

26 NOVEMBER 2018

KAINOS GROUP PLC
(“Kainos” or the “Group”)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

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 2018.

FINANCIAL HIGHLIGHTS

	H1 2019	H1 2018	Change
Revenue	£67.2m	£41.4m	62%
Adjusted pre-tax profit ¹	£10.1m	£7.1m	42%
Profit before tax	£8.7m	£6.8m	28%
Cash	£38.8m	£27.3m	42%
Sales orders	£90.2m	£63.4m	42%
SaaS sales orders	£6.4m	£5.3m	21%
Backlog ²	£125.6m	£97.1m	29%
Adjusted diluted earnings per share ¹	6.6p	4.9p	35%
Diluted earnings per share	5.7p	4.6p	24%
Proposed interim dividend	2.8p	2.0p	40%

OPERATIONAL HIGHLIGHTS

- Performance in line with upgraded market expectations, with on-going momentum.
 - Revenue growth of 62% to £67.2 million (H1 2018: £41.4 million).
 - Adjusted pre-tax profit increased 42% to £10.1m (H1 2018: £7.1 million).
 - Sales orders up 42% to £90.2 million (H1 2018: £63.4m million).
 - Contracted backlog growth of 29% to £125.6 million (H1 2018: £97.1 million).
- Revenue diversification continues, across a series of sectors.
 - Commercial revenues up 30% to £17.6 million (H1 2018: £13.6 million).
 - International revenues up 28% to £12.8 million (H1 2018: £10.0 million).
 - Healthcare revenues up 67% to £11.0 million (H1 2018: £6.6 million).
 - SaaS and software-related revenues up 13% to £9.9 million (H1 2018: £8.7 million).
- Very strong growth in Digital Services driven by new and existing customer demand.
 - Revenue growth of 75% to £57.3 million (H1 2018: £32.7 million).
 - Significant on-going engagements in UK government’s digital transformation programme.
 - Further strengthening of position within Europe as leading boutique Workday partner, with 33 new deals signed (H1 2018: 16); building presence in North America.
- Digital Platforms showing progress against key milestones.
 - Revenue growth of 13% to £9.9 million (H1 2018: £8.7 million).
 - 139 customers on Kainos Smart (H1 2018: 103).
 - Research and development expenditure of £2.2 million expensed (H1 2018: £2.6 million).
- A total of 1,324 people in Kainos (H1 2018: 1,019) up 30%, with on-going recruitment activity.
- Customer approval of Group services rated as ‘good’ or better by 90% of customers.³
- Highly cash generative, strong underlying cash conversion and period-end cash of £38.8 million.

¹ Adjusted measures are based on reported statutory profit numbers excluding the effect of share-based payments and related costs. Reconciliations between the reported and adjusted measures are included in the Financial Review.

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

³ Data collected from regular feedback surveys conducted with sub-set of Kainos customers over the course of the period.

Brendan Mooney, CEO, commented:

“An exceptionally strong six month performance means that we are well on the way to achieving a ninth consecutive year of growth - in terms of our people, customers, revenue and adjusted pre-tax profit.

Our Digital Services division continues to experience strong momentum, fuelled by demand from existing and new customers, both locally and internationally.

We continue to deliver major transformation programmes across UK government and for our commercial clients, where demand in the UK has resulted in the opening of new office locations in Birmingham and London.

To support the continued expansion with our Workday-related business, in Europe we continue to grow from our recently established offices in Frankfurt and Copenhagen, alongside our existing offices in Amsterdam and Gdansk. In North America we continue to expand our presence in Boston and Atlanta and we will open an office in Toronto in the next few weeks.

Our Digital Platforms division continues to make progress against key milestones. Smart, our market-leading Software as a Service (SaaS) platform for automated testing of the Workday suite continues to add global brands as customers, with over 130 international organisations now on the platform. In Evolve we continue to help our NHS customers maximise their use of Evolve, against a backdrop of a challenging funding environment for Acute Trusts.

