14 November 2022

Kainos Group plc

("Kainos" or the "Group")

Interim results for the six months ended 30 September 2022

Kainos Group plc (KNOS), a UK-headquartered IT provider with expertise across three divisions - Digital Services, Workday Services, and Workday Products, is pleased to announce its results for the six months ended 30 September 2022 (H1 23).

Financial highlights

	H1 23	H1 22	Change
Revenue	£179.8m	£142.3m	+26%
Profit before tax	£27.5m	£24.8m	+11%
Adjusted pre-tax profit	£34.0m	£29.2m	+16%
Cash (1)	£97.1m	£80.4m	+21%
Bookings	£221.5m	£187.4m	+18%
Product Annual Recurring Revenue (ARR)	£44.2m	£28.0m	+58%
Contracted Backlog	£307.9m	£250.0m	+23%
Diluted earnings per share	17.4p	16.0p	+9%
Adjusted diluted earnings per share	22.0p	19.1p	+15%
Interim dividend	7.8p	7.1p	+10%

Operational highlights

Our strong business performance reflects robust underlying market demand, high levels of customer engagement and the continued commitment of our colleagues.

- Revenue growth of 26% (23% in constant currency (ccy)) to £179.8 million (H1 22: £142.3 million).
- Adjusted pre-tax profit increased 16% (reduced 3% ccy) to £34.0 million (H1 22: £29.2 million) as we invested an additional £4.2 million in our Workday Products. This investment represents an increase of 91%, with research & development increased to £4.0m (H1 22: £2.7m) and investment in sales & marketing increased to £4.8 million (H1 22: £1.9 million).
- Bookings up 18% (16% ccy) to £221.5 million (H1 22: £187.4 million).
- Contracted backlog growth of 23% to £307.9 million (H1 22: £250.0 million).
- Period-end cash amounted to £97.1 million (H1 22: £80.4 million[1]); with cash conversion at 70% (H1 22: 38%).

We continue our transition to a global business with over one-third of revenues generated internationally.

- Very strong international growth, up 53% to £61.0 million (H1 22: £39.9 million).

(1) H1 22 cash includes treasury deposits of £18.0 million.

- At IPO, international customers generated 6% of revenue.

Commercial sector customers now generate almost half our revenues.

- At IPO, commercial sector clients accounted for 25% of revenue.
- Commercial revenues are up 46% to £86.3 million (H1 22: £59.3 million), representing 48% of total revenue.
- Public sector revenues are up 21% to £63.3 million (H1 22: £52.3 million) or 35% of total revenue.
- Healthcare revenues have reduced by 1% to £30.2 million (H1 22: £30.6 million), which is 17% of total revenue.

We continue to add to the talents of our global team.

- The team has now grown to 2,920 people (H1 22: 2,438) an increase of 20% and reflects strong recruitment in our core markets.
- We now have colleagues based in 22 countries.
- Against the backdrop of a global shortage in digital skills, our employee retention has reduced to 86% (H1 22: 89%, FY22: 86%). Our focus remains on being a great employer, as demonstrated by our #38 placing in the 2022 Glassdoor, 'Best Places To Work in the UK' rankings.

Excellent customer service drives customer satisfaction and retention, underpinning revenue growth.

- Customer approval rating[(2)] of Kainos remains high at 98% (H1 22: 98%).
- Existing customer revenue increased by 25% to £169.8 million (H1 22: £135.8 million) and represents 94% of revenue in the six months.
- Customer numbers increased to 779 (H1 22: 601), an increase of 30%.

We continue with our ambition to be a responsible organisation.

- Having retained our carbon neutral status for 2022, we remain on track to achieve carbon net zero by 2025. As part of our offsetting activity, we have supported reforestation projects in Timor-Leste and Nicaragua (removal) and N_2O destruction projects in the US (avoidance).

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

- This extensive project portfolio has driven strong revenue growth of 17% (17% in ccy) to £110.5 million (H1 22: £94.2 million).
- Customer demand remains very high in the Public Sector and in the Commercial Sector as digital transformation continues to be a business priority.
- As previously expected, the integration of NHSx and NHS Digital organisations is causing some delays in the award of new projects, although not disrupting ongoing projects.

(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.

We continue to be the leading pan-European Workday specialist and we have been appointed a Phase 1 partner for the US market.

- Our Workday Services recorded very strong revenue growth of 44% (36% ccy) to £48.4 million (H1 22: £33.6 million).
- Focused on the opportunity in North America, we have increased our presence and now have 363 colleagues (H1 22: 257) based across USA, Canada and Argentina.

Our Workday-related products, Smart Test and Smart Audit, achieved very strong growth and we have now launched Smart Shield. We remain on track to achieve our target of £100 million Annual Recurring Revenue (ARR) by 2026.

- Workday Products revenues grew 45% (30% ccy) to £20.9 million (H1 22: £14.4 million); at the same time the ARR, at 30 September 2022, increased 58% (33% ccy) to £44.2 million (H1 22: £28.0 million).
- As noted earlier, we continue to invest in our Workday Products, increasing our research & development to £4.0 million (H1 22: £2.7 million) and sales & marketing increased to £4.8 million (H1 22: £1.9 million).

Commenting on the results, CEO Brendan Mooney said:

"As the Digital Transformation market enters its second decade, it continues to grow in importance for organisations operating in government, in healthcare and in the commercial sector.

This importance is translating into continued demand for the work that we do for our customers, not just in the last six months but also looking to the future. Despite the economic uncertainty, there is an urgency from our customers about extending existing projects and starting new projects.

We are grateful for the ongoing trust that our customers have placed in Kainos, to help them drive their ambitious digital transformation programmes as they change the ways they deliver essential services to citizens, patients, customers, and employees.

Our business is becoming increasingly resilient. We work with over 750 organisations, many of whom are international in scale and who operate across a range of industries including healthcare, public sector, banking, insurance, pharmaceuticals and education. From our UK base we have expanded globally, with over one-third of our revenues now generated internationally.

Looking forward, we remain confident in our business as the demand for our services has never been higher, our reputation for delivery continues to flourish, while the scale and capability of our organisation continues to grow at pace.

Underpinning that confidence is the quality and talents of our colleagues. Their expertise, experience and energy have been the driving force behind all that we have achieved. We share their excitement about the future – the journey is just starting."

