28 November 2016

Kainos Group plc

("Kainos" or the "Group")

Interim results for the six months ended 30 September 2016

Kainos Group plc (LSE:KNOS), a leading UK-based provider of IT, consulting and software solutions announces its results for the six months ended 30 September 2016.

FINANCIAL HIGHLIGHTS

	H1 2017	**H1 2016**	**Change**
Revenue	£40.6m	£37.2m	+9%
Gross profit	£21.1m	£18.3m	+15%
Adjusted EBITDA [1]	£7.4m	£7.1m	+4%
Adjusted pre-tax profit [2]	£7.0m	£6.8m	+3%
Statutory profit before tax	£6.5m	£5.2m	+25%
Adjusted diluted earnings per share [2]	4.8p	4.8p	-
Diluted earnings per share	4.3p	3.4p	+26%
Interim dividend	1.9p	1.8p	+6%

Notes

[1] *Calculated by taking the Adjusted pre-tax profit and adding back depreciation, amortisation, finance income and expense, which total £0.4m (H1 2016: £0.3m)*

[2] *Adjusted to remove the effect of £0.57m share based payments (H1 2016: £0.19m) and £Nil exceptional costs (H1 2016: £1.42m)*

OPERATIONAL HIGHLIGHTS

- Grew presence in UK central and regional government with existing and new customers
- Significantly expanded Digital Services footprint in commercial sectors in the UK and overseas
- Consolidated position as largest boutique provider of Workday services in Europe
- Significant investment in both R&D and Sales and Marketing in Digital Platforms
- Added a net 179 staff taking total headcount to 967 at 30 September 2016

Brendan Mooney, CEO, commented:

"We have seen a good performance across the Group during this reporting period, with increasing levels of demand for our Digital Services and Platforms. In the six months from 1 April to 30 September 2016, we have grown overall revenue by 9%, adjusted pre-tax profit by 3%, and statutory profit by 25%.

Underlying market conditions for Digital Services remain very positive, supporting a growing sales pipeline and a good outlook for the remaining half of the year, with increasing opportunity for growth in the UK, Ireland and mainland Europe, particularly in commercial industry sectors. In our Digital Platforms business, slow procurement in the NHS was offset by solid growth of Smart, a trend we expect will continue for the remainder of this year. We remain confident that investment in our Digital Platforms business is on target to deliver future returns.

We are pleased with the Group's financial performance for the six months to September 2016. We are confident that trading is in line with market expectations and we see plenty of opportunities to continue to deliver growth in the future."

Ends

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About Kainos

Kainos Group plc is a UK-based provider of Digital Services and Digital Platforms.

The Group's Digital Services include full lifecycle development and support of customised Digital Services for government and commercial customers. Kainos is also the largest boutique partner for Workday Inc. ('Workday') in Europe, responsible for implementing Workday's innovative Software-as-a-Service (SaaS) platform for enterprise customers.

The Group's Digital Platforms comprise specialised digital products in the mobile healthcare and automated testing arenas. Evolve Electronic Medical Records ('EMR') is the market leading product for the digitisation of patient notes in the Acute sector of the NHS; Evolve Integrated Care ('IC') is a SaaS-based integrated care platform for NHS and international healthcare providers; and Smart is an automated testing platform for Workday customers.

Kainos employs approximately 1,000 staff across eight offices in Europe and the USA, working interchangeably across its Services and Platforms businesses.

Kainos is listed on the London Stock Exchange (KNOS). For further information, please visit www.kainos.com.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

OPERATIONAL REVIEW

Historically the Group has presented its results by operating division (Digital, Evolve, WorkSmart). However, going forward, the directors consider that presenting its operations in terms of digital service and digital platform offerings better represents the Group's business by highlighting more clearly how each offering is positioned in the market, and more easily allowing the application of appropriate performance metrics to each part of the business. Note 14 to the accounts sets out a reconciliation of the previous reporting structure to the new one.

Digital Services

Kainos delivers full life cycle development of online digital solutions for government organisations (including departments and agencies), and for commercial customers across a variety of industry sectors. It is also the largest boutique partner for Workday in Europe, providing consulting, project management, integration, support and testing services for Workday's innovative software suite.

Digital Services revenue for the six months ended 30 September 2016 grew by 13% to £31.2m (H1 2016: £27.6m). Revenue from central and regional government customers in the period increased by 9% to £22.1m (H1 2016: £20.3m), while revenue from commercial customers increased by 26% to £9.2m (H1 2016: £7.3m), reflecting the Group's increased investment in developing business in industry sectors outside the public sector. Gross profit for Digital Services increased to £14.9m (H1 2016: £12.7m), and gross margin for Digital Services increased by 2 percentage points to 48% (H1 2016: 46%). Total sales orders for Digital Services increased by 8% to £28.3m (H1 2016: £26.4m) and contracted backlog increased by 14% to £33.7m (H1 2016: £29.6m).

