# Annual Report 2018

**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.

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# 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.

Top 100

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).

# 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 | **10.4p** | 9.5p | +9% |
| Diluted earnings per share | **9.6p** | 8.7p | +10% |
| Proposed total dividend | **6.6p** | 6.3p | +5% |

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.

# Chief Executive Officer's statement

→ 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.

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

**Dr Brendan Mooney**
Chief Executive Officer

# Strategic Report

## 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.

**→ 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.**

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 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%).

3 2017 ExpertHR Survey.

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

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.

# Strategic Report continued

Revenue

2018

£96.7m

2017

£83.5m

## 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.

## 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: £64.5 million) 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 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.

→ The Group continues to have a robust balance sheet with £29.0 million of cash, no debt and net assets of £35.7 million.

## 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%).

## 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 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.

**Adjusted pre-tax profit**

**2018**

# £15.3m

**2017**

## £14.3m

### 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).

# Strategic Report continued

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 £4.5 million of revenue (2017: £1.4 million) 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.

→ The UK Public Sector is now a key market for Workday and Kainos have been instrumental in securing the early 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 (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].

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

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

## 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 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.

## Our people

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

The Group has 1,169 staff and contractors (2017: 975), with the proportion of contract staff rising to 11% (2017: 6%) driven by the need to staff a number of programmes starting simultaneously. This is expected to normalise to prior levels over the course of 2018.

### Locations

Kainos operates from the offices outlined in the table below, with the expectation that further locations will open based upon demand. The Birmingham office is intended to become a major delivery hub over the next years, with 50 people to be recruited in the next reporting period.

| Office | Opened | People[9] | Address |
|---|---|---|---|
| Belfast | 1987 | 566 | 4-6 Upper Crescent, Belfast, BT7 1NT |
| Dublin | 1994 | 31 | 6-7 St Stephens Green, Dublin, D02 X827 |
| London | 2001 | 261 | 111 Charterhouse St, London, EC1M 6AW |
| Gdansk | 2007 | 239 | Tryton Business House, ul. Jana z Kolna 11, 80-864, Gdansk |
| Derry | 2012 | 35 | Timber Quay, Strand Road, BT48 7NR |
| Boston | 2015 | 12 | 470 Atlantic Avenue, Boston, Massachusetts 02110 |
| Amsterdam | 2015 | 8 | World Trade Center, Strawinskylaan 601, 1077 XX, Amsterdam, Tower A, Level 6 |
| Frankfurt | 2017 | 9 | The Square 12, Am Flughafen, 60549 Frankfurt am Main |
| Copenhagen | 2017 | 4 | Rådhuspladsen 16, 3, 1550 Copenhagen V |
| Birmingham | 2017 | 3 | Alpha Works Suffolk Street, Birmingham, B1 1TT |
| Atlanta | 2017 | 1 | WeWork Tower Place, 3340 Peachtree Road, Atlanta, Georgia |

9 Some staff will be classified as 'home workers' and may not actually spend much time in their designated office. There are 89 people classified as 'home workers', many of whom are contract staff.

### Recruitment

Kainos continues to attract strong interest in key recruitment markets, with 11,465 applicants in the period (2017: 9,380). A total of 3,060 interviews were conducted (2017: 2,943) with 360 people joining Kainos (2017: 234), representing 3% of the original applicants (2017: 2%).

### Development

The Kainos Digital Academy and associated programmes are central to the development of staff. During the reporting period, 7,617 training days were completed, an average of 8 days per employee. The Digital Academy has been central to the development of new capabilities in Cyber Security, Data, Machine Learning and Artificial Intelligence.

### Wellbeing

Employee wellbeing is a key priority and Kainos strives to be an excellent employer, the success of which is reflected in holding Sunday Times Top 100 Employer status since 2012, an accreditation that is entirely based upon employee feedback.

Kainos provides a comprehensive range of benefits to support with financial security, such as Private Health Insurance, Life Insurance and Income Protection, and a comprehensive health plan, Healthshield. This includes subsidised gym membership, personal coaching, 24/7 counselling, health assessments and alternative therapies to assist staff and their families' health and wellbeing.

### Staff Share Incentive Plan

The Group operates a Share Incentive Plan for all staff. Including the annual awards made in July 2017 a total of 1,795,459 free shares have been distributed to staff. In addition, the company created a SAYE scheme in July 2015, which holds a further 1,526,335 options for staff.

## Being a socially responsible employer

### Outreach

The Group views it as part of its mission to promote awareness of digital technologies amongst school leavers and young people. Over the past four years, these outreach programmes have directly benefitted the lives of over 4,000 young people in the UK and Ireland, catering for students from a range of socio-economic backgrounds and with a high percentage of female students taking part.

### Earn as You Learn® apprentice scheme

The Group continues to expand its popular Earn as You Learn® apprenticeship scheme, which has proven particularly successful since its inception in 2013. Designed to encourage young people into the digital

→ Kainos is committed to being an inclusive and fair employer.

industry, Earn as You Learn has allowed the Group to identify talent outside its traditional graduate recruitment pools. There are now 40 Earn as You Learn recruits employed in Kainos, all of whom have been successfully integrated into operating Divisions. It is expected that the scheme will expand further in the coming years to take advantage of the UK government's Apprentice Levy scheme.

**Diversity and equal opportunity**
Kainos is committed to being an inclusive and fair employer and the Group's 'Equality, Diversity and Inclusion Policy', published on the Kainos website, reiterates Kainos' commitment to creating equal opportunity for employees regardless of colour, nationality, sex, marital status, sexual orientation, age, religion, disability or any other characteristic protected by law.

During 2018, Kainos has improved inclusivity within recruitment practices, expanded innovative and supportive working options for Kainos employees and introduced a returners programme for people who have taken time out of the workplace.

The Group also looks to encourage a wider range of ethnicities and means that today the Group employs staff with over 30 different nationalities, with around 60% of staff with a non-UK primary nationality.

Gender Diversity remains a challenge within the wider industry, where 17% of roles in technology are undertaken by women[10]. Within Kainos, the proportion of women has increased to 28% (2017: 26%); 26% (2017: 26%) of manager level and above are female and 20% (2017: 16%) of executive management roles are held by women (compared to 5% nationally[11]). There are no female appointees to the Group Board.

Kainos continues to seek opportunities to promote technology careers, particularly among female students, to improve the gender balance in the wider industry and as noted above 4,000 students have benefited from these programmes. The Kainos CodeCamp, aimed at students aged 14-17 had 186 participants in 2017, 40% of whom were female.

**Human rights**
The Group does not tolerate any slavery or human trafficking in any part of its business operations and takes a risk-based approach regarding its supply chains.

## Anti-bribery, anti-corruption and whistleblowing
Kainos has a zero-tolerance approach to bribery and corruption and this is reflected in its anti-bribery policy, which forbids bribery or corruption of any type. In addition, there is a whistleblowing policy which allows employees the opportunity to report matters of significant concern to the Chairman of Audit Committee and Company Secretary.

Those policies are periodically reviewed and updated where necessary so that they remain fit for purpose. The review includes identifying any new regions in which Kainos operates, changes in business practices and any recommendations received from local counsel that might require specific processes or procedures to be put in place to mitigate any actual or perceived increased risk. Kainos provides training and awareness raising programmes designed to ensure that employees understand the anti-bribery and whistleblowing policies.

Training on these policies is compulsory. The Audit Committee receives a report on the effectiveness of the anti-bribery and whistleblowing policies together with a summary of any known instances of bribery or corruption.

## Customer satisfaction and quality
The Group uses a digital service to capture high-level customer feedback on client engagements. Data gathered in this way is submitted to an in-house Services Management solution and used to track and present key metrics in an easy to digest dashboard format.

Feedback is captured for quality of solution, services and people. In 2018, 134 customer engagement surveys were received. An overall feedback rating is also measured, and in 2018, 99% of responses gave Kainos an overall rating of 'Good or Above'.

The Group uses these statistics to inform its continuous improvement programme, which is designed to meet and often exceed customer expectations on every engagement.

## Research and development
In 2017, the Kainos Chief Technology Officer (CTO) was appointed as CEO of the Northern Ireland branch of Digital Catapult, a UK-wide organisation that promotes innovation and digital awareness. This increased significantly the profile of the Group's research and development function, which has continued to drive thought leadership amongst customers and partners.

Looking forward, the research focus will continue to be on Machine Learning, Virtual and Augmented Reality and Artificial Intelligence.

10 womenintech.co.uk.
11 PwC research report: Women in Tech.

## Key Performance Indicators ("KPIs")

The Group aims to increase profitability while maintaining a healthy statement of financial position and investing in the operations and locations which underpin growth. It tracks a number of KPIs to identify trends in trading performance and to benchmark progress of key objectives, such as staff well-being and satisfaction. Financial KPI targets are used as a basis for remuneration awards and are identified in the Directors' Remuneration Report.

