29 May 2018

Kainos Group plc

("Kainos" or the "Group")

Preliminary Results for the year ended 31 March 2018

Kainos Group plc (KNOS), a leading UK-based provider of digital services and platforms, is pleased to announce its results for the year ended 31 March 2018.

Financial Highlights

	2018	**2017**	**Change**
Revenue	£96.7m	£83.5m	+16%
Adjusted pre-tax profit [1]	£15.3m	£14.3m	+7%
Statutory profit before tax	£14.3m	£13.3m	+8%
Cash	£29.0m	£23.7m	+22%
Sales orders	£130.7m	£94.8m	+38%
SaaS sales orders	£13.3m	£10.1m	+32%
Backlog [2]	£110.7m	£76.4m	+45%
Adjusted diluted earnings per share[1]	10.4p	9.5p	+9%
Diluted earnings per share	9.6p	8.7p	+10%
Proposed total dividend	6.6p	6.3p	+5%

Operational Highlights

- Performance in-line with market expectations and represents the eighth consecutive year of revenue and adjusted pre-tax profit growth.
- Very strong sales execution continues to underpin further revenue growth.
  - Sales Orders at £130.7 million (2017: £94.8 million), of which Software-as-a-Service (SaaS) bookings represent £13.3 million (2017: 10.1 million).
  - Order growth translated into very strong growth in contracted backlog, to £110.7 million (2017: £76.4 million).
- Continued diversification, with growth in international, commercial and software revenues.
  - International revenues increased to £20.2 million (2017: £17.1 million).
  - Commercial revenues grown to £29.1 million (2017: £24.4 million).
  - SaaS and software-related revenues now £15.9 million (2017: £15.3 million).
- Continued growth in Digital Services driven by demand from new and existing customers.
  - Significant ongoing engagements in UK government's digital transformation programme.
  - Strengthened position as the leading European Workday implementation partner, with strong contribution from recently-opened Frankfurt and Copenhagen offices.
- Digital Platforms making progress against key milestones.
  - Smart sales orders increased to £10.7 million (2017: £9.2 million) with 115 clients (2017: 92) now utilising the software.
  - Evolve sales orders increased to £10.0 million (2017: £7.8 million).
  - Maintained high level of R&D at £4.9 million (2017: £4.6 million).
- High customer satisfaction, with 99% of customers rating service 'Good' or better.
- Strong recruitment has seen staff and contractor numbers increase by 194 to 1,169 at year end.
- Sixth consecutive year in the Sunday Times 'Best Companies to Work For' Top 100.
- Strong underlying cash conversion and period-end cash of £29.0 million (2017: £23.7 million).

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

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

Brendan Mooney, CEO, commented:

"I am delighted to report another year of significant progress, with this year marking the eighth consecutive year of revenue and adjusted pre-tax profit growth.

Our Digital Services division continued to experience strong momentum, fuelled by demand from existing and new customers both locally and internationally. We continue to deliver major transformation programmes across UK government and for our commercial clients. Demand in the UK has resulted in the opening of a new office in Birmingham and in Europe we have opened offices in Frankfurt and Copenhagen, alongside the established offices in Amsterdam and Gdansk.

Our Digital Platforms division continues to make progress against key milestones. Smart, our market-leading Software as a Service (SaaS) platform for automated testing of the Workday suite continues to add global brands as customers, with 115 international organisations now on the platform. In Evolve, both our Electronic Medical Record and Integrated Care platforms continued to face NHS funding challenges, however a strong sales performance during the year provides a base for growth in the year ahead.

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

Ends

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About Kainos

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

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

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

Kainos has over 1,150 people across eleven offices in Europe and the US, working interchangeably across its Services and Platforms divisions.

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

Overview

The financial results for the year ended 31 March 2018 represent the eighth consecutive year of revenue and adjusted pre-tax profit growth and the success in winning projects with new and existing customers provides an excellent platform for future growth.

Revenue for the year ended 31 March 2018 grew by 16% to £96.7 million (2017: £83.5 million). Adjusted pre-tax profits increased by 7% to £15.3 million (2017: £14.3 million), which included £4.9 million in R&D expensed in the year (2017: £4.6 million).