The Group is experiencing good momentum in the public sector, where the increased pace of digitisation is generating a strong pipeline of opportunity across central and regional government. Kainos remains a key partner for the Cabinet Office and other large government departments, including the Department for Transport and the Ministry of Justice, where the Group is engaged in a portfolio of strategic multi-year projects. New contract wins, such as the Information Digitisation Programme at the Home Office, have led to the expansion of the Group's footprint in central government. The Group is also making progress in regional government with engagements in Scotland (Scottish Courts and Tribunals), Wales (Welsh Assembly Government Treasury Department) and Northern Ireland (Irish Fisheries Group).

The Group has invested significantly in business development activity outside the public sector. This has resulted in extended engagements with long-standing customers, such as EasyJet, as well as significant projects with new customers in the UK, Netherlands and Germany. The Group's Workday services practice has been particularly successful this period, winning new business with customers in both the financial services and retail sectors, and engaging in post-deployment activity with the existing customer base. The Group's position in the Workday partner ecosystem in Europe has strengthened considerably following the acquisition of competitors DayNine (by Accenture in September) and Appirio (by Wipro in October). This consolidation makes the Group the largest boutique provider of Workday services in EMEA, and the only independent European services partner with the scale to deploy prime Workday suite implementations.

Digital Platforms

The Group's Digital Platform portfolio comprises three products: Evolve EMR, the UK market-leading electronic medical records product for digitisation and workflow of patient notes in the NHS; Evolve IC, a SaaS-based integrated care platform for NHS and international healthcare providers; and Kainos Smart, an automated testing platform for Workday customers.

Digital Platforms revenue for the six months ended 30 September 2016 reduced by £0.3m to £9.4m (H1 2016: £9.7m). However, Digital Platforms revenue excluding third party revenue grew by 12% to £7.5m (H1 2016: £6.7m) over the same period[1]. The Group considers the latter measurement (which excludes third party revenue) to be a more accurate representation of the underlying performance of the business. Gross profit increased from 58% to 66%, mainly because of the drop in third party revenue.

Total sales orders for Digital Platforms (including third party) decreased by 62% to £4.3 million (H1 2016: £11.3 million), largely explained by the conclusion of an exceptionally large sales contract worth in excess of £7.5m to a NHS consortium in the prior period. There remains uncertainty in the NHS market which has impacted sales of Evolve EMR, including a lower number of procurements; the allocation of the £4.2billion of NHS IT funding announced in February 2016; and the timeframe for the paperless NHS agenda being pushed back from 2018 to 2020. The Group expects continued scarcity of funding and slower procurement in the NHS to continue into the second half of the year,

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[1] *Third party revenue includes fees charged to customers for third party services and products, such as scanning services and computer hardware.*

although it continues to make headway at existing customer Trusts through the deployment of additional Evolve EMR modules, including Growth Charts and Smart Indexing.

The Group continues to see opportunities in the market for integrated healthcare solutions. The first beta installation of Evolve IC is now live at InTouch Health (ITH) in the US, and further upside potential has been identified in the ITH client ecosystem, which includes 1,400 US hospitals, with 300 added annually. Evolve IC pilots are underway at two large US healthcare providers, and in June Kainos signed a five-year subscription agreement with Hygieia to use Evolve IC to power its insulin therapy navigation application. The Group expects to make further investment in line with revenue opportunities as they arise to take advantage of the emerging global market for Evolve IC.

Take-up of Smart, the Group's SaaS-based automated testing product, is solid with nine new customers added this period. The total number of Smart customers is now 64 (H1 2016: 36), and contributes to a growing recurring revenue stream. Average annual Smart deal size has increased by 51% to £67.1k (H1 2016: £44.4k) and, significantly, the first Smart subscription renewal was completed during this period with Diageo. The level of activity driven by interest in Smart in Europe and the US has justified further investment in sales and marketing, including recruitment of experienced SaaS sales professionals. Contracted backlog for Smart is up 85% to £6.0m (H1 2016: £3.3m) derived from a customer base of 64 (H1 2016: 36).

PEOPLE AND CAREER DEVELOPMENT

Kainos continues to build an exceptionally talented and engaged workforce. Recruitment and on-boarding activities remain a priority, with a growing number of experienced and entry-level staff joining in all the Group’s operating locations. Headcount at the end of this period was 967 staff (H1 2016: 788), an increase of 23%. The ratio of contractors and associates has decreased to 6.7% over the same period. Attrition remains well below industry norms at 6.4% (H1 2016: 10.9%). Significantly, the number of certified Workday consultants in the Group has increased to 94 (H1 2016: 57), based in offices in Belfast, Dublin, London, Boston and Amsterdam. The Group continues to search for talent outside mainstream recruitment channels, building on the success of its long-standing and popular Earn as You Learn® and apprenticeship schemes.