### Financial KPIs

Total sales orders
2018

£130.7m

2017

£94.8m

Revenue
2018

£96.7m

2017

£83.5m

Adjusted pre-tax profit
2018

£15.3m

2017

£14.3m

### Non-financial KPIs

Overall customer satisfaction rating[12]
2018

99%

2017

92%

Staff attrition
2018

13%

2017

8%

Number of customers
2018

294

2017

247

Number of staff
2018

1,169

2017

975

12 Data collated from regular feedback surveys conducted with sub-set of Kainos customers over the course of the year.

## Risk factors and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's operations, its financial results or the value and liquidity of its securities and could cause actual results to differ materially from forecast and historic results.

During the year the Board carried out a robust assessment of the principal risks facing Kainos, including those that threaten its business model, future performance and solvency or liquidity.

The table below identifies the known principal risks. The table is not intended to be exhaustive and the principal risks are not listed in order of seriousness or potential impact. There may also be risks that are not currently considered to be serious or which are currently unknown and risks that are outside of the Group's control. Where reasonably possible, Kainos has taken steps to manage or mitigate the risks, or potential risks, but it cannot entirely safeguard against all of them. Additionally, and where feasible, Kainos has purchased reasonable levels of insurance, including cyber liability cover, to mitigate against the financial exposure arising from known or potential risk.

Whilst there has been no material change to Kainos' risk profile from previous years, the appearance of the principal risks in this Annual Report have been revised to reflect more closely the underlying risk register and risk management processes. A key focus this year has been the cyber threat faced by Kainos.

The Board considers its risk assessment processes to be robust and comprehensive.

| Principal risk | Type | Description | Potential impact on Kainos | How the risk is mitigated |
|---|---|---|---|---|
| Operational risk | Cyber security risk | Kainos relies upon the confidentiality, integrity and availability of its IT systems internally and as part of its service offerings to customers. Cyber security events are occurring more frequently, and attacks are designed with greater complexity. | A major cyber security event causing loss of availability or loss of customer data could limit Kainos' operations, expose Kainos to fines (for example under GDPR) and/or contractual liability, negatively impact profit and cash flow in the short term, cause reputational damage, and damage customer relationships and credibility in the market. | Kainos regularly reviews and improves its systems and processes in order to mitigate the risk of a cyber security event. These reviews include the Chief Information Officer, the legal function, business representatives and security specialists. The output of these reviews influences Kainos internal controls, processes and working practices at a Group infrastructure and customer project level. Mitigations include technical, operational and contractual measures to address risk coupled with regular staff training on information security and data privacy and management.<br><br>Kainos has cyber liability insurance in place to mitigate the impact of a cyber security event. |

| Principal risk | Type | Description | Potential impact on Kainos | How the risk is mitigated |
| --- | --- | --- | --- | --- |
| Operational risk | Compliance with information security and data privacy laws and requirements | General compliance with legal, regulatory and contractual information security and data privacy requirements. | Non-compliance could expose Kainos to liability and fines (for example under GDPR), and negatively impact profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market. | Kainos reviews the impact of new information security and data privacy regulations and legislation on Kainos and its customers. The output of these reviews influences Kainos internal controls and processes and the design of products, solutions and working practices.<br><br>Kainos makes staff aware of the potential impact of changing regulations and provides targeted training within business divisions. |
| | Employee action | Fraud, theft or other disruptive actions by employees. | Employee action could negatively impact Kainos operations, expose Kainos to liability and fines, and negatively impact profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market. | New staff are subject to background checks, provided with induction on Kainos policies and processes and are required to complete regular training programmes.<br><br>Systems and processes are in place to protect against data loss. Incidents are managed in accordance with the incident management processes. |
| | Data loss | Loss of sensitive customer or employee data. | Loss of customer or Kainos data whether through a cyber security incident, employee action or otherwise could expose Kainos to liability and fines (for example under GDPR), and negatively impact profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market. | Systems and processes are in place to protect against data loss, including data loss prevention technology.<br><br>Measures are in place that are designed to ensure logical segregation to protect applicable data.<br><br>In the context of Kainos offerings in the healthcare markets Kainos has engaged consultants to assist and advise on clinical safety measures and specific healthcare related security issues. |

| Principal risk | Type | Description | Potential impact on Kainos | How the risk is mitigated |
|---|---|---|---|---|
| Operational risk | Solution or software product errors or lack of service availability | Software bugs or lack of availability of hosted or supported services. | This could expose Kainos to liability and negatively impact profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market. | Kainos designs its systems, customer solutions and infrastructure to provide both resilience and service availability.<br><br>Kainos' software development lifecycle includes following coding practices, quality assurance and testing and are audited as part of Kainos' ISO9001 accreditation.<br><br>Critical incident and problem management processes are in place and are audited as part of Kainos' ISO9001 accreditation.<br><br>Professional indemnity insurance is in place. |
| | Service deployment delays or non-compliance with requirements | Inability to deploy customer requirements for services to comply with contractual requirements in a timely manner. | Project delay or failure could expose Kainos to liability, and negatively impact profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market. | Kainos has a proven track record of delivering successful projects and applies the staff and expertise to meet contractual requirements in a timely manner. |
| | Loss of key employees | Loss of key employees who carry out critical activities across the business. | Could harm Kainos' ability to provide solutions and services exposing Kainos to liability, negatively impacting profit and cash flow in the short term and causing damage to reputation and customer relationships, and staff morale. | Kainos endeavours to ensure that key employees are remunerated appropriately, has a dedicated Staff Engagement Plan and actively monitors attrition for trends and key areas requiring attention. Kainos has developed a succession plan that addresses succession for senior management (including divisional management teams) in the case of unforeseen events, and also from the point of view of career progression for up and coming leaders. |

# Strategic Report continued

| Principal risk | Type | Description | Potential impact on Kainos | How the risk is mitigated |
|---|---|---|---|---|
| Operational risk | Inability to recruit employees | Failure to recruit employees with suitable qualifications at all required levels in core locations. | This could impact Kainos' ability to provide contracted solutions and services exposing Kainos to liability, negatively impacting profit and cash flow in the short term and causing damage to reputation, customer relationships and staff morale. | Kainos has worked to become an employer of choice in certain of its key locations, notably Belfast and Gdansk, and has implemented a team, processes and infrastructure dedicated to recruiting the most appropriate candidates in a streamlined hiring process. |
| Strategic risk | Intellectual property infringement and/or litigation | Kainos' intellectual property (IP) is centred around the software and services it develops for customers. Kainos has to manage the risk of infringing a third party's intellectual property rights in its development of software and services. | If Kainos infringes a third party's intellectual property rights it could, expose Kainos to liability, negatively impact profit and cash flow in the short term and cause reputational damage.<br><br>If a third party infringes Kainos' intellectual property rights it can expose the Group to competitive or security risk. | Kainos enters into non-disclosure agreements with employees, independent contractors and third parties in the ordinary course of its business to provide a degree of protection. Staff are made aware of client confidentiality requirements.<br><br>Where practical, focused patent searches are undertaken to identify areas that new products or services under development may conflict with third party IP.<br><br>Kainos monitors the use of third-party software in its product offerings. The choice of third party components is subject to technical review and assessment at design stage.<br><br>Employment and consultancy contracts have clauses to protect intellectual property.<br><br>Background checks are performed on employees. |

| Principal risk | Type | Description | Potential impact on Kainos | How the risk is mitigated |
|---|---|---|---|---|
| Strategic risk | Partner relationships | Removal of access to essential intellectual property or deterioration in strategic partner relationships. | Failure of partner relationships could negatively impact profit and cash flow in the short term and cause reputational damage and damage market confidence and customer relationships. | Kainos has entered into contracts with its main partners including Workday, to detail the relationship which may include secure access to proprietary materials including code, know-how and branding which the Group needs to deliver or enhance its services.<br><br>Kainos partner managers have regular contact with key partners to maintain and build relationships. |
| | Investment decisions | Kainos' investment decisions may not be satisfactory. | Failure to manage investment decisions could negatively impact profit and cash flow in the short term and cause reputational damage. | Kainos undertakes regular strategic reviews using customer and market intelligence to inform and support its decision-making processes. |
| Macroeconomic risk | Events occurring that are outside of Kainos' control | Instability of the financial system, market disruptions or suspensions.<br><br>Material downturn in the financial markets or economic recession.<br><br>The insolvency, closure, consolidation or rationalisation of parts of Kainos' customer base. | Could harm Kainos' revenue, profit, growth and cash flow over a sustained period.<br><br>Could result in cost and disruption to Kainos' business.<br><br>Could result in damage to Kainos' reputation or financial loss if customers do not renew their contracts. | Kainos' business model includes both service and platform offerings, which lessens the immediate effect of downturns in individual end markets.<br><br>Kainos' service line structure together with stakeholder engagement plans, regular dialogue with customers, research and marketing activities and regular strategic reviews of the overall business assist in maintaining a sustainable business. |

| Principal risk | Type | Description | Potential impact on Kainos | How the risk is mitigated |
|---|---|---|---|---|
| Financial risk | Risk of fraud or theft | Unauthorised access or misuse of Kainos' bank accounts or other resources leads to loss of funds. | Could harm Kainos' revenue, profit, growth and cash flow. | System, review and approval controls are in place restricting access to accounts and are regularly monitored. |
| | EU Exit | Financial or trading risks associated with the UK leaving the European Union. | Potential to limit or harm Kainos' trading activities, overheads and staff mobility. | The Group has evaluated scenarios associated with 'Brexit' and concluded that there is no substantial risk to operations in the next two to three years. The Group is not overly reliant on UK-EU trade (its most significant customers are UK public sector organisations). |
| | Exchange rate fluctuations | Material detrimental movements in foreign exchange rates. | Could harm Kainos' revenue, profit, growth and cash flow over a sustained period. | There is a documented treasury policy which is reviewed and approved annually to mitigate currency risk. |
| Legal and compliance risk | Non-compliance with laws and regulations | Kainos has to comply with laws and regulations applicable to the Kainos group and design its products and services to meet laws and regulations applicable to its customers. | Non-compliance could, expose Kainos to liability and/or fines, negatively impact profit and cash flow in the short term and cause reputational damage. | Kainos has dedicated finance and legal teams that review new draft and current regulatory and legislative requirements, including, for example, MiFID II and GDPR and provides an impact assessment for the products and services that the Group delivers to customers.<br><br>Kainos' internal processes and systems are monitored with a view to ensuring compliance with applicable laws and regulations.<br><br>Processes are in place designed to ensure awareness of regulatory requirements and the relevant information is appropriately disseminated. There are well established training and awareness activities.<br><br>In relation to bribery and corruption, Kainos has an established anti-bribery policy. |