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About Kainos Group plc

Kainos Group plc is a UK-headquartered IT provider with expertise across three divisions - Digital Services, Workday Services, and Workday Products.

Our Digital Services division develops and supports custom digital service platforms for public sector, commercial, and healthcare customers. Our solutions transform the delivery of these services, ensuring they are secure, accessible, and cost-effective, and provide better outcomes for users.

Our Workday Services division specialises in the deployment of Workday Inc.'s Finance, HR and Planning products to leading organisations across Europe and North America. We are one of Workday's most respected partners, experienced in complex deployment and trusted by our customers to launch, test, expand, and support their Workday systems.

Our Workday Products division develops products that complement Workday. Our Smart product suite, including Smart Test (for automated testing), Smart Audit (for compliance monitoring), and Smart Shield (for data masking), are used by more than 350 customers globally to safeguard their Workday systems.

Our people are central to our success. We employ more than 2,900 people in 22 countries across Europe and the Americas.

We are listed on the London Stock Exchange (LSE: KNOS) and you can discover more about us at **www.kainos.com**.

Definition of terms

We use the following definitions for our key metrics:

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.

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 value of sales contracted during the period.

Carbon net zero: any CO_2, released into the atmosphere from a company's entire value chain is reduced as much as possible and the rest is removed.

Carbon neutral: any CO_2 released into the atmosphere from a company's entire value chain activities is balanced by an equivalent amount being removed.

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

Constant currency (ccy): Excludes the effect of foreign currency exchange rate fluctuations on year-on-year performance by translating the relevant prior year figure at current year average exchange rates.

Existing customer revenue: total revenue recognised from customers in the current period who were also customers in the preceding year.

Net revenue retention (NRR): is the percentage of recurring revenue from existing customers we retained over the year. This considers increases or reductions in customer spending and those customers where the engagement has ended; it does not include revenue from new customers. NRR therefore shows how our business could continue to grow solely from our current customer base alone, without acquiring any new ones.

Organic revenue: our revenues excluding revenue from acquisitions completed in the current and comparative reporting periods.

Software as a service (SaaS): is a software distribution model that delivers application programs over the Internet, with users typically accessing the program through a web browser. Users pay an on-going subscription to use the software rather than purchasing it once and installing it.

Science based targets initiative (SBTi) – partnership between Carbon Disclosure Project (CDP), the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) created to encourage companies to design clearly defined emission reduction plans in line with the Paris agreement goals.

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.

Group business review

Continued business momentum with widening opportunities

The level of digital transformation undertaken by ambitious organisations continues to increase as the industry enters its second decade. Our established track record in guiding and supporting customers to deliver their large-scale digital transformation programmes, as they respond to the changing demands in their organisations, continues to provide the bedrock for our own growth.

Our high levels of activity with our customers has translated into an excellent set of results for the first six months of FY23.

Revenue for the six months grew by 26% (23% ccy) to £179.8 million (H1 22: £142.3 million) with adjusted pre-tax profit(3) increasing by 16% (reduced 3% ccy) to £34.0 million (H1 22: £29.2 million). Adjusted pre-tax profit would have been c.£5.8 million lower under constant currency exchange rates; it would have been c.£1.5 million higher if the two additional UK bank holidays had not occurred.

In line with our previous guidance, we have increased investment in our software products, with research & development investment increased to £4.0 million (H1 22: £2.7 million) and our product-related sales & marketing investment increased to £4.8 million (H1 22: £1.9 million).

Our sales performance underlines our success in winning business – extensions to existing contracts, additional projects placed by existing customers and winning new customers. Bookings in the first six months increased 18% (16% ccy) to £221.5 million (H1 22: £187.4 million), which resulted in a 23% increase in the contracted backlog to £307.9 million (H1 22: £250.0 million).

In response to this success, we have been undertaking significant recruitment, with staff and contractor numbers increasing by 20% to 2,920 (H1 22: 2,438). Employee engagement remains high, as demonstrated by our many Sunday Times, 'Top 100 Best Companies to Work For' accreditations and our 2022, '50 Best Places To Work in the UK' award from Glassdoor; and reflected in our staff retention at 86% (H1 22: 89%).

Customer satisfaction remains high, with 98% (H1 22: 98%) 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 94% of total revenue (H1 22: 95%). We currently have 779 active customers (H1 22: 601).

Significant progress has been made in widening our customer base by sector and region. Following growth of 46%, commercial sector customers now account for 48% of total revenue (H1 22: 42%), our growing public sector customers represent 35% (H1 22: 37%) and 17% of revenue is from healthcare customers (H1 22: 21%). The proportion of revenue generated from customers outside the UK and Ireland

(3) The Financial Review section includes reconciliations between adjusted pre-tax profit and profit before tax numbers.

increased by 53% to £61.0 million (H1 22: £39.9 million) and is now 34% of total revenue (H1 22: 28%).

As at 30 September 2022, we had a strong cash balance of £97.1 million (H1 22: £80.4 million including treasury deposits), representing 70% cash conversion (H1 22: 38%).

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 17% (17% ccy) to £110.5 million (H1 22: £94.2 million). Bookings, at £117.0 million (H1 22: £125.9 million), registered a reduction of 7% (reduced 7% ccy), although the prior six months included significant contracts with Defra, HM Passport Office and DVSA which are due to renew in H2 23. In line with bookings, our backlog decreased by 9% to £139.2 million (H1 22: £152.2 million).

With more opportunities in our addressable markets than we have people to deliver them, we have been prioritising the work we undertake. At the top of that list is our existing project and customer commitments, followed by prioritising new engagements in the commercial and healthcare sectors as we work towards a more balanced sector coverage within the division. As a result of this prioritisation, public sector now represents 56% of divisional revenues (H1 22: 55%), healthcare 27% (H1 22: 32%) and commercial sector 17% (H1 22: 13%).

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, which is underpinned by a new digital transformation policy which outlines 50 of 75 services to be digitised by 2025. As a result, revenues increased by 21% to £62.3 million (H1 22: £51.7 million).

Within central government, we continue to consolidate our strong position across key accounts, securing new contracts to deliver digital programmes in Companies House, Department for Environment Food & Rural Affairs, Department for Transport, Driver and Vehicle Standards Agency and Foreign Commonwealth & Development Office. Beyond our existing accounts, we are also delivering projects with new areas, in Defence (Defence Science & Technology Laboratory – Artificial Intelligence Delivery Partner) and Policing (Secure Policing HQ - Cloud Migration Partner).