Sales orders for this period amounted to £130.7 million (2017: £94.8 million), a total that included £13.3 million (2017: £10.1 million) of SaaS product sales orders, an increase of 32%. The contracted backlog for the Group increased by 45% to £110.7 million (2017: £76.4 million). The proportion of revenue generated from customers outside the UK increased by 18% in 2018 and now accounts for 21% of total Group revenue (2017: 20%).

Staff and contractor numbers increased by 194 to 1,169 at 31 March 2018 (2017: 975). The Group continues to attract very strong interest from both graduates and experienced senior candidates in key employment markets, with 11,465 job applications received during the year; 80% of people joining Kainos were recruited directly rather than via recruitment agencies (2017: 82%). Employee engagement remains high, with the Group being ranked in the Sunday Times Top 100 'Best Companies to Work For' for the sixth consecutive year. Attrition across the Group rose to 13% (2017: 8%) but remains below UK average (17%)[3].

Customer satisfaction remains high, with 99% of customers rating Group service 'good' or better. This high level of customer service underpins the Group's long-term relationships with customers, with existing customers accounting for 86% of Group revenue (2017: 91%). In the year to 31 March 2018, the Group acquired 82 new customers, making a total of 294 customers.

Across sectors, 56% of revenue is derived from government customers (2017: 54%), 30% from commercial sector (2017: 29%) and 14% from healthcare (2017: 17%). Commercial sector revenue grew 19% to £29.1 million (2017: £24.4 million).

In the year ended 31 March 2018, Digital Services experienced very strong growth across both Digital Transformation (a 19% increase) and Workday Implementation (a 40% increase) service lines. Digital Transformation continues to play a major role in the UK government's digitisation programme, with ongoing demand from existing customers and with an increasing number of commercial clients. Workday Implementation services experienced very strong growth through increased demand from existing customers, new customer acquisition and geographic expansion. The opening of the Frankfurt and Copenhagen offices contributed to this accelerated growth.

In the Digital Platforms division, the Kainos Smart automated testing platform continued its growth trajectory, adding 33 new customers during the period to bring the total number of customers on the platform to 115 at 31 March 2018.

The funding landscape in the NHS shows some signs of improvement, with Evolve sales orders excluding third party increasing 28% to £10.0 million (2017: £7.8 million[4]). However, the funding

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[3] *2017 ExperHR Survey.*

[4] *Third party Evolve sales includes sales charged to customers for third party services and products, such as scanning services and computer hardware.*

constraints that dominated 2017 resulted in Evolve revenue (excluding third party) decreasing by 24% to £8.1 million (2017: £10.6 million), which is in line with previous guidance [5].

In the UK, Evolve IC continues to focus on the Shared Care project with a leading Clinical Commissioning Group (CCG) and with early adopter Acute Trusts who are deploying individual care pathways. In the US, the commercial arrangement with Telehealth provider, InTouch Health, concluded on 31 March 2018. Whilst this venture has not yielded the expected outcome, it has reaffirmed the Kainos team's belief in the potential for Evolve in the US Healthcare market place. As a result, Kainos expects to see limited revenue from Evolve in the US next year whilst the team accelerates other early-stage discussions with possible US-based partners.

Finally, the Group finished the year with a strong cash balance of £29.0 million at 31 March 2018 (2017: £23.7 million), representing 96% cash conversion [6] (2017: 110%).

Business Strategy

The strategy of the Group is to achieve sustained revenue, adjusted pre-tax profit and cash flow growth in its chosen markets through:

- Growing the Group's reputation;
- Capitalising on its established market position and significant growth opportunities;
- Building strong, long-term relationships with its customer base;
- Exploiting favourable market dynamics and drivers;
- Nurturing and expanding its experienced and highly-skilled employee pool; and
- Recruiting high calibre entry-level and experienced staff.

Divisional Review

Digital Services

The Digital Services division comprises two areas of activity:

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

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

Digital Services revenue for the year ended 31 March 2018 grew by 22% to £78.6 million (2017: £64.5 million). Digital Services revenue from customers in commercial sectors accounted for £21.3 million (2017: £19.7 million), an increase of 8%. Sales orders in Digital Services increased by 45% to £108.4

[5] *Evolve revenue (including third party) reduced by 28% to £10.3 million (2017: £14.3 million).*

[6] *Calculated as adjusted pre-tax profit adding back finance income and depreciation, divided by cash generated by operations.*

million (2017: £74.6 million) and backlog for the division increased by 96% to £70.6 million (2017: £36.1 million).

