27 NOVEMBER 2017

KAINOS GROUP PLC

(“Kainos” or the “Group”)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

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 2017.

FINANCIAL HIGHLIGHTS

	H1 2018	**H1 2017**	**Change**
Revenue	£41.4m	£40.6m	2%
Adjusted pre-tax profit[1]	£7.1m	£7.0m	1%
Profit before tax	£6.8m	£6.5m	5%
Cash	£27.3m	£20.9m	31%
Sales orders	£63.4m	£32.6m	94%
SaaS sales orders	£5.3m	£1.5m	253%
Backlog [2]	£97.1m	£68.0m	43%
Adjusted diluted earnings per share[1]	4.9p	4.8p	2%
Diluted earnings per share	4.6p	4.3p	7%
Interim dividend	2.0p	1.9p	5%

Notes

[1] *Calculated by taking the profit before tax and adding back £0.32m share-based payments (H1 2017: £0.57m).*

[2] *The value of contracted revenue that has yet to be recognised.*

OPERATIONAL HIGHLIGHTS

- Performance in-line with market expectations. Solid platform for growth following very strong sales execution.
  - Sales orders at £63.4m (H1 2017: £32.6m), of which Software as a Service (SaaS) bookings are £5.3m (H1 2017: £1.5m).
  - Sales performance drives very strong growth in backlog to £97.1m (H1 2017: £68.0m).
- Revenue diversification driven by international expansion and growing reputation in the commercial sector.
  - International revenues now account for 26% of total revenue (H1 2017: 19%).
  - Commercial revenues increased to 36% of total revenue (H1 2017: 27%).
  - SaaS and software-related revenues now 15% of total revenue (H1 2017: 13%).
- Continued growth in Digital Services driven by new and existing customer demand.
  - Significant ongoing engagements in UK government’s digital transformation programme.
  - Further strengthening of position within Europe as leading boutique Workday Partner, with 16 new deals signed (H1 2017: 5).
  - Established first-mover advantage with Workday in UK Public Sector, signing 3 deals, the first ever for Workday in this segment.
- Digital Platforms showing progress against key milestones.
  - 103 customers on Kainos Smart (H1 2017: 64).
  - Evolve Integrated Care now in live use at 45 hospitals in the US (H1 2017: nil).
  - Evolve Electronic Medical Record (EMR) signs first Irish hospitals and first Cloud EMR deals.
  - Research and development expenditure of £2.6 million expensed (H1 2017: £2.2m).
- Customer approval of Group services rated as ‘good’ or better by 99% of customers.
- Staff numbers at 1,019 (H1 2017: 967) with strong recruitment activity underway.
- Highly cash generative with strong underlying cash conversion and period-end cash of £27.3m.

Brendan Mooney, CEO, commented:

"It has been another successful period for Kainos and I am particularly pleased with our strong sales execution which provides a solid platform for further growth. To support this growth we have continued to expand nationally and internationally during 2017, opening three new offices in Birmingham, Frankfurt and Copenhagen.

Within Digital Services, we continue to be a key partner to UK government in their major transformation programmes. We are also driving very strong growth in the commercial sector, which remains our fastest growing segment within the division. The past period has seen us consolidate our position as the leading European boutique partner for Workday and we now have 17 customers in mainland Europe (H1 2017: 9).

In Digital Platforms, our software is now used by over 140 national and international organisations. Smart, our market-leading SaaS platform for automated testing of the Workday suite is now used by 103 global clients. Evolve Integrated Care, our SaaS platform to allow the automation of care pathways for healthcare delivery organisations, is now operational in 45 US hospitals. Closer to home, we have signed our first deal for Evolve EMR in Ireland and, post period end, our first Cloud EMR deal in the NHS.

We remain committed to our customers and to our people. For our customers, we are focused on delivering exceptional digital products and services coupled with best-in-class customer service. For our people, Kainos strives to be an excellent employer and will continue to focus on developing the careers and talents of our people.

Looking forward, the future is exciting. The Group's pipeline of prospects continues to strengthen across all divisions and the Board believes that Kainos is well-positioned for growth in the coming years."

Ends

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About Kainos

Kainos Group plc is a UK-headquartered 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 leading 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. Smart is an automated testing platform for Workday customers; Evolve Electronic Medical Records ('EMR') is the market leading product for the digitisation of patient notes in the Acute sector of the NHS; and Evolve Integrated Care ('IC') is a SaaS-based integrated care platform for the NHS and international healthcare providers.