We remain focused on providing exceptional careers for our staff and exceptional digital products and services for our customers. The Group’s pipeline of prospects continues to strengthen across all divisions and the Board believes that the Group is well-positioned for growth both in the short-term and in the coming years.”

Ends

For further information, please contact

Kainos

Brendan Mooney, Chief Executive Officer
Richard McCann, Chief Financial Officer

via FTI Consulting LLP

Investec Bank plc

Andrew Pinder / Patrick Robb

+44 20 7597 4000

Canaccord Genuity

Simon Bridges / Emma Gabriel

+44 20 7523 4606

FTI Consulting LLP

Matt Dixon / Harry Staight

+44 20 3727 1000

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.

Kainos has over 1,300 people across eleven offices in Europe and the US, working interchangeably across its Services and Platforms businesses.

Kainos is listed on the London Stock Exchange (LSE: KNOS).

For further information, please visit www.kainos.com.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

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 six months ended 30 September 2018 grew by 75% to £57.3 million (H1 2018: £32.7 million), with revenue from customers in commercial sectors accounting for £12.9 million (H1 2018: £10.2 million), an increase of 27%. Sales orders in Digital Services increased by 50% to £82.4 million (H1 2018: £54.9 million) and backlog for the division increased by 58% to £90.3 million (H1 2018: £57.3 million).

Digital Services - Digital Transformation

Brexit continues to generate uncertainty within the wider UK economy. Despite this, Kainos’ assessment of the associated impact in the government IT landscape remains consistent with previous guidance – there is no negative impact to the programmes with which Kainos is involved.

Within central government, Kainos is delivering a combination of existing and new programmes across sixteen major departments and agencies, with the Department for International Development added as a new customer in the past reporting period. In devolved government Kainos continues to be successful in projects in Scotland and Wales; whilst the absence of political institutions in Northern Ireland continues to defer most procurement activity in this market during the period.

Progress continues in client acquisition in the commercial sector, where we have added 4 new clients. The partnership with NHS Digital continues to expand, with Kainos delivering significant elements of NHS Online and the NHS App, both of which entered private beta in October 2018.

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 the public sector’s transformation. Equally, a developing reputation in the commercial sector and opportunities within NHS Digital are expected to generate further long term growth for the Group.

Digital Services – Workday Implementation

Kainos first engaged with Workday in 2010 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 33 partners globally accredited to implement Workday’s innovative SaaS platform.

Within Europe, Kainos continues to consolidate its position as the leading boutique partner, signing 33 new clients in the period (H1 2018: 16). This leadership position is a result of highly capable consulting staff and high satisfaction levels within the Kainos customer base, but is also aided by consolidation within the partner ecosystem, with boutique suppliers Appirio (2016), DayNine (2016) and Ataraxis (2018) all having been acquired by larger partners.

Kainos has continued its international expansion with notable developments in the period including the appointment of Kainos as a Workday partner in Canada and, post period end, achieving preferred supplier status for a significant US customer. In Europe, strong growth continues within the Nordic markets of Denmark, Sweden, Norway and Finland (Copenhagen office opened 2017) and DACH markets of Germany, Austria and Switzerland (Frankfurt office opened 2017). This is in addition to the Amsterdam office (opened 2015, covering Belgium, Netherlands and Luxembourg). Kainos now has 34 clients for Workday services in mainland Europe (H1 2018: 17).

The UK Public Sector is an important new market for Workday and Kainos has been instrumental in securing new customers. Of the seven deals signed by Workday, Kainos are undertaking the implementation with six customers and Workday are delivering the remaining project, supported by Kainos consultants. Kainos customers include Crown Commercial Service, the Office for Students and Innovate UK.

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 £4.0 million (H1 2018: £1.7 million) and has 68 customers (H1 2018: 23 customers).

The number of accredited Workday consultants in the Group's Digital Services division has increased by 44% to 197 people (H1 2018: 137 people), with further recruitment underway.

Looking forward, growth prospects remain very strong, driven by geographic expansion, increased penetration within the UK Public Sector and the further development of our Post Deployment Services offering. These prospects are, in turn, underpinned by very strong annual revenue growth at Workday Inc. ("Workday"), reported as 28% in their most recent US filings.