Commercial sector

In the UK, the commercial sector expenditure on IT is over three times that of the public sector. While this represents significant opportunity, to increase our likelihood of success, we have initially chosen to focus our activity on financial services customers.

Like all large organisations post-pandemic, those within banking and insurance are increasing their levels of investment in digital transformation. This, coupled with our growing references in the sector has driven a rapid increase in activity as we have helped established customers like Concardis and New Ireland and new customers such as IMCO, Danske Bank and Federated Hermes Limited.

Reflecting these higher activity levels, our revenues increased 51% to £18.7 million (H1 22: £12.4 million).

Healthcare sector

Our healthcare revenues reduced by 2% to £29.5 million (H1 22: £30.1 million).

We have enjoyed strong partnerships with both NHS Digital and NHS X, who are merging to form NHS England's new Transformation Directorate. As anticipated, there have been some delays in the award of new projects as both organisations are integrated.

Most recently, our work has been a blend of providing ongoing support to Covid-19 initiatives and, increasingly, to broader healthcare provision and how technology can support the NHS with its ambitious digital plans. In this regard, we have deployed the NHS App with NHS Wales and we continue to assist in genomics medicine with Genomics England and Our Future Health.

Workday Services review

Revenue for the six months grew by 44% (36% ccy) to £48.4 million (H1 22: £33.6 million); backlog increased by 136% to £83.2 million (H1 22: £35.3 million); and bookings increased 125% (114% ccy) to £80.5 million (H1 22: £35.8 million).

The number of accredited Workday consultants at Kainos increased by 30% to 732 (H1 22: 562).

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 40 partners globally accredited to implement Workday's innovative SaaS platform.

From our initial strong base in UK & Ireland, we expanded internationally – into Northern and Central Europe in 2015 and into the North American market in 2018. Within Europe, we are the leading Workday partner – this leadership position is the result of high satisfaction levels within our customer base, coupled with our geographic expansion in the region. Our European customers, including those in the UK & Ireland, generated 46% of total revenue (H1 22: 61%).

A similar focus on customer success in our North American market has resulted in our appointment, in mid-2022, as a Phase 1 Prime partner for the US market – which remains the largest market globally for Workday Inc. Our North American customers generated 54% of total revenue (H1 22: 39%).

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.

Workday Products review

Our Workday Products revenue increased 45% (30% ccy) to £20.9 million (H1 22: £14.4 million); the Annual Recurring Revenue was £44.2 million (H1 22: £28.0 million), an increase of 58% (33% ccy) and backlog increased 37% to £85.5 million (H1 22: £62.5 million).

Workday is a comprehensive SaaS platform, but we have identified opportunities to develop our own software products that are complementary to the platform and that enables customers to further increase the benefit that they can realise from their investment in Workday.

In 2014, Kainos launched Smart Test which is used by organisations to automatically verify their Workday configurations. Smart Test currently consists of six modules: HCM, Security, Financials, Payroll, Recruitment and Advanced Compensation, with a seventh module for Workday Extend due to launch later this year. In Workday's inaugural Innovation Awards, Smart Test came first in the Product Innovation category. Smart Test is used by over 325 global enterprise customers, including Salesforce, Capital One and Whole Foods.

Our second product, Smart Audit, became generally available in August 2021 and has already been deployed to over 50 customers including Chanel, Arcbest and QBE Insurance. 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 August 2022, we launched our third product, Smart Shield, a data masking tool that can easily and seamlessly mask sensitive data without impacting the Workday user experience. It ensures that sensitive data remains controlled when Workday environments are made available to broader internal or external teams, for instance, during support and maintenance activities, or for on-going internal Workday training and onboarding programs. Although just released, Smart Shield is now used by 8 customers, including Match.com and LKAB.

Workday Extend

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

Workday Extend allows customers to build additional, specialised functionality on the Workday platform to further enhance customers' Workday deployment. As experts in Workday Extend, we have helped organisations such as Universal Music Group, Groupon and Cardinal Health build Workday Extend applications specific to their requirements.

In addition to these services-based assignments, Workday Extend provides the opportunity to build further products. During 2022 we have built and deployed applications such as Employee Document Management and Rewards & Recognition.

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.

Historically we have used the Sunday Times 'Best Companies to Work For' survey as an annual health check, creating 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 2022. From 2023, we will be measuring our performance as an employer through the Workday Peakon employee engagement tool, which will allow us to solicit more detailed and frequent feedback from all our colleagues.

We are focused on creating a workplace environment that people want to join and then stay to develop their careers. During the last six months, staff retention was 86% (H1 22: 89%) and on Glassdoor, the website which hosts anonymous employee reviews of global organisations, 81% 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 20% to 2,920 people (H1 22: 2,438). In total, 10% of our colleagues are contractors (H1 22: 13%). By region, UK & Ireland increased to 2,104 people (+19%), Central Europe grew to 453 people (+12%) and North and South America increased to 363 people (+41%).

Included in these numbers are 168 colleagues joining us from school, university or via one of our academies, supporting those wishing to switch careers.

Development

To support our colleagues in their skills development we provide extensive internal and external training programmes. Reflecting the increasingly global nature of our organisation, these programmes are delivered virtually. The programmes remain in high demand and we have delivered over 9,500 days of technical and behavioural skills training during the last six months.

While much of our efforts are aimed internally, supporting the career development of our colleagues, we also remain committed to helping young and under-represented people who are making their first career decisions. Since April, our Tech Outreach programmes have allowed over 300 young people to participate in our virtual Work Experience programmes (our target is 1,000 for the year); similarly, we hosted 200 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 80 young people who have historically been 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 2021 (259,200 shares granted) a total of 3,173,320 free shares have now been distributed to staff. In addition, the Group operates Save as you earn (SAYE) schemes through which 3,536,677 options have also been granted to staff.

Summary and outlook

Group outlook

In the near-term, we anticipate that demand for all our services will remain high as the shift to digitisation has been well-established for many years and which the pandemic has further accelerated.

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 the past eighteen months provides confidence that we will deliver significant growth in the years ahead.

We are similarly optimistic about the international opportunity, utilising the skills and expertise gained as a leading digital transformation specialist in the UK and focusing on international regions where we already have established delivery teams, sales expertise and a strong Workday client base.

Workday Services 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 target of achieving $10 billion revenue by 2026, up from c.$5 billion today.