Digital Services - Digital Transformation

Brexit has clearly introduced elements of uncertainty into aspects of the wider UK economy. With regard to the impact to the Government IT landscape the Kainos assessment remains consistent with previous guidance – there is no negative impact to the programmes with which it is involved.

Within central government, Kainos operates across Land Registry, Home Office, Cabinet Office, Department for Environment, Food and Rural Affairs, The Foreign and Commonwealth Office, Driver and Vehicle Standards Agency, HM Probation and Prison Service Ministry of Justice, Department for Transport and the Department for International Development, delivering a combination of existing and new programmes. In devolved government Kainos has been successful in winning new projects in Scotland and Wales; whilst the absence of political institutions in Northern Ireland has deferred most procurement activity during the period.

The number of commercial clients in UK, Ireland and Germany continues to increase and is now at 47 (2017: 42 clients), reflecting the positive impact of prior period investment in sales capacity. Kainos, in conjunction with NHS Digital, is delivering significant elements of the Empower People pillar (which includes NHS Online and The NHS Apps Library).

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

Digital Services - Workday Implementation

Kainos first engaged with Workday in 2010, deploying Workday’s HCM platform at organisations such as Grant Thornton, United Drug Group and Travelex and is now one of the most experienced participants in Workday’s partner ecosystem. Kainos remains the only boutique Workday partner headquartered in the UK and one of only 35 partners globally accredited to implement Workday’s innovative SaaS platform.

Within Europe, Kainos continues to consolidate its position as a leading Workday partner, signing 39 new clients in the period (2017: 12). This leadership position is a result of high satisfaction levels within the Kainos customer base but is also aided by the consolidation within the partner ecosystem. Recent transactions include the Appirio acquisition by Wipro (2016), DayNine by Accenture (2016) and Ataraxis by HR Path (2018).

Kainos has continued its geographic expansion, with the opening of an office in Copenhagen in September 2017 to develop the Nordic markets of Denmark, Sweden, Norway and Finland. This is in addition to offices opened in Amsterdam (2015, covering Belgium, Netherlands and Luxembourg) and Frankfurt (2017, covering Germany, Austria and Switzerland). Kainos now has 29 clients for Workday services in mainland Europe (2017: 17).

The UK Public Sector is now a key market for Workday and Kainos have been instrumental in securing the early customers. Of the five deals signed by Workday, Kainos are undertaking the implementation with four customers and Workday are delivering the remaining project. Kainos customers include Office for Students and Innovate UK.

In addition to the delivery of Workday for new customers, Kainos is increasingly involved in supporting the operation of customers that are already live on the Workday platform. This annuity-style revenue stream, described as Post Deployment Services, accounts for £4.5m of revenue (2017: £1.4m) and has 44 customers (2017: 15).

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

The number of accredited Workday consultants in the Group's Digital Services division has increased by 55% to 170 people (2017: 110 people).

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

Digital Platforms

The Digital Platforms division comprises three discrete platforms:

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

- *Evolve Electronic Medical Record (Evolve EMR)*: Evolve EMR is a proprietary software product that removes paper from the care process by digitising NHS patient records, thereby enabling efficient healthcare and supporting Digital Maturity programmes. EMR features in-built electronic forms and workflow that allows patient information to be captured and routed electronically, saving time and effort, and helping to improve quality of patient care. Historically, Evolve EMR core product has been sold to customers as a one-off perpetual licence, however in 2017 Evolve Cloud EMR was launched which offers the same software platform on a hosted, managed service basis.

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

Aggregate Digital Platforms revenue (excluding third party revenue) for the twelve months ended 31 March 2018 increased by 4% to £15.9 million (2017: £15.2 million) [7]. Sales orders for Digital Platforms (excluding third party) increased by 22% to £20.7 million (2017: £17.0 million) of which sales orders for the Group's SaaS platforms increased by 32% to £13.3 million (2017: £10.1 million).