Digital Platforms

The Group Digital Platforms division comprises the following 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.
- The *Evolve Healthcare Portfolio* comprises Evolve Electronic Medical Record (Evolve EMR), a proprietary software product that removes paper from the care process by digitising NHS patient records, thereby enabling efficient healthcare and Evolve Integrated Care (Evolve IC), a mobile-optimised integrated care platform, designed to automate common care pathways for healthcare delivery organisations.

Evolve EMR can be consumed either on-premise or in a hosted environment, with perpetual and subscription licensing options. Evolve IC is a cloud-based SaaS solution licensed on a subscription basis.

In aggregate, Digital Platforms revenue for the six months ended 30 September 2018 increased by 13% to £9.9 million (H1 2018: £8.7 million). Sales orders for Digital Platforms decreased 8% to £7.8 million (H1 2017: £8.4 million), attributable to reduced demand for Evolve as a result of continued funding challenges within the NHS. Sales orders for the Group's SaaS platforms increased by 21% to £6.4 million (H1 2018: £5.3 million).

Within Smart, revenue for the period increased by 43% to £5.2 million (H1 2018: £3.6 million), of which £4.3 million relates to SaaS subscriptions (H1 2018: £3.0 million). New sales bookings for the period amounted to £7.3 million (H1 2018: £5.7 million), an increase of 27%. The Annual Recurring Revenue (ARR) for Smart at period end was £9.2 million (H1 2018: £6.3 million); backlog for Smart is £15.6 million (H1 2018: £13.7 million).

The on-going funding constraints within the NHS continue to impact Evolve revenues. Despite a stable maintenance revenue stream, there has been an 8% reduction in revenue to £4.7 million (H1 2018: £5.1 million). Sales orders for the period amounted to £0.5 million (H1 2018: £2.7 million), suggesting no material increase in revenues in the short-term.

As noted in the annual report, the commercial arrangement with Evolve IC and Telehealth provider InTouch Health concluded on 31 March 2018. InTouch Health terminated their commercial relationship with Kainos in order to develop their own internal solution. Kainos has since referred this matter to US legal counsel.

Digital Platforms – Smart

Smart is now used by 139 customers globally to automatically verify their Workday configurations (H1 2018: 103). Kainos has four Smart modules: HCM, Security, Financials and Payroll. Over 90% of customers have purchased a subscription for both HCM and Security, with 31 customers subscribed to Financials (which is in line with the wider adoption of Workday Financials) and 20 customers who have a Payroll subscription. The relocation of a number of the sales team to the US has resulted in a stronger sales performance.

Workday have announced Workday Cloud Platform (WCP), their Platform as a Service (PaaS) offering. Kainos has been part of the early adopter programme since 2017 with an anticipated General Availability in late 2019. While still at an early stage, WCP featured heavily in the recent Workday user conference and WCP may offer a new future growth opportunity – such as additional IP development for Kainos or specialised development services to other Workday customers and partners.

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

Digital Platforms – Evolve

Evolve EMR continues to be a leading supplier to the NHS, and is now deployed at enterprise scale across 35 Health Trusts (approximately 110 hospitals), managing over 1.5 billion images with 35 million patients registered on the system.

The dominant feature of the UK NHS market is that of restricted funding, which has significantly reduced procurement activity across the sector. Near-term, there are areas of interest in existing clients migrating to Cloud EMR and early indications of modest increases in procurement activity in the UK and Ireland markets.

Looking forward, the Group believes that the opportunity for Evolve EMR growth remains undiminished in the longer term, with over 90 Health Trusts in England still to address their considerable paper challenge, representing an available market of c. £200 million. Near-term, expectations are for a continued, subdued market.

OUR 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 development, retention and recruitment.

The Group has 1,324 people working in Kainos (H1 2018: 1,019) an increase of 30%, of which 11% are contractors (H1 2018: 5%). Attrition has increased to 14% during the period (H1 2018: 12%).