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

Workday Products outlook

For our existing Workday products, our growth will be powered by the increase in Workday clients and by higher penetration of our products into the Workday client base.

We believe that we are well positioned to identify and develop additional products for the Workday ecosystem. Our growth will initially be determined by the product-market fit of our new products, followed the penetration into the Workday client base.

Financial review

In H1 23 we achieved revenue of £179.8 million (H1 22: £142.3 million), representing an increase of 26% (23% ccy). Digital Services revenue grew 17% (17% ccy) to £110.5 million (H1 22: £94.2 million) reflecting increased demand for digital transformation primarily across the public and commercial sectors. Workday Services revenue grew 44% (36% ccy) to £48.4 million (H1 22: £33.6 million), driven by growth in North America. Workday Products revenue increased to £20.9 million (H1 22: £14.4 million), representing growth of 45% (30% ccy).

Overall gross margin was 46.6% (H1 22: 47.4%). Digital Services margins decreased to 38.3% (H1 22: 39.8%) mainly due to the two additional bank holidays in the period. Workday Services margins decreased to 52.6% (H1 22: 56.7%), driven primarily by salary inflation. Workday Products margins increased to 76.5% (H1 22: 75.3%).

Operating expenses

Operating expenses for the period increased by 35% to £56.8 million (H1 22: £42.2 million). The growth in operating expenses is higher than revenue growth due to the increased investment in our Workday products in both sales and product development, and increased acquisition-related expenses, partly offset by foreign exchange gains.

Investment in product development increased to £4.0 million (H1 22: £2.7 million). All product development costs were expensed in the period. Research and Development Expenditure Credit (RDEC) grants recognised in the period totalled £0.8 million (H1 22: £0.9 million). The net value of RDEC receivable recognised in the statement of financial position as at 30 September is £4.0 million (H1 22 £3.8 million).

Adjusted pre-tax profit increased by 16% (reduced 3% ccy) to £34.0 million (H1 22: £29.2 million). Profit before tax increased by 11% to £27.5 million (H1 22: £24.8 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 pre-tax profit, 'adjusted EBITDA' 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, adjustments are made to exclude the effect of share-based payment expense, acquisition-related expenses including amortisation of acquired intangible assets and compensation for post-combination services.

The adjusted profit measures are not defined performance measures in UK-adopted International Accounting Standards. The Group's definition may not be comparable with similarly titled performance measures and disclosures in other entities. Adjusted profit measures can be reconciled to the reported numbers as follows:

Adjusted profit measures

	6 months to 30 Sep 2022 (£000s)	6 months to 30 Sep 2021 (£000s)	12 months to 31 Mar 2022 (£000s)
Profit before tax	**27,523**	24,841	45,993
Share-based payment expense and related costs	**2,697**	2,671	3,727
Amortisation of acquired intangible assets	**1,472**	186	1,890
Compensation for post-combination services	**2,271**	923	5,520
Acquisition-related expenses	**58**	584	1,641
Adjusted pre-tax profit	**34,021**	29,205	58,771

	6 months to 30 Sep 2022 (£000s)	6 months to 30 Sep 2021 (£000s)	12 months to 31 Mar 2022 (£000s)
Profit after tax	**21,863**	19,987	35,768
Share-based payment expense and related costs (net of associated taxes)	**2,023**	2,164	2,907
Amortisation of acquired intangible assets	**1,472**	143	1,890
Compensation for post-combination services	**2,271**	923	5,520
Acquisition-related expenses	**58**	584	1,641
Adjusted pre-tax profit	**27,687**	23,801	47,726

Adjusted EBITDA

	6 months to 30 Sep 2022 (£000s)	6 months to 30 Sep 2021 (£000s)	12 months to 31 Mar 2022 (£000s)
Adjusted pre-tax profit	**34,021**	29,205	58,771
Depreciation of property, plant and equipment	**1,105**	584	1,538
Depreciation of right-of-use assets	**638**	707	1,654
Finance expense	**28**	34	74
Finance income	**(356)**	(2)	(52)
Adjusted EBITDA	**35,436**	30,528	61,985

Corporation tax charge

The effective tax rate for H1 23 was 21% (H1 22: 20% based on the estimated average annual effective income tax rate). It is marginally higher than the UK corporation tax rate of 19% due to the inclusion of overseas tax rates in the calculation which are higher than the UK tax rate.

Financial position

We continue to have a strong financial position with £97.1 million of cash (H1 22: £80.4 million cash and treasury deposits), no debt and net assets of £117.3 million (H1 22: £95.9 million). The combined underlying net trade receivables and accrued income balance increased by 15% to £76.9 million (H1 22: £67.0 million).

Property, plant and equipment decreased to £9.6 million at period end (H1 22 £12.4 million). During the period, £5.2 million was transferred to investment property, reflecting our intention to sell part of the site purchased in 2019 for the build of our new office headquarters.

The final dividend for FY22 of £18.7 million has been included as a current liability in these financial statements. This dividend was approved by shareholders at the Annual General Meeting on 28 September 2022 and paid to shareholders on 28 October 2022.

Cash flow and cash conversion

Cash conversion, calculated by taking cash generated by operations over adjusted EBITDA, increased in the period to 70% (H1 22: 38%) representing a return to more normalised levels for half year reporting.

Interim dividend

The Board has declared an interim dividend of 7.8 pence per share for H1 23 (H1 22: 7.1 pence). This will be paid on 16 December 2022 to shareholders on the register at the close of business on 25 November 2022, with an ex-dividend date of 24 November 2022.

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 44 - 52 of the Annual Report associated with the Group's Annual Results published on 28 July 2022 (available on the Group's website www.kainos.com).

Regarding the Covid-19 global pandemic, we are in a monitoring position, but do not consider there to be any substantial change in impact to our business at this point. Kainos continues to operate on a largely remote basis and looking to the future, will continue to operate a blended way of working, incorporating remote working with office and customer-based work. 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 wider impact of the Russian invasion of Ukraine remains uncertain, however we continue to monitor and plan to mitigate any impact as outlined in the Annual Report.