Kainos employs over 1,000 staff across ten offices in Europe and the US, 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 2017

DIVISIONAL REVIEW

Digital Services

The Digital Services division comprises two areas of activity:

- *Digital Transformation*: the delivery of customised online digital solutions, principally for central government, regional government and local government departments and agencies ("UK government") and for commercial sector organisations. The solutions provided are highly cost-effective and make public services more accessible and easier to use for the citizen and customer.

- *Workday Implementation*: the provision of consulting, project management, integration and post deployment services for Workday's Enterprise Resource Planning (ERP) software suite, which includes cloud-based software for Human Capital Management (HCM) and Financial Management that enables enterprises to organise their staff efficiently and to support financial reporting requirements.

Digital Services revenue for the 6 months ended 30 September 2017 grew by 5% to £32.7 million (H1 2017: £31.2 million). Digital Services revenue from customers in commercial sectors accounted for £11.4 million (H1 2017: £9.2 million), an increase of 24%. Sales orders in Digital Services increased by 94% to £54.9 million (H1 2017: £28.3 million) and backlog for the division increased by 70% to £57.3 million (H1 2017: £33.7 million).

Digital Services - Digital Transformation

Speculation about the potential impact of Brexit on UK government's spending on public sector services digitisation has increased over the past two years. The Kainos assessment remains consistent with previous guidance – there is no material impact to the programmes with which it is involved.

Within central government, Kainos operates across Land Registry, Home Office, Cabinet Office, DWP, Defra, FCO, DVSA, HMPPS (formerly NOMS), MoJ, DfT and DFID, delivering a combination of existing and new programmes. In devolved government Kainos has been successful in winning new projects in Scotland and Wales; whilst the absence of political institutions in Northern Ireland has deferred most procurement activity during the period.

The number of commercial clients in UK, Ireland and Germany continues to increase (42 clients) following sales investment. Kainos has also commenced work with NHS Digital, in Domain A (which includes NHS UK, Personal Health Record, Citizen Identity and The NHS Apps Library).

Looking forward the Group remains optimistic about the future of digitisation in the UK public sector, and is confident that it is well positioned to maintain a central role in public sector transformation. Equally, a developing reputation in the commercial sector and opportunities within NHS Digital are expected to generate further growth for the Group.

Digital Services – Workday Implementation

Kainos first engaged with Workday in 2010, deploying Workday's HCM platform at organisations such as Grant Thornton, United Drug Group and Travelex and is now one of the most experienced participants in Workday's partner ecosystem. Kainos remains the only boutique Workday partner headquartered in the UK and one of only 34 partners globally accredited to implement Workday's innovative SaaS platform.

Within Europe, Kainos continues to consolidate its position as the leading boutique partner, signing 16 new clients in the period (H1 2017: 5). This leadership position is a result of high satisfaction levels within the Kainos customer base, but is also aided by the consolidation within the boutique partner segment, where Wipro acquired Appirio in October 2016 and Accenture acquired DayNine in November 2016.

Kainos has continued its geographic expansion, with the opening of an office in Copenhagen in September 2017 to develop the Scandinavian markets of Denmark, Sweden, Norway and Finland. This is in addition to offices opened in Amsterdam (2015, covering Belgium, Netherlands and Luxembourg) and Frankfurt (2017, covering Germany, Austria and Switzerland). Kainos now has 17 clients for Workday services in mainland Europe (H1 2017: 9).

As noted in the Preliminary Results for the year ended 31 March 2017, the UK Public Sector is now a key market for Workday and the first three Workday customers in this segment have been signed in conjunction with Kainos – including Innovate UK and the Higher Education Funding Council for England (HEFCE).

In addition to the delivery of Workday for new customers, Kainos is increasingly involved in supporting the operation of customers that are already live on the Workday platform. This annuity-style revenue stream, described as Post Deployment Services, accounts for £1.6m (H1 2017: £0.6m) and has 23 customers, 15 of which had earlier phases of Workday delivered by other partners.

Within the US, a small number of Post Deployment Services projects have commenced as part of an early stage market assessment activity.

The number of accredited Workday consultants in the Group's Digital Services division has increased by 46% to 137 people (H1 2017: 94 people), with further recruitment underway in H2 2018.

Looking forward, growth prospects remain very strong, driven by geographic expansion, increased penetration within the UK Public Sector and the further development of the Post Deployment Services offering. These prospects are, in turn, underpinned by very strong revenue growth at Workday Inc.[1].

Digital Platforms

The Group Digital Platforms division comprises three discrete platforms:

- *Smart Automated Testing (Smart):* Smart is a proprietary software tool that allows Workday customers to automatically verify their Workday configuration both during implementation and in live operation. Smart is the only automated testing platform specifically designed for the Workday product suite. Smart is a cloud-based SaaS solution licensed on a subscription basis to customers.