Kainos continues to attract strong interest in key recruitment markets, with 9,282 applicants in the period ended 30 September 2018 (H1 2018: 2,403⁴). A total of 1,857 interviews were conducted (H1 2018: 1,093) with 244 people joining Kainos (H1 2018: 181), representing 2.6% of the initial applicants (H1 2018: 7.5%).

The Kainos Digital Academy and associated programmes are central to the continued development of staff. During the six month reporting period, 3,322 training days were completed.

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 continuously since 2012, an accreditation that is entirely based upon employee feedback.

Kainos continues to provide a comprehensive range of benefits to support financial security, such as Private Medical Insurance, Contributory Pension plan, Life Insurance and Income Protection. Kainos also provide a comprehensive health cash plan, Healthshield which offers support with dental and optical costs, access to 24/7 counselling, health assessments and a range of complementary therapies to assist staff and their families' health and wellbeing.

The Group operates a Share Incentive Plan for all staff and a total of 1.8 million free shares have been distributed to staff. In addition, the Group created SAYE schemes in July 2015 and July 2018, which awarded a further 2.3 million options to staff.

The Group promotes awareness of digital technologies amongst school students. Over the past four years, Kainos has helped train 280 teachers in technical skills and their 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 female student participation in a number of programmes reaching 40%.

SUMMARY AND OUTLOOK

The directors believe that the Group's sales performance and consequent increase in contracted backlog underpin near-term performance.

Over the longer term, Kainos remains well placed to deliver further growth. The Group's Digital Services division continues to benefit from the UK government's digitisation programmes, and from the strong and sustained growth of Workday.

In the Group's Digital Platforms division, Smart remains in a commanding position as the leading automated testing product for Workday globally, and while constrained NHS funding is expected to limit the growth of Evolve in the near-term, the directors remain confident that it is well positioned to capitalise on its lead in the NHS marketplace in the long 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 remain focused on providing exceptional careers for staff and exceptional digital products and services for its customers.

⁴ Comparatives have been adjusted to remove contractors

FINANCIAL REVIEW

Kainos achieved revenue of £67.2 million (H1 2018: £41.4 million), representing an increase of 62%. Digital Services revenue grew 75% to £57.3 million (H1 2018: £32.7 million) which was driven by growth in both Digital Transformation and Workday Services. Digital Platform revenue has increased by 13% to £9.9 million (H1 2018: £8.7 million) which is attributable to growth in Smart and partially offset by a decline in Evolve, which now represents 7% of Group revenue.

Overall gross margin was 46% (H1 2018: 49%). Digital Services margin decreased to 44% (H1 2018: 47%), whilst Digital Platforms gross margin increased to 59% (H1 2018: 54%). The reduction in Digital Services gross margin was mostly due to increasing the number of contractors and revenue delivered through partners, as well as the geographic expansion within Workday Services.

Operating expenses excluding share-based payments for H1 2018 increased by 59% to £20.8 million (H1 2018: £13.1 million). This increase is in line with revenue growth and relates to the geographic expansion and sales investment within the Digital Services division. Investment in product development has decreased to £2.2 million (H1 2018: £2.6 million) due to a reduction in staff involved in Evolve product development which was partially offset by a growth in Smart product development. All product development was expensed in the period. Research and Development Expenditure Credit (RDEC) grants recognised in the period totalled £0.9 million (H1 2018: £0.9 million).

The share-based payment expense incurred in the period was £1.3 million (H1 2018: £0.3 million). This increase relates mainly to social security costs associated with vesting of share awards.

Adjusted pre-tax profit increased by 42% to £10.1 million (H1 2018: £7.1 million). Profit before tax increased by 28% to £8.7 million (H1 2018: £6.8 million). The adjusted profit measures can be reconciled to the reported statutory numbers as follows:

	6 months to 30 Sep 2018 unaudited £'000	6 months to 30 Sep 2017 unaudited £'000	12 months to 31 Mar 2018 audited £'000
Profit before tax	8,722	6,810	14,251
Share-based payments and related costs	1,330	320	1,096
Adjusted profit before tax	10,052	7,130	15,347
Profit after tax	6,960	5,484	11,666
Share-based payments and related costs (net of associated taxes)	1,104	320	910
Adjusted profit after tax	8,064	5,804	12,576

The effective tax rate for the six months ended 30 September 2018 was 20.2% (H1 2018: 19.5%) and is in line with expectations.