Talent development and staff wellbeing remains a priority. The Group has extended its MAP (Master, Accomplish, Progress) training programme and is building a framework for development of consistent skills across the employee base to allow full mobility of staff across Digital Services and

Platform operations. Its efforts in building innovative skills were recognised during this period by a Princess Royal Training Award, and by the Ulster University as Placement Employer of the Year.

The Group is dedicated to promoting awareness of digital technologies amongst school leavers and young people, and works actively to position Kainos as a socially aware and responsible organisation. Kainos' reputation as a digital evangelist and educator was enhanced by its participation in several Tech Outreach activities supported by staff volunteers, including the launch of Immersive Tech NI, a novel initiative designed to explore and expand the possibilities created by immersive technologies such as virtual reality and augmented reality.

SUMMARY AND OUTLOOK

The Board is pleased with the Group's financial performance for the six months ended 30 September 2016. Momentum in Digital Services continues to strengthen, supported by a growing sales pipeline in the UK and Ireland, and increasingly in mainland Europe. Significant progress has been made during the period in extending the Group's footprint in commercial industry sectors, which now account for over a quarter of the Group's Digital Services revenue. Although market conditions in the NHS are expected to remain challenging in the short term, and there is potential for continued uncertainty because of the UK's decision to leave the European Union ('Brexit'), the Board is confident that overall Group performance is on track to meet market expectations. The directors continue to see opportunities for growth and remain confident that investment in the Group's Digital Platforms is on target to deliver returns in the future.

FINANCIAL REVIEW

In H1 2017, Kainos achieved revenue of £40.6m, representing a 9% growth on H1 2016 (£37.2m). Digital Services revenue for the six months ended 30 September 2016 grew by 13% to £31.2m (H1 2016: £27.6m). Digital Platforms revenue for the six months ended 30 September 2016 dropped by £0.3m to £9.4m (H1 2016: £9.7m). However, Digital Platforms revenue excluding third party revenue grew by 12% to £7.5m (H1 2016: £6.7m) over the same period.[2] Gross profit increased from 58% to 66% mainly because of the drop in third party revenue.

Total sales orders for Digital Services increased by 8% to £28.3m (H1 2016: £26.4m). Sales orders for Digital Platforms (including third party) decreased by 62% to £4.3m (H1 2016: £11.3m), largely

[2] The Group considers that citing revenue excluding third party revenue presents a more accurate representation of the underlying performance of the business.

explained by the conclusion of an exceptionally large sales contract in the comparable period in 2016 (a consortium of NHS Trusts including East Sussex, Western Sussex and Queen Victoria Hospital). Sales orders for the Group's SaaS platforms increased by 15% to £1.5m (H1 2016: £1.3m). Contracted backlog for Digital Services increased by 14% to £33.7m (H1 2016: £29.6m) and contracted backlog for Digital Platforms decreased by 8% to £34.3m (H1 2016: £37.5m).

Operating expenses excluding share-based payments for H1 2017 increased by 22% to £14.1m (H1 2016: £11.6m), largely driven by investment in the Group's Digital Platforms, primarily product development and sales and marketing. Investment in product development increased by 103% to £2.2m (H1 2016: £1.1m), all of which was expensed in the period. Kainos has implemented the research and development expenditure credit regime (RDEC) during the period. As a result, research and development credits that were previously offset against the income tax expense are now received in the form of research and development grants and are offset against operating expenses. RDEC grants for the period totalled £0.4m.

Adjusted pre-tax profit measured before share-based payments of £0.57 million (H1 2016: £0.19m) has increased by 3% to £7.0m (H1 2016: £6.8m). Statutory profit before tax increased by 25% to £6.5m (H1 2016: £5.2m), largely because of the effect of one-off costs relating to the Initial Public Offering (IPO) of the Group's shares on the London Stock Exchange on 10 July 2015.

The effective tax rate for H1 2017 was 19.4% (H1 2016: 23.4%). The decrease in the effective tax rate is largely because one-off costs of £1.4m relating to the IPO were disallowable for tax purposes. The expected annual tax rate for the year ending 31 March 2017 is 19.7% (31 March 2016: 20.5%).

Brexit has so far not resulted in any negative impact on the Group's work with UK central government, and the pipeline of work continues to build in both existing and new government departments. However, the Board recognises that it is too soon to assess the full impact of Brexit, and that there may be medium-term macro-economic factors which act to change the pace of growth. The Group had approximately £7.3m of revenue denominated in foreign currencies in the period. This was balanced by a similar amount of costs also denominated in currencies other than Sterling (mainly relating to staff costs in Poland).

The Group has a robust balance sheet with £20.9m of cash, no debt and net assets of £31.7m. The net cash position increased by £5.9m during the six months to 30 September 2016. Net cash from operating activities increased by 118% to £6.5m in the period (H1 2016: £3.0m). This comprised cash generated by operations, which increased by 26% to £5.3m (H1 2016: £4.2m), and net tax received of £1.1m following reclaim of tax in relation to research and development credits.

