15 November 2021

Kainos Group plc

("Kainos" or the "Group")

Interim results for the six months ended 30 September 2021

Kainos Group plc (KNOS), a leading IT provider, operating across two specialist business areas, Digital Services and its Workday Practice, is pleased to announce its results for the six months ended 30 September 2021 (H1 22).

Financial highlights

	H1 2022	H1 2021	Change
Revenue	£142.3m	£107.2m	+33%
Profit before tax	£24.8m	£24.0m	+3%
Adjusted pre-tax profit	£29.2m	£26.1m	+12%
Cash [(1)]	£80.4m	£62.5m	+29%
Bookings	£187.4m	£103.6m	+81%
Software as a Service (SaaS) bookings	£31.0m	£14.2m	+118%
Backlog	£250.0m	£180.9m	+38%
Adjusted diluted earnings per share (note 8)	19.1p	17.0p	+12%
Diluted earnings per share	16.0p	15.7p	+2%
Special dividend	-	6.7p	-100%
Interim dividend	7.1p	6.4p	+11%

Operational highlights

We continue to deliver a strong business performance, reflecting robust market demand, the ongoing trust and support of our customers and the commitment of our colleagues.

- Revenue growth of 33% (32% organic) to £142.3 million (H1 21: £107.2 million).
- Adjusted pre-tax profit increased 12% to £29.2 million (H1 21: £26.1 million).
- Bookings up 81% to £187.4 million (H1 21: £103.6 million).
- Contracted backlog growth of 38% to £250.0 million (H1 21: £180.9 million).
- Period-end cash of £80.4 million (H1 21: £62.5 million); with cash conversion at 38% (H1 21: 123%).

Alongside our business performance, we are focussed on our ambition to be a responsible organisation.

- Strong recruitment has increased our staff numbers by 41% to 2,438 (H1 21: 1,729), with employee retention at 89% (H1 21: 92%); whilst we have continued to retain our 'Top 100 Best Companies to Work For' accreditation.
- Customer approval rating[(2)] remains high, reaching 98% (H1 21: 97%).

[1] *Cash includes treasury deposits of £18.0 million.*
[2] *Data from all completed customer surveys in the period. There are five possible designations: 'Poor', 'Satisfactory', 'Good', 'Very Good' or 'Excellent'; the rating reflects the percentage of customers that rate our performance 'Good' or better.*

- Having achieved carbon neutral status in 2020, we remain on track to achieving carbon net zero by 2025. As part of our offsetting activity, we have supported forest preservation, reforestation, wind power, landfill gas-to-energy and cooking stove programmes in Europe, North America, Africa and South America.

In Digital Services, we continue to deliver significant digital transformation programmes across the public sector, healthcare and in the commercial sector.

- This has driven very strong revenue growth of 32% to £94.2 million (H1 21: £71.4 million).

Our Workday Practice continues to be the leading Pan-European Workday specialist and we are building strongly in North America.

- We have recorded very strong revenue growth of 34% (31% organic) to £48.1 million (H1 21: £35.8 million).
- Within this, our Smart product revenues grew 22% to £14.4 million (H1 21: £11.8 million); at the same time the Annual Recurring Revenue (ARR) increased 37%.
- Focused on the opportunity in North America, we now have 249 colleagues (H1 21: 110) based across USA, Canada and Argentina.

Our focus on sector diversification has ensured that we have built a robust and well-balanced business across sector and region.

- Overall, our revenues are: 42% Commercial, 37% Public Sector and 21% Healthcare.
- Commercial revenues are up 51% to £59.3 million (H1 21: £39.2 million).
- Healthcare revenues are up 63% to £30.6 million (H1 21: £18.8 million).
- Public Sector revenues are up 6% to £52.3 million (H1 21: £49.2 million).

We have recorded very strong growth in our international and software-related revenues.

- International revenues are up 45% to £39.9 million (H1 21: £27.6 million).
- SaaS and software-related revenues are up 36% to £21.1 million (H1 21: £15.5 million).

A Confident Outlook

While the economy is not yet free of the impacts of Covid-19, our robust pipeline, significant contracted backlog, long-term customer relationships and talented colleagues allow us to be confident in our outlook for both the current financial year and future periods.

Brendan Mooney, CEO, commented:

"For the past 18 months we have been physically distant from our colleagues and customers, but we have worked seamlessly together to deliver critical systems.

Our work has included supporting the NHS response to Covid-19 and ensuring that our government and commercial clients have continued to provide essential services to citizens, patients, customers, and employees.

Since 2010, we have been helping organisations drive digital transformation programmes. That digitalisation trend has been accelerated by the pandemic and we have continued to support our customers as they respond to changing demands on their organisations.

In parallel, we have remained focused as a business, maintaining our high levels of customer satisfaction and employee engagement; while simultaneously delivering record levels of sales, revenue, adjusted pre-tax profit and cash.

We continue to achieve significant milestones – we now work with over 600 customers and employ over 2,400 colleagues including those that we welcomed during the year through the acquisitions of Cloudator (Europe) and Une Consulting (Argentina).

As part of our Climate Action programme, we have achieved Carbon Neutrality for 2020 and we remain on track to achieve our Carbon net zero target in 2025.

Our performance has only been possible because of the trust and support of our customers and the talents and hard work of our colleagues. Once again, we have a deep sense of gratitude towards our colleagues and our clients."

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About Kainos

Kainos Group plc is a UK-headquartered IT provider, across two specialist business areas, Digital Services and its Workday Practice.

Our Digital Services include full lifecycle development and support of customised Digital Services for public sector, healthcare and commercial customers. These transformative solutions encompass a range of services from experience design to artificial intelligence and cloud to deliver truly intelligent solutions that are secure, accessible and cost-effective.

Our Workday Practice is one of Workday's most respected partners. As a full-service partner, we are experienced in complex deployment and integrations, and the leader in Workday test automation. We are trusted by our customers to launch, test, expand and safeguard their Workday systems.

Our people are central to our success – we have over 2,400 people based across 17 offices in Europe, North America and South America.

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

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

Cautionary statement

This report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

This report includes statements that are, or may be deemed to be, "forward-looking statements". These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this report, but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Definition of terms

We use the following definitions for our key metrics:

Adjusted pre-tax profit: profit before tax excluding the effect of share-based payment expense, acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense (relating to contingent deferred consideration subject to future service conditions).

Annual Recurring Revenue (ARR): the value at the end of the accounting period of the software and subscription recurring revenue annualised.

Backlog: the value of contracted revenue that has yet to be recognised.

Bookings: the total contracted value of sales completed during the period.

Carbon net zero: reducing the quantities of CO_2 emitted, in line with science-based targets and using carbon offsets that avoid or remove the remaining emissions.

Carbon neutral: using carbon offsets that avoid or remove emissions in the same quantities as any CO_2 emitted.

Cash Conversion: cash generated from operating activities as a percentage of adjusted EBITDA.

Earnings before Interest, Tax, Depreciation and Amortisation (Adjusted EBITDA): calculated as being adjusted pre-tax profit excluding interest, tax, depreciation of property, plant and equipment and right-of-use assets, and amortisation of intangible assets.