The Group continues to have a robust statement of financial position with £38.8 million of cash (H1 2018: £27.3 million), no debt and net assets of £45.8 million (H1 2018: £36.2 million). Cash conversion, calculated by taking cash generated by operations over EBITDA, continued to be strong at 93% (H1 2018: 63%). The combined underlying trade debtor and accrued income totalled £28.8 million (H1 2018: £20.4 million). The increase of 41% is in line with expectations given revenue growth.

Dividend

An interim dividend of 2.8 pence per share has been declared for the six months to 30 September 2018. This will be paid on 28 December 2018 to shareholders on the register at the close of business on 7 December 2018, with an ex-dividend date of 6 December 2018.

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 29 May 2018. These are described in more detail on pages 11 - 16 of the Annual Report (available on the Group's website www.kainos.com).

Condensed consolidated interim statement of comprehensive income for the six months ended 30 September 2018

	Note	6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Continuing operations				
Revenue	5	67,179	41,425	96,680
Cost of sales	5	(36,357)	(21,253)	(50,076)
Gross profit		30,822	20,172	46,604
Operating expenses excluding share-based payments		(20,793)	(13,077)	(31,308)
Share-based payments and related costs ⁵		(1,330)	(320)	(1,096)
Operating expenses		(22,123)	(13,397)	(32,404)
Operating profit		8,699	6,775	14,200
Finance income		23	37	53
Finance expense		-	(2)	(2)
Profit before tax		8,722	6,810	14,251
Taxation	6	(1,762)	(1,326)	(2,585)
Profit for the period		6,960	5,484	11,666

Consolidated statement of comprehensive income		6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Profit for the year		6,960	5,484	11,666
Other comprehensive income:				
Currency translation difference		385	(20)	(201)
Total comprehensive income for the period		7,345	5,464	11,465

Earnings per share

Basic	8	5.9p	4.7p	10.0p
Diluted	8	5.7p	4.6p	9.6p

⁵ Charge for period relates to equity and cash settled share schemes and associated social security costs as referenced in the segmental reporting note (Note 5).

Condensed consolidated interim statement of financial position at 30 September 2018

	Note	30 Sep 2018 (unaudited) £'000	30 Sep 2017 (unaudited) £'000	31 Mar 2018 (audited) £'000
Non-current assets				
Property, plant and equipment		2,592	2,026	2,109
Investments		1,025	900	1,025
Other non-current assets		1,058	630	1,289
		4,675	3,556	4,423
Current assets				
Trade and other receivables	9	21,927	14,276	23,157
Prepayments		1,637	1,762	2,647
Accrued income		9,131	8,107	6,106
Cash and bank balances		38,842	27,314	28,961
		71,537	51,459	60,871
Total assets		76,212	55,015	65,294
Current liabilities				
Trade creditors and accruals		(12,429)	(7,362)	(13,039)
Deferred income		(8,789)	(5,615)	(6,993)
Corporation tax		(1,914)	(2,573)	(3,157)
Other tax and social security		(6,810)	(3,017)	(6,028)
		(29,942)	(18,567)	(29,217)
Non-current liabilities				
Other provisions		(444)	(297)	(347)
		(444)	(297)	(347)
Total liabilities		(30,386)	(18,864)	(29,564)
Net assets		45,826	36,151	35,730
Equity				
Share capital		602	593	593
Share premium account		3,225	1,628	1,702
Capital reserve		666	666	666
Share-based payments reserve		3,258	1,773	2,549
Translation reserve		(65)	(269)	(450)
Retained earnings		38,140	31,760	30,670
Total equity		45,826	36,151	35,730