## Environment

Kainos recognises the importance of meeting globally recognised corporate responsibility standards.

Kainos endeavours to minimise energy and natural resource usage, support the reduction and recycling of materials and ensure the legal disposal of waste arising from the activities of the business. Kainos encourages employees to reduce their usage of those resources and sets policies and procedures to assist in this so that productivity is not negatively impacted.

With regard to greenhouse gas emissions, for the year ended 31 March 2018 the quantity of Scope 2 emissions by Kainos was 444.4 tonnes of carbon dioxide equivalent ($CO_2e$), (2017: 442.9 tonnes).

The GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK government's GHG Conversion Factors Guidance 2013 were used to calculate the quantity of emissions. The standard requires a statement of relevant intensity ratios, which are an expression of the quantity of emissions in relation to a quantifiable factor of the business activity. Kainos has identified three such intensity ratios, set out below. These figures were calculated from data available for the Group's main operations and extrapolated to take account of its smaller locations. Scope 1 data has not been included as it is not considered to be material.

**Intensity ratios (tonnes of $CO_2e$ per unit)**

Ratios of carbon emissions to:

| | 2018 | 2017 |
|---|---|---|
| Total revenue | **0.00** | 0.01 |
| Operating profit | **0.03** | 0.03 |
| Employees | **0.38** | 0.45 |

The Strategic Report was approved by the Board and signed on its behalf by:

**Brendan Mooney**
Chief Executive Officer
25 May 2018

# Directors' and Corporate Governance Report

This section of the Annual Report outlines how the Board maintains high standards of corporate governance as well as providing a summary of how each of the Board's Committees function. This includes detailed Remuneration Committee, Nominations Committee and Audit Committee reports.

The Board believes in strong governance and recognises the importance of complying with the various aspects of the UK governance framework. Crucial to strong governance is a stable Board that contains the right balance of skills and experience; therefore, Board appointments are taken very seriously.

The Board continues to welcome interaction with shareholders and I and the other NEDs are available for dialogue as an alternative to meetings with the Executive Directors.

**Dr John Lillywhite**
Chairman

The directors present their report and the audited financial statements for Kainos Group plc (company number 9579188) for the year ended 31 March 2018. These will be laid before the shareholders at the Annual General Meeting (AGM) to be held on 20 September 2018. The Strategic Report is incorporated by reference into this Directors' Report.

All sections of the Annual Report contain certain forward looking statements which by their nature involve risk and uncertainty. The forward looking statements are based on the knowledge and information available at the date of preparation and on what are believed to be reasonable judgements. A wide range of factors may cause the actual results to differ materially from those contained within, or implied by, these forward looking statements. The forward looking statements should not be construed as a profit forecast.

## Directors

The Board currently comprises a Chairman, three Independent Non-Executive Directors (NEDs) and three Executive Directors. The serving directors are:

**Dr. John Lillywhite** (aged 77) Chairman
John is a Fellow of the Institute of Management Accountants and has been in the Information Technology industry for over 50 years. In 1997 he stepped down as Group Finance Director of ICL (now Fujitsu Services) after a long career with the Group in which he worked in the UK, Europe, US and the Far East filling roles in divisional management and various aspects of finance, including group CFO where he was responsible for acquisitions, disposals, start-ups and recovery programmes. In 2011 he was awarded an Honorary Doctorate from Queen's University, Belfast for services to commerce and industry. John has been Chairman of seven start-up companies and is a trustee director for a large pension fund. John acts as a Non-Independent Non-Executive Chairman, sits on the Audit Committee and Remuneration Committee and chairs the Nominations Committee.

**Dr. Brendan Mooney** (aged 51) Chief Executive Officer (CEO)
Brendan joined Kainos in 1989 as a graduate software engineer before moving into a number of technical and commercial roles in Dublin, London and the US. He was appointed CEO of Kainos in 2001. In addition to his role at Kainos, Brendan has been a Non-Executive Director at Meridio, Property News, the Probation Service for Northern Ireland and has served as a Lay Magistrate. Brendan has received both an Honorary Doctor of Science (DSc) and an Honorary Doctor of Economics (DSc Econ) in recognition of the contribution that Kainos has made to the economy. As CEO, Brendan is responsible for setting the strategic direction of the Group.

**Richard McCann** (aged 53) Chief Financial Officer (CFO)/Chief Operating Officer (COO)
Richard is a Fellow of the Institute of Chartered Accountants in Ireland and trained with Coopers & Lybrand, before moving into industry with Galen Holdings plc. Richard joined Galen as financial controller of a start-up subsidiary in the US and subsequently became Senior Vice President in charge of Corporate Finance with responsibility for the organisation's acquisitions and investor relations. He served as the Managing Director of two subsidiaries in the Almac Group, including a US subsidiary that provides software development services for pharmaceutical companies. Richard joined Kainos in 2011, with over 20 years' experience in accounting and serves as the Chief Financial Officer and Chief Operating Officer.

**Paul Gannon** (aged 55) Senior Vice President (SVP) Business Development
Paul studied Engineering at Trinity College, Dublin. Before joining Kainos, Paul spent four years in a sales role with ICL (now Fujitsu) in Dublin and prior to that worked as a management consultant for Accenture in London. He started his professional career working for Siemens in Munich. He joined Kainos in 1998 as the sales manager for Ireland. Paul subsequently took on a Group-wide role in strategy and marketing, and until 31 March 2017 was SVP Sales, responsible for all product and service sales activities in Kainos. He is currently the SVP Business Development at Kainos, responsible for identifying new markets and opportunities for the Group.

**Andy Malpass** (aged 56) Independent Non-Executive Director
Andy graduated with a BA (Hons) in Accounting and Finance from Lancaster University and is a Fellow of the Chartered Institute of Management Accountants. He has over 30 years' experience in the software industry covering both private and public companies. Most recently, Andy served as Group Finance Director of Fidessa Group plc (formerly Royalblue Group plc) which he joined in 1995, and where he has also been Company Secretary. Andy acts as Senior Independent NED and chairs the Audit Committee.

**Chris Cowan** (aged 59) Independent Non-Executive Director
Chris holds an MA History from St Catharine's College, Cambridge. Chris runs a board advisory business focused on digital transformation and has previously served as Managing Director of Accenture's Telco, Media and Technology business in the UK; Accenture's Telco Industry Managing Director for EMEA; Chairman and CEO of Digiplug (an Accenture Digital business); and Managing Director of Value Partners Group's UK business. Chris acts as an Independent NED and sits on the Audit Committee, Nominations Committee and Remuneration Committee.

**Tom Burnet** (aged 50) Independent Non-Executive Director
Tom graduated with an MBA from the University of Edinburgh. Tom was previously CEO and is now Executive Chairman of AIM company Accesso Technology Group plc, a leading supplier of technology platforms to the global leisure and attractions market, serving over 1,000 customers in over 30 countries. He is also Chairman of PCMS Group and Chairman of The Baillie Gifford US Growth Trust plc. He started his career as the UK's youngest Army Officer serving in the Black Watch (R.H.R.) and is a member of the Queen's Bodyguard in Scotland. At Kainos, Tom acts as an Independent NED; he sits on the Nominations Committee and chairs the Remuneration Committee.

The Board considers its overall size and composition to be appropriate, having regard to the experience and skills which the Board members bring together. When reaching its decision, the Board considered the independence criteria set out in paragraph B.1.1 of the Code. Given the due diligence carried out on their independence, prior to their appointment, the Board confirmed that Andy Malpass, Chris Cowan and Tom Burnet are independent in character and judgement. The Chairman, John Lillywhite, does not meet the independence criteria set out in the Code. The Board considers that John Lillywhite's long experience as Chairman of the Board of Kainos Software Limited (which, prior to the IPO, was the parent company of the Group) will be of benefit to the Board in providing continuity of knowledge of the Group. John Lillywhite will remain Chairman of the Board in the medium term.