An interim dividend of 1.9 pence per ordinary share (2016: 1.8p) has been declared (an increase of 6%) and will be paid on 30 December 2016 to shareholders on the register on 9 December 2016, with an ex-dividend date of 8 December 2016.

Risks

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from forecast and historic results. The directors do not consider that the principal risks and uncertainties have changed since the publication of the Group’s Annual Results on 31 May 2016. These are described in more detail on pages 9 and 10 of the Annual Report (available on the Group’s website www.kainos.com).

While the impact of Brexit in the longer-term remains unclear, the Group is confident that performance will not be significantly affected in 2017 and continues to see immediate opportunities for growth.

Condensed consolidated interim statement of comprehensive income
for the six months ended 30 September 2016

	Note	6 months to 30 Sep 2016 unaudited £'000	6 months to 30 Sep 2015 unaudited £'000	12 months to 31 Mar 2016 audited £'000
Continuing operations				
Revenue	5	**40,600**	**37,234**	**76,594**
Cost of sales	5	(19,520)	(18,898)	(39,485)
Gross profit		**21,080**	**18,336**	**37,109**
Operating expenses excluding share-based payments		(14,107)	(11,556)	(23,050)
Share based payments		(570)	(194)	(524)
Operating expenses		(14,677)	(11,750)	(23,574)
Operating profit before exceptional items		**6,403**	**6,586**	**13,535**
Exceptional gain on disposal of investment	6	-	-	1,981
Exceptional expenses in relation to IPO	6	-	(1,424)	(1,297)
Exceptional items	6	-	(1,424)	684
Operating profit		**6,403**	**5,162**	**14,219**
Finance income		50	27	42
Finance expense		(1)	(2)	-
Profit before tax		**6,452**	**5,187**	**14,261**
Taxation	7	(1,237)	(1,211)	(1,834)
Profit and total comprehensive income for the period		**5,215**	**3,976**	**12,427**
Earnings per share				
Basic	9	4.4p	3.5p	10.7p
Diluted	9	4.3p	3.4p	10.6p

Condensed consolidated interim balance sheet
at 30 September 2016

	Note	30 Sep 2016 unaudited £'000	30 Sep 2015 unaudited £'000	31 Mar 2016 audited £'000
Non-current assets				
Property, plant and equipment		2,221	2,027	2,086
Investments		900	-	900
Other non-current assets	11	119	1,067	379
		3,240	3,094	3,365
Current assets				
Trade and other receivables	10	14,062	13,177	15,048
Prepayments		2,189	1,184	1,970
Accrued income		6,307	5,066	5,222
Corporation tax		-	356	1,355
Cash and bank balances		20,926	9,714	15,045
		43,484	29,497	38,640
Total assets		**46,724**	**32,591**	**42,005**
Current liabilities				
Trade creditors and accruals		(6,996)	(7,278)	(7,901)
Deferred income		(4,281)	(3,422)	(4,218)
Corporation tax		(579)	-	-
Other tax and social security		(2,856)	(2,630)	(3,637)
Derivative financial instruments		-	(43)	-
		(14,712)	(13,373)	(15,756)
Non-current liabilities				
Deferred tax		-	(185)	(29)
Other provisions		(297)	(357)	(297)
		(297)	(542)	(326)
Total liabilities		**(15,009)**	**(13,915)**	**(16,082)**
Net assets		**31,715**	**18,676**	**25,923**
Equity				
Share capital		590	590	590
Share premium account		1,607	1,607	1,607
Capital redemption reserve		668	668	668
Share based payments reserve		1,094	194	524
Retained earnings		27,756	15,617	22,534
Total equity		**31,715**	**18,676**	**25,923**

Condensed consolidated interim statement of changes in shareholders' equity for the six months ended 30 September 2016

	Share capital	Share premium	Capital redemption reserve	Share based payments	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2015	**549**	**-**	**575**	**-**	**22,606**	**23,730**
Profit and total comprehensive income	-	-	-	-	3,976	3,976
Premium on shares issued prior to reorganisation	-	-	100	-	-	100
Share-based payment expense	-	-	-	194	-	194
Current tax for equity - settled share based payments	-	-	-	-	375	375
Deferred tax for equity-settled share-based payments	-	-	-	-	(164)	(164)
Issue of share capital	41	1,607	(7)	-	-	1,641
Dividends	-	-	-	-	(11,176)	(11,176)
Balance at 30 September 2015 (unaudited)	**590**	**1,607**	**668**	**194**	**15,617**	**18,676**
Profit and total comprehensive income	-	-	-	-	8,451	8,451
Share-based payment expense	-	-	-	330	-	330
Current tax for equity - settled share based payments	-	-	-	-	542	542
Deferred tax for equity-settled share-based payments	-	-	-	-	57	57
Dividends	-	-	-	-	(2,133)	(2,133)
Balance at 31 March 2016 (audited)	**590**	**1,607**	**668**	**524**	**22,534**	**25,923**
Profit and total comprehensive income	-	-	-	-	5,215	5,215
Share-based payment expense	-	-	-	570	-	570
Current tax for equity - settled share based payments	-	-	-	-	13	13
Deferred tax on share options (share based payments)	-	-	-	-	32	32
Exchange differences arising on foreign operations	-	-	-	-	(38)	(38)
Balance at 30 September 2016 (unaudited)	**590**	**1,607**	**668**	**1,094**	**27,756**	**31,715**