Within Smart, revenue for the period increased by 66% to £7.8 million (2017: £4.7 million), of which £6.4 million relates to SaaS subscriptions (2017: £3.7 million). New sales bookings for the period amounted to £10.7 million (2017: £9.2 million), an increase of 17%. The Annual Recurring Revenue

[7] *Aggregate Digital Platforms revenue, including 3rd party decreased by 5% to £18.1 million (2017: £19.0 million).*

(ARR) for Smart at period end was £7.1 million (2017: £5.5 million); backlog for Smart is £14.2 million (2017: £11.7 million).

Despite the on-going funding constraints within the NHS, Evolve sales orders (excluding third party) for the period increased by 28%, amounting to £10.0 million (2017: £7.8 million). However, the historic lack of funding has resulted in a further reduction in Evolve revenue (excluding 3rd party), decreasing by 24% to £8.1 million (2017: £10.6 million) [8].

Digital Platforms – Smart

Smart is now used by 115 global customers to automatically verify their Workday configurations (2017: 92). Kainos had three Smart module offerings during the period - HCM, Security and Financials and a fourth module, Payroll, which was launched as beta software in October 2017. Over 95% of customers have purchased a subscription for both HCM and Security, with 23 customers subscribed to Financials (which is in line with the wider adoption of Workday Financials) and six customers who have a Payroll subscription.

In the year ended 31 March 2018, the Group added 33 new Smart customers (2017: 37), including Centrica, Discover Financial and Centene Corporation.

Workday have announced Workday Cloud Platform (WCP), their Platform-as-a-Service (PaaS) offering. Kainos has been part of the early adopter programme since 2017. While still in its embryonic stages, WCP may offer a new future growth opportunity – such as additional IP development for Kainos or specialised development services to other Workday customers and partners.

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

Digital Platforms – Evolve EMR

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

The increasing importance of Evolve as a critical operational system is prompting some existing clients to consider transitioning to Evolve Cloud EMR and away from their current on-premise arrangements. Hardware refresh costs, the WannaCry virus and the issues in retention of IT skills within the NHS have all accelerated a number of conversations within the existing client base. During 2018, two existing customers have adopted Evolve Cloud EMR.

Within Ireland there are 48 hospitals, overseen by the Health Services Executive (HSE) who provide all of Ireland's public health services in hospitals and communities. The HSE has signed contracts for Galway University Hospital (2 sites), which is part of Saolta University Health Care Group (Ireland) and for the National Children's Hospital, Dublin. These deployments will represent the first systems of this type in the Irish market.

Looking forward, the Group believes that the opportunity for Evolve EMR remains undiminished in the long term, with 98 Health Trusts in England still to address their considerable paper challenge, representing an available market of approximately £200 million. While increased procurement activity

[8] *Evolve revenue (including third party) reduced by 28% to £10.3 million (2017: £14.3 million).*

and a very strong increase in sales booked during 2018 indicate an improving funding landscape, the Group remains cautious about growth forecasts for 2019.

Digital Platforms – Evolve IC

Evolve IC is a multi-tenanted cloud platform onto which healthcare organisations will deploy care pathways, with a subscription charged for each care pathway that is deployed. Typical care pathways can be specialty specific in areas such as Stroke Assessment and Paediatrics or cross organisation to support processes such as Pre-operative Assessment or Patient Discharge.

In the UK, Evolve IC will commence live operation during 2018 across four different Acute Trusts with a variety of care pathways: Clinical Noting, Stroke Assessment, Patient Discharge, Community-based Stroke Care and Drug Assessment. Subscriptions for each care pathway vary between £15k and £75k per annum, depending on the complexity of the care pathway.

Evolve IC is also scheduled to commence live operation for an NHS Clinical Commissioning Group (CCG), supporting care provision across a patient population of over 600,000 people. This Shared Care Record project will support the needs of clinical and nursing staff in the Urgent Care setting and will enable unified access to primary, acute and community care data from a total of 11 different healthcare systems.

Progress for Evolve IC in the US has been impacted following the decision by InTouch Health to terminate their commercial relationship with Kainos and instead to develop their own internal solution; we have now referred this matter to US legal counsel. The change of direction by InTouch Health will, in the short-term, reduce costs, but it will also require Kainos to accelerate other, early-stage, US-based partner discussions.