Organic revenue: Group revenue excluding revenue from acquisitions completed in the period.

Group business review

Continued business momentum with widening opportunities

Our established track record in helping ambitious organisations deliver large-scale digital transformation programmes is particularly relevant in a post-pandemic world. This digitalisation trend has been accelerated by the pandemic and we have continued to support new and existing customers as they respond to changing demands on their organisations.

Our high levels of activity with our customers has translated into a very strong set of results for the first six months of FY22.

Revenue for the period grew by 33% to £142.3 million (H1 21: £107.2 million) with adjusted pre-tax profit increasing by 12% to £29.2 million (H1 21: £26.1 million). The return of utilisation to normal levels, salary increases, the elevated use of contract staff and the resumption of some 'in person' expenses has constrained our profit margin growth; we view current profit margin levels as our expected long-term profit trend.

Our sales performance underlines our success in winning business while continuing to operate remotely – extensions to existing contracts, additional projects placed by existing customers and winning new customers. Bookings in the first six months increased 81% to £187.4 million (H1 21: £103.6 million), which resulted in a 38% increase in the contracted backlog to £250.0 million (H1 21: £180.9 million).

In response to this success, we have been undertaking significant recruitment, with staff and contractor numbers increasing by 41% to 2,438 (H1 21: 1,729). Employee engagement remains high, reflected in our placing in the Sunday Times 'Best Companies to Work For' 2021 survey (#86 position) and with staff retention at 89% (H1 21: 92%).

Customer satisfaction remains high, with 98% (H1 21: 97%) of our customers rating service as 'good' or better. This high level of customer service underpins our long-term customer relationships, with existing customers accounting for 95% of total revenue (H1 21: 94%). We currently have 601 active customers (H1 21: 481)[3].

Significant progress has been made in widening our customer base by sector and region. Following growth of 51%, commercial sector customers now account for 42% of total revenue (H1 21: 37%), our growing public sector customers represent 37% (H1 21: 45%) and 21% of revenue is from healthcare customers (H1 21: 18%). The proportion of revenue generated from customers outside the UK and Ireland increased by 45% to £39.9 million and is now 28% of total revenue (H1 21: 26%).

On 30 September, we had a strong cash balance (including treasury deposits) of £80.4 million (H1 21: £62.5 million), representing 38% cash conversion (H1 21: 123%), with cash collection expected to return to historic levels during H2 22.

[3] *The number of active customers at the period end excludes the 425 customers of the acquired businesses, IntuitiveTEK, Formulate, Implexa, Cloudator and Une Consulting. An active customer is defined as one where Kainos has undertaken paid-for work in the current financial year.*

Digital Services review

Our Digital Services division builds solutions that are highly cost-effective and make public-facing services more accessible and easier to use for the citizen, patient and customer.

Revenues grew by 32% to £94.2 million (H1 21: £71.4 million), while our bookings increased by 90% to £125.9 million (H1 21: £66.2 million), correspondingly our backlog increased by 29% to £152.2 million (H1 21: £118.1 million).

Public sector

Our public sector customers have remained committed to their digital transformation programmes and they remain ambitious in the scope of services that they wish to digitise. As a result, revenues increased by 9% to £51.7 million (H1 21: £47.5 million).

Within central government, we continue to consolidate our strong position across key accounts, securing new contracts to deliver digital programmes including Data Products for HM Passport Office (£92 million, five years) and with Defra to deliver their Europe and Trade Delivery Portfolio, and Future Farming and Countryside Programme (£54.5 million, two years).

Commercial sector

While our commercial customers were cautious during the early stages of the pandemic, their confidence has returned, and activity levels are higher than before the pandemic.

As a result, our revenues increased 80% to £12.4 million (H1 21: £6.9 million). We have assisted new customers such as Hello Fresh and IMCO as well as established customers such as Concardis, New Day and Our Future Health as they increase investment in digital transformation.

We have continued to win small engagements in Canada, Germany and Switzerland. While these are small in scope and size, we are optimistic that we will be awarded further projects during this year.

Healthcare sector

Our healthcare revenues increased by 77% to £30.1 million (H1 21: £17.0 million).

We continue to have a strong partnership with NHS Digital and NHS X, providing ongoing support for their response to the challenges of Covid-19. Increasingly the focus is turning to broader healthcare provision and how technology can support the NHS with its ambitious digital plans. In this regard, we are delighted to be named on the £800 million Digital Capability for Health framework.

With Alliance Medical, our engagement is utilising UiPath Robotic Process Automation (RPA) to automate radiology scan requests from GP's and Clinicians across Ireland with the national radiology information system.

Workday Practice review

Having first engaged with Workday Inc. in 2011, we are now one of their most experienced partners. We are the only specialist Workday partner headquartered in the UK and one of only 37 partners globally, accredited to implement Workday's innovative SaaS platform.

Revenue for the period grew by 34% to £48.1 million (H1 21: £35.8 million) and backlog for the division increased by 56% to £97.8 million (H1 21: £62.8 million), reflecting an increase in bookings of 64% to £61.5 million (H1 21: £37.4 million).

The number of accredited Workday consultants at Kainos increased by 50% to 562 (H1 21: 375).

Workday services

Within Europe, we continue to consolidate our position as the leading Workday partner. This leadership position is the result of high satisfaction levels within our customer base, coupled with our geographic expansion.

Our international growth started in Europe in 2015 when we opened our office in Amsterdam, we now have over 210 colleagues (H1 21: 159) based in Northern and Central Europe. Having entered the North American market in 2018, we now have over 245 people focused on the US and Canada (H1 21: 110).

Within the ecosystem there is an established trend of larger partners buying smaller organisations[4], and we anticipate further transactions will occur in the future. The reduction in the number of partners provides further growth opportunities.

In addition to the delivery of Workday for new customers, we are increasingly involved in supporting customers already live on the Workday platform. We describe this annuity-style revenue stream as Post Deployment Services.

Revenue for the year grew by 41% to £33.6 million (H1 21: £23.9 million); backlog increased by 39% to £35.3 million (H1 21: £25.4 million); and bookings increased 51% to £35.8 million (H1 21: £23.7 million).

Acquisitions

In June 2021, we completed the acquisition of Cloudator (55 people), the largest Workday partner in the Nordic region. In September 2021 Buenos Aires-based Une Consulting (42 people) was also acquired, further strengthening our Workday capability in North and South America. Details of the consideration relating to each acquisition are included in note 13 in this report.

In total, the acquisitions completed during the period contributed revenue of £1.3 million (H1 21: nil).

Smart product suite

Workday is a comprehensive SaaS platform, but we believe that there are opportunities to develop software components that are complementary to the platform and enable customers to further increase the benefit that they can realise from their investment in Workday.

In 2013, Kainos launched Smart Test which is used by organisations to automatically verify their Workday configurations. Smart Test currently consists of five modules: HCM, Security, Financials, Payroll and Recruitment, with a further four modules due to launch during FY22

[4] *Recent transactions include the Ataraxis acquisition by HR Path (2018). In 2019 Alight acquired the Workday-related business elements of Wipro, for a reported $110 million (350 consultants). In 2020, Accenture acquired US-focused Sierra-Cedar (275 consultants) and Cognizant completed the acquisition of Collaborative Solutions (c.1,000 consultants).*

and FY23. Smart Test is used by over 250 global customers, including AT&T, Johnson & Johnson and the State of Oregon.