- *Evolve Electronic Medical Record (Evolve EMR):* Evolve EMR is a proprietary software product that removes paper from the care process by digitising NHS patient records, thereby enabling efficient healthcare and supporting Digital Maturity programmes. EMR features in-built electronic forms and workflow that allows patient information to be captured and routed electronically, saving time and effort, and helping to improve quality of patient care. Historically, Evolve EMR core product

[1] Workday Inc. Q2 revenue ended July 31, 2017: $525.3 million, up 41% year over year; announced 30 August 2017.

has been sold to customers as a one-off perpetual licence, however in 2017 Evolve Cloud EMR was launched which offers the same software platform on a hosted, managed service basis.

- *Evolve Integrated Care (Evolve IC).* Evolve IC is a mobile-optimised integrated care platform, designed to automate common care pathways for healthcare delivery organisations. It simplifies the provision of healthcare by integrating disparate healthcare systems and results in easier access, better outcomes and lower cost. Evolve IC is a cloud-based SaaS solution licensed on a subscription basis to customers.

Aggregate Digital Platforms revenue (excluding third party revenue)[2] for the 6 months ended 30 September 2017 increased by 1% to £7.6 million (H1 2017: £7.5 million). However, a decrease in lower-margin third party revenue meant that overall Digital Platforms revenue decreased by 7% to £8.7 million (H1 2017: £9.4 million). Sales orders for Digital Platforms (excluding third party) increased by 102% to £8.1 million (H1 2017: £4.0 million) of which sales orders for the Group's SaaS platforms increased by 253% to £5.3 million (H1 2017: £1.5 million). Given that the performance varies across the individual platforms, further commentary on each platform is detailed below.

Digital Platforms – Smart

Smart is now used by 103 global customers to automatically verify their Workday configurations (H1 2017: 64). Kainos had three Smart module offerings during the period - HCM, Security and Financials and a fourth module, Payroll, which was launched as beta software in October 2017. Over 95% of customers have purchased a subscription for both HCM and Security, with 18 customers subscribed to Financials (which is in line with the wider adoption of Workday Financials).

In the six months ended 30 September 2017, the Group added 11 new Smart customers, including United Technologies Group, Cancer Research UK, Telia and Centrica. Activity pattern in H1 remains in line with prior years (H1 2017: 9 new clients; H2 2017: 28 new clients), as client acquisition is linked to Workday user conferences held in October (Chicago) and November (Barcelona) each year.

Following the announcement of Workday Platform-as-a-Service (PaaS), Kainos has been part of the early adopter programme. While still in the embryonic stages, Workday PaaS may offer future opportunity – additional IP development for Kainos or specialised development services to other Workday partners.

Smart revenue for the six months ended 30 September 2017 increased by 89% to £3.6 million (H1 2017: £1.9 million), of which £3.0 million relates to SaaS subscriptions. New sales bookings for the six months ended 30 September 2017 amounted to £5.7 million (H1 2017: £1.3 million), an increase of 338%. The Annual Recurring Revenue (ARR) for Smart at 30 September 2017 was £6.3 million (H1 2017: £3.0 million).

Looking forward, continued strong growth for Smart will be powered by increased penetration of Smart in the Workday Inc. customer base, by expansion of the Workday Inc. customer base itself and by the development and adoption of new Smart modules, of which Payroll is the most recent example.

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

Digital Platforms – Evolve EMR

Evolve EMR continues to be a leading supplier to the NHS, and is now deployed at enterprise scale across 35 Health Trusts (110 hospitals), managing over 1.2 billion images and with 33 million patients registered on the system.

The increasing importance of Evolve as a critical operational system is prompting some existing clients to consider transitioning to Evolve Cloud EMR and away from their current on-premise arrangements. The recent WannaCry virus, whilst not directly impacting Evolve EMR, has accelerated a number of conversations in this regard within the existing client base. Post period end, the first customer signed a 4 year Evolve Cloud EMR subscription, representing a 109% increase on the previously contracted annual maintenance fee.

During H1 2018, the Health Services Executive (HSE) became the latest hospital group to purchase Evolve EMR. HSE provides all of Ireland's public health services in hospitals and communities and the initial contract covers Galway University Hospital (2 sites), which is part of Saolta University Health Care Group (Ireland). This deployment, which is currently underway, will represent the first system of this type in the Irish market. There are a total of 48 hospitals in Ireland.