Going concern

As further outlined 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 2022

Continuing operations	Note	**6 months to 30 Sep 2022 (unaudited) (£000s)**	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
Revenue	5	**179,775**	142,253	302,632
Cost of sales	5	**(95,991)**	(74,860)	(162,386)
Gross profit		**83,784**	67,393	140,246
Operating expenses		**(56,843)**	(42,228)	(93,625)
Impairment gain/(loss) (including amounts recovered) on trade receivables and accrued income		**254**	(292)	(606)
Operating profit		**27,195**	24,873	46,015
Finance income		**356**	2	52
Finance expense		**(28)**	(34)	(74)
Profit before tax		**27,523**	24,841	45,993
Income tax expense	6	**(5,660)**	(4,854)	(10,225)
Profit for the period		**21,863**	19,987	35,768

Consolidated statement of comprehensive income for the six months ended 30 September 2022

	6 months to 30 Sep 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
Profit for the period	**21,863**	19,987	35,768
Items that may be reclassified subsequently to profit or loss:			
Foreign operations - foreign currency translation differences	**1,754**	580	728
Total comprehensive income for the period	**23,617**	20,567	36,496

Earnings per share

	Note			
Basic	8	**17.7p**	16.3p	29.1p
Diluted	8	**17.4p**	16.0p	28.5p

Condensed consolidated statement of financial position as at 30 September 2022

	Note	**30 Sep 2022 (unaudited) (£000s)**	30 Sep 2021 (unaudited) (£000s)	31 Mar 2022 (audited) (£000s)
Non-current assets				
Goodwill	11	**20,294**	13,868	18,765
Other intangible assets		**5,495**	3,158	5,993
Property, plant and equipment		**9,612**	12,444	14,867
Investment property	12	**5,160**	-	-
Right-of-use assets		**2,445**	3,468	3,166
Investments in equity instruments		**1,343**	1,379	1,343
Deferred tax asset		**5,444**	5,585	4,282
		49,793	39,902	48,416
Current assets				
Trade and other receivables	9	**38,137**	43,186	38,358
Prepayments		**4,381**	2,654	4,377
Accrued income		**41,990**	28,093	39,462
Treasury deposits		**-**	18,028	-
Cash and cash equivalents		**97,064**	62,413	76,609
		181,572	154,374	158,806
Total assets		**231,365**	194,276	207,222
Current liabilities				
Trade payables and accruals		**(43,884)**	(38,170)	(49,199)
Dividend payable	7	**(18,740)**	(18,645)	-
Deferred income		**(33,541)**	(21,616)	(30,966)
Current tax liabilities		**(3,844)**	(5,140)	(1,959)
Lease liabilities		**(893)**	(1,280)	(1,093)
Provisions		**(421)**	-	(872)
Other tax and social security		**(10,036)**	(9,425)	(11,917)
		(111,359)	(94,276)	(96,006)
Non-current liabilities				
Provisions		**(1,026)**	(2,196)	(1,258)
Lease liabilities		**(1,715)**	(1,944)	(2,268)
		(2,741)	(4,140)	(3,526)
Total liabilities		**(114,100)**	(98,416)	(99,532)
Net assets		**117,265**	95,860	107,690
Equity				
Share capital	14	**619**	617	619
Share premium account		**6,524**	6,036	6,433
Capital reserve		**3,548**	2,261	3,548
Shares to be issued reserve		**-**	1,286	-
Share-based payment reserve		**19,152**	10,754	15,171
Translation reserve		**2,005**	103	251
Retained earnings		**85,417**	74,803	81,668
Total equity		**117,265**	95,860	107,690

Condensed consolidated statement of changes in equity for the six months ended 30 September 2022

	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 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[4]	-	(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**
Profit for the period	-	-	-	-	-		15,781	15,781
Other comprehensive income	-	-	-	-	-	148	-	148
Total comprehensive income for the period	-	-	-	-	-	148	15,781	15,929
Equity settled share-based payment	-	-	-	-	4,417	-	-	4,417
Current tax for equity-settled share-based payments	-	-	-	-	-	-	1,252	1,252
Deferred tax for equity-settled share-based payments	-	-	-	-	-	-	(1,394)	(1,394)
Issue of share capital – share options exercised	2	397	1	-	-	-	-	400
Issue of shares as purchase consideration	-	-	1,286	(1,286)	-	-	-	-
Dividends	-	-	-	-	-	-	(8,774)	(8,774)
Balance at 31 March 2022 (audited)	**619**	**6,433**	**3,548**	**-**	**15,171**	**251**	**81,668**	**107,690**
Profit for the period	-	-	-	-	-	-	21,863	21,863
Other comprehensive income	-	-	-	-	-	1,754	-	1,754
Total comprehensive income for the period	-	-	-	-	-	1,754	21,863	23,617
Equity settled share-based payment	-	-	-	-	3,981	-	-	3,981
Current tax for equity-settled share-based payments	-	-	-	-	-	-	40	40
Deferred tax for equity-settled share-based payments	-	-	-	-	-	-	586	586
Issue of share capital – share options exercised	-	91	-	-	-	-	-	91
Dividends	-	-	-	-	-	-	(18,740)	(18,740)
Balance at 30 September 2022 (unaudited)	**619**	**6,524**	**3,548**	**-**	**19,152**	**2,005**	**85,417**	**117,265**

[4] 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 2022

	6 months to 30 Sep 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
Cash flows from operating activities			
Profit for the period	**21,863**	19,987	35,768
Adjustments for:			
Finance income	**(356)**	(2)	(52)
Finance expense	**28**	34	74
Tax expense	**5,660**	4,854	10,225
Share-based payment expense	**2,697**	2,671	3,727
Depreciation of property, plant and equipment	**1,105**	584	1,538
Depreciation of right-of-use assets	**638**	707	1,654
Amortisation of intangible assets	**1,472**	186	1,890
Loss on disposal of property, plant and equipment	**-**	5	8
Post-acquisition remuneration settled by shares	**1,716**	-	2,950
(Decrease)/increase in provisions	**(683)**	460	395
Operating cash flows before movements in working capital	**34,140**	29,486	58,177
(Increase)/decrease in trade and other receivables	**(3,072)**	(14,777)	(22,996)
(Decrease)/increase in trade and other payables	**(6,095)**	(2,958)	16,571
Cash generated from operating activities	**24,973**	11,751	51,752
Income taxes paid	**(4,171)**	(2,646)	(7,089)
Net cash from operating activities	**20,802**	9,105	44,663
Cash flows from investing activities			
Interest received	**356**	2	52
Purchases of property, plant and equipment	**(1,010)**	(2,464)	(5,819)
Acquisition of other investments	**-**	(74)	(74)
Amounts withdrawn/(placed) on treasury deposit	**-**	-	18,028
Acquisition of subsidiaries net of cash acquired	**-**	(8,186)	(16,768)
Net cash used in investing activities	**(654)**	(10,722)	(4,581)
Cash flows from financing activities			
Dividends paid	**-**	-	(27,419)
Interest paid	**(28)**	(4)	(74)
Repayment of lease liabilities	**(623)**	(852)	(1,409)
Proceeds on issue of shares	**91**	1,901	2,301
Net cash (used)/from in financing activities	**(560)**	1,045	(26,601)
Net increase/(decrease) in cash and cash equivalents	**19,588**	(572)	13,481
Cash and cash equivalents at start of period	**76,609**	62,896	62,896
Effect of exchange rate fluctuations on cash held	**867**	89	232
Cash and cash equivalents at end of period	**97,064**	62,413	76,609