Smart Audit became generally available in August 2021 and has already been deployed to over 20 customers including Match.com, Innovate UK and AIA. Smart Audit is a compliance monitoring tool that allows Workday customers to maintain operational controls over their Workday environments. Our pre-built controls focus on safeguarding against Segregation of Duties conflicts, providing robust Privileged Access Controls and protecting Personal and Sensitive employee data.

In total, Smart product bookings increased 88% to £25.7 million (H1 21: £13.7 million). This strong sales performance resulted in revenue increasing 22% to £14.4 million (H1 21: £11.8 million), of which £13.1 million relates to SaaS subscriptions (H1 21: £10.0 million); the Annual Recurring Revenue was £28.0 million (H1 21: £20.4 million), an increase of 37% and backlog increased 67% to £62.5 million (H1 21: £37.4 million).

Workday Extend

Workday Inc. has a Platform-as-a-Service offering known as Workday Extend, (previously Workday Cloud Platform) which became generally available to customers in May 2020. Kainos has been part of the Extend early adopter programme since 2017.

Extend allows customers to build additional, specialised functionality on the Workday platform to further enhance their Workday deployment. As experts in Extend we have helped organisations such as WWE, Shopify and Spotify build Extend applications.

In addition to these services-based assignments, Extend provides the opportunity to build further products. During 2021 we have built and deployed applications such as Return to Work, Vaccination Management and Rewards and Recognition. While the focus of these initial deployments has been to demonstrate the capability of Extend, we believe that there are opportunities to create paid-for applications.

Our people

We believe that the future success of our organisation is dependent upon the ability, skills and motivation of the people working in Kainos; and our People Development Plan focuses on the key objectives of engagement, development, retention and recruitment.

Our culture

Our ambition is to be a great place to work. Our people tell us when we get it right and tell us about the areas where we can improve. We use the Sunday Times 'Best Companies to Work For' annual survey as an annual health check, alongside our continual engagement.

The 'Best Companies' survey is a confidential way for our colleagues to share their feedback and having first appeared in the Top 100 in 2012, we are delighted to still be there in 2021.

We are focused on creating a workplace environment that people want to join and then stay to develop their careers.

During the period, staff retention was 89% (H1 21: 92%) and on Glassdoor, the website which hosts anonymous employee reviews of global organisations, 84% of reviewers would recommend working at Kainos.

Recruitment

We work hard at retaining the talented people already in Kainos; we are also very focused on recruiting new talented colleagues. Kainos continues to attract strong interest in key recruitment markets, with several thousand candidates applying each year to join Kainos.

Overall headcount increased by 709 to 2,438 people (H1 21: 1,729); of this increase, over 90 people joined via the acquisitions of Cloudator and Une Consulting. In total, 13% of our colleagues are contractors (H1 21: 11%). By region, UK & Ireland increased to 1,775 people (+498), Central Europe grew to 406 people (+64) and North and South America increased to 257 people (+147).

Development

To support our colleagues in their skills development we provide extensive internal and external training programmes. The pandemic required us to deliver these programmes in a virtual delivery model, which has been very successful and global demand remains high. Through these programmes we delivered over 7,000 days of technical and behavioural skills training during the period.

While much of our efforts are aimed internally, supporting the career development of our colleagues, we also remain committed to helping young people who are making their first career decisions. Since April, our Tech Outreach programmes have allowed 484 young people to participate in our virtual Work Experience programmes; similarly, we hosted 231 young people on our week-long virtual CodeCamps.

To widen participation at university, we launched our Digital Bursaries programme which over the next 3 years will support 60 young people who are traditionally under-represented at university.

Staff share incentive plan

The Group operates a Share Incentive Plan for all staff. Including the annual awards made in December 2020 (378,152 shares granted) a total of 2,914,120 free shares have now been distributed to staff. In addition, the Group operates Save as you earn (SAYE) schemes through which 2,912,089 options have also been granted to staff.

Summary and outlook

Group outlook

During the early stages of Covid-19, we successfully adapted to the changing business environment, and we remain confident that we will be able to respond to any future challenges in the wider macro-economic environment.

In the near-term, we anticipate that demand for all our services will remain high as the pandemic has accelerated the move towards greater digitisation.

Over the medium-term, we remain well-placed to deliver further growth, as detailed in the following sections.

Digital Services outlook

We remain extremely positive about the future of digitisation in the UK public sector and within the NHS, both immediately and over the long-term. We are confident that based upon our strong reputation and successful track record, we are well positioned to maintain a central role in this transformation drive.

The digitisation pressures and opportunities within the commercial sector are similar, and therefore the growth prospects for us are substantial. Our progress in this most recent trading period provides confidence that we will deliver significant growth in the years ahead.

We are similarly optimistic about the international opportunity. Our initial focus is primarily on commercial customers in Canada, Germany and Switzerland, where we already have established delivery teams, sales expertise and a Workday Practice client base.

Workday Practice outlook

Our strong performance provides further evidence of the strength of the Workday market. With Workday's main competitors, Oracle and SAP, soon to mark 50 years in the ERP market, we believe that Workday's more innovative product suite can continue to gain significant market share for many years to come. This is reflected in Workday Inc's bold goal of achieving $10 billion revenue by 2026, up from c.$4 billion today.

In addition, we believe that we can outpace this rapid market growth by continuing our international expansion and by replacing other Workday partners in engagements where they are under-serving their customers.

For Smart Test and Audit, and other products that we develop, our growth will be powered by the increase in Workday clients and by higher penetration of our products into the Workday client base.

Financial review

We achieved revenue of £142.3 million (H1 21: £107.2 million), representing an increase of 33%. Digital Services revenue grew 32% to £94.2 million (H1 21: £71.4 million) reflective of customers continuing to prioritise digital transformation programmes across the healthcare, public and commercial sectors. Workday Practice revenue grew by 34% to £48.1 million (H1 21: £35.8 million) which was driven by 41% growth in Workday Services to £33.6 million (H1 21: £23.9 million) and 22% growth in Smart product to £14.4 million (H1 21: £11.8 million). The Workday Practice continues to grow internationally and secure new consulting contracts across our operating regions.

Overall gross margin was 47.4% (H1 21: 52.1%). Digital Services margins decreased to 39.8% (H1 21: 46.4%). H1 22 margin reduced due to an increased use of contract staff and salary inflation, along with a reversal of H1 21 cost savings that were non-recurring in nature. Workday Practice margins decreased to 62.3% (H1 21: 63.6%), also driven by salary inflation and a reversal of H1 21 non-recurring cost savings.

Operating expenses

Operating expenses for the period increased by 31% to £42.2 million (H1 21: £32.1 million). The growth in operating expenses is in line with business growth and reflects the reintroduction of spending in areas such as training, recruitment and facilities which were suppressed during the pandemic lockdown period.