The Chairman confirms that, as supported by the results of the 2018 Board Evaluation exercise undertaken by the Nominations Committee, the performance of each of the directors continues to be effective and that they continue to demonstrate commitment to their roles, bringing their considerable commercial experience to Kainos.

The Senior Independent Director (SID), Andy Malpass, confirms that, as supported by the results of the 2018 Board Evaluation exercise, the performance of the Chairman continues to be effective.

Directors' interests in shares and share incentives in Kainos Group plc are detailed in the Directors' Remuneration Report.

At the date of this Directors' and Corporate Governance Report, indemnities are in force under which Kainos has agreed to indemnify the directors and the Company Secretary to the extent permitted by law and by Kainos Group plc's Articles of Association in respect of losses arising in their capacity as director or officer of any member of the Kainos Group. In addition, Kainos has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors and officers.

# Directors' and Corporate Governance Report continued

## The Board

At 31 March 2018 the Board comprised the Chairman, three Executive Directors and three NEDs whose Board and Committee responsibilities are set out in the table below:

| | | Board | Audit | Remuneration | Nominations |
|---|---|---|---|---|---|
| John Lillywhite | Chairman | Chairman | Member | Member | Chairman |
| Brendan Mooney | CEO | Member | – | – | – |
| Richard McCann | CFO/COO | Member | – | – | – |
| Paul Gannon | SVP Business Development | Member | – | – | – |
| Andy Malpass | Senior Independent NED | Member | Chairman | – | – |
| Chris Cowan | Independent NED | Member | Member | Member | Member |
| Tom Burnet | Independent NED | Member | – | Chairman | Member |

The Board meets formally on a regular basis to monitor operating issues, risk and trading performance, to review forecasts, strategy and policy, to consider key projects and major investments and to oversee appropriate shareholder reporting. The Board is responsible for corporate governance and delegates operational control to the Executive Directors. During the year, the Board met on ten scheduled occasions for this purpose. In addition, if required, impromptu Board meetings occur to consider specific issues as and when necessary. Meetings were held by the Chairman with the NEDs, without the Executive Directors present, to discuss the performance of the Executive Directors.

The Chairman and NEDs also held meetings throughout the year with various senior managers to improve insight into the business operations and marketplace. The attendance of individual directors at Board meetings and Committee meetings is presented in the table below:

| | Board meetings attended | Audit Committee meetings attended | Remuneration Committee meetings attended | Nominations Committee meetings attended |
|---|---|---|---|---|
| John Lillywhite | 10/10 | 2/2 | 6/6 | 3/3 |
| Brendan Mooney | 09/10 | – | – | – |
| Richard McCann | 10/10 | – | – | – |
| Paul Gannon | 10/10 | – | – | – |
| Andy Malpass | 10/10 | 2/2 | – | – |
| Chris Cowan | 10/10 | 2/2 | 6/6 | 3/3 |
| Tom Burnet | 10/10 | – | 6/6 | 2/3 |

Absences were due to prior commitments.

There is a formal schedule of matters reserved for the decision of the Board that covers key areas of Kainos' affairs. The schedule includes approval of the Annual Report and any other financial statements, the adoption of budgets or business plans, decisions on acquisitions and disposals, material financial commitments and the release of inside information. Certain matters require Board approval and other matters may be approved by senior management, but notification to the Board is required. The schedule of matters reserved for the Board is reviewed annually. A procedure exists to allow the directors to seek independent legal advice in respect of their duties at Kainos' expense where the circumstances are appropriate. All directors have access to the Company Secretary for her advice and services.

There was a formal evaluation of the performance of the Board during 2018 which was undertaken by way of a performance evaluation questionnaire, completed in January 2018, based on the Code and coordinated by the Chairman and Company Secretary. The questionnaire included questions related to: Board structure, diversity, frequency and content of Board meetings, decision making, strategy, risk, succession planning and Committees. The results of the evaluation exercise were discussed at the Nominations Committee meetings and presented to the Board, where the directors were given the opportunity to discuss the results together with potential improvements that could be made; discussions were largely positive and constructive. The conclusion was reached that the Board is operating effectively and is considered to be the right size, with appropriate skills represented and that each director continues to provide effective contribution and commitment.

An evaluation of the Chairman by the NEDs without the Executive Directors present was also carried out and it was concluded that he was performing his role effectively. The next formal evaluation of the Board's performance is scheduled to be conducted in 2019.

There is a formal written policy on the division of responsibilities between the Chairman and the CEO such that their roles are complementary to each other. John Lillywhite as Chairman is principally responsible for leading the Board, promoting constructive debate amongst the Board and facilitating communication with shareholders as well as overseeing strategy. Brendan Mooney as CEO is responsible for all aspects of Kainos' operations; he leads and develops the strategic plans for the business and identifies risk factors.

Directors undergo a thorough, formal and tailored induction process on joining and, following regular reviews by the Chairman of training and development requirements, receive ongoing updates to improve their skills and knowledge according to their personal and external needs. The Company Secretary is responsible for advising the Board and updating it on governance and regulatory matters.

The Companies Act 2006 imposes a statutory duty on directors to avoid conflicts of interest. The Articles of Association allow the directors to consider and, if they deem fit, to authorise conflicts of interest. The Articles of Association set out the process for authorisation of such conflicts and any such conflicts will be recorded in the Board minutes and maintained on a register which will be reviewed on an annual basis by the Nominations Committee and by the Board.

No conflicts have arisen in the year ended 31 March 2018.

The Directors and Corporate Governance Report was approved by the Board and signed on its behalf by:

G. Burns

**Grainne Burns**
Company Secretary
25 May 2018

## Directors' Remuneration Report

**Statement from the Chairman of the Remuneration Committee**

As Chairman of the Remuneration Committee I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2018.

**Introduction**

This is the Company's third Annual Report since its admission to the Official List of the London Stock Exchange in July 2015. I was appointed Chairman of the Remuneration Committee at the time of the Listing and my fellow members of the Committee, Chris Cowan and John Lillywhite, were appointed at the same time.

This report by the Remuneration Committee has been approved by the Board for submission to shareholders in accordance with the UK Corporate Governance Code, the requirements of the Listing Rules of the UK Listing Authority and the reporting requirements of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations).

The report has been split into two sections: The Directors' Remuneration Policy, which sets out the policy on the remuneration of the Executive Directors and NEDs, and an Annual Report on Remuneration, which discloses the directors' remuneration for the year ended 31 March 2018. The 2016 AGM approved the Directors' Remuneration Policy and the 2016 and 2017 AGM's approved the Annual Report on Remuneration. The Remuneration Committee will keep the policy under review to ensure that it remains appropriate to the delivery of long term value for all stakeholders. The policy is set out below and took effect from the 2016 AGM. Overall, the Remuneration Committee believes that the policy remains appropriate and, accordingly, it has decided not to make any changes for 2018.

# Directors' and Corporate Governance Report continued

**Link between remuneration and strategy**

The strategy of the Group is to achieve sustained revenue, profit and cash flow growth in its chosen markets. The Remuneration Committee is committed to continue structuring executive remuneration to fit the Group's business model and support its strategy. Overall packages are set at attractive levels to retain and motivate executives with a significant portion based on performance. Salaries are kept at below median levels compared to peer companies. Short term performance is incentivised via an annual bonus which is currently based on revenue, adjusted pre-tax profit and sales order value targets and paid in cash. Long term performance is incentivised via a share plan under which executives are awarded performance shares subject to achieving Total Shareholder Return (TSR) and Earnings per Share (EPS) growth over a three year period.

The Board has applied a policy of using share incentives extensively across the Group. The Board regards this as an important principle aligning all employees with shareholders and allowing them the potential to benefit from the Group's success. This includes Company Share Option Plan (CSOP) awards to more senior staff, excluding executives, and awards under both Save As You Earn (SAYE) and Share Incentive Plan (SIP) across the Group, including executives.

**Performance and decisions taken on remuneration in 2017/18**

The CEO's statement earlier in this Annual Report provides a summary of the progress the Group has made in the year ended 31 March 2018. In summary, the Group has delivered good performance across all divisions, extended operations in Europe and the US and increased expenditure in research and development of its platform portfolio. Key performance indicators are solid across the Group: revenue increased from £83.5 million to £96.7 million, adjusted profit before tax increased from £14.3 million to £15.3 million, and sales orders increased from £94.8 million to £130.7 million. The Group continues to attract high quality talent and is pleased to note that the number of staff at year end was over 1,000 across eleven offices in the US and Europe.

Performance against the adjusted pre-tax profit target and group revenue was ahead of target with performance against the sales order value target being between threshold and target. As a result, bonuses paid to the CEO, CFO and SVP Business Development were 80%, 77% and 123% of salary, respectively.

In July 2017, the Company made performance share awards to the CEO, CFO and SVP Business Development at 28%, 35% and 25% of salary, respectively.

No long term incentive awards were due to vest during the year and none vested.

**Directors' remuneration policy**

Set out below is a copy of the policy which was approved by shareholders at the 2016 AGM, held on 22 September 2016.