Notes to the condensed consolidated financial statements

1. Corporate information

Kainos Group plc ("Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales (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 2022 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.

These statements have not been audited but have been reviewed by the Group's auditor pursuant to International Standard on Review Engagements (UK) 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 11 November 2022.

2. Basis of preparation

The condensed consolidated financial statements for the six months ended 30 September 2022 have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 "Interim Financial Reporting" under UK-adopted International Accounting Standards and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 March 2022 ('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 2022 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 (3) of the Companies Act 2006.

The annual statements of Kainos Group plc are prepared in accordance with UK-adopted International Accounting Standards.

Going concern

Having reviewed the future plans and projections for our business and our current financial position, the Directors believe that we are well placed to manage our business risks successfully. We have adequate financial resources, no borrowings, a good level of recurring revenue, and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Directors have a reasonable expectation that we have adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this Interim Report. For this reason, we continue to adopt the going concern basis of accounting in preparing our financial statements.

At 31 March 2022, the Directors assessed the Group's viability over a longer period to March 2025. The review included sensitivity analysis on the future performance and solvency over three years and for the principal and emerging risks facing the business in severe but reasonable scenarios.

In performing this assessment, our long-term strategy and focus, the growing demand for our products and services, the increasing level of recurring revenue and low customer attrition, the track record of strong cash generation and a healthy cash balance with no debt from financial institutions were all taken into consideration. Consideration was also given to the risks of regional and political changes in our main markets.

Based on the results of this assessment, the Directors had a reasonable expectation that should these risks, either all or in part manifest themselves, the resulting adverse outcomes can be managed and mitigated such that, the Group and Company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment. In doing so, we note that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

As at the date of this Interim Report, we remain optimistic that we are well positioned to help public and private sector organisations in their digital transformation initiatives. We have a proportionally low fixed cost base which enables swift responses to adverse economic conditions when required, further supported by our strong cash position, low capital commitments and no borrowings.

3. Significant accounting policies

Except for as detailed below, 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 2022. 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.

Investment property

Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss. When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in OCI and presented in the revaluation reserve.

Income tax

The policy for recognising and reassessing income taxes in the interim period is consistent with that applied in the previous period as described in note 6.

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 2022.

5. Segment reporting

All our revenue for the six-month period to 30 September 2022 was derived from continuing operations.

During the period, we opted to amend our divisional reporting structure both internally to our CODM (Executive Directors) and publicly. In prior periods we reported results with respect to our Digital Services and Workday Practice divisions. Due to the continued growth of our Workday Services and Workday Products businesses, we are now reporting these areas as separate operating divisions. There is no change in reporting for our Digital Services division.

Note 15 includes an analysis of current and prior period results by reportable segment under both the current and previous reporting structures for comparison purposes.

The tables below present the results for current and prior periods in our current reporting structure.

2022 ***6 months to 30 September*** ***(unaudited)***	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£000s)**
Revenue	110,472	48,363	20,940	179,775
Cost of sales	(68,155)	(22,913)	(4,923)	(95,991)
Gross profit	**42,317**	**25,450**	**16,017**	**83,784**
Direct expenses[5]	(12,516)	(17,496)	(9,950)	(39,962)
Contribution	**29,801**	**7,954**	**6,067**	**43,822**
Central overheads[5]				(10,129)
Net finance income				328
Adjusted pre-tax profit				**34,021**
Share-based payment expense and related costs				(2,697)
Amortisation of acquired intangible assets				(1,472)
Compensation for post-combination services				(2,271)
Acquisition-related expenses				(58)
Profit before tax				**27,523**

2021 ***6 months to 30 September*** ***(unaudited)***	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£000s)**
Revenue	94,189	33,647	14,417	142,253
Cost of sales	(56,725)	(14,573)	(3,562)	(74,860)
Gross profit	**37,464**	**19,074**	**10,855**	**67,393**
Direct expenses[5]	(10,653)	(11,207)	(6,109)	(27,969)
Contribution	**26,811**	**7,867**	**4,746**	**39,424**
Central overheads[5]				(10,187)
Net finance expense				(32)
Adjusted pre-tax profit				**29,205**
Share-based payment expense and related costs				(2,671)
Amortisation of acquired intangible assets				(186)
Compensation for post-combination services				(923)
Acquisition-related expenses				(584)
Profit before tax				**24,841**

(5) Direct expenses plus central overheads plus share-based payment expense and acquisition related expenses (including amortisation of acquired intangible assets and compensation for post-combination remuneration) equals the sum of operating expenses plus impairment losses and reversals on trade receivables and accrued income. Direct expenses are expenses that are directly attributable to each division.