Investment in product development increased to £2.8 million (H1 21: £2.0 million). All product development costs were expensed in the period. Research and Development Expenditure Credit (RDEC) grants recognised in the period totalled £0.9 million (H1 21: £0.6 million). The net value of RDEC income recognised in the statement of financial position as at 30 September is £3.8 million (H1 21 £2.6 million).

The share-based payment expense incurred in the period was £2.7 million (H1 21: £1.8 million). This increase results mainly from share price movements and additional share awards. Amortisation of acquired intangibles of £0.2 million was incurred in the period (H1 21: £0.2 million). Adjusted pre-tax profit increased by 12% to £29.2 million (H1 21: £26.1 million). Profit before tax increased by 3% to £24.8 million (H1 21: £24.0 million).

Alternative performance measures

The business is managed and measured on a day-to-day basis using underlying results. The Directors believe that the 'adjusted profit before tax' and the 'adjusted diluted and basic earnings per share' measures presented are more representative of the underlying performance of the Group and enable comparability between periods.

To arrive at adjusted results, share-based payment expense and related costs plus acquisition related expenses including amortisation of acquired intangible assets and post-combination remuneration expense (relating to contingent deferred consideration subject to future service conditions), are added back to profit before tax.

The adjusted profit measures can be reconciled to the reported numbers as follows:

	6 months to 30 Sep 2021 unaudited (£000s)	6 months to 30 Sep 2020 unaudited (£000s)	12 months to 31 Mar 2021 audited (£000s)
Profit before tax	**24,841**	24,018	50,341
Share-based payment expense and related costs	**2,671**	1,842	4,513
Acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense	**1,693**	195	2,219
Adjusted profit before tax	**29,205**	26,055	57,073

	6 months to 30 Sep 2021 unaudited (£000s)	6 months to 30 Sep 2020 unaudited (£000s)	12 months to 31 Mar 2021 audited (£000s)
Profit after tax	**19,987**	19,379	39,601
Share-based payment expense and related costs (net of associated taxes)	**2,164**	1,492	3,656
Acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense (net of associated taxes)	**1,650**	195	2,143
Adjusted profit after tax	**23,801**	21,066	45,400

Corporation tax charge

The effective tax rate for H1 22 was 20% (H1 21: 19%) and is broadly in line with the UK corporation tax rate as expected.

Financial position

We continue to have a strong financial position with £80.4 million of cash and treasury deposits (H1 21: £62.5 million), no debt and net assets of £95.9 million (H1 21: £72.3 million). The combined underlying net trade receivables and accrued income totalled £67.0 million (H1 21: £39.9 million).

Property, plant and equipment increased to £12.4 million at period end (H1 21 £9.8 million). Spending during the period related to premises refurbishment costs and office equipment purchases.

The acquisitions of Cloudator and Une Consulting completed during the period increased the carrying value of goodwill to £13.9 million at 30 September 2021 (H1 21 £3.2 million). Further information relating to these acquisitions is detailed in note 13.

The final dividend for FY21 of £18.6 million has been included as a current liability in these financial statements. This dividend was approved by shareholders at the Annual General

Meeting on 23 September 2021 and paid to shareholders on 29 October 2021. There was no final dividend declared and paid for FY20.

Cash flow and cash conversion

Cash conversion, calculated by taking cash generated by operations over adjusted EBITDA, reduced in the period to 38% (H1 21: 123%). H1 21 cash conversion was exceptionally high due to strong working capital management and HMRC VAT payment deferrals permitted during the COVID-19 pandemic. H1 22 was also lower due to the payment of FY 21 bonus.

Interim dividend

An interim dividend of 7.1 pence per share has been declared for H1 22 (H1 21: 6.4 pence). This will be paid on 24 December 2021 to shareholders on the register at the close of business on 26 November 2021, with an ex-dividend date of 25 November 2021.

Related party transactions

There have been no material changes in related party transactions from those described in the last annual report.

Risks & Uncertainties

There are several 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. These principal risks and uncertainties remain consistent with the detailed description provided in pages 30 -37 of the Annual Report associated with the Group’s Annual Results published on 30 July 2021 (available on the Group’s website www.kainos.com).

The continuing impact of the Covid-19 pandemic has placed significant focus on risks associated with the pandemic. The Group’s effective response to the evolving risks associated with the pandemic has been crucial in maintaining performance.

The long-term effects of the pandemic on economies and the markets in which the Group operates remains uncertain. While the health impact to Kainos colleagues and customer staff has not been significant, Kainos continues to operate on a largely remote basis and looking to the future Kainos will continue to operate a blended way of working incorporating remote working with office and customer-based work. Kainos offices are open for our people across all our locations with appropriate safety measures and limitations in place. In the event of a winter resurgence of the pandemic we will review our measures, continuing to treat the safety of our people as a top priority.

The impact of the pandemic on our financial performance has been limited but this continues to be monitored, particularly regarding sales pipeline.

The Group’s mitigation strategies largely remain unchanged from those described in the Annual Report but also include:

1. Monitoring for signs of increased activity in our markets, particularly with regard to accelerated digital transformation trends resulting from revised operating models within our customer base.

2. Establishment of a Modern Workplace Programme to consider the impact of the move to remote working on Kainos colleagues and customers with a view to determining and implementing current and potential future improvements to Kainos ways of working.

Going concern

As stated in note 2 to the condensed consolidated financial statements, the Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

Condensed consolidated income statement for the six months ended 30 September 2021

Continuing operations	Note	**6 months to 30 Sep 2021 unaudited (£000s)**	6 months to 30 Sep 2020 unaudited (£000s)	12 months to 31 Mar 2021 audited (£000s)
Revenue	5	**142,253**	107,161	234,694
Cost of sales	5	**(74,860)**	(51,290)	(116,396)
Gross profit		**67,393**	55,871	118,298
Operating expenses		**(42,228)**	(32,114)	(68,232)
Impairment (losses)/reversals on trade receivables		**(292)**	271	269
Operating profit		**24,873**	24,028	50,335
Finance income		**2**	40	84
Finance expense		**(34)**	(50)	(78)
Profit before tax		**24,841**	24,018	50,341
Income tax expense	6	**(4,854)**	(4,639)	(10,740)
Profit for the period		**19,987**	19,379	39,601

Consolidated statement of comprehensive income for the six months ended 30 September 2021

	6 months to 30 Sep 2021 unaudited (£000s)	6 months to 30 Sep 2020 unaudited (£000s)	12 months to 31 Mar 2021 audited (£000s)
Profit for the period	**19,987**	19,379	39,601
Items that may be reclassified subsequently to profit or loss:			
Foreign operations - foreign currency translation differences	**580**	(113)	(1,132)
Total comprehensive income for the period	**20,567**	19,266	38,469