The Group's remuneration policy seeks to ensure that the Group is able to attract, retain and motivate its executives and senior management. The Remuneration Committee believes that the Executive Directors and senior managers should be rewarded fairly and competitively according to their performance. Overall, this should be at a comparable level to directors in similar companies and at a level that will attract, motivate and retain individuals of an appropriate calibre to deliver the Group's strategy and value to shareholders.

The Group's executive remuneration philosophy is that salaries should remain lean and that a significant proportion of the remuneration of the Executive Directors and senior management should be performance related, so that management is clearly focused on financial performance. While the annual bonus is focused on revenue, adjusted pre-tax profit and sales order value in the year, the long term share-based incentives are focused on earnings per share and share price performance measured over many years. The focus on financial performance and shareholder return encourages consistent performance over multiple years and aligns remuneration with the Kainos strategy and shareholders' interests. It aims to deliver value and good growth over the long term while striking an appropriate balance between caution and risk.

The Remuneration Committee is directly responsible for setting the remuneration of Executive Directors, giving guidance on the remuneration of other members of the senior management team and supervising the workings of all the Company's share incentive plans.

The individual elements of the remuneration packages offered to Executive Directors are set out in the table below.

**Key elements of remuneration**

| Element | Purpose | Operation | Potential remuneration | Performance metrics |
|---|---|---|---|---|
| **Base salary** | To attract and retain executives | Reviewed annually in April and fixed for 12 months, commencing 1 April each year. The Remuneration Committee takes into account:<br>• an individual's experience, knowledge and performance in the role<br>• business and individual performance<br>• achievement of objectives<br>• comparative salaries and periodic reviews<br>• the Group's financial position<br>• the salary increases being provided to Kainos employees | Percentage increases will normally be in line with other employees in the same location.<br>Higher increases may be awarded in certain circumstances if there are commercial reasons for doing so such as to reflect market movements, changes in job responsibilities and to address retention issues. | None |
| **Benefits** | To attract and retain executives | The Executive Directors are entitled to a car allowance, private medical insurance, life insurance and permanent health insurance. | No maximum is set but the Remuneration Committee will monitor the overall cost of the benefits package.<br>Any changes will normally be in line with other employees in the same location. | None |

**Key elements of remuneration** continued

| Element | Purpose | Operation | Potential remuneration | Performance metrics |
|---|---|---|---|---|
| **Pension** | To attract and retain executives | The Executive Directors are entitled to participate in the Group's pension scheme or receive a payment in lieu of pension. | The maximum payment by the Group is set at 15% of salary. The CEO and CFO currently receive payments in lieu of pension of 8.6% and 5% of salary, respectively. The SVP Business Development participates in the Group's pension scheme and receives a Group contribution of 15% of salary. | None |
| **Annual bonus** | To reward and incentivise performance within a financial year with adequate reward for good performance and excellent reward for exceptional performance, to focus executives on key objectives and support positive team behaviour | Performance is measured on an annual basis for each financial year. Criteria are established and weighted at the beginning of each year based on Group financial targets. Threshold and target levels of performance are determined for each criterion. At the end of the year, the Remuneration Committee determines the extent to which targets were achieved. On target levels of payment are set for each Executive Director at the start of each year. Up to 150% of these levels may be paid where targets are exceeded based on the extent to which the target is exceeded.<br><br>Annual bonus is normally paid in cash following the completion of the audit of that year's financial statements.<br><br>Annual bonus is subject to clawback provisions (net of any irrecoverable tax) for up to two years in the event of misstatement of financial information.<br><br>Payments may be deferred for up to three years and then paid in cash or in shares.<br><br>The Remuneration Committee has discretion to apply 'corporate override' in the event core targets are not achieved or in the event of a material negative event. | The maximum annual bonus opportunity under the policy as a percentage of the Executive's salary is 150% for the CEO, 150% for the CFO and 225% for the SVP Business Development. | Annual bonus is discretionary. Criteria are chosen, weighted and targets set each year by the Remuneration Committee in accordance with business priorities.<br><br>An element of the bonus may also be based on personal performance. |

**Key elements of remuneration** continued

| Element | Purpose | Operation | Potential remuneration | Performance metrics |
|---|---|---|---|---|
| **Long term incentive plan (LTIP)** | To motivate executives, incentivise performance over the long term and to facilitate share ownership | Performance share awards are made under the Group's 2015 Performance Share Plan (PSP).<br><br>Awards, made in the form of nil or nominal cost options, normally vest at least three years following the date of award subject to continued employment and the meeting of appropriately challenging performance conditions specified at the outset. The Remuneration Committee determines the extent to which performance conditions have been met. Awards may be increased for dividends paid during the period.<br><br>The Remuneration Committee determines the performance conditions, weighting and target performance levels at the point of award. Initial awards were made at the time of the IPO and will vest during the financial year ending 31 March 2019.<br><br>Clawback may be applied at the discretion of the Remuneration Committee in the event of material misstatement of the financial results or if other exceptional circumstances exist such as gross misconduct. | The normal maximum level of annual award is 200% of salary. In exceptional circumstances, awards may be made up to a maximum of 300% of salary.<br><br>In the event of a new appointment the Remuneration Committee would expect to make a higher award, closer to the normal maximum.<br><br>30% of awards vest at threshold levels of performance. | For the award at the time of IPO, 50% was linked to growth in adjusted EPS and 50% linked to total shareholder return.<br><br>For future awards, the Remuneration Committee will assess what measures and targets best support the long term focus of the Group and so measures and targets may be different from year to year. |
| **Policy for other employee incentive arrangements** | | | | |
| **Share options** | To motivate and facilitate share ownership | Market value options may be granted to employees at the discretion of the Remuneration Committee under the 2015 Performance Share Plan.<br>UK employees may receive tax advantaged awards under the CSOP Sub-Plan. Options have a market value exercise price and have a normal minimum vesting period of three years.<br><br>At the time of the IPO, options were granted to certain managers and employees, not Executive Directors. | It is not intended to grant CSOP options to Executive Directors. | Performance conditions may be applied but it is intended that CSOP options will not normally have performance conditions attached. |

**Key elements of remuneration** continued

**Policy for other employee incentive arrangements** continued

| Element | Purpose | Operation | Potential remuneration | Performance metrics |
|---|---|---|---|---|
| Save As You Earn Option Plan (SAYE) | To motivate, facilitate share ownership and align employees with shareholders | An 'all employee' share option plan approved by HMRC, supervised by the Remuneration Committee.<br><br>UK Employees, including Executive Directors, may enter into a savings contract under which they agree to save a specified monthly amount for three or five years. At the end of the contract period, participating employees may use the amount saved to exercise options with an exercise price of up to a 20% discount to the market price at the outset.<br><br>The Board shall determine if and when further SAYE awards will be made and the terms of SAYE participation. | Under the plan, the maximum monthly savings amount is £500. At the time of IPO, UK employees were offered participation with a maximum monthly savings limit of £100. | None |
| Share Incentive plan (SIP) | To motivate, facilitate share ownership and align employees with shareholders | An 'all employee' share option plan approved by HMRC, supervised by the Remuneration Committee. Significant tax advantages apply if shares acquired under the plan are held for five years.<br><br>UK Employees, including Executive Directors, may be awarded free shares up to a maximum value of £3,600 each year.<br><br>They may purchase partnership shares out of pre-tax salary up to £1,800 per tax year and may be awarded up to two free matching shares for each partnership share acquired (although no matching was implemented for Kainos 2015, 2016 or 2017 SIP awards).<br><br>The Board shall determine if and when further SIP awards will be made and the terms of those awards. | At the time of IPO, free shares with a value of between £1,000 and £3,600 were awarded to UK employees, including Executive Directors, depending on their length of service. | None |

## Key elements of remuneration continued

### Policy for other employee incentive arrangements continued

| Element | Purpose | Operation | Potential remuneration | Performance metrics |
| --- | --- | --- | --- | --- |
| Poland and Ireland Share Schemes | To motivate, facilitate share ownership and align employees with shareholders | The Group has implemented share schemes for employees in Poland and the Republic of Ireland with the intention of making share awards to these employees on similar terms and of a similar value to those made under the UK SAYE and SIP schemes. | Employees based in these countries may be awarded participation in these plans at similar levels of that offered to UK employees under the SAYE and SIP schemes. If Executive Directors were based in these countries, they would be able to participate in these schemes. | None |
| **NED remuneration** | | | | |
| Chairman and NEDs | To attract and retain NEDs with appropriate experience and skills | The Chairman and NED remuneration comprises only fees.<br><br>The Chairman's fee is approved by the Board on recommendation of the Remuneration Committee (with the Chairman who is a member of the Remuneration Committee recusing himself). Fees for the NEDs are approved by the Board on the recommendation of the Chairman and Executive Directors.<br><br>Additional fees, over and above the base fee for the NEDs, are payable to the Chairmen of the Audit and Remuneration Committees and to the SID.<br><br>Additional fees are paid in the event the time requirement is above normal levels. | The fees of the NEDs are reviewed annually taking into consideration the time commitment and responsibilities of the role and fees paid in other companies of comparable size and complexity.<br><br>The Chairman's fee is currently £80,000 per annum.<br><br>The base fee for NEDs is currently £40,000 per annum.<br><br>Additional fees per annum are set out below:<br>SID – £10,000<br>Chairman of Audit Committee – £6,000<br>Chairman of Remuneration Committee – £4,000.<br><br>NEDs are entitled to additional payment in the event the time requirement is above normal levels. The Chairman receives an amount of £1,750 for each additional day. NEDs receive £1,500 for each additional day. | None |

**Service contracts – Executive Directors**
Brendan Mooney, Richard McCann and Paul Gannon all entered into new contracts with the Company effective at the time of IPO. At 1 April 2017 Mr Paul Gannon, SVP Sales, changed role to become SVP Business Development as such he signed a new contract, effective from 1 April 2017.