Looking forward, the immediate priority is to support the go-live events in NHS CCG and for the hospitals implementing the new care pathways. Over the medium-term revenue growth will be driven by the wider adoption of care pathways by new or existing NHS clients and the appointment of additional US-based healthcare partners.

Financial Review

Kainos achieved revenue of £96.7 million, representing a 16% growth on 2017 (£83.5 million). Digital Services revenue grew 22% to £78.6 million (2017: £64.5m) which was driven by growth in both Digital Transformation and Workday Services. Whilst the headline Digital Platform revenue reduced by 5% to £18.1 million (2017: £19.0 million), when excluding third party revenue, Digital Platform revenue increased 4% to £15.9 million (2017: £15.2 million).

Overall gross margin was 48% (2017: 50%) with Digital Services decreasing to 46% (2017: 48%), whilst Digital Platforms gross margin increased to 59% (2017: 57%). The reduction in Digital Services gross margin was mostly due to increasing the number of contractors in the second half of the year and also the geographic expansion within Workday Services.

Operating expenses excluding share-based payments for 2018 increased by 13% to £31.3 million (2017: £27.8 million). This increase is in line with revenue growth and relates to the geographic expansion and sales investment within the Digital Services division. Whilst investment in product development has increased to £4.9 million (2017: £4.6 million), it has reduced during the second half of the year. All product development costs were expensed in the period. Research and Development Expenditure Credit (RDEC) grants recognised in the period totalled £2.8 million (2017: £1.7 million).

Adjusted pre-tax profit increased by 7% to £15.3 million (2017: £14.3 million). Statutory profit before tax increased by 8% to £14.3 million (2017: £13.3 million). The adjusted profit measures can be reconciled to the reported statutory numbers as follows:

	2018 (£000s)	**2017 (£000s)**
Statutory profit before tax	14,251	13,320
Share-based payments	1,096	949
Adjusted profit before tax	**15,347**	**14,269**

	2018 (£000s)	**2017 (£000s)**
Statutory profit after tax	11,666	10,416
Share-based payments (net of associated taxes)	910	949
Adjusted profit after tax	**12,576**	**11,365**

The effective tax rate for 2018 was 18% (2017: 22%). The 2017 effective tax rate was higher due to the implementation of the RDEC scheme (previously the large company super deduction scheme). The 2018 effective tax rate was reduced slightly due to the impact of overseas deferred tax assets. Going forward we expect the effective tax rate to be broadly in line with the UK corporation tax rate.

The Group continues to have a robust balance sheet with £29.0 million of cash (2017: £23.7 million), no debt and net assets of £35.7 million (2017: £30.0 million). Cash conversion, calculated by taking cash generated by operations over EBITDA, continued to be strong at 96% (2017: 110%). The combined underlying trade debtor and accrued income totalled £25.8 million (2017: £19.8 million). The increase in accrued income was within expectations and related to the timing on achieving milestones within a small number of projects.

Dividend

Consistent with the guidance set out in the 2015 Prospectus, the Group has adopted a progressive dividend policy, maximising shareholder return alongside retaining sufficient funds in the Group to invest in long-term growth. Kainos has consistently been profitable and has generated a strong cash balance. The final dividend, if approved by shareholders, will be 4.6p and payable on 19 October 2018 to shareholders on the register on 21 September 2018, with an ex-dividend date of 20 September 2018. This will make the total dividend for the year 6.6p (2017: 6.3p) which will represent a distribution of 61% of the adjusted profit after taxation for the year (2017: 66%).

Summary and Outlook

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

Over the longer term, Kainos remains well placed to deliver further growth. The Group's Digital Services division continues to benefit from the UK government's digitisation programmes, and from the strong and sustained growth of Workday. In the Group's Digital Platforms division, Smart remains in a commanding position as the only automated testing product for Workday globally, and while constrained NHS funding is expected to limit the growth of Evolve in the near-term, the directors remain confident that it is well positioned to capitalise on its lead in the NHS marketplace in the medium term.