Earnings per share

Basic	8	**16.3p**	16.1p	32.5p
Diluted	8	**16.0p**	15.7p	32.1p

Condensed consolidated statement of financial position as at 30 September 2021

	Note	**30 Sep 2021 (unaudited) (£000s)**	30 Sep 2020 (unaudited) (£000s)	31 Mar 2021 (audited) (£000s)
Non-current assets				
Goodwill	14	**13,868**	3,183	3,121
Other intangible assets		**3,158**	3,670	3,288
Property, plant and equipment		**12,444**	9,808	10,287
Right-of-use assets		**3,468**	3,580	3,857
Investments in equity instruments		**1,379**	1,225	1,225
Deferred tax asset		**5,585**	2,313	4,020
		39,902	23,779	25,798
Current assets				
Trade and other receivables	9	**43,186**	19,763	36,609
Prepayments		**2,654**	2,250	2,777
Accrued income		**28,093**	21,797	18,354
Treasury deposits		**18,028**	-	18,028
Cash and cash equivalents		**62,413**	62,497	62,896
		154,374	106,307	138,664
Total assets		**194,276**	130,086	164,462
Current liabilities				
Trade payables and accruals		**(38,170)**	(22,953)	(35,976)
Dividend payable		**(18,645)**	-	-
Deferred income		**(21,616)**	(13,658)	(21,985)
Corporation tax		**(5,140)**	(3,456)	(2,863)
Lease liabilities		**(1,280)**	(1,379)	(1,249)
Other tax and social security		**(9,425)**	(11,777)	(10,652)
		(94,276)	(53,223)	(72,725)
Non-current liabilities				
Other provisions		**(2,196)**	(2,687)	(1,735)
Lease liabilities		**(1,944)**	(1,838)	(2,394)
		(4,140)	(4,525)	(4,129)
Total liabilities		**(98,416)**	(57,748)	(76,854)
Net assets		**95,860**	72,338	87,608
Equity				
Share capital	12	**617**	612	614
Share premium account		**6,036**	5,628	5,737
Capital reserve		**2,261**	664	662
Shares to be issued reserve	12	**1,286**	-	-
Share-based payment reserve		**10,754**	6,800	9,083
Translation reserve		**103**	542	(477)
Retained earnings		**74,803**	58,092	71,989
Total equity		**95,860**	72,338	87,608

Condensed consolidated statement of changes in equity for the six months ended 30 September 2021

	Share capital (£000s)	Share premium (£000s)	Capital reserve (£000s)	Shares to be issued reserve (£000s)	Share-based payment reserve (£000s)	Translation reserve (£000s)	Retained earnings (£000s)	Total equity (£000s)
Balance at 31 March 2020 (audited)	**610**	**5,446**	**664**	**-**	**5,610**	**655**	**46,169**	**59,154**
Profit for the period	-	-	-	-	-	-	19,379	19,379
Other comprehensive income	-	-	-	-	-	(113)	-	(113)
Total comprehensive income for the period	-	-	-	-	-	(113)	19,379	19,266
Equity settled share-based payment	-	-	-	-	1,190	-	-	1,190
Current tax for equity-settled share-based payments	-	-	-	-	-	-	181	181
Deferred tax for equity-settled share-based payments	-	-	-	-	-	-	558	558
Issue of share capital	2	182	-	-	-	-	-	184
Dividends	-	-	-	-	-	-	(8,195)	(8,195)
Balance at 30 September 2020 (unaudited)	**612**	**5,628**	**664**	**-**	**6,800**	**542**	**58,092**	**72,338**
Profit for the period	-	-	-	-	-	-	20,222	20,222
Other comprehensive income	-	-	-	-	-	(1,019)	-	(1,019)
Total comprehensive income for the period	-	-	-	-	-	(1,019)	20,222	19,203
Equity settled share-based payment	-	-	-	-	2,283	-	-	2,283
Current tax for equity-settled share-based payments	-	-	-	-	-	-	260	260
Deferred tax for equity-settled share-based payments	-	-	-	-	-	-	1,246	1,246
Issue of share capital	2	109	(2)	-	-	-	-	109
Dividends	-	-	-	-	-	-	(7,831)	(7,831)
Balance at 31 March 2021 (audited)	**614**	**5,737**	**662**	**-**	**9,083**	**(477)**	**71,989**	**87,608**
Profit for the period	-	-	-	-	-	-	19,987	19,987
Other comprehensive income	-	-	-	-	-	580	-	580
Total comprehensive income for the period	-	-	-	-	-	580	19,987	20,567
Equity settled share-based payment	-	-	-	-	1,671	-	-	1,671
Current tax for equity-settled share-based payments	-	-	-	-	-	-	358	358
Deferred tax for equity-settled share-based payments	-	-	-	-	-	-	1,114	1,114
Issue of share capital – share options exercised	3	1,898	-	-	-	-	-	1,901
Issue of shares as purchase consideration	-	-	-	1,286	-	-	-	1,286
Reclassification between reserves[5]	-	(1,599)	1,599	-	-	-	-	-
Dividends	-	-	-	-	-	-	(18,645)	(18,645)
Balance at 30 September 2021 (unaudited)	**617**	**6,036**	**2,261**	**1,286**	**10,754**	**103**	**74,803**	**95,860**

[5] Premium on shares issued as consideration in FY20 reclassified from share premium account to capital reserve, in accordance with the requirements of the Companies Act 2006, S612.

Consolidated statement of cash flows for the six months ended 30 September 2021

	6 months to 30 Sep 2021 (unaudited) (£000s)	6 months to 30 Sep 2020 (unaudited) (£000s)	12 months to 31 Mar 2021 (audited) (£000s)
Cash flows from operating activities			
Profit for the period	**19,987**	19,379	39,601
Adjustments for:			
Finance income	**(2)**	(40)	(84)
Finance expense	**34**	50	78
Tax expense	**4,854**	4,639	10,740
Share-based payment expense	**2,671**	1,842	4,513
Depreciation of property, plant and equipment	**584**	452	921
Depreciation of right-of-use assets	**707**	987	1,786
Amortisation of intangible assets	**186**	195	383
Gain on disposal of property, plant and equipment	**5**	-	114
Deferred consideration settled by shares	**-**	-	760
Operating cash flows before movements in working capital	**29,026**	27,504	58,812
(Increase)/decrease in trade and other receivables	**(14,777)**	4,650	(9,262)
(Decrease)/increase in trade and other payables	**(2,958)**	1,447	18,397
Increase/(decrease) in provisions	**460**	158	(793)
Cash generated from operating activities	**11,751**	33,759	67,154
Income taxes paid	**(2,646)**	(2,190)	(7,213)
Net cash from operating activities	**9,105**	31,569	59,941
Cash flows from investing activities			
Interest received	**2**	40	84
Purchases of property, plant and equipment	**(2,464)**	(406)	(1,468)
Acquisition of other investments	**(74)**	(200)	(200)
Amounts placed on treasury deposit	**-**	-	(18,028)
Acquisition of subsidiaries net of cash acquired	**(8,186)**	-	-
Net cash used in investing activities	**(10,722)**	(566)	(19,612)
Cash flows from financing activities			
Dividends paid	**-**	(8,195)	(16,026)
Interest paid	**(4)**	(50)	(78)
Repayment of lease liabilities	**(852)**	(1,255)	(1,763)
Proceeds on issue of shares	**1,901**	184	293
Net cash from/(used) in financing activities	**1,045**	(9,316)	(17,574)
Net (decrease)/increase in cash and cash equivalents	**(572)**	21,687	22,755
Cash and cash equivalents at start of period	**62,896**	40,785	40,785
Effect of exchange rate fluctuations on cash held	**89**	25	(644)
Cash and cash equivalents at end of period	**62,413**	62,497	62,896

Notes to the condensed consolidated financial statements

1. Corporate information

Kainos Group plc ("Company") is a public company limited by shares incorporated and domiciled in the UK (Company registration number 09579188), having its registered office at 21 Farringdon Road, 2nd Floor, London, EC1M 3HA. The Company is listed on the London Stock Exchange.