The key terms of all their contracts are summarised in the table below:

| Provisions | Summary |
|---|---|
| Term and notice | Indefinite with 12 months' notice from either party. |
| Payment | Salary and discretionary annual bonus. |
| Benefits and other entitlements | Company pension contribution or payment in lieu of pension, car allowance, private medical insurance and permanent health insurance. |
| Termination | Terminable on 12 months' written notice served by either party. The Company will have a contractual right to pay the Executive Directors in lieu of all of their notice period and also to place them on garden leave during all or part of their notice period. In the event of gross misconduct, their employment will be terminable with immediate effect without the requirement for notice or payment in lieu thereof. |

**Letters of appointment – NEDs**
The NEDs entered into letters of appointment with the Company on 1 June 2015 which are terminable in certain circumstances, including the giving of three months' written notice by either party or failure to be re-elected by shareholders.

**Remuneration policy for new directors**
In the event that a new Executive Director is appointed, or a new service contract is entered into, the service contract would be subject to a notice period of not greater than 12 months with the director entitled to receive salary, bonus and benefits as well as participate in the current share plans. The remuneration package for the new director would be set in accordance with the terms of the approved Kainos remuneration policy in force at the time of appointment, while at the same time reflecting the experience and skill of the individual.

The new director's total remuneration would be consistent with comparative packages as advised by the Remuneration Committee's remuneration advisers. In the year of joining, the annual bonus and associated performance measures will be varied to reflect the part year. In addition, when recruiting new Executive Directors, the Remuneration Committee may need to offer additional cash and/or share-based elements on a one-time basis when it considers these to be in the best interests of Kainos and its shareholders. Such payments would be limited to the remuneration lost when leaving the former employer to take up a position with Kainos and would broadly reflect the delivery mechanism (e.g. cash, shares, options), time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of such payments at the time of appointment. In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, other ongoing remuneration obligations existing prior to appointment would continue as appropriate, provided that they are put to shareholders for approval at the earliest opportunity. For external and internal appointments, the Remuneration Committee may agree that Kainos will meet reasonable relocation expenses in line with market practice.

The appointment of NEDs shall be on terms substantially similar to those of the existing NEDs and in accordance with the remuneration policy for NEDs applicable at the time.

**Payments for loss of office**
In the event of termination, the directors will receive payments for loss of office in accordance with the termination provisions of their service contracts and letters of appointment as applicable.

The default position is that on loss of office, an Executive Director forfeits any right to any bonus payment which would otherwise have accrued in respect of that year. If an Executive is deemed a good leaver, the Executive Director will be entitled to receive a bonus pro-rated to the proportion of the year that the Executive worked.

The treatment for share-based incentives previously granted to an Executive Director will be determined based on the relevant plan rules. The default treatment will be for outstanding unvested awards to lapse on cessation of employment. In relation to awards granted under the PSP, SIP or SAYE plans, in certain prescribed circumstances 'good leaver' status may be applied, and the awards may vest in full.

In respect of performance shares, awards of good leavers will normally vest subject to the achievement of any performance conditions, on the normal vesting date reduced on a pro-rata basis to reflect the portion of the vesting period elapsed at the point of departure. Under the rules of the plan, the Remuneration Committee may determine that awards vest at the point of departure to the extent that performance conditions have been met at that point (as determined by the Remuneration Committee acting reasonably) and on a reduced basis pro-rated for time unless the Remuneration Committee determines to allow vesting to a greater extent.

**Employees**
Kainos expects the total remuneration for employees to be at a level appropriate to attract, recruit, motivate and retain the most suitable individuals. Some employees receive a bonus, which in many cases will be a percentage of salary with an element determined by personal performance and an element determined by the Group's financial performance. For more senior employees, a higher proportion of remuneration is payable as a bonus. The benefits available are dependent on market practice in each country. The pension scheme available to an employee varies according to location with contributions at a competitive level for each country.

It is the policy of the Group to offer participation in share incentive plans to all employees. More senior employees may receive discretionary share option awards. Other employees participate in all employee arrangements.

There is no formal mechanism through which Kainos consults with employees when determining Executive Directors' remuneration, but the Remuneration Committee takes into consideration the pay and benefits of employees when reviewing the remuneration of the Executive Directors.

**Shareholders and Statement of voting at AGM**
The 2018 AGM will be the Group's third as a listed company. At the 2016 AGM, the Directors' Remuneration Policy, and the Annual Report on Remuneration, were unanimously approved on a show of hands. The 2017 Annual Report on Remuneration was approved at the 2017 AGM. Kainos is keen to ensure that its shareholders are supportive of the Group's remuneration philosophy and policy. The Remuneration Committee is keen to hear shareholder feedback, with the Chairman of the Remuneration Committee as the initial point of contact and will consider any feedback provided in advance of the forthcoming AGM and throughout the year.

**Flexibility, discretion and judgement**
The Remuneration Committee has attempted to ensure this policy has sufficient flexibility to deal with unusual situations and scenarios which may arise. As outlined in the policy table, the Remuneration Committee retains flexibility to determine the objectives, weightings and target levels of performance under its annual bonus at the start of each year. The Remuneration Committee may also alter the performance criteria during the year reflecting the overall circumstances and the Group's performance to ensure targets remain both challenging and appropriate.

Similarly, the Remuneration Committee retains flexibility to determine the conditions, weightings and target levels of performance share awards at the point awards are made. In addition, where performance conditions have been set, if events subsequently happen which cause the Remuneration Committee to consider that any performance condition no longer represents a fair measure of performance, the Remuneration Committee may amend the performance condition so as to be more appropriate. The alternative performance condition will be equally challenging.

**External appointments**
Executive Directors may accept appointments as NEDs in other companies provided that such appointments do not conflict with their duties or time commitments to the Group and subject to receiving prior written approval from the Board. They are entitled to receive the fees themselves from such appointments.

## Annual Report on Remuneration

**Membership, meetings and evaluation**
From the date of Listing in July 2015, the Remuneration Committee comprised Tom Burnet as Chairman of the Committee, John Lillywhite and Chris Cowan.

All members of the Remuneration Committee, with the exception of John Lillywhite, are Independent NEDs. None of the members of the Remuneration Committee has any personal financial interest (other than as shareholders, to the extent disclosed in this report), conflicts of interest arising from cross-directorships, or day-to-day involvement in running the business. The Executive Directors may attend Remuneration Committee meetings by invitation. The Company Secretary acts as secretary to the Remuneration Committee.

**Responsibilities**
The Remuneration Committee operates within its terms of reference, which are reviewed and updated annually and are available from the Group's website at www.kainos.com.

The Remuneration Committee is directly responsible for managing all aspects of the remuneration of Executive Directors, for giving guidance on the remuneration of other members of the senior management team and supervising the workings of all the Group's share incentive plans

**Remuneration consultants**
During the year, the Remuneration Committee took independent advice from h2glenfern Remuneration Advisory (a division of h2glenfern Limited). h2glenfern operates in accordance with the principles of the Code of Conduct for the Remuneration Consultants' Group in relation to executive remuneration consulting in the United Kingdom. h2glenfern does not provide other services to Kainos. For the year under review, h2glenfern received fees of £6,200 related to its work for the Remuneration Committee on operational matters.

## Remuneration details

In accordance with the Regulations, the tables below set out the remuneration for each director for the year ended 31 March 2018.