Condensed consolidated interim statement of changes in shareholders' equity for the six months ended 30 September 2018

	Share capital	Share premium	Capital redemption reserve	Share-based payments	Translation reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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
Other comprehensive income	-	-	-	-	(20)	-	(20)
Total comprehensive income for the period	-	-	-	-	(20)	5,484	5,464
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 for equity-settled share-based payments	-	-	-	-	-	322	322
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
Profit for the period	-	-	-	-	-	6,182	6,182
Other comprehensive income	-	-	-	-	(181)	-	(181)
Total comprehensive income for the period	-	-	-	-	(181)	6,182	6,001
Share-based payment expense	-	-	-	776	-	-	776
Current tax for equity-settled share-based payments	-	-	-	-	-	25	25
Deferred tax for equity-settled share-based payments	-	-	-	-	-	284	284
Issue of share capital	-	74	-	-	-	-	74
Dividends	-	-	-	-	-	(7,581)	(7,581)
Balance at 31 March 2018 (audited)	593	1,702	666	2,549	(450)	30,670	35,730
Profit for the period	-	-	-	-	-	6,960	6,960
Other comprehensive income	-	-	-	-	385	-	385
Total comprehensive income for the year	-	-	-	-	385	6,960	7,345
Share-based payment expense	-	-	-	709	-	-	709
Current tax for equity-settled share-based payments	-	-	-	-	-	716	716
Deferred tax for equity-settled share-based payments	-	-	-	-	-	(206)	(206)
Issue of share capital	9	1,523	-	-	-	-	1,532
Balance at 30 September 2018 (unaudited)	602	3,225	666	3,258	(65)	38,140	45,826

Condensed consolidated interim cash flow statement for the six months ended 30 September 2018

	6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Net cash from operating activities	9,342	4,119	14,152
Investing activities			
Purchase of trading investments	-	-	(125)
Purchases of property, plant and equipment	(1,010)	(509)	(1,130)
Net cash used in investing activities	(1,010)	(509)	(1,255)
Financing activities			
Dividends paid	-	-	(7,581)
Proceeds on issue of shares	1,532	2	76
Net cash generated/(used) in financing activities	1,532	2	(7,505)
Net increase in cash and cash equivalents	9,864	3,612	5,392
Cash and cash equivalents at beginning of period	28,961	23,722	23,722
Effects of foreign exchange rate changes	17	(20)	(153)
Cash and cash equivalents at end of period	38,842	27,314	28,961

	6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Net cash from operating activities			
Profit for the period	6,960	5,484	11,666
<i>Adjustments for:</i>			
Income tax expense	1,762	1,326	2,585
Share-based payment expense	1,330	320	1,096
Government grants released	-	(13)	(13)
Depreciation	527	485	976
Loss on disposal of property, plant and equipment	-	-	47
Increase in provisions	97	-	50
Operating cash flows before movements in working capital	10,676	7,602	16,407
Increase in receivables	(602)	(465)	(8,087)
(Decrease)/increase in payables	(252)	(2,384)	7,370
Cash generated by operations	9,822	4,753	15,690
Income taxes paid	(480)	(634)	(1,538)
Net cash from operating activities	9,342	4,119	14,152

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 21 Farringdon Road, 2nd Floor, London, EC1M 3HA. These condensed consolidated interim financial statements for the six months ended 30 September 2018 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 23 November 2018.

2. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 September 2018 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 2018 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 2018, except for; IFRS9 'Financial instruments' and IFRS15 'Revenue from contracts with customers', effective 1 April 2018.

Revenue from contracts with customers

IFRS15 contains a new set of principles on when to recognise and measure revenue as well as new requirements related to presentation and disclosure. Prior to adoption, the Group performed detailed analysis of the impact of IFRS15 on the consolidated financial statements and no material impact was identified. Service revenue remains the largest revenue stream (85% of total revenue for the six

3. Significant accounting policies (continued)

months ended 30th September 2018) and the adoption of IFRS15 has had no impact on revenue recognition.