These condensed consolidated financial statements for the six months ended 30 September 2021 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 Business Review. The Group is headquartered in Belfast.

These statements have not been audited but have been reviewed by the Group's auditor pursuant to 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 Financial Reporting Council.

These condensed consolidated financial statements were approved for issue on 12 November 2021.

2. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2021 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with UK-adopted IAS 34 "Interim Financial Reporting" and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 March 2021 ('last annual financial statements'). They do not include all of the information required for a complete set of financial statements prepared in accordance with UK-adopted International Accounting Standards and in conformity with the requirements of the Companies Act 2006. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

These 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 2021 have been filed with the registrar of companies and can be found on the Group's website. 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. On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 April 2021. This change constitutes a change in accounting framework however, there is no impact on recognition, measurement or disclosure.

These condensed consolidated financial statements are presented in pounds sterling and rounded to the nearest thousand.

Going concern

The financial performance and balance sheet position at 30 September 2021 along with a range of scenario plans to 31 March 2024 has been considered, applying different sensitivities to the Group's budgets and forecasts. Across these scenarios, including at the lower end of the range, there remains significant headroom, and therefore the Directors have satisfied themselves that the Group has adequate funds in place to continue to meet its obligations as they fall due for the foreseeable future, a period of which is at least 12 months from the date of signing these interim 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 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 2021. No newly introduced standard or amendments to standards had a material impact on the condensed financial statements. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. Critical accounting judgements and key sources of estimation uncertainty

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 consolidated 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 2021.

5. Segment reporting

All the Group's revenue during the period to 30 September 2021 was derived from continuing operations. Kainos is structured into two operating divisions: Digital Services and the Workday Practice.

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

2021 ***6 months to 30 September (unaudited)***	**Digital Services (£000s)**	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	94,189	48,064	142,253
Cost of sales	(56,725)	(18,135)	(74,860)
Gross profit	**37,464**	**29,929**	**67,393**
Direct expenses[6]	(10,653)	(17,316)	(27,969)
Contribution	**26,811**	**12,613**	**39,424**
Central overheads[6]			(10,187)
Net finance expense			(32)
Adjusted pre-tax profit			**29,205**

2020 ***6 months to 30 September (unaudited)***	**Digital Services (£000s)**	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	71,384	35,777	107,161
Cost of sales	(38,277)	(13,013)	(51,290)
Gross profit	**33,107**	**22,764**	**55,871**
Direct expenses[6]	(6,554)	(12,809)	(19,363)
Contribution	**26,553**	**9,955**	**36,508**
Central overheads[6]			(10,443)
Net finance expense			(10)
Adjusted pre-tax profit			**26,055**

2021 ***12 months to 31 March (audited)***	**Digital Services (£000s)**	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	161,572	73,122	234,694
Cost of sales	(89,578)	(26,818)	(116,396)
Gross profit	**71,994**	**46,304**	**118,298**
Direct expenses[6]	(16,419)	(27,366)	(43,785)
Contribution	**55,575**	**18,938**	**74,513**
Central overheads[6]	-	-	(17,446)
Net finance income	-	-	6
Adjusted pre-tax profit	-	-	**57,073**

[6] *Direct expenses plus central overheads less share-based payment expense and acquisition related expenses equals the sum of operating expenses plus impairment losses and reversals on trade receivables. Direct expenses are expenses that are directly attributable to each division.*

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

	6 months to 30 Sep 2021 (unaudited) (£000s)	6 months to 30 Sep 2020 (unaudited) (£000s)	12 months to 31 Mar 2021 (audited) (£000s)
United Kingdom & Ireland	**102,402**	79,602	175,710
North America	**26,521**	17,811	38,099
Central Europe	**12,623**	9,286	19,631
Rest of world	**707**	462	1,254
	142,253	107,161	234,694

Disaggregation of the Group's revenue is presented in the following tables:

6 months to 30 Sep (unaudited)	**Digital Services 2021 (£000s)**	Digital Services 2020 (£000s)	**Workday Practice 2021 (£000s)**	Workday Practice 2020 (£000s)	**Total 2021 (£000s)**	Total 2020 (£000s)
Type of revenue						
Services	88,235	66,651	29,943	22,977	118,178	89,628
SaaS and related	2,934	2,687	18,117	12,790	21,051	15,477
Third party	3,020	2,046	4	10	3,024	2,056
	94,189	71,384	**48,064**	35,777	**142,253**	107,161
Revenue recognition						
At a point in time	3,020	2,046	4	10	3,024	2,056
Over time	91,169	69,338	48,060	35,767	139,229	105,105
	94,189	71,384	**48,064**	35,777	**142,253**	107,161

12 months to 31 Mar (audited)	**Digital Services 2021 (£000s)**	**Workday Practice 2021 (£000s)**	**Total 2021 (£000s)**
Type of revenue			
Services	151,163	46,920	198,083
SaaS and related	5,385	26,159	31,544
Third party	5,024	43	5,067
	161,572	**73,122**	**234,694**
Revenue recognition			
At a point in time	5,024	43	5,067
Over time	156,548	73,079	229,627
	161,572	**73,122**	**234,694**

	6 months to 30 Sep 2021 (unaudited) £(000s)	6 months to 30 Sep 2020 (unaudited) £(000s)	12 months to 31 Mar 2021 (audited) £(000s)
Digital Services			
Public	**51,678**	47,522	102,180
Commercial	**12,391**	6,869	15,653
Healthcare	**30,120**	16,993	43,739
	94,189	71,384	161,572
Workday Practice			
Public	**651**	1,661	3,314
Commercial	**46,950**	32,309	65,428
Healthcare	**463**	1,807	4,380
	48,064	35,777	73,122
Total	**142,253**	107,161	234,694

Revenue for the Workday Practice can also be analysed as follows:

	6 months to 30 Sep 2021 (unaudited) (£000s)	6 months to 30 Sep 2020 (unaudited) (£000s)	12 months to 31 Mar 2021 (audited) (£000s)
Workday Practice			
Workday Services	**33,646**	23,942	48,972
Smart	**14,418**	11,835	24,150
	48,064	35,777	73,122

The business is managed and measured on a day-to-day basis using underlying results. The Directors believe that the 'adjusted profit before tax' and the 'adjusted diluted and basic earnings per share' measures presented are more representative of the underlying performance of the Group and enable comparability between periods.