### Single total figure of remuneration for each director

| Name | Financial year | Salary/fees (000s) | Benefits[3] (000s) | Bonus (000s) | Total (excluding pension) (000s) | Pension[1] (000s) | Other[4] | Incentives vested | Total (including pension) (000s) |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Brendan Mooney | 2018 | £220 | £8 | £175 | £403 | £19 | £1 | N/A | £423 |
| | 2017 | £220 | £8 | £151 | £379 | £19 | £1 | N/A | £399 |
| Richard McCann | 2018 | £195 | £7 | £151 | £353 | £10 | £1 | N/A | £364 |
| | 2017 | £195 | £7 | £130 | £332 | £10 | £1 | N/A | £343 |
| Paul Gannon[2] | 2018 | €243 | €19 | €299 | €561 | €36 | €1 | N/A | €598 |
| | 2017 | £195 | £13 | £222 | £430 | £29 | £1 | N/A | £460 |
| **NEDs** | | | | | | | | | |
| John Lillywhite | 2018 | £80 | N/A | N/A | N/A | N/A | N/A | N/A | £80 |
| | 2017 | £80 | N/A | N/A | N/A | N/A | N/A | N/A | £80 |
| Andy Malpass | 2018 | £56 | N/A | N/A | N/A | N/A | N/A | N/A | £56 |
| | 2017 | £56 | N/A | N/A | N/A | N/A | N/A | N/A | £56 |
| Chris Cowan | 2018 | £40 | N/A | N/A | N/A | N/A | N/A | N/A | £40 |
| | 2017 | £40 | N/A | N/A | N/A | N/A | N/A | N/A | £40 |
| Tom Burnet | 2018 | £44 | N/A | N/A | N/A | N/A | N/A | N/A | £44 |
| | 2017 | £44 | N/A | N/A | N/A | N/A | N/A | N/A | £44 |

1 Pension amounts for Brendan Mooney and Richard McCann are payments in lieu of pension.
2 In FY 2017 Paul Gannon was remunerated in Pounds Sterling for UK company services. From 1 April 2017 he is paid in Euro, as a consequence of his change in role to SVP Business Development, and relocation to Dublin, Republic of Ireland.
3 Benefits are the taxable value of benefits received by Directors in the year including car allowance and private health insurance.
4 Other relates to the award of SIP shares or ROI restricted shares for Paul Gannon in 2018.

Kainos did not make any payments to past or current directors for loss of office.

### Annual bonus

The Executive Directors' bonus for the year ended 31 March 2018 was based on revenue, adjusted pre-tax profit and sales order value targets. The structure of the bonus and targets is set out in the table below:

| Objective | Weighting | Target performance (£000s) | Threshold performance (£000s) | Outcome (£000s) | Bonus pay-out (£000s) B Mooney | Bonus pay-out (£000s) R McCann | Bonus pay-out (£000s) P Gannon[13] |
|---|---|---|---|---|---|---|---|
| Revenue | 30% | 91,133 | 77,463 | 96,680 | 61 | 52 | 91 |
| Adjusted pre-tax profit | 40% | 15,067 | 12,053 | 15,340 | 74 | 64 | 111 |
| Sales order value | 30% | 150,000 | 127,500 | 130,700 | 40 | 35 | 60 |
| Totals | 100% | | | | 175 | 151 | 262 |

13 Paul Gannon is remunerated in Euro. The bonus amount payable in Euro is €299k, converted at the year-end exchange rate of 1.138.

Annual bonus payments are subject to thresholds and accelerators as set out below.

- Revenue:
  - Achievement below threshold pays zero;
  - Bonus pay-out on achievement between threshold and target is in 'steps', progressing to 100% bonus pay-out on achievement of target;
  - Achievement in excess of target pays out 100% bonus, plus 2% bonus for every 1% of achievement over the target.

- Adjusted pre-tax profit:
  - Achievement below threshold pays zero;
  - Bonus pay-out on achievement between threshold and target is in 'steps', progressing to 100% bonus pay-out on achievement of target;
  - Achievement in excess of target pays out 100% bonus, plus 1.5% bonus for every 1% of achievement over the target.

- Sales order value:
  - Achievement below threshold pays zero;
  - Bonus pay-out on achievement between threshold and target is in 'steps', progressing to 100% bonus pay-out on achievement of target;
  - Bonus pay-out on achievement between target and 120% pays out bonus on a straight-line basis;
  - Achievement in excess of 120% of target pays out 120% of bonus, plus 1.4% bonus for every 1% of achievement over 120%.

The bonuses paid to Brendan Mooney, Richard McCann and Paul Gannon were 80%, 77% and 123% of salary respectively.

Under the remuneration policy the maximum annual bonus opportunity as a percentage of the Executive's salary is 150% for the CEO, 150% for the CFO and 225% for the SVP Business Development.

**LTIP**

The Remuneration Committee granted performance related share awards to the Executive Directors under the PSP in July 2017 as outlined below:

| Name | Date of grant | No. of ordinary shares under option | Value of award at date of grant | Exercise price per ordinary share | First exercise date | Lapsing date |
|---|---|---|---|---|---|---|
| Brendan Mooney | July 2017 | 21,725 | £61,200 | Nominal | July 2020 | July 2027 |
| Richard McCann | July 2017 | 24,139 | £68,000 | Nominal | July 2020 | July 2027 |
| Paul Gannon | July 2017 | 19,346 | £54,500 | Nominal | July 2020 | July 2024 |

The 2017 PSP awards are subject to the following performance conditions. The vesting of 50% of the award is subject to a condition that measures growth in earnings per share over a three year performance period up to the year ending 31 March 2020 using the financial year ended 31 March 2017 as the base year. The vesting of 50% of the award is subject to a condition that measures the Group's total shareholder return over a three year period from the date of the grant and using the price of 282p as the base value per share. Between threshold and maximum vesting, awards vest on a straight-line basis.

| Performance condition | EPS growth | TSR growth |
|---|---|---|
| Portion of award subject to this condition | 50% | 50% |
| Threshold vesting – vesting at 30% of total | 9% compound growth per annum | 9% compound growth per annum |
| Maximum vesting – 100% of total | 16% compound growth per annum | 16% compound growth per annum |

### SIP and SAYE schemes

The Executive Directors were entitled to participate in the SIP and SAYE schemes without performance conditions, on no more favourable terms than other employees with similar length of service. The SIP shares awarded during the year to Executive Directors are shown below.

| Name | 2017 SIP shares | Face value | Vesting period |
|---|---|---|---|
| Brendan Mooney | 460 | £1,287 | 3 years from the date of grant |
| Richard McCann | 460 | £1,287 | 3 years from the date of grant |
| Paul Gannon[14] | 460 | £1,287 | 5 years, 1 week from the date of grant |

### 2015 PSP

On 7 July 2015, awards were granted under the Kainos PSP to Brendan Mooney, Richard McCann and Paul Gannon. The TSR measurement does not end until 6 July 2018. However, the performance measurement period for the EPS performance condition ended on 31 March 2018, with the following outcome:

| Award | Measure | Weighting | Vesting Scale | Performance achieved | % of award vesting |
|---|---|---|---|---|---|
| 2015 | EPS | 50% | No vesting if EPS growth below 9% p.a. 30% of awards vest if EPS growth equals 9% p.a. and 100% vests if EPS growth exceeds 16% p.a. Straight line pro-rata basis from 30% to 100% if EPS growth exceeds 9% but is less than 16% p.a. | 6% compound growth per annum | 0% |

| | No of shares | % vested | Number of shares vested | Number of shares lapsed | Share price at end of performance period | Value at vesting |
|---|---|---|---|---|---|---|
| Brendan Mooney | 98,921 | 0 | 0 | 98,921 | 340p | 0p |
| Richard McCann | 68,345 | 0 | 0 | 68,345 | 340p | 0p |
| Paul Gannon | 68,345 | 0 | 0 | 68,345 | 340p | 0p |

### Directors' shareholdings

The interests of the directors and their connected persons in Kainos ordinary shares at 31 March were:

| Name | Current shareholding | Unvested SIP shares | Vested but unexercised options | Unvested performance options |
|---|---|---|---|---|
| Brendan Mooney | 14,107,020 | 3,681 | – | 275,977 |
| Richard McCann | 6,140,000 | 2,530 | – | 223,330 |
| Paul Gannon | 8,831,240 | 3,681 | – | 206,037 |
| John Lillywhite | 500,000 | – | – | – |
| Andy Malpass | 38,590 | – | – | – |
| Chris Cowan | 31,582 | – | – | – |
| Tom Burnet | 14,388 | – | – | – |

14 Paul Gannon awarded 460 shares under the Republic of Ireland Restricted Share Scheme which have a vesting period of 5 years and 1 week.