Within the NHS, funding for new technology remains limited despite numerous announcements about investment to accelerate the adoption of digital solutions. As a result, Evolve EMR revenue for the six months ended 30 September 2017 (excluding third party revenue) decreased by 38% to £3.4 million (H1 2017: £5.5 million). Sales orders (excluding third party) for the six months ended 30 September 2017 amounted to £2.3 million (H1 2017: £2.5 million), a reduction of 9%; backlog for Evolve EMR is £14.9 million (H1 2017: £18.7 million).

Looking forward, the Group believes that the opportunity for Evolve EMR remains undiminished in the long term, with 98 Health Trusts in England still to address their considerable paper challenge, representing an available market of approximately £200 million. However, it is likely that constrained technology funding in the NHS will persist in the near term, resulting in limited new procurements of Evolve EMR in 2018. We anticipate the muted outlook for new procurements in the NHS will be balanced by growth opportunities within the Irish market and the migration of existing clients to Evolve Cloud EMR.

Digital Platforms – Evolve IC

Evolve IC is a multi-tenanted cloud platform with production instances operational in both the US and the UK. A healthcare organisation will deploy care pathways onto the platform, with a subscription for each care pathway that is deployed. Typical care pathways can be specialty specific in areas such as Stroke Assessment and Paediatrics or cross organisation to support processes such as Pre-operative assessment or Discharge.

In the US, care pathways in areas of Stroke and Paediatrics implemented on the Evolve IC platform are now operational at 45 hospitals (H1 2017: nil). These projects have been delivered with partner and telehealth provider InTouch Health, who has customers spanning over 1,750 separate care locations across 130 individual health systems.

In the UK, Evolve IC is scheduled to commence live operation during H2 2018 in a NHS Clinical Commissioning Group (CCG), supporting care provision across a patient population of over 600,000 people. This Shared Care Record project will support the needs of clinical and nursing staff in the

Urgent Care setting and will enable unified access to primary, acute and community care data from a total of 11 different healthcare systems.

Evolve IC revenue for the period ended 30 September 2017 was £0.5 million (H1 2017: £0.1 million). There were no new sales during the six months ended 30 September 2017 (H1 2017: £0.2 million).

Looking forward, the immediate priority is to support the go-live of the NHS CCG and support the roll-out of care pathways across the InTouch Health customer base. Over the medium term revenue growth will be driven by the scaled roll-out across the InTouch Health customer base, by the sale of additional care pathways to the US hospital customer base and by the adoption of care pathways within new and existing customers in the UK NHS.

PEOPLE

Kainos believes that the future success of the organisation is dependent upon the capability of the people working in the Group. The People Development Plan focuses on the key objectives of retention, recruitment and development.

The Group has 1,019 staff and contractors (H1 2017: 967), of which 6% are contractors (H1 2017: 7%). Attrition has increased to 12% during the period (H1 2017: 8%) but remains well below the UK technology average of 17%.

Kainos continues to attract strong interest in key recruitment markets, with 3,406 applicants in the period ended 30 September 2017 (H1 2017: 4,494). A total of 1,449 interviews were conducted (H1 2017: 1,534) with 131 people joining Kainos (H1 2017: 163), representing 3.8% of the original applicants (H1 2017: 3.6%).

The Kainos Digital Academy and associated MAP Programme (Master, Accomplish, Progress) are central to the development of staff. During the six month reporting period, 4,588 training days were completed, an average of 4.5 days per employee. The Digital Academy has been central to the development of new capabilities in Cyber Security, Machine Learning and Artificial Intelligence.

Employee wellbeing is a key priority and Kainos strives to be an excellent employer, the success of which is reflected in holding Sunday Times Top 100 Employer status since 2012, an accreditation that is entirely based upon employee feedback. Kainos continues to develop programmes to support staff, including the launch of HealthShield, a comprehensive health plan to assist staff and their families' health and wellbeing.

Over the past four years, Kainos outreach programmes have directly benefitted the lives of over 4,000 young people in the UK and Ireland, catering for students from a range of socio-economic backgrounds and with a high percentage of female students taking part. In recognition of this work, Gemma Crothers, who leads these programmes, was awarded the 'Woman of the Year (SME)' award at the national Women in IT Excellence Awards.

The Group operates a Share Incentive Plan for all staff, which in July 2017 distributed a total of 380,650 free Kainos shares to 872 people, based upon the proportion of time that they were employed by Kainos in the previous twelve months.

SUMMARY AND OUTLOOK

The directors believe that the Group remains well placed to deliver growth in the coming years.

The Group's Digital Services division continues to benefit from the UK government's digitisation programmes and from the Group's growing reputation within the commercial sector in UK, Ireland and Germany. The strong and sustained growth of Workday Inc., the increasing international Kainos presence and the break-through into UK Public Sector provide a strong platform for further growth.