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

Consolidated income statement for the financial period ended 31 March 2018

	Note	2018 (£000s)	2017 (£000s)
Continuing operations			
Revenue	2	96,680	83,504
Cost of sales	2	(50,076)	(41,479)
Gross profit	2	**46,604**	**42,025**
Operating expenses excluding share-based payments	2	(31,308)	(27,821)
Share-based payments		(1,096)	(949)
Operating expenses		32,404	(28,770)
Operating profit		**14,200**	**13,255**
Finance income		53	66
Finance expense		(2)	(1)
Profit before tax		**14,251**	**13,320**
Taxation on ordinary activities	5	(2,585)	(2,904)
Profit for the year		**11,666**	**10,416**

Consolidated statement of comprehensive income

	2018 (£000s)	2017 (£000s)
Profit for the year	**11,666**	**10,416**
Other comprehensive income:		
Currency translation difference	(201)	(249)
Total comprehensive income for the year	**11,465**	**10,167**

Earnings per share

	Note	2018	2017
Basic	7	10.0p	8.9p
Diluted	7	9.6p	8.7p

Consolidated statement of financial position as at 31 March 2018

	Note	2018 (£000s)	2017 (£000s)
Non-current assets			
Property, plant and equipment		2,109	2,002
Investments		1,025	900
Other non-current assets		1,289	324
		4,423	3,226
Current assets			
Trade and other receivables	8	23,157	18,750
Prepayments		2,647	1,559
Accrued income		6,106	3,677
Cash and bank balances		28,961	23,722
		60,871	47,708
Total assets		**65,294**	**50,934**
Current liabilities			
Trade creditors and accruals	9	(13,039)	(8,683)
Deferred income	9	(6,993)	(6,320)
Corporation tax	9	(3,157)	(2,075)
Other tax and social security	9	(6,028)	(3,573)
		(29,217)	(20,651)
Non-current liabilities			
Other provisions		(347)	(297)
Total liabilities		**(29,564)**	**(20,948)**
Net assets		**35,730**	**29,986**
Equity			
Share capital		593	592
Share premium account		1,702	1,626
Capital reserve		666	667
Share-based payment reserve		2,549	1,279
Translation reserve		(450)	(249)
Retained earnings		30,670	26,071
Total equity		**35,730**	**29,986**

Richard McCann
Director
25 May 2018

Consolidated statement of changes in equity for the year ended 31 March 2018

	Share capital (£000s)	Share premium (£000s)	Capital reserve (£000s)	Share-based payment reserve (£000s)	Translation reserve (£000s)	Retained earnings (£000s)	Total equity (£000s)
Balance at 31 March 2016	**590**	**1,607**	**668**	**524**	**-**	**22,534**	**25,923**
Profit for the year	-	-	-	-	-	10,416	10,416
Other comprehensive income	-	-	-	-	(249)	-	(249)
Total comprehensive income for the year	-	-	-	-	(249)	10,416	10,167
Share-based payment expense	-	-	-	949	-	-	949
Adjustments in respect of prior periods	-	-	-	(194)	-	194	-
Current tax for equity- settled share-based payments	-	-	-	-	-	(12)	(12)
Deferred tax for equity-settled share-based payments	-	-	-	-	-	147	147
Issue of share capital	2	19	(1)	-	-	-	20
Dividends	-	-	-	-	-	(7,208)	7,208
Balance at 31 March 2017	**592**	**1,626**	**667**	**1,279**	**(249)**	**26,071**	**29,986**
Profit for the year	-	-	-	-	-	11,666	11,666
Other comprehensive income	-	-	-	-	(201)	-	(201)
Total comprehensive income for the year	-	-	-	-	(201)	11,666	11,465
Share-based payment expense	-	-	-	1,096	-		1,096
Adjustments in respect of prior periods	-	-	-	174	-	(174)	-
Current tax for equity- settled share-based payments	-	-	-	-	-	82	82
Deferred tax for equity-settled share-based payments	-	-	-	-	-	606	606
Issue of share capital	1	76	(1)	-	-	-	76
Dividends	-	-	-	-	-	(7,581)	(7,581)
Balance at 31 March 2018	**593**	**1,702**	**666**	**2,549**	**(450)**	**30,670**	**35,730**