The adjusted profit measures can be reconciled to the reported numbers as follows:

	6 months to 30 Sep 2021 (unaudited) (£000s)	6 months to 30 Sep 2020 (unaudited) (£000s)	12 months to 31 Mar 2021 (audited) (£000s)
Profit before tax	**24,841**	24,018	50,341
Share-based payment expense and related costs	2,671	1,842	4,513
Acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense	1,693	195	2,219
Adjusted profit before tax	**29,205**	26,055	57,073

6. Income tax expense

The estimate of the provision of income taxes which is determined in the interim financial statements uses the estimated average annual effective income tax rate applied to the profit before tax of the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

The total tax charge for the six months ended 30 September 2021 is £4.9 million (six months ended 30 September 2020: £4.6 million). This tax charge equates to an effective tax rate of 20% (30 September 2020: 19%). The expected annual tax rate for the year to 31 March 2022 is 20% (31 March 2021: 21%).

7. Dividends

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

	6 months to 30 Sep 2021 (unaudited) (£000s)	6 months to 30 Sep 2020 (unaudited) (£000s)	12 months to 31 Mar 2021 (audited) (£000s)
Amounts recognised as distributions to equity holders in the period:			
Final dividend for 2021 of 15.1p per share	**18,645**		
Special dividend (Sep 2020) of 6.7p per share	**-**	8,195	8,195
Interim dividend for 2021 of 6.4p per share	**-**	-	7,831
	18,645	8,195	16,026

A final dividend of 15.1 pence per share for the year ending 31 March 2021 was paid on 29 October 2021 to shareholders on the register at the close of business on 1 October 2021, with an ex-dividend date of 30 September 2021. This dividend was declared following approval by the shareholders of the Company by ordinary resolution at the Company's Annual General Meeting on 23 September 2021 and a liability for payment of the dividend of £18.6 million has therefore been recognised in these condensed consolidated financial statements.

An interim dividend of 7.1 pence per share has been declared for the six months to 30 September 2021 which amounts to £8.8 million. This will be paid on 24 December 2021 to shareholders on the register at the close of business on 26 November 2021, with an ex-dividend date of 25 November 2021. These condensed consolidated financial statements do not reflect 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 2021 (unaudited) (£000s)	6 months to 30 Sep 2020 (unaudited) (£000s)	12 months to 31 Mar 2021 (audited) (£000s)
Profit for the period	**19,987**	19,379	39,601
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**122,360**	120,741	121,898
Effect of dilutive potential ordinary shares from share options on issue	**2,238**	3,060	1,528
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**124,598**	123,801	123,426
Basic earnings per share	**16.3p**	16.1p	32.5p
Diluted earnings per share	**16.0p**	15.7p	32.1p

Adjusted basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent company, excluding share-based payment expense (net of associated taxes) and acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense (relating to contingent deferred consideration subject to future service conditions) by the weighted average number of ordinary shares in issue during the period.

	6 months to 30 Sep 2021 (unaudited) (£000s)	6 months to 30 Sep 2020 (unaudited) (£000s)	12 months to 31 Mar 2021 (audited) (£000s)
Profit for the period	**19,987**	19,379	39,601
Share-based payment expense (net of associated taxes)	**2,164**	1,492	3,656
Acquisition-related expenses including amortisation of acquired intangibles and post-combination remuneration expense (net of associated taxes)	**1,650**	195	2,143
Adjusted profit for the period	**23,801**	21,066	45,400
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**122,360**	120,741	121,898
Effect of dilutive potential ordinary shares from share options in issue	**2,238**	3,060	1,528
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**124,598**	123,801	123,426
Adjusted basic earnings per share	**19.5p**	17.4p	37.2p
Adjusted diluted earnings per share	**19.1p**	17.0p	36.8p

9. Trade and other receivables

	30 Sep 2021 (unaudited) (£000s)	30 Sep 2020 (unaudited) (£000s)	31 Mar 2021 (audited) (£000s)
Trade receivables	**40,781**	19,708	35,290
Loss allowance	**(1,852)**	(1,571)	(1,551)
	38,929	18,137	33,739
Other receivables	**4,257**	1,626	2,870
	43,186	19,763	36,609

10. Financial Instruments

The Directors consider that the carrying amount for all financial instruments and liabilities is a reasonable approximation of their fair value.

11. Related party transactions

There have been no related party transactions during the six months to 30 September 2021 that have materially affected the financial position or performance of the Group.

During the period, one Director exercised 35,036 share options with a gain arising on the exercise of £0.6 million (H1 21: no exercises by Directors).

All related party transactions are materially consistent with those disclosed by the Group in its financial statements for the year ended 31 March 2021.

12. Issue of ordinary shares

During the six months ended 30 September 2021, the Group issued 716,539 ordinary shares due to the exercise of vested options. The exercise price of options exercised in the period ranged from £0.005 per share to £4.03 per share.

64,767 ordinary shares were also agreed to be issued as purchase consideration on the acquisition of Une Consulting SRL which occurred on 1 September 2021 (note 13). These ordinary shares were not issued and allotted until subsequent to the period end, on 6 October 2021. The fair value of the shares has been determined based on the acquisition date (£1.3 million) and recognised in equity in the 'shares to be issued' reserve.

All ordinary shares were issued with a nominal value of £0.005 each.

13. Acquisitions

Cloudator

On 1 June 2021, Kainos acquired the entire share capital of Cloudator OY and it's five subsidiaries. Founded in 2011 in Helsinki, Finland, Cloudator offers services for the full suite of Workday enterprise cloud applications, including Workday Financial Management, Workday Human Capital Management and Workday Adaptive Planning.

Cloudator is one of the most experienced Workday Services Partners in the Nordics with projects spanning the globe. The acquisition of Cloudator's Workday division will further increase Kainos' Workday presence in Europe.

From 1 June 2021, Cloudator has contributed revenue of £1.2 million and a loss of £0.2 million. If the acquisition had incurred on 1 April 2021, management estimates that revenue for the six months ended 30 September 2021 would have been £2.1 million and no profit or loss would have been recognised for this period.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition date. Financial statements as at the acquisition date have been received from the vendor. The Group has performed an initial review of these financial statements and are in the process of finalising the assessment of fair value of the assets acquired and liabilities assumed at the acquisition date. The finalisation of fair value of identifiable intangible assets and any associated deferred tax has not been completed at the reporting date. Accordingly, the amounts in the table below have been determined on a provisional basis and amounts including goodwill are subject to change following completion of the fair value assessment.

	Provisional Fair value (unaudited) (£000s)
Property, plant and equipment	9
Trade and other receivables	996
Cash and cash equivalents	1,551
Trade and other payables	(2,580)
Deferred revenue	(192)
Fair value of identifiable net liabilities	**(216)**
Goodwill	**8,998**
Total consideration	**8,782**

Satisfied by:	**(unaudited) (£000s)**
Cash	8,782
Total consideration	**8,782**

	(unaudited) (£000s)
Cash consideration	8,782
Less cash and equivalents acquired	(1,551)
Net cash outflow	**7,231**

Goodwill

Goodwill has arisen on the acquisition and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets and is pending finalisation of the fair value of the assets acquired and liabilities assumed at the acquisition date. The goodwill reflects the skilled and assembled workforce of the acquired entity and the anticipated profitability and synergistic benefits arising from the combination. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition related costs

The Group incurred acquisition related costs of £0.4 million on legal and due diligence costs. These costs have been included in operating expenses.