In the Group's Digital Platforms division, Smart remains in a commanding position as the only automated testing product specifically designed for the Workday product suite. Evolve IC has passed a significant milestone with the successful deployment in 45 hospitals in the US. While the opportunity for Evolve EMR in 2018 is muted, the directors remain confident that it is well positioned to capitalise on its lead in the NHS marketplace in the medium term.

In summary, the Group sees continued stability and growth opportunities for its Digital Services division and is encouraged by the strong position of its Digital Platform SaaS offerings globally. Going forward, the Group will continue to focus on providing exceptional careers for staff and exceptional digital products and services for its customers.

FINANCIAL REVIEW

Kainos achieved sales orders for H1 2018 totalling £63.4 million (H1 2017: £32.6 million), which represents a 94% increase. Included in this figure is £5.3 million (H1 2017: £1.5 million) of SaaS product sales orders, an increase of 253%. This has resulted in backlog increasing by 43% to £97.1 million (H1 2017: £68 million). Kainos achieved revenue of £41.4 million for the period, representing a 2% growth on H1 2017 (H1 2017: £40.6 million).

Overall the gross margin for the period of 49% is similar to the comparative period margin (H1 2017: 50%). There was a slight reduction of 0.5% in the gross margin for Digital Services (H1:2017 48%) and a reduction of 5% in the gross margin for Digital Platforms (H1:2017 59%), driven mostly by an increase in costs associated with Evolve IC.

The proportion of revenue generated outside the UK increased by 7% in the period and now accounts for 26% of total Group revenue (H1 2017: 19%). Across sectors, 52% of Group revenue is derived from government customers (H1 2017: 54%), 36% from commercial sector (H1 2017: 27%) and 12% from healthcare (H1 2017: 18%). Commercial sector revenue grew 35% to £15.0 million (H1 2017: £11.1 million). This growth in the commercial sector is largely due to the growth in both Smart and Workday Implementation services.

Operating expenses excluding share-based payments for the six months ended 30 September 2017 decreased by 2% to £13.1 million (H1 2017: £13.4 million). The Research and Development Expenditure Credit (RDEC) recognised in the period increased to £0.9m (H1 2017: £0.4m) and grant income recognised in the period increased to £2.0m (H1 2017: £1.3m). Therefore, ignoring RDEC and grant income operating expenses excluding share-based payments increased by 6% to £16.0 million (H1 2017: £15.1 million). Half of this increase relates to research and development, with investment in research and development growing by £0.4m to £2.6 million (H1 2017: £2.2 million), all of which was expensed in the period.

Adjusted pre-tax profit increased by 1% to £7.1 million (H1 2017: £7.0 million). Profit before tax increased by 5% to £6.8 million (H1 2017: £6.5 million). The effective tax rate for the six months ended 30 September 2017 was 19.5% (H1 2017: 19.2%).

The Group has a robust balance sheet with £27.3 million of cash (H1 2017: £20.9 million), no debt and net assets of £36.2 million (H1 2017: £31.7 million). Net cash from operating activities was £4.1 million in the period (H1 2017: £6.5 million). Cash conversion for the period was 63%, however this is usually lower in the first half of the year due to timing of bonus payments.

Dividend

An interim dividend of 2.0 pence per share has been declared for the six months to 30 September 2017. This will be paid on 29 December 2017 to shareholders on the register at the close of business on 8 December 2017, with an ex-dividend date of 7 December 2017.

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 30 May 2017. These are described in more detail on pages 9 and 10 of the Annual Report (available on the Group’s website www.kainos.com).

We continue to monitor the possible implications of Brexit on the Group’s performance. Given the international dimension of our operations, the various Brexit scenarios could impact the Group’s financial position, supply chain and people. Specific examples include currency rate fluctuations and restrictions on the movement of people. While the impact of Brexit in the longer-term remains unclear, the Group is confident that performance will not be significantly affected in 2018 and continues to see immediate opportunities for growth.

Condensed consolidated interim statement of comprehensive income
for the six months ended 30 September 2017

	Note	6 months to 30 Sep 2017 unaudited £'000	6 months to 30 Sep 2016 unaudited £'000	12 months to 31 Mar 2017 audited £'000
Continuing operations				
Revenue	5	**41,425**	**40,600**	**83,504**
Cost of sales	5	(21,253)	(20,186)	(41,479)
Gross profit		**20,172**	**20,414**	**42,025**
Operating expenses excluding share-based payments		(13,077)	(13,441)	(27,821)
Share-based payments		(320)	(570)	(949)
Operating expenses		(13,397)	(14,011)	(28,770)
Operating profit		**6,775**	**6,403**	**13,255**
Finance income		37	50	66
Finance expense		(2)	(1)	(1)
Profit before tax		**6,810**	**6,452**	**13,320**
Taxation	6	(1,326)	(1,237)	(2,904)
Profit for the year		**5,484**	**5,215**	**10,416**