Consolidated cash flow statement for the year ended 31 March 2018

	2018 (£000s)	2017 (£000s)
Net cash from operating activities	**14,152**	**16,927**
Investing activities		
Purchases of trading investments	(125)	-
Purchases of property, plant and equipment	(1,130)	(813)
Net cash (used in)/from investing activities	**(1,255)**	**(813)**
Financing activities		
Dividends paid	(7,581)	(7,208)
Proceeds on issue of shares	76	20
Net cash used in financing activities	**(7,505)**	**(7,188)**
Net increase/(decrease) in cash and cash equivalents	5,392	8,926
Cash and cash equivalents at beginning of year	23,722	15,045
Effects of foreign exchange rate changes	(153)	(249)
Cash and cash equivalents at end of year	**28,961**	**23,722**

Net cash from operating activities

	2018 (£000s)	2017 (£000s)
Profit for the year	11,666	10,416
Adjustments for:		
Income tax expense	2,585	2,904
Share-based payment expense	1,096	949
Government grants released	(13)	(11)
Depreciation	976	897
Loss on disposal of property, plant and equipment	47	-
Increase in provisions	50	-
Operating cash flows before movements in working capital	16,407	15,155
Increase in receivables	(8,087)	(1,691)
Increase in payables	7,370	3,155
Cash generated by operations	15,690	16,619
Income taxes received/(paid)	(1,538)	308
Net cash from operating activities	**14,152**	**16,927**

Notes to the consolidated financial statements

1. General information and basis of preparation

Kainos Group plc ("the Company") is a company incorporated and domiciled in the UK (company registration number 09579188), having its registered office at 4th Floor, 111 Charterhouse Street, London EC1M 6AW.

The preliminary results announcement for the year ended 31 March 2018 has been prepared by the directors based on the results and position which are reflected in the statutory accounts. The statutory accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union (Adopted IFRS).

The financial information for the years to 31 March 2018 and 31 March 2017 does not constitute statutory accounts and has been extracted from the Company's consolidated accounts for the year to 31 March 2018.

Statutory accounts for the year to 31 March 2017 have been delivered to the Registrar of Companies, and those for the year to 31 March 2018 will be delivered following the Company's Annual General Meeting ('AGM'). The auditor has reported on those accounts: its report was unqualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report, and did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006.

The financial statements are presented in Pounds Sterling and rounded to the nearest thousand. The consolidated financial statements consolidate those of the Company and its subsidiaries (together "Kainos", or "the Group").

2. Segment reporting

All the Group's revenue for the year ended 31 March 2018 was derived from continuing operations.

Kainos is structured into two divisions: Digital Services and Digital Platforms.

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

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

Segment revenue and results

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

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

2017 *12 months to 31 March*	Digital Services (£000s)	Digital Platforms (£000s)	Consolidated (£000s)
Revenue	64,526	18,978	83,504
Cost of sales	(33,374)	(8,105)[10]	(41,479)
Gross profit	**31,152**	**10,873**	**42,025**
Direct expenses[9]	(6,186)	(8,922)	(15,108)
Contribution	**24,966**	**1,951**	**26,917**
Central overheads[9]			(12,648)
Adjusted pre-tax profit			**14,269**

Reconciliation of adjusted pre-tax profit to profit before tax

	2018 (£000s)	2017 (£000s)
Adjusted pre-tax profit	**15,347**	**14,269**
Share-based payments	(1,096)	(949)
Profit before tax	**14,251**	**13,320**

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

[10] For the period ended 31 March 2017 £1.5 million of costs for Digital Platforms have been reclassified from direct expenses to costs of sale in line with current period presentation.

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

	2018 (£000s)	2017 (£000s)
United Kingdom	76,478	66,310
Republic of Ireland	6,632	8,726
US	6,715	4,420
Other	6,855	4,048
	96,680	**83,504**

3. Profit for the year

Profit for the year has been arrived at after charging/(crediting):

	2018 (£000s)	2017 (£000s)
Total staff costs	55,881	44,696
Government grants	(3,076)	(1,676)
Operating lease rentals	1,499	1,272
Research and development costs	4,909	4,641
Research and Development Expenditure Credit grant	(2,781)	(1,715)
Depreciation of property, plant and equipment	976	897
Net foreign exchange loss/(gain)	43	(784)

4. Staff numbers

The average number of employees during the year was:

	2018 Number	2017 Number
Technical	780	749
Administration	129	80
Sales	55	55
	964	**884**

The number of employees at 31 March 2018 was:

