070	9,020	76,594
Cost of sales		(26,631)	(8,950)	(3,904)	(39,485)
Gross profit		**21,873**	**10,120**	**5,116**	**37,109**
Operating expenses excluding share-based payments					(23,050)
Share-based payments					(524)
Operating expenses					**(23,574)**
Operating profit before exceptional items					**13,535**
Exceptional gain on disposal of investment	(note 5)				1,981
Exceptional expenses in relation to IPO	(note 5)				(1,297)
Exceptional items					684
Operating profit					**14,219**

2015 ***12 months to 31 March***	**Digital Services (£000s)**	**Evolve (£000s)**	**WorkSmart (£000s)**	**Consolidated (£000s)**
Revenue	43,580	9,018	8,180	60,778
Cost of sales	(20,510)	(4,314)	(3,505)	(28,329)
Gross profit	**23,070**	**4,704**	**4,675**	**32,449**
Operating expenses				**(20,646)**
Operating profit				**11,803**

The Group's revenue from external customers by geographic location is detailed below:

	2016 (£000s)	**2015 (£000s)**
United Kingdom	65,314	52,553
Republic of Ireland	5,371	4,425
USA	4,005	3,724
Other	1,904	76
	76,594	**60,778**

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment assets and liabilities are not reported to the chief operating decision maker (CODM) on a segmental basis and therefore are not disclosed.

3. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	2016 (£000s)	2015 (£000s)
Net foreign exchange gains	(412)	(133)
Operating lease rentals	1,026	1,014
Research and development costs	2,332	1,146
Government grants	(426)	(912)
Depreciation of property, plant and equipment	687	521
Staff costs	35,373	30,954
Fair value measurement of foreign currency forward contracts	(98)	161

4. Staff numbers

The average number of employees during the year was:

	2016 Number	2015 Number
Technical	643	539
Administration	58	49
Sales	32	24
	733	**612**

5. Exceptional items

Gain on disposal on investment

In December 2015, the Group completed the disposal of its investment in SpeechStorm for a consideration of £2.0 million, all of which was recognised as an exceptional gain during the period. The Group held 19.9976% of the share capital in SpeechStorm and the gain relates to the disposal of the Group's entire shareholding. The disposal was triggered as a result of the acquisition by Greeneden UK Acquisition Company Limited of the entire share capital of SpeechStorm.

Exceptional expenses

Exceptional expenses relate to costs associated with the IPO of Kainos Group plc shares on the London Stock Exchange on 10 July 2015.

A total of £1.3 million costs were incurred as a result of the IPO in the period (2015: nil). All of the costs incurred in connection with the IPO were expensed in the period as they did not relate to the issue of new shares.

6. Tax on ordinary activities

	2016 (£000s)	2015 (£000s)
Corporation tax:		
Current year (UK)	1,723	1,957
Current year (overseas)	496	-
Adjustments in respect of prior years	(439)	(365)
	1,780	1,592
Deferred tax	54	480
	1,834	**2,072**

UK corporation tax is calculated at 20 % (2015: 21%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The headline effective tax rate for 2016 was 13% (2015: 18%). The 2016 rate was lower mostly due to an increase in the estimated research and development tax credits in respect of prior years. From 1 April 2016 there will be a requirement for the Group to move from submitting research and development expenditure related tax claims under the previous large company super deduction scheme (which resulted in additional tax deductions accounted for within the tax charge) to the Research and Development Expenditure Credit ("RDEC") scheme (which results in credits accounted for within operating profit). Whilst there will be a reduction in future UK corporation tax rates we expect this to be offset by the treatment of the new RDEC scheme as well as growth in overseas profits and therefore consider that the sustainable tax rate is likely to be similar to the rate for 2015.

The Group's tax charge can be reconciled to the profit in the statement of comprehensive income as follows:

	2016 (£000s)	2015 (£000s)
Profit before tax on continuing operations	14,261	11,837
Tax at the UK corporation tax rate of 20% (2015: 21%)	2,852	2,486
Non-deductible expenses/(non-taxable income)	13	(9)
Research and development super deduction	(472)	-
Consolidation adjustment	-	126
Effect of change in UK corporation tax rate	(7)	(24)
Effect of losses utilised/not utilised in period	9	-
Effect of non-UK tax rates	(114)	(142)
Effect of change in rate from deferred tax to current tax	(8)	-
Adjustments to tax charge in respect of prior years	(439)	(365)

Tax expense for the year	**1,834**	**2,072**

In addition to the amount charged to the statement of comprehensive income, the following amounts relating to tax have been recognised directly in equity.

	2016 (£000s)	2015 (£000s)
Current tax		
Excess tax deductions for share-based payments on exercised options	(917)	(185)
Deferred tax		
Change in estimated tax deductions related to share-based payments	107	174
Total tax recognised directly in equity	**(810)**	**(11)**

7. Dividends

	2016 (£000s)	2015 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2016 of 1.8p per share	2,133	
Dividend for 2015 of 2.3p per share	2,548	
Dividend for 2015 of 7.5p per share	8,628	-
Dividend for 2014 of 1.2 p per share		1,325
	13,309	**1,325**

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. The proposed dividend is payable on 21 October 2016 to all shareholders on the Register of Members on 30 September 2016. The total estimated dividend to be paid is 4.2p per share.

8. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable of ordinary shareholders to the parent company by the weighted average number of ordinary shares in issue during the period.

	2016 (£000s)	2015 (£000s)
Profit for the period	**12,427**	**9,765**
	Thousands	**Thousands**

Weighted average number of ordinary shares for the purposes of basic earnings per share	115,775	109,565
Effect of dilutive potential ordinary shares from share options	1,233	5,861
Weighted average number of ordinary shares for the purposes of diluted earnings per share	117,008	115,426
Basic earnings per share	**10.7p**	**8.9p**
Diluted earnings per share	**10.6p**	**8.5p**

Adjusted basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent company, excluding exceptional items and share-based payments (including associated taxes) by the weighted average number of ordinary shares in issue during the period.

	2016 (£000s)	**2015 (£000s)**
Profit for the period	**12,427**	**9,765**
Exceptional items (net of tax)	1,297	-
Gain on disposal of investment	(1,981)	-
Share-based payments (including associated taxes)	524	-
Adjusted profit for the period	**12,267**	**9,765**

	Thousands	**Thousands**
Weighted average number of ordinary shares for the purposes of basic earnings per share	115,775	109,565
Effect of dilutive potential ordinary shares from share options	1,233	5,861
Weighted average number of ordinary shares for the purposes of diluted earnings per share	117,008	115,426
Basic earnings per share	**10.6p**	**8.9p**
Diluted earnings per share	**10.5p**	**8.5p**

9. Trade and other receivables

	2016 (£000s)	**2015 (£000s)**
Trade receivables	14,541	11,584
Allowance for doubtful debts	(66)	-
	14,475	11,584
Other debtors	573	478
	15,048	**12,062**

10. Trade and other payables

	2016 (£000s)	2015 (£000s)
Trade creditors and accruals	7,901	7,761
Deferred income	4,218	4,347
Corporation tax	-	226
Other tax and social security	3,637	2,975
Other provisions	-	158
Derivative financial instruments	-	98
	15,756	**15,565**

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs, including payroll. For most suppliers no interest is charged on payables. The directors consider that the carrying amount of trade and other payables approximates to their fair value.