IFRS15 has also had no impact on revenue recognition for our other revenue streams, such as licence revenue and managed service revenue and no contract acquisition or contract fulfilment costs have been identified thus far that meet the criteria for capitalisation under IFRS15. As a result, there was no adjustment to retained earnings on application at 1 April 2018.

Financial instruments

IFRS9 replaces the classification and measurement models for financial instruments in IAS39, including a new expected credit loss model for calculating impairment on financial assets.

The vast majority of financial assets held are trade receivables and cash, which continue to be accounted for at amortised cost. Due to the general quality and short-term nature of trade receivables, the move from an incurred loss model to an expected loss model has not had a material impact. As permitted by IFRS9, the Group applies the simplified approach to measure expected credit losses which uses a lifetime expected loss allowance.

The impact of adopting IFRS9 on the consolidated financial statements was not material for the Group and there was no adjustment to retained earnings on application at 1 April 2018.

Leases

IFRS16, published in January 2016, eliminates the classification of leases as either operating or finance leases and introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. The Group has carried out an initial assessment of the likely impact of IFRS16 on its lease portfolio as at 31 March 2018. Application of the new standard will result in a material increase in assets and liabilities on the consolidated statement of financial position, however the impact on net assets and the consolidated income statement will not be material. IFRS16 'Leases' is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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 2018. 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 in Europe, responsible for implementing Workday's innovative SaaS platform for enterprise customers.

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

Segmental revenue and results

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

<i>6 months to 30 September 2018 (unaudited)</i>	Digital Services £'000	Digital Platforms £'000	Total £'000
Revenue	57,299	9,880	67,179
Cost of sales	(32,312)	(4,045)	(36,357)
Gross profit	24,987	5,835	30,822
Direct expenses ⁶	(7,763)	(4,903)	(12,666)
Contribution	17,224	932	18,156
Central overheads ⁶			(8,104)
Adjusted pre-tax profit			10,052

<i>6 months to 30 September 2017 (unaudited)</i>	Digital Services £'000	Digital Platforms £'000	Total £'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 ⁶	(3,966)	(4,762)	(8,728)
Contribution	11,470	(26)	11,444
Central overheads ⁶			(4,314)
Adjusted pre-tax profit			7,130

⁶ Operating expenses excluding share-based payments includes direct expenses, central overheads and finance income/expenses.

5. Segmental reporting (continued)

<i>12 months to 31 March 2018 (audited)</i>	Digital Services £'000	Digital Platforms £'000	Total £'000
Revenue	78,592	18,088	96,680
Cost of sales	(42,605)	(7,471)	(50,076)
Gross profit	35,987	10,617	46,604
Direct expenses ⁵	(9,297)	(9,099)	(18,396)
Contribution	26,690	1,518	28,208
Central overheads ⁶			(12,861)
Adjusted pre-tax profit			15,347

6. Taxation

The total tax charge for the six months ended 30 September 2018 is £1.8 million (six months ended 30 September 2017: £1.3 million). This tax charge equates to an effective tax rate of 20.2% (30 September 2017: 19.5%). The expected annual tax rate for the year to 31 March 2019 is 19.8% (31 March 2018: 18.1%).

7. Dividends

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

	6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for 2017 of 4.4p per share	-	-	5,215
Interim dividend for 2018 of 2.0p per share	-	-	2,371
Total	-	-	7,586

A final dividend of 4.6 pence per share for the year to 31 March 2018 was paid on 19 October 2018 to shareholders on the register at the close of business on 21 September 2018. An interim dividend of 2.8 pence per share has been declared for the six months to 30 September 2018. This will be paid on 28 December 2018 to shareholders on the register at the close of business on 7 December 2018, with an ex-dividend date of 6 December 2018. 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 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Profit for the period	6,960	5,484	11,666
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,948	117,214	117,231
Effect of dilutive potential ordinary shares from share options	3,377	2,195	3,668
Weighted average number of ordinary shares for the purposes of diluted earnings per share	121,325	119,409	120,899
Basic earnings per share	5.9p	4.7p	10.0p
Diluted earnings per share	5.7p	4.6p	9.6p

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-based payments and related costs (including associated taxes) by the weighted average number of ordinary shares in issue during the period.