Consolidated statement of comprehensive income	6 months to 30 Sep 2017 unaudited £'000	6 months to 30 Sep 2016 unaudited £'000	12 months to 31 Mar 2017 audited £'000
Profit for the year	**5,484**	**5,215**	**10,416**
Other comprehensive income:			
Currency translation difference	(20)	(38)	(249)
Total comprehensive income for the year	**5,464**	**5,177**	**10,167**

Earnings per share	Note			
Basic	8	4.7p	4.4p	8.9p
Diluted	8	4.6p	4.3p	8.7p

Condensed consolidated interim balance sheet
at 30 September 2017

	Note	30 Sep 2017 unaudited £'000	30 Sep 2016 unaudited £'000	31 Mar 2017 audited £'000
Non-current assets				
Property, plant and equipment		2,026	2,221	2,002
Investments		900	900	900
Other non-current assets	10	630	119	324
		3,556	3,240	3,226
Current assets				
Trade and other receivables	9	14,276	14,547	18,750
Prepayments		1,762	1,704	1,559
Accrued income		8,107	6,307	3,677
Cash and bank balances		27,314	20,926	23,722
		51,459	43,484	47,708
Total assets		**55,015**	**46,724**	**50,934**
Current liabilities				
Trade creditors and accruals		(7,362)	(6,996)	(8,683)
Deferred income		(5,615)	(4,281)	(6,320)
Corporation tax		(2,573)	(579)	(2,075)
Other tax and social security		(3,017)	(2,856)	(3,573)
		(18,567)	(14,712)	(20,651)
Non-current liabilities				
Other provisions		(297)	(297)	(297)
		(297)	(297)	(297)
Total liabilities		**(18,864)**	**(15,009)**	**(20,948)**
Net assets		**36,151**	**31,715**	**29,986**
Equity				
Share capital		593	590	592
Share premium account		1,628	1,607	1,626
Capital reserve		666	668	667
Share-based payments reserve		1,773	1,094	1,279
Translation reserve		(269)	-	(249)
Retained earnings		31,760	27,756	26,071
Total equity		**36,151**	**31,715**	**29,986**

Condensed consolidated interim statement of changes in shareholders' equity for the six months ended 30 September 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Share-based payments £'000	Translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 31 March 2016 (audited)	**590**	**1,607**	**668**	**524**	**-**	**22,534**	**25,923**
Profit for the period	-	-	-	-	-	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**	**(38)**	**27,794**	**31,715**
Profit for the period	-	-	-	-	-	5,201	5,201
Share-based payment expense	-	-	-	379	-	-	379
Adjustments in respect of prior periods	-	-	-	(194)	-	194	-
Current tax for equity- settled share-based payments	-	-	-	-	-	(25)	(25)
Deferred tax for equity-settled share-based payments	-	-	-	-	-	115	115
Issue of share capital	2	19	(1)	-	-	-	20
Exchange differences arising on foreign operations	-	-	-	-	(211)	-	(211)
Dividends	-	-	-	-		(7,208)	(7,208)
Balance at 31 March 2017 (audited)	**592**	**1,626**	**667**	**1,279**	**(249)**	**26,071**	**29,986**
Profit for the period						5,484	5,484
Share-based payment expense				320			320
Adjustment to share-based payments reserve				174		(174)	-
Current tax for equity - settled share-based payments						57	57
Deferred tax on share options (share-based payments)						322	322
Exchange differences arising on foreign operations					(20)		(20)
Issue of share capital	1	2	(1)				2
Balance at 30 September 2017 (unaudited)	**593**	**1,628**	**666**	**1,773**	**(269)**	**31,760**	**36,151**

Condensed consolidated interim cash flow statement
for the six months ended 30 September 2017

	6 months to 30 Sep 2017 (unaudited) £'000	6 months to 30 Sep 2016 (unaudited) £'000	12 months to 31 Mar 2017 (audited) £'000
Net cash from operating activities	**4,119**	**6,452**	**16,927**
Investing activities			
Purchases of property, plant and equipment	(509)	(571)	(813)
Net cash used in investing activities	**(509)**	**(571)**	**(813)**
Financing activities			
Dividends paid	-	-	(7,208)
Proceeds on issue of shares	2	-	20
Net cash generated/(used) in financing activities	**2**	**-**	**(7,188)**
Net increase in cash and cash equivalents	3,612	5,881	8,926
Cash and cash equivalents at beginning of period	23,722	15,045	15,045
Effects of foreign exchange rate changes	(20)	-	(249)
Cash and cash equivalents at end of period	**27,314**	**20,926**	**23,722**