Une Consulting

On 1 September 2021, the Group acquired 100% of the share capital of Argentina based Une Consulting SRL and the trade and assets of Une Consulting LLC ("Une"). Une has an experienced team of consultants who are working across multiple international projects in the Americas, as well as Europe and Asia. The acquisition adds to Kainos' growing presence in North and South America, whilst enhancing the Group's ability to bring value to its customers.

From 1 September 2021, Une has contributed revenue of £0.1 million and nil profit or loss for the period. If the acquisition had incurred on 1 April 2021, management estimates that revenue for the six months ended 30 September 2021 would have been £0.7 million and profit for that period would have been £0.1 million.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition date. Due to the close proximity of the acquisition date and the reporting date, the finalisation of the fair value of the assets acquired and liabilities assumed at the acquisition date, including fair value of intangible assets and any associated deferred tax, has not been finalised at the reporting date. Accordingly, the amounts in the table below have been determined on a provisional basis and amounts including goodwill are subject to change following completion of the fair value assessment.

	Provisional Fair value (unaudited) (£000s)
Property, plant and equipment	273
Cash and cash equivalents	76
Trade and other receivables	212
Trade and other payables	(63)
Fair value of net identifiable assets	**498**
Goodwill	**1,819**
Total consideration	**2,317**

Satisfied by:	**(unaudited) (£000s)**
Cash	1,031
Deferred consideration: Issue of 64,767 ordinary shares	1,286
Total consideration	**2,317**

	(unaudited) (£000s)
Cash consideration	1,031
Less cash and equivalents acquired	(76)
Net cash outflow	**955**

Under the terms of the acquisition, the Group has agreed to issue a fixed number of ordinary shares (64,767 ordinary shares) as purchase consideration. As detailed in note 12, these ordinary shares were not issued and allotted until subsequent to the period end, on 6 October 2021. The instrument has been classified as equity at it represents an obligation to deliver a fixed number of shares to settle the purchase consideration and has been recognised in equity in the 'shares to be issued' reserve.

The fair value of the ordinary shares to be issued was determined based on the listed share price of the Company on 1 September 2021 (£19.86 per share), the effective date of control. Following initial recognition, the value of the ordinary shares to be issued is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill

Goodwill has arisen on the acquisition and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets and is pending finalisation of the fair value of the assets acquired and liabilities assumed at the acquisition date. The goodwill reflects the skilled and assembled workforce of the acquired entity and the anticipated profitability and synergistic benefits arising from the combination. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition related costs

The Group incurred acquisition related costs of £0.1 million on legal and due diligence costs. These costs have been included in operating expenses.

Post combination remuneration

In respect of both current and prior period acquisitions of the Group, additional contingent consideration of up to £6.0 million will be payable in future periods to March 2024, subject to future service conditions and will be recognised as remuneration for post-combination services. Amounts relating to post-combination services are recognised as an expense over the service period. During the current period, a charge of £1.0m has been recognised for post-combination remuneration in operating expenses.

14. Goodwill

Cost	**30 Sep 2021 (unaudited) (£000s)**	30 Sep 2020 (unaudited) (£000s)	31 Mar 2021 (audited) (£000s)
At 1 April	3,121	3,220	3,220
Acquisitions through business combinations - provisional	10,817	-	-
Effect of movement in exchange rates	(70)	(37)	(99)
At end of period	**13,868**	3,183	3,121
Accumulated impairment losses			
At beginning and end of period	**-**	-	-
Carrying amount			
At end of period	**13,868**	3,183	3,121
At beginning of period	3,121	3,220	3,220

15. Subsequent events

Subsequent to 30 September 2021, the Company paid the final dividend declared at the Annual General Meeting on 23 September 2021 to shareholders of £18.6 million on 29 October 2021, as detailed in note 7.

Additionally, as explained in note 12, the Company issued 64,767 ordinary shares in connection with purchase consideration payable on the acquisition of Une Consulting SRL.

Statement of Directors responsibilities

The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

In preparing the condensed set of financial statements included within the half-yearly financial report, the Directors are required to:

- prepare and present the condensed set of financial statements in accordance with IAS 34 Interim Financial Reporting as adopted in the UK and the DTR of the UK FCA;
- ensure the condensed set of financial statements has adequate disclosures;
- select and apply appropriate accounting policies; and
- make accounting estimates that are reasonable in the circumstances.

The Directors are responsible for designing, implementing and maintaining such internal controls as they determine is necessary to enable the preparation of the condensed set of financial statements that is free from material misstatement whether due to fraud or error.

We confirm that to the best of our knowledge:

(1) the condensed set of consolidated financial statements included within the half-yearly financial report of Kainos Group plc for the six months ended 30 September 2021 ("the interim financial information") which comprises the condensed consolidated income statement, the consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes, have been presented and prepared in accordance with IAS 34, Interim Financial Reporting, as adopted for use in the UK, and the DTR of the UK FCA.

(2) The interim financial information presented, as required by the DTR of the UK FCA, includes:

  a. an indication of important events that have occurred during the first six months of the financial year, and their impact on the condensed set of financial statements;
  b. a description of the principal risks and uncertainties for the remaining six months of the financial year;
  c. related parties' transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or the performance of the enterprise during that period; and
  d. any changes in the related parties' transactions described in the last annual report that could have a material effect on the financial position or performance of the enterprise in the first six months of the current financial year.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Entity's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

Richard McCann
Chief Financial Officer/Chief Operating Officer
12 November 2021

KPMG
Audit
The Soloist Building
1 Lanyon Place
Belfast BT1 3LP
Northern Ireland

Independent Review Report to Kainos Group plc.

Introduction

We have been engaged by the Entity to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2021 which comprises the condensed consolidated income statement, the consolidated statement of comprehensive income, the condensed consolidated statement of financial position, the condensed consolidated statement of changes in equity, the consolidated statement of cash flows and the related explanatory notes. Our review was conducted in accordance with the Financial Reporting Council's International Standard on Review Engagements (UK and Ireland) 2410, '*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*'.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2021 is not prepared, in all material respects in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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 DTR of the UK FCA. As disclosed in note 2 the annual financial statements of the Group for the year ended 31 March 2021 were prepared in accordance with International Financial Reporting Standards as adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The Directors are responsible for ensuring that the condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted for use in the UK.

Our responsibility

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

Scope of review

We conducted our review in accordance with the Financial Reporting Council's International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

Scope of review (continued)
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.

We read the other information contained in the half-yearly financial report to identify material inconsistencies with the information in the condensed set of consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the review. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

The purpose of our review work and to whom we owe our responsibilities
This report is made solely to the Entity in accordance with the terms of our engagement to assist the Entity in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the Entity those matters we are required to state to it in this 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 Entity for our review work, for this report, or for the conclusions we have reached.

KPMG
Chartered Accountants
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

12 November 2021

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