Condensed consolidated interim cash flow statement
for the six months ended 30 September 2016

	6 months to 30 Sep 2016 £'000	6 months to 30 Sep 2015 £'000	12 months to 31 Mar 2016 £'000
Net cash from operating activities	**6,452**	**2,966**	**9,761**
Investing activities			
Purchases of trading investments	-	-	(900)
Proceeds on disposal of investment	-	-	1,981
Purchases of property, plant and equipment	(571)	(610)	(1,022)
Net cash (used in)/generated from investing activities	**(571)**	**(610)**	**59**
Financing activities			
Dividends paid	-	(11,176)	(13,309)
Proceeds on issue of shares	-	1,741	1,741
Net cash used in financing activities	**-**	**(9,435)**	**(11,568)**
Net increase/(decrease) in cash and cash equivalents	5,881	(7,079)	(1,748)
Cash and cash equivalents at beginning of period	15,045	16,793	16,793
Cash and cash equivalents at end of period	**20,926**	**9,714**	**15,045**

Net cash from operating activities	6 months to 30 Sep 2016 £'000	6 months to 30 Sep 2015 £'000	12 months to 31 Mar 2016 £'000
Profit for the period	**5,215**	**3,976**	**12,427**
Adjustments for:			
Income tax expense	1,237	1,211	1,834
Share based payment expense	570	194	524
Gain on investment disposal	-	-	(1,981)
Government grants released	(6)	(6)	(11)
Depreciation	436	334	687
(Decrease)/increase in provisions	-	(149)	(208)
Derivative financial instruments	-	(56)	(98)
Operating cash flows before movements in working capital	**7,452**	**5,504**	**13,174**
(Increase)/decrease in receivables	(56)	472	(1,657)
(Decrease)/increase in payables	(2,072)	(1,747)	852
Cash generated by operations	**5,324**	**4,229**	**12,369**
Income taxes received/(paid)	1,128	(1,263)	(2,608)
Net cash from operating activities	**6,452**	**2,966**	**9,761**

Notes to the condensed consolidated interim financial statements

1. Corporate information

Kainos Group plc ("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. These condensed consolidated interim financial statements for the six months ended 30 September 2016 comprise the Company and its subsidiaries (together the "Group"). The nature of the Group's operations and its principal activities are set out in Note 5. The Group is headquartered in Belfast.

These statements have not been audited but have been reviewed by the Group's auditor pursuant to the Auditing Practices Board guidance on the Review of Interim Financial Information.

These condensed interim financial statements were approved for issue on 25 November 2016.

2. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2016 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 "Interim Financial Reporting" as adopted by the European Union.

These interim condensed consolidated financial statements do not constitute statutory accounts of the Group within the meaning of Section 434 of the Companies Act 2006. The statutory accounts for the year ended 31 March 2016 have been filed with the Registrar of Companies. The auditor's report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498(2) or Section 498(3) of the Companies Act 2006.

The annual statements of Kainos Group plc are prepared in accordance with IFRSs as adopted by the European Union. These consolidated financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

3. Significant accounting policies

The accounting policies, presentation and methods of computation applied by the Group in these interim condensed consolidated financial statements are the same as those applied in the Group's latest audited annual consolidated financial statements for the year ended 31 March 2016. There are no accounting standards or interpretations that have become effective in the current reporting period which have had a material effect on the net assets, results and disclosures of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and key sources of estimation uncertainty were the same as those applied to the statutory accounts for the year ended 31 March 2016. The only exceptions relate to the estimate of the provision of income taxes which is determined in the interim financial statements using the estimated average annual effective income tax rate applied to the pre-tax income of the interim period.

5. Segmental reporting

Kainos provides Digital Services and Digital Platforms to customers in the public and commercial industry sectors.

Digital Services include full lifecycle development and support of digital solutions for government and commercial customers. Kainos is also the largest boutique partner for Workday, Inc. in Europe, responsible for implementing Workday's innovative Software-as-a-Service (SaaS) platform for enterprise customers.

Digital Platforms comprise Evolve EMR, the market leading product for the digitisation of patient notes in the Acute sector of the NHS; Evolve IC, an integrated care platform for NHS and international healthcare providers; and Smart, an automated testing platform for Workday customers.