Net cash from operating activities	6 months to 30 Sep 2017 (unaudited) £'000	6 months to 30 Sep 2016 (unaudited) £'000	12 months to 31 Mar 2017 (audited) £'000
Profit for the period	**5,484**	**5,215**	**10,416**
Adjustments for:			
Income tax expense	1,326	1,237	2,904
Share-based payment expense	320	570	949
Government grants released	(13)	(6)	(11)
Depreciation	485	436	897
Operating cash flows before movements in working capital	**7,602**	**7,452**	**15,155**
(Increase)/decrease in receivables	(465)	(56)	(1,691)
(Decrease)/increase in payables	(2,384)	(2,072)	3,155
Cash generated by operations	**4,753**	**5,324**	**16,619**
Income taxes (paid)/received	(634)	1,128	308
Net cash from operating activities	**4,119**	**6,452**	**16,927**

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 2017 comprise the Company and its subsidiaries (together the "Group"). The nature of the Group's operations and its principal activities are set out in the Divisional Review and 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 24 November 2017.

2. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2017 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 2017 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 at least 12 months from the date of the financial statements. 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 2017. 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.

IFRS15 'Revenue from contracts with customers', is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Group is currently performing a detailed assessment of the impact resulting from the application of IFRS15 and will disclose additional information before it adopts IFRS15.

3. Significant accounting policies (continued)

IFRS16, 'Leases', will become effective in January 2019. IFRS16 introduces a single, on-balance sheet lease accounting model for lessees. The Group has started to assess the potential impact of the adoption of IFRS16 on its consolidated financial statements.

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 2017. The only exception relates 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 profit before tax 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.

Segmental revenue and results

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

6 months to 30 September 2017 (unaudited)	**Digital Services £'000**	**Digital Platforms £'000**	**Consolidated £'000**
Revenue	32,694	8,731	41,425
Cost of sales	(17,258)	(3,995)	(21,253)
Gross profit	**15,436**	**4,736**	**20,172**
Direct expenses	(3,966)	(4,762)	(8,728)
Contribution	**11,470**	**(26)**	**11,444**
Operating expenses excluding share-based payments			(4,314)
Adjusted pre-tax profit			**7,130**

5. Segmental reporting (continued)

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)	(3,867)[3]	(20,186)
Gross profit	**14,897**	**5,517**	**20,414**
Direct expenses	(3,184)	(4,637)	(7,821)
Contribution	**11,713**	**880**	**12,593**
Operating expenses excluding share-based payments			(5,571)
Adjusted pre-tax profit			**7,022**

12 months to 31 March 2017 (audited)	**Digital Services £'000**	**Digital Platforms £'000**	**Consolidated £'000**
Revenue	64,526	18,978	83,504
Cost of sales	(33,374)	(8,105)[4]	(41,479)
Gross profit	**31,152**	**10,873**	**42,025**
Direct expenses	(6,186)	(8,922)	(15,108)
Contribution	**24,966**	**1,951**	**26,917**
Operating expenses excluding share-based payments			(12,648)
Adjusted pre-tax profit			**14,269**

Reconciliation of adjusted pre-tax profit to profit before tax

	6 months to 30 Sep 2017 (unaudited) £'000	**6 months to 30 Sep 2016 (unaudited) £'000**	**12 months to 31 Mar 2017 (audited) £'000**
Adjusted pre-tax profit	7,130	7,022	14,269
Share-based payments	(320)	(570)	(949)
Profit before tax	**6,810**	**6,452**	**13,320**

6. Taxation

The total tax charge for the six months ended 30 September 2017 is £1,326k (six months ended 30 September 2016: £1,237k). This tax charge equates to an effective tax rate of 19.5% (30 September 2016: 19.2%). The expected annual tax rate for the year to 31 March 2018 is 19.1% (31 March 2017: 21.8%).

[3] £0.7m of costs for Digital Platforms have been reclassified from direct expenses to cost of sales in line with current period presentation

[4] £1.5m of costs for Digital Platforms have been reclassified from direct expenses to cost of sales in line with current period presentation

7. Dividends

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

	6 months to 30 Sep 2017 (unaudited) £'000	6 months to 30 Sep 2016 (unaudited) £'000	12 months to 31 Mar 2017 (audited) £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for 2016 of 4.2p per share	-	-	4,960
Interim dividend for 2017 of 1.9p per share	-	-	2,248
Total	**-**	**-**	**7,208**

A final dividend of 4.4 pence per share for the year to 31 March 2017 was paid on 20 October 2017 to shareholders on the register at the close of business on 22 September 2017. An interim dividend of 2.0 pence per share has been declared for the six months to 30 September 2017. This will be paid on 29 December 2017 to shareholders on the register at the close of business on 8 December 2017, with an ex-dividend date of 7 December 2017. These condensed consolidated interim financial statements do not reflect the final dividend paid or the interim dividend payable.