	2018 Number	2017 Number
Technical	846	781
Administration	139	80
Sales	50	55
Contractors	134	59
	1,169	**975**

5. Tax on ordinary activities

	2018 (£000s)	2017 (£000s)
Corporation tax:		
Current year (UK)	2,434	2,497
Current year (overseas)	489	377
Adjustments in respect of prior years	19	218
	2,942	3,092
Deferred tax	(357)	(188)
	2,585	**2,904**

UK corporation tax is calculated at 19% (2017: 20%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The effective tax rate for 2018 was 18% (2017: 22%).

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2016 and Finance Act 2015. As a result, the main rate of corporation tax reduced to 19% from 1 April 2017 and will reduce to 17% from 1 April 2020. We envisage our future effective tax rates to be broadly in line with the main UK corporation tax rate.

The Group's tax charge can be reconciled to the profit in the statement of comprehensive income as follows:

	2018 (£000s)	2017 (£000s)
Profit before tax on continuing operations	14,251	13,320
Tax at the UK corporation tax rate of 19% (2017: 20%)	2,708	2,664
Non-deductible expenses	19	61
Non-taxable income	-	(6)
Effect of foreign exchange on consolidation	(91)	-
Effect of non-UK tax rates	98	(11)
Movement in prior year unrecognised deferred tax asset	(218)	(23)
Adjustments to tax charge in respect of prior years	34	201
Change in UK tax rates	35	18
Tax expense for the year	**2,585**	**2,904**

In addition to the amount charged to the statement of comprehensive income, the following amounts relating to tax have been recognised directly in equity.

	2018 (£000s)	2017 (£000s)
Current tax		
Permanent element of stock option deduction	82	(12)
Deferred tax		
Change in estimated tax deductions related to share-based payments	-	(4)
Adjustments in respect of previous periods	28	(39)
Deferred tax on stock option	578	190
Total tax recognised directly in equity	**688**	**135**

6. Dividends

	2018 (£000s)	2017 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2018 of 2p per share	2,371	-
Final dividend for 2017 of 4.4p per share	5,215	-
Interim dividend for 2017 of 1.9p per share	-	2,248
Final dividend for 2016 of 4.2p per share	-	4,960
	7,586	**7,208**

The proposed final dividend for 2018 is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. The final dividend, if approved by shareholders, will be 4.6p and payable on 19 October 2018 to shareholders on the register on 21 September 2018, with an ex-dividend date of 20 September 2018.

7. Earnings per share

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

	2018 (£000s)	**2017 (£000s)**
Profit for the period	**11,666**	**10,416**
	Thousands	**Thousands**
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,231	117,200
Effect of dilutive potential ordinary shares from share options	3,668	2,773
Weighted average number of ordinary shares for the purposes of diluted earnings per share	120,899	119,973
Basic earnings per share	**10.0p**	**8.9p**
Diluted earnings per share	**9.6p**	**8.7p**

Adjusted basic earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent company, excluding exceptional items and share-based payments (including associated taxes) by the weighted average number of ordinary shares in issue during the period.

	2018 (£000s)	2017 (£000s)
Profit for the period	**11,666**	**10,416**
Share-based payments (including associated taxes)	910	949
Adjusted profit for the period	**12,576**	**11,365**

	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	117,231	117,200
Effect of dilutive potential ordinary shares from share options	3,668	2,773
Weighted average number of ordinary shares for the purposes of diluted earnings per share	120,899	119,973
Adjusted basic earnings per share	**10.7p**	**9.7p**
Adjusted diluted earnings per share	**10.4p**	**9.5p**

8. Trade and other receivables

	2018 (£000s)	2017 (£000s)
Trade receivables	19,738	16,168
Allowance for doubtful debts	-	(15)
	19,738	16,153
Other debtors	3,419	2,597
	23,157	**18,750**

9. Trade and other payables

	2018 (£000s)	2017 (£000s)
Trade creditors and accruals	13,039	8,683
Deferred income	6,993	6,320
Corporation tax	3,157	2,075
Other tax and social security	6,028	3,573
	29,217	**20,651**

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs, including payroll. For most suppliers no interest is charged on payables.