	6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Profit for the period	6,960	5,484	11,666
Share-based payments and related costs (net of associated taxes)	1,104	320	910
Adjusted profit for the period	8,064	5,804	12,576
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,948	117,214	117,231
Effect of dilutive potential ordinary shares from share options	3,377	2,195	3,668
Weighted average number of ordinary shares for the purposes of diluted earnings per share	121,325	119,409	120,889
Adjusted basic earnings per share	6.8p	5.0p	10.7p
Adjusted diluted earnings per share	6.6p	4.9p	10.4p

9. Trade and other receivables

	30 Sep 2018 (unaudited) £'000	30 Sep 2017 (unaudited) £'000	31 Mar 2018 (audited) £'000
Trade receivables	20,047	12,258	19,738
Allowance for doubtful debts	(366)	-	-
	19,681	12,258	19,738
Other receivables	2,246	2,018	3,419
Total	21,927	14,276	23,157

10. Share-based payments

During the six months to 30 September 2018, 1,020,536 new share options were granted to employees (six months to 30 September 2017: 392,230) 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. 732,670 options are exercisable at the period end.

11. 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:

	<u>Sale of goods and services</u>			<u>Purchase of goods and services</u>		
	6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000	6 months to 30 Sep 2018 (unaudited) £'000	6 months to 30 Sep 2017 (unaudited) £'000	12 months to 31 Mar 2018 (audited) £'000
Cirdan Imaging Limited	221	248	685	-	-	-
Queen's University Belfast	-	-	-	132	141	259
Total	221	248	685	132	141	259

11. Related party transactions (continued)

The following amounts were outstanding at the statement of financial position date:

	<u>Amounts owed by related parties</u>			<u>Amounts owed to related parties</u>		
	30 Sep 2018 (unaudited) £'000	30 Sep 2017 (unaudited) £'000	31 Mar 2018 (audited) £'000	30 Sep 2018 (unaudited) £'000	30 Sep 2017 (unaudited) £'000	31 Mar 2018 (audited) £'000
Cirdan Imaging Limited	502	227	395	-	-	-
Queen's University Belfast	20	-	-	-	18	-
Total	522	227	395	-	18	-

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 11.2% in this company.

12. Contingent Liability

In the US, the commercial arrangement with Evolve IC and Telehealth provider InTouch Health concluded on 31 March 2018. InTouch Health terminated their commercial relationship with Kainos to develop their own internal solution. Kainos has since referred this matter to US legal counsel and has pursued legal recourse for breach of contract by InTouch Health. In response, InTouch Health has counterclaimed against Kainos. At this stage the directors' assessment, based on independent US legal advice, is that the basis for InTouch's counter-claim has little merit and it is not probable that an economic outflow will be required to settle the claim.

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
23 November 2018

INDEPENDENT REVIEW REPORT TO KAINOS GROUP PLC

We have been engaged by the company to review the interim financial information included in the Half Yearly Financial Report for the six months ended 30 September 2018 which comprise the condensed consolidated interim balance sheet as at 30 September 2018, and the related condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of changes in shareholders' equity and condensed consolidated interim cash flow statement for the six-month period then ended ("interim financial information"). 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 interim financial information.

This report is made solely to the company in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE 2410") issued by the International Auditing and Assurance Standards 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 review 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 which includes the interim financial information, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the company are prepared in accordance with IFRSs as adopted by the European Union. The interim financial information 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 and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility

Our responsibility is to express to the company a conclusion on the interim financial information in the Half-Yearly Financial Report based on our review.

Scope of review

We conducted our review in accordance with ISRE 2410. 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 interim financial information in the Half-Yearly Financial Report for the six months ended 30 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Richard Howard

For and on behalf of Deloitte (NI) Limited
Chartered Accountants and Statutory Audit Firm
Belfast, United Kingdom
23 November 2018