8. 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 2017 (unaudited) £'000	6 months to 30 Sep 2016 (unaudited) £'000	12 months to 31 Mar 2017 (audited) £'000
Profit for the period	**5,484**	**5,215**	**10,416**
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,214	117,200	117,200
Effect of dilutive potential ordinary shares from share options	2,195	3,341	2,773
Weighted average number of ordinary shares for the purposes of diluted earnings per share	119,409	120,541	119,973
Basic earnings per share	**4.7p**	**4.4p**	**8.9p**
Diluted earnings per share	**4.6p**	**4.3p**	**8.7p**

8. Earnings per share (continued)

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 2017 (unaudited) £'000	6 months to 30 Sep 2016 (unaudited) £'000	12 months to 31 Mar 2017 (audited) £'000
Profit for the period	**5,484**	**5,215**	**10,416**
Share option plan expense (including associated taxes)	320	570	949
Adjusted profit for the period	**5,804**	**5,785**	**11,365**
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,214	117,200	117,200
Effect of dilutive potential ordinary shares from share options	2,195	3,341	2,773
Weighted average number of ordinary shares for the purposes of diluted earnings per share	119,409	120,541	119,973
Adjusted basic earnings per share	**5.0p**	**4.9p**	**9.7p**
Adjusted diluted earnings per share	**4.9p**	**4.8p**	**9.5p**

9. Trade and other receivables

	30 Sep 2017 (unaudited) £'000	30 Sep 2016 (unaudited) £'000	31 Mar 2017 (audited) £'000
Trade receivables	12,258	13,148	16,168
Allowance for doubtful debts	-	(29)	(15)
	12,258	13,119	16,153
Other debtors	2,018	1,428	2,597
Total	**14,276**	**14,547**	**18,750**

10. Other non-current assets

	30 Sep 2017 (unaudited) £'000	30 Sep 2016 (unaudited) £'000	31 Mar 2017 (audited) £'000
Deferred tax	630	2	324
Prepayments	-	117	-
Total	**630**	**119**	**324**

11. Share-based payments

During the six months to 30 September 2017, 392,230 new share options were granted to employees (six months to 30 September 2016: 1,435,015) 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.

12. 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		
	6 months to 30 Sept 2017 (unaudited) £'000	**6 months to 30 Sept 2016 (unaudited) £'000**	**12 months to 31 Mar 2017 (audited) £'000**	**6 months to 30 Sept 2017 (unaudited) £'000**	**6 months to 30 Sept 2016 (unaudited) £'000**	**12 months to 31 Mar 2017 (audited) £'000**
Cirdan Imaging Limited	248	462	991	-	-	-
Queen's University Belfast	-	-	-	141	155	301
Total	**248**	**462**	**991**	**141**	**155**	**301**

The following amounts were outstanding at the balance sheet date:

	Amounts owed by related parties			Amounts owed to related parties		
	30 Sept 2017 (unaudited) £'000	**30 Sept 2016 (unaudited) £'000**	**31 March 2017 (audited) £'000**	**30 Sept 2017 (unaudited) £'000**	**30 Sept 2016 (unaudited) £'000**	**31 March 2017 (audited) £'000**
Cirdan Imaging Limited	227	214	390	-	-	5
Queen's University Belfast	-	52	-	18	-	-
Total	**227**	**266**	**390**	**18**	**-**	**5**

Queen's University Belfast is a related party as one of the Group's material shareholders. Cirdan Imaging Limited is a related party due to the Group's shareholding of 10% in this company.

13. Comparatives

Where appropriate, certain balances have been reclassified to conform to current period presentation.

Within the Digital Platforms division, costs of £0.7 million for the six months ended 30 September 2016 and £1.5 million for the year ended 31 March 2017, have been reclassified from operating expenses to costs of sales.

Grant receivable of £0.5 million as at 30 September 2016 has been reclassified from prepayments to other debtors in line with presentation at 31 March 2017 and 30 September 2017.

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
24 November 2017

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 2017 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 13. 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 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 2017 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 (NI) Limited
Chartered Accountants and Statutory Auditor
Belfast, United Kingdom
24 November 2017