2022 ***12 months to 31 March***	**Digital Services (audited) (£000s)**	**Workday Services (unaudited) (£000s)**	**Workday Products (unaudited) (£000s)**	**Total (audited) (£000s)**
Revenue	199,831	70,868	31,933	302,632
Cost of sales	(122,430)	(32,388)	(7,568)	(162,386)
Gross profit	**77,401**	**38,480**	**24,365**	**140,246**
Direct expenses(5)	(21,723)	(24,666)	(12,932)	(59,321)
Contribution	**55,678**	**13,814**	**11,433**	**80,925**
Central overheads(5)				(22,132)
Net finance expense				(22)
Adjusted pre-tax profit				**58,771**
Share-based payment expense and related costs				(3,727)
Amortisation of acquired intangible assets				(1,890)
Compensation for post-combination services				(5,520)
Acquisition-related expenses				(1,641)
Profit before tax				**45,993**

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

	6 months to 30 Sep 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
United Kingdom & Ireland	**118,721**	102,402	215,606
North America	**44,390**	26,521	58,712
Central Europe	**16,087**	12,623	27,125
Rest of world	**577**	707	1,189
	179,775	142,253	302,632

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

6 months to 30 September 2022 (unaudited)	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£000s)**
Type of revenue				
Services	107,026	45,262	861	153,149
Subscriptions	-	-	20,079	20,079
Third party & other	3,446	3,101	-	6,547
	110,472	**48,363**	**20,940**	**179,775**

6 months to 30 September 2021 (unaudited)	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£000s)**
Type of revenue				
Services	90,255	29,943	1,346	121,544
Subscriptions	-	-	13,071	13,071
Third party & other	3,934	3,704	-	7,638
	94,189	**33,647**	**14,417**	**142,253**

12 months to 31 March 2022 (unaudited)	**Digital Services (£000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£000s)**
Type of revenue				
Services	192,662	64,475	2,990	260,127
Subscriptions	-	-	28,943	28,943
Third party & other	7,169	6,393	-	13,562
	199,831	**70,868**	**31,933**	**302,632**

	6 months to 30 Sep 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (unaudited) (£000s)
Digital Services			
Public	**62,276**	51,678	108,400
Commercial	**18,682**	12,391	25,120
Healthcare	**29,514**	30,120	66,311
	110,472	94,189	199,831
Workday Services			
Public	**83**	388	1,311
Commercial	**48,149**	33,017	68,948
Healthcare	**131**	242	609
	48,363	33,647	70,868
Workday Products			
Public	**892**	263	1,271
Commercial	**19,471**	13,933	29,730
Healthcare	**577**	221	932
	20,940	14,417	31,933
Group			
Public	**63,251**	52,329	110,982
Commercial	**86,302**	59,341	123,798
Healthcare	**30,222**	30,583	67,852
Total	**179,775**	142,253	302,632

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 2022 is £5.7 million (six months ended 30 September 2021: £4.9 million). This tax charge equates to an effective tax rate of 21% (30 September 2021: 20%). The expected annual tax rate for the year to 31 March 2023 is 21% (31 March 2022: 22%).

On 24 May 2021, the UK Finance Act 2021 was substantively enacted, increasing the corporate tax rate to 25% effective from 1 April 2023. Deferred tax balances have to be measured using the tax rates that have been substantively enacted and that are expected to apply to the period when the asset is realised, or the liability is settled.

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 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
Amounts recognised as distributions to equity holders in the period:			
Final dividend for 2022 of 15.1p per share	**18,740**	-	-
Interim dividend for 2022 of 7.1p per share	**-**	-	8,774
Final dividend for 2021 of 15.1p per share	**-**	18,645	18,645
	18,740	18,645	27,419

A final dividend of 15.1 pence per share for the year ending 31 March 2022 was paid on 28 October 2022 to shareholders on the register at the close of business on 7 October 2022, with an ex-dividend date of 6 October 2022. This dividend was declared following approval by the shareholders of the Company by ordinary resolution at the Company's Annual General Meeting on 28 September 2022 and a liability for payment of the dividend of £18.7 million has therefore been recognised in these condensed consolidated financial statements.

An interim dividend of 7.8 pence per share has been declared for the six months to 30 September 2022 which amounts to £9.7 million. This will be paid on 16

December 2022 to shareholders on the register at the close of business on 25 November 2022, with an ex-dividend date of 24 November 2022. These condensed consolidated financial statements do not reflect the interim dividend payable.

8. Earnings per share

Basic

The calculation of basic earnings per share (EPS) has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	6 months to 30 Sep 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
Profit for the period	**21,863**	19,987	35,768
	Thousands	Thousands	Thousands
Issued ordinary shares at 1 April	**124,078**	122,785	122,785
Effect of shares held in trust	**(760)**	(914)	(863)
Effect of share options vested and exercised	**360**	478	802
Effect of shares issued related to a business combination	**-**	11	31
Effect of shares issued related to free share awards	**-**	-	49
Weighted average number of ordinary shares	**123,678**	122,360	122,804
Basic earnings per share	**17.7p**	16.3p	29.1p

Diluted

The calculation of diluted EPS has been based on the following profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding after adjustments for the effects of all dilutive potential ordinary shares.

	6 months to 30 Sep 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
Profit for the period	**21,863**	19,987	35,768
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares (basic)	**123,678**	122,360	122,804
Effect of share options in issue	**728**	1,324	1,256
Effect of shares held in trust	**760**	914	863
Effect of potential shares to be issued related to a business combination	**490**	-	410

Weighted average number of ordinary shares (diluted)	**125,656**	124,598	125,333
Diluted earnings per share	**17.4p**	16.0p	28.5p

Adjusted

Adjusted basic and adjusted diluted earnings per share is calculated using the adjusted profit for the period measure.

	6 months to 30 Sep 2022 (unaudited) (£000s)	6 months to 30 Sep 2021 (unaudited) (£000s)	12 months to 31 Mar 2022 (audited) (£000s)
Profit for the period	**21,863**	19,987	35,768
Share-based payment expense (net of associated taxes)	**2,023**	2,164	2,907
Amortisation of acquired intangible assets	**1,472**	143	1,890
Compensation for post-combination services	**2,271**	923	5,520
Acquisition-related expenses	**58**	584	1,641
Adjusted profit for the period	**27,687**	23,801	47,726
	Thousands	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**123,678**	122,360	122,804
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**125,656**	124,598	125,333
Adjusted basic earnings per share	**22.4p**	19.5p	38.9p
Adjusted diluted earnings per share	**22.0p**	19.1p	38.1p

9. Trade and other receivables

	30 Sep 2022 (unaudited) (£000s)	30 Sep 2021 (unaudited) (£000s)	31 Mar 2022 (audited) (£000s)
Trade receivables	**34,868**	38,929	35,228
Other receivables	**3,269**	4,257	3,130
	38,137	43,186	38,358

10. Financial Instruments

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

11. Goodwill

Cost	**30 Sep 2022 (unaudited) (£000s)**	30 Sep 2021 (unaudited) (£000s)	31 Mar 2022 (audited) (£000s)
1 April	**18,765**	3,121	3,121
Acquisitions through business combinations	**-**	10,817	15,633
Effect of movement in exchange rates	**1,529**	(70)	11
At end of period	**20,294**	13,868	18,765
Accumulated impairment losses			
At beginning and end of period	**-**	-	-
Carrying amount			
At end of period	**20,294**	13,868	18,765
At beginning of period	**18,765**	3,121	3,121

12. Investment property

During the period, £5.2 million was transferred from property, plant and equipment to investment property, reflecting our intention to sell part of the site purchased in 2019 for the build of our new office headquarters. Immediately before the transfer, the Group internally remeasured the relevant portion of the site to fair value with no gain or loss arising. Our policy for accounting for investment property is disclosed in note 3.