To date the Group has presented its results by operating division (Digital, Evolve, WorkSmart). Going forward, the directors consider that presenting its operations in terms of Digital Services and Digital Platforms better represents the Group's business by more clearly highlighting how each offering is positioned in the market, and more easily allowing the application of appropriate performance metrics to each part of the business. This also reflects how the business is managed and reported internally. A full reconciliation between the previous and current segmental reporting is provided in Note 14.

Segmental revenue and results

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

6 months to 30 September 2016 (unaudited)	Digital Services £'000	Digital Platforms £'000	Consolidated £'000
Revenue	31,216	9,384	40,600
Cost of sales	(16,319)	(3,201)	(19,520)
Gross profit	**14,897**	**6,183**	**21,080**
Direct expenses	(3,184)	(5,303)	(8,487)
Contribution	**11,713**	**880**	**12,593**
Operating expenses excluding share-based payments			(5,620)
Share based payments			(570)
Operating profit before exceptional items			**6,403**
Exceptional items			-
Operating profit			**6,403**

6 months to 30 September 2015 (unaudited)	Digital Services £'000	Digital Platforms £'000	Consolidated £'000
Revenue	27,537	9,697	37,234
Cost of sales	(14,843)	(4,055)	(18,898)
Gross profit	**12,694**	**5,642**	**18,336**
Direct expenses	(2,960)	(3,189)	(6,149)
Contribution	**9,734**	**2,453**	**12,187**
Operating expenses excluding share-based payments			(5,407)
Share based payments			(194)
Operating profit before exceptional items			**6,586**
Exceptional items			(1,424)
Operating profit			**5,162**

12 months to 31 March 2016 (unaudited)	**Digital Services £'000**	**Digital Platforms £'000**	**Consolidated £'000**
Revenue	55,080	21,514	76,594
Cost of sales	(29,705)	(9,780)	(39,485)
Gross profit	**25,375**	**11,734**	**37,109**
Direct expenses	(5,450)	(6,839)	(12,289)
Contribution	**19,925**	**4,895**	**24,820**
Operating expenses excluding share-based payments			(10,761)
Share based payments			(524)
Operating profit before exceptional items			**13,535**
Exceptional items			684
Operating profit			**14,219**

6. Exceptional items

No exceptional items were incurred in the six months ended 30 September 2016 (30 September 2015: £1,424k relating to the Initial Public Offering and listing on the London Stock Exchange on 10 July 2015).

7. Taxation

The total tax charge for the six months ended 30 September 2016 is £1,237k. This tax charge equates to an effective tax rate of 19.4% (30 September 2015: 23.4%). The decrease in the effective tax rate is largely due to exceptional costs of £1,424k in the previous period relating to the Initial Public Offering which were disallowable for tax purposes. The expected annual tax rate for the year to 31 March 2017 is 19.7% (31 March 2016: 20.5%).

8. Dividends

The dividends paid in the periods covered in these condensed consolidated interim financial statements are detailed below:

	6 months to 30 Sep 2016 £'000	6 months to 30 Sep 2015 £'000	12 months to 31 Mar 2016 £'000
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	2,548
Dividend for 2015 of 7.5p per share	-	8,628	8,628
Total	**-**	**11,176**	**13,309**

A final dividend of 4.2 pence per share for the year to 31 March 2016 was paid to shareholders on 21 October 2016 to shareholders on the register at the close of business on 30 September 2016. An interim dividend of 1.9 pence per share will be made for the six months to 30 September 2016. This will be paid on 30 December 2016 to shareholders on the register at the close of business on 9 December 2016, with an ex-dividend date of 8 December 2016. These condensed consolidated interim financial statements do not reflect the final dividend paid or the interim dividend payable.

9. Earnings per share

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

	6 months to 30 Sep 2016 £'000	6 months to 30 Sep 2015 £'000	12 months to 31 Mar 2016 £'000
Profit for the period	**5,215**	**3,976**	**12,427**
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,200	114,351	115,775
Effect of dilutive potential ordinary shares from share options	3,341	2,397	1,233
Weighted average number of ordinary shares for the purposes of diluted earnings per share	120,541	116,748	117,008
Basic earnings per share	**4.4p**	**3.5p**	**10.7p**
Diluted earnings per share	**4.3p**	**3.4p**	**10.6p**

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 option plan expense (including associated taxes) by the weighted average number of ordinary shares in issue during the period.

	6 months to 30 Sep 2016 £'000	6 months to 30 Sep 2015 £'000	12 months to 31 Mar 2016 £'000
Profit for the period	**5,215**	**3,976**	**12,427**
Exceptional items (net of tax)	-	1,424	1,297
Gain on disposal of investment	-	-	(1,981)
Share option plan expense (including associated taxes)	570	194	524
Adjusted profit for the period	**5,785**	**5,594**	**12,267**
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,200	114,351	115,775
Effect of dilutive potential ordinary shares from share options	3,341	2,397	1,233
Weighted average number of ordinary shares for the purposes of diluted earnings per share	120,541	116,748	117,008
Adjusted basic earnings per share	**4.9p**	**4.9p**	**10.6p**
Adjusted diluted earnings per share	**4.8p**	**4.8p**	**10.5p**

10. Trade and other receivables

	30 Sep 2016 £'000	30 Sep 2015 £'000	31 Mar 2016 £'000
Trade receivables	13,148	12,692	14,541
Allowance for doubtful debts	(29)	-	(66)
	13,119	12,692	14,475
Other debtors	943	485	573
Total	**14,062**	**13,177**	**15,048**

11. Other non-current assets

	30 Sep 2016 £'000	30 Sep 2015 £'000	31 Mar 2016 £'000
Deferred tax	2	-	-
Employee loans	-	214	-
Prepayments	117	853	379
Total	**119**	**1,067**	**379**

12. Share based payments

During the six months to 30 September 2016, 1,435,015 new share options were granted to employees in line with the existing schemes as previously published. The fair value of the new share options will be expensed over the same vesting period duration as the existing share options for each scheme. The Group used the inputs as previously published to measure the fair value of the share options immediately before and after the re-pricing. There are no options exercisable at the period end.

13. Related party transactions

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. There are no loans outstanding with directors at the start or end of the period.

Trading transactions

During the period, group companies entered into the following transactions with related parties who are not members of the group:

	Sale of goods and services			Purchase of goods and services		
	Period ended Sept 2016 £’000	**Period ended Sept 2015 £'000**	**Year ended March 2016 £’000**	**Period ended Sept 2016 £’000**	**Period ended Sept 2015 £'000**	**Year ended March 2016 £’000**
Cirdan Imaging Limited	462	-	781	-	-	-
Queen’s University Belfast	-	-	-	155	(166)	312
Total	**462**	**3**	**790**	**155**	**(166)**	**312**

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties			Amounts owed to related parties		
	Period ended Sept 2016 £’000	**Period ended Sept 2015 £'000**	**Year ended March 2016 £’000**	**Period ended Sept 2016 £’000**	**Period ended Sept 2015 £'000**	**Year ended March 2016 £’000**
Cirdan Imaging Limited	214	-	283	-	-	-
Queen’s University Belfast	52	-	-	-	(24)	28
Total	**266**	**-**	**283**	**-**	**(24)**	**28**

Queen’s University Belfast is a related party due to common directorships with the Group and being one of the Group’s shareholders. Cirdan Imaging Limited is a related party due to the Group's shareholding of 10% in this company.

14. Divisional reporting change

A full reconciliation between the previous and current segmental reporting is provided below:

Impact of change on interim periods

Previous Segmental	Digital		Workday	Workday	Work-	
6 months to	**Services**	**Evolve**	Smart	Services	**Smart**	**Consolidated**
30 September 2016	**£'000**	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	26,333	7,477	1,907	4,883	6,790	40,600
Cost of sales	(14,290)	(2,746)	(455)	(2,029)	(2,484)	(19,520)
Gross profit	**12,043**	**4,731**	1,452	2,854	**4,306**	**21,080**
Operating expenses excluding share-based payments						(14,107)
Share based payment						(570)
Operating profit before exceptional items						**6,403**

New Segmental	Digital	Workday	Services		Workday	Platform	
6 months to	Services	Services	**Total**	Evolve	Smart	**Total**	**Consolidated**
30 September 2016	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	26,333	4,883	31,216	7,477	1,907	9,384	40,600
Cost of sales	(14,290)	(2,029)	(16,319)	(2,746)	(455)	(3,201)	(19,520)
Gross profit			**14,897**			**6,183**	**21,080**
Direct expenses			(3,184)			(5,303)	(8,487)
Central expenses							(5,620)
Operating expenses excluding share-based payments							**(14,107)**
Share based payments							(570)
Operating profit before exceptional items							**6,403**

	Digital		Workday	Workday	Work-	
6 months to	**Services**	**Evolve**	Smart	Services	**Smart**	**Consolidated**
30 September 2015	**£'000**	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	24,377	8,805	892	3,160	4,052	**37,234**
Cost of sales	(13,282)	(3,697)	(358)	(1,561)	(1,919)	**(18,898)**
Gross profit	**11,095**	**5,108**	**534**	**1,599**	**2,133**	18,336
Operating expenses excluding share-based payments						**(11,556)**
Share based payments						(194)
Operating profit						**6,586**

	Digital	Workday	Services		Workday	Platform	
6 months to	Services	Services	**Total**	Evolve	Smart	**Total**	**Consolidated**
30 September 2015	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	24,377	3,160	27,537	8,805	892	9,697	**37,234**
Cost of sales	(13,282)	(1,561)	(14,843)	(3,697)	(358)	(4,055)	**(18,898)**
Gross profit			**12,694**			**5,642**	**18,336**
Direct expenses			(2,960)			(3,189)	(6,149)
Central expenses							(5,407)
Operating expenses excluding share-based payments							**(11,556)**
Share based payments							(194)
Operating profit							**6,586**