13. Related party transactions

There have been no related party transactions during the six months to 30 September 2022 that have materially affected the financial position or performance of the Group.

No Directors exercised share options during the period (H1 22: one Director exercised 35,036 share options with a gain arising on the exercise of £0.6 million).

All related party transactions are materially consistent with those disclosed by the Group in its financial statements for the year ended 31 March 2022.

14. Issue of ordinary shares

During the six months ended 30 September 2022, the Group issued 33,129 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 £7.35 per share.

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

15. Impact of change in segmental reporting

As described in note 5, during the period the Group implemented a change in how it reports the results from its underlying business operations. The tables below present the results for periods ending 30 September 2021, 31 March 2022 and 30 September 2022 in the current segmental reporting structure and as per the previous reporting structure for comparison purposes.

Current segmental

2022 ***6 months to 30 September*** ***(unaudited)***	**Digital Services (£'000s)**	**Workday Services (£000s)**	**Workday Products (£000s)**	**Total (£'000s)**
Revenue	110,472	48,363	20,940	179,775
Cost of sales	(68,155)	(22,913)	(4,923)	(95,991)
Gross profit	**42,317**	**25,450**	**16,017**	**83,784**
Direct expenses	(12,516)	(17,496)	(9,950)	(39,962)
Contribution	**29,801**	**7,954**	**6,067**	**43,822**
Central overheads				(10,129)
Net finance income				328
Adjusted pre-tax profit				**34,021**

Previous segmental

2022 ***6 months to 30 September*** ***(unaudited)***	**Digital Services (£'000s)**	**Workday Practice (£000s)**	**Total (£'000s)**
Revenue	110,472	69,303	179,775
Cost of sales	(68,155)	(27,836)	(95,991)
Gross profit	**42,317**	**41,467**	**83,784**
Direct expenses	(12,516)	(27,446)	(39,962)
Contribution	**29,801**	**14,021**	**43,822**
Central overheads			(10,129)
Net finance income			328
Adjusted pre-tax profit			**34,021**

Current segmental

2021 *6 months to 30 September* *(unaudited)*	Digital Services (£'000s)	Workday Services (£000s)	Workday Products (£000s)	Total (£'000s)
Revenue	94,189	33,647	14,417	142,253
Cost of sales	(56,725)	(14,573)	(3,562)	(74,860)
Gross profit	**37,464**	**19,074**	**10,855**	**67,393**
Direct expenses	(10,653)	(11,207)	(6,109)	(27,969)
Contribution	**26,811**	**7,867**	**4,746**	**39,424**
Central overheads				(10,187)
Net finance expense				(32)
Adjusted pre-tax profit				**29,205**

Previous segmental

2021 *6 months to 30 September* *(unaudited)*	Digital Services (£'000s)	Workday Practice (£000s)	Total (£'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	(10,653)	(17,316)	(27,969)
Contribution	**26,811**	**12,613**	**39,424**
Central overheads			(10,187)
Net finance expense			(32)
Adjusted pre-tax profit			**29,205**

Current segmental

2022 *12 months to 31 March* *(unaudited)*	Digital Services (£'000s)	Workday Services (£000s)	Workday Products (£000s)	Total (£'000s)
Revenue	199,831	70,868	31,933	302,632
Cost of sales	(122,430)	(32,388)	(7,568)	(162,386)
Gross profit	**77,401**	**38,480**	**24,365**	**140,246**
Direct expenses	(21,723)	(24,666)	(12,932)	(59,321)
Contribution	**55,678**	**13,814**	**11,433**	**80,925**
Central overheads				(22,132)
Net finance expense				(22)
Adjusted pre-tax profit				**58,771**

Previous segmental

2022 *12 months to 31 March* *(audited)*	Digital Services (£'000s)	Workday Practice (£000s)	Total (£'000s)
Revenue	199,831	102,801	302,632
Cost of sales	(122,430)	(39,956)	(162,386)
Gross profit	**77,401**	**62,845**	**140,246**
Direct expenses	(21,723)	(37,598)	(59,321)
Contribution	**55,678**	**25,247**	**80,925**
Central overheads			(22,132)
Net finance expense			(22)
Adjusted pre-tax profit			**58,771**

16. Subsequent events

Subsequent to 30 September 2022, the Company paid the final dividend of £18.7 million in respect of the year ended 31 March 2022, declared at the Annual General Meeting on 28 September 2022, to shareholders on 28 October 2022, as detailed in note 7.

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 consolidated financial statements included within the half-yearly financial report, the Directors are required to:

- prepare and present the condensed set of consolidated 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 consolidated financial statements has adequate disclosures;
- select and apply appropriate accounting policies;
- make accounting estimates that are reasonable in the circumstances; and
- assess the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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 consolidated 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 2022 ("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 consolidated 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
11 November 2022

KPMG

Independent Review Report to Kainos Group plc ("the Entity").

Conclusion

We have been engaged by the Entity to review the Entity's condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 September 2022 which comprises the condensed 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 a summary of significant accounting policies and other explanatory notes.

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 2022 is not prepared, in all material respects in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34") as contained in the UK adopted International Accounting Standards and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the* Entity ("ISRE (UK) 2410") issued for use in the UK. 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.

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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the Entity to cease to continue as a going concern, and the above conclusions are not a guarantee that the Entity will continue in operation.

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.

The directors are responsible for preparing the condensed set of consolidated financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted for use in the UK.

As disclosed in note 2, the annual financial statements of the Entity for the period ended 31 March 2022 are prepared in accordance with UK-adopted International Accounting Standards.

In preparing the condensed set of consolidated financial statements, the directors are responsible for assessing the Entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

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.

Our conclusion, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this 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
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BT1 3LP

11 November 2022

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