Impact of change on financial years

Previous Segmental	**Digital Services**	**Evolve**	Workday Smart	Workday Services	**Work-Smart**	**Consolidated**
2016	**£'000**	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	48,504	19,070	2,444	6,576	9,020	76,594
Cost of sales	(26,631)	(8,950)	(830)	(3,074)	(3,904)	(39,485)
Gross profit	**21,873**	**10,120**	1,614	3,502	**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**

	Digital Services	**Evolve**	Workday Smart	Workday Services	**Work-Smart**	**Consolidated**
2015	**£'000**	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	43,580	9,018	973	7,207	8,180	60,778
Cost of sales	(20,510)	(4,314)	(347)	(3,158)	(3,505)	(28,329)
Gross profit	**23,070**	**4,704**	**626**	**4,049**	**4,675**	**32,449**
Operating expenses						(20,646)
Operating profit						**11,803**

	Digital Services	**Evolve**	Workday Smart	Workday Services	**Work-Smart**	**Consolidated**
2014	**£'000**	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	31,796	5,948	17	4,154	4,171	41,915
Cost of sales	(15,507)	(2,486)	-	(2,453)	(2,453)	(20,446)
Gross profit	**16,289**	**3,462**	**17**	**1,701**	**1,718**	**21,469**
Operating expenses						(14,440)
Operating profit						**7,029**

New Segmental	Digital Services	Workday Services	**Services**	Evolve	Workday Smart	**Platform**	**Consolidated**
2016	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	48,504	6,576	55,080	19,070	2,444	21,514	76,594
Cost of sales	(26,631)	(3,074)	(29,705)	(8,950)	(830)	(9,780)	(39,485)
Gross profit			**25,375**			**11,734**	**37,109**
Direct expenses			(5,450)			(6,839)	(12,289)
Central expenses							(10,762)
Operating expenses excluding share-based payments							**(23,050)**
Share-based payments							(524)
Operating expenses							**(23,574)**
Operating profit before exceptional items							**13,535**

	Digital Services	Workday Services	**Services**	Evolve	Workday Smart	**Platform**	**Consolidated**
2015	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	43,580	7,207	50,787	9,018	973	9,991	60,778
Cost of sales	(20,510)	(3,158)	(23,668)	(4,314)	(347)	(4,661)	(28,329)
Gross profit			**27,119**			**5,330**	**32,449**
Direct expenses			(4,529)			(4,124)	(8,653)
Central expenses							(11,993)
Operating expenses							**(20,646)**
Operating profit							**11,803**

	Digital Services	Workday Services	**Services**	Evolve	Workday Smart	**Platform**	**Consolidated**
2014	£'000	£'000	**£'000**	£'000	£'000	**£'000**	**£'000**
Revenue	31,796	4,154	35,950	5,948	17	5,965	41,915
Cost of sales	(15,507)	(2,453)	(17,960)	(2,486)	-	(2,486)	(20,446)
Gross profit			**17,990**			**3,479**	**21,469**
Direct expenses			(3,811)			(1,722)	(5,533)
Central expenses							(8,906)
Operating expenses							**(14,440)**
Operating profit							**7,029**

2013	Digital Services £'000	Evolve £'000	Workday Smart £'000	Workday Services £'000	Work-Smart £'000	Consolidated £'000
Revenue	23,406	4,846	-	1,681	1,681	29,933
Cost of sales	(12,659)	(1,430)	-	(816)	(816)	(14,905)
Gross profit	**10,747**	**3,416**	**-**	**865**	**865**	**15,028**
Operating expenses						(11,275)
Operating profit						**3,753**

2013	Digital Services £'000	Workday Services £'000	Services £'000	Evolve £'000	Workday Smart £'000	Platform £'000	Consolidated £'000
Revenue	23,406	1,681	25,087	4,846	-	4,846	29,933
Cost of sales	(12,659)	(816)	(13,475)	(1,430)	-	(1,430)	(14,905)
Gross profit			**11,612**			**3,416**	**15,028**
Direct expenses			(2,683)			(1,482)	(4,165)
Central expenses							(7,110)
Operating expenses							**(11,275)**
Operating profit							**3,753**

Responsibility statement of the directors in respect of the interim financial report

The Directors confirm that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8 of the Disclosure and Transparency Rules of the Financial Conduct Authority, namely:

- An indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- Material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

Richard McCann
Director
25 November 2016

INDEPENDENT REVIEW REPORT TO KAINOS GROUP PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2016 which comprises the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of changes in shareholders' equity, the condensed consolidated interim cash flow statement and related notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor

Belfast, United Kingdom

25 November 2016