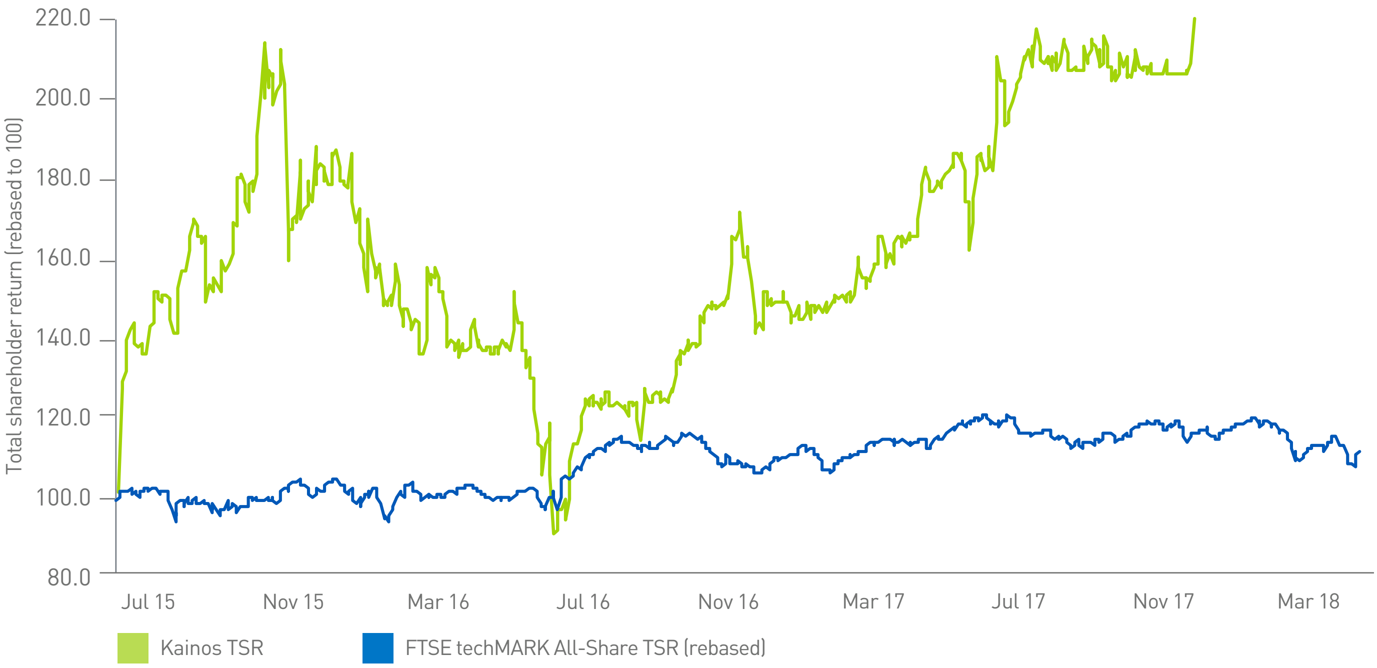
### Share ownership guideline

In view of the size of each of the shareholdings of the Executive Directors, the value of which is a significant multiple of their salary, the Remuneration Committee has not implemented a guideline in respect of the value of shareholding which executives should hold. There is no shareholding guideline for the NEDs.

### Performance graphs and comparator tables

The regulations require the presentation of a number of graphs and tables setting out a comparison of company performance and CEO remuneration for the same period of time. The Board believes that the FTSE techMARK All-Share Index, of which the Group is a constituent, provides the best benchmark for comparison. The Group's TSR performance against FTSE techMARK All-Share Index TSR performance from the date of IPO in July 2015 to the end of the 2018 financial year is shown below. The Group's share price and the FTSE techMARK All-Share Index are both set to 100 at the start of the period.

Kainos share price performance against FTSE techMARK All-Share Index




### CEO remuneration

The table below sets out the total remuneration delivered to the CEO over the last three years valued using the methodology applied to the single total figure of remuneration. The Remuneration Committee does not believe that the remuneration payable in its earlier years as a private company bears any comparative value to that paid in its later years and therefore the Remuneration Committee has chosen to disclose remuneration only for the three most recent financial years. The CEO held options in Kainos Software Limited which were not subject to performance conditions. These were satisfied in full, or lapsed, on or prior to listing of Kainos Group plc.

| | Salary and benefits (£000s) | Annual bonus (£000s) | Total remuneration (£000s) | Bonus as percentage of maximum | Vesting of long term incentives as % of maximum |
|---|---|---|---|---|---|
| 2018 | £248 | £175 | £423 | 53% | n/a |
| 2017 | £248 | £151 | £399 | 46% | n/a |
| 2016 | £242 | £186 | £428 | 57% | 100% |

## Change in CEO remuneration and remuneration of all UK employees

The table below highlights the percentage change in the sum of salary, benefits and bonus of the Chief Executive and all UK employees for recent years. Kainos considers the comparator group of all UK employees to be representative of Kainos as a whole and a global comparator group would not result in a material variance.

| | Change for CEO's salary | Change for UK employees' salary | Change for CEO's annual bonus | Change for UK employees' annual bonus | Change for CEO's benefits | Change for UK employees' benefits | Change for CEO's total | Change for UK employees' total |
|---|---|---|---|---|---|---|---|---|
| 2018 | 0.0% | 10.9% | 15.8% | 1.6% | 0.0% | 0.0% | 6.0% | 11.7% |
| 2017 | 2.0% | 6.5% | (18.8%) | (18.3%) | 0.0% | 0.0% | (7.1%) | (4.7%) |
| 2016 | 7.8% | 6.7% | (18.2%) | (23.5%) | 0.0% | 0.0% | (5.4%) | 5.6% |

## Comparison of staff remuneration to Group KPIs

Kainos employees are vital to the growth and success of the business. As a software business with a strategy focused on organic development, its primary costs are related to its employees. The profit and corporation tax figures have been included to provide greater context to staff remuneration and the total distributions to shareholders.

| | Staff remuneration (£000s) | Profit before tax (£000s) | Corporation tax (£000s) | Effective tax rate | Dividends (£000s) |
|---|---|---|---|---|---|
| 2013 | 17,402 | 3,480 | (203) | 6% | – |
| 2014 | 22,954 | 7,056 | (1,600) | 23% | (651) |
| 2015 | 30,954 | 11,837 | (2,072) | 18% | (1,325) |
| 2016 | 35,373 | 14,261 | (1,834) | 13% | (13,309) |
| 2017 | 43,747 | 13,320 | (2,904) | 22% | (7,208) |
| 2018 | 55,881 | 14,251 | (2,585) | 18% | (7,581) |

## AGM

The 2018 AGM will be the Group's third since its IPO. The Directors' Annual Report on Remuneration will be put to an advisory shareholder vote.

**Directors' remuneration for the year commencing 1 April 2018**

| | |
|---|---|
| **Salary** | The Committee will continue to monitor the remuneration of Executive Directors of other companies in the IT sector and other listed companies with similar market capitalisation to ensure that the Executive Directors remain sufficiently rewarded to promote long term success. The Committee will also take into account the salary increases across the wider workforce. |
| **Benefits** | There will be no change to the benefits for the Executive Directors in the year commencing 1 April 2018. |
| **Pension** | There will be no change to the pension arrangements of the Executive Directors in the year commencing 1 April 2018. |
| **Annual bonus** | Annual bonus for the year commencing 1 April 2018 will be operated within the policy disclosed in this report. The principles of bonus criteria which will be applied to each Executive Director during the year ending 31 March 2019 will be similar to those applied during the year ended 31 March 2018.<br><br>The targets for the annual bonus for 2018/19 are not being disclosed in this report as that information is deemed commercially sensitive and may be interpreted to be a forecast. That information will be disclosed in the 2019 Annual Report. |
| **Long term incentives** | The Committee intends to make further performance share awards in mid-2018. These will be made in line with the Remuneration Policy. The Committee will determine the levels, performance conditions, weighting and growth targets to be applied at the time of award and disclose them in the 2019 Annual Report. |
| **NED remuneration** | For the year commencing 1 April 2018, it is proposed that NED fees remain the same as in the year ended 31 March 2018. |

On behalf of the Board

**Tom Burnet**
Chairman of the Remuneration Committee
25 May 2018

## Audit Committee Report

As Chairman of the Audit Committee, I am pleased to introduce the Audit Committee Report for the year ended 31 March 2018. The Audit Committee has met two times during the year in May 2017 and November 2017. The Audit Committee plays a central role in the review of Kainos Group's financial reporting, risk review and internal control processes.
The Committee has focused on the integrity, completeness and clarity of financial reporting, the areas where judgements and estimates are required in the financial statements and the quality and effectiveness of audit processes to complement the other risk management activities. There has been no significant change to these areas of focus during the year and the Committee will continue to monitor them.

**Andy Malpass**
Chairman of the Audit Committee

### Composition and evaluation

In accordance with the provisions of the Code, the Audit Committee is made up of three NEDs, of which two are independent. The Audit Committee is chaired by Andy Malpass. The Board considers that Andy Malpass, who is a fellow of the Chartered Institute of Management Accountants with significant financial experience including serving as Finance Director of Fidessa group plc until October 2015, has the recent and relevant experience required to act as Chairman of the Committee. In addition to Andy Malpass, the Committee comprises two Non-Executive directors, John Lillywhite and Chris Cowan, who have considerable experience in the technology sector. Accordingly, the Committee continues to comprise both the financial and industry relevant experience required. Further details of relevant experience of all members of the Committee are detailed in the 'Directors' and Corporate Governance Report'.

The performance of the Committee was evaluated as part of the Board evaluation process and the conclusion was that the Committee was functioning effectively.

### Responsibilities

The Committee operates within its terms of reference, which are reviewed and updated annually and are available from the Group's website at www.kainos.com. The Committee's main responsibilities include:

- monitoring the integrity of the financial statements, including the Group's annual and interim reports, announcements of preliminary results and any other formal announcement relating to its financial performance;
- advising the Board that the Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- monitoring the appropriateness of accounting policies and practices along with consistent treatment year to year;
- monitoring and reviewing the adequacy and effectiveness of the Group's internal financial controls and internal control and risk management systems; and
- making recommendations to the Board on the appointment and remuneration of the external auditor, review and monitor the external auditor's performance, expertise, independence and objectivity along with the effectiveness of the audit process and its scope.

### External audit

The Audit Committee advises the Board on the appointment, reappointment or removal of the Group's external auditor. Deloitte has been the Group's auditor since 2011 and for the year ended 31 March 2018 the provider of the service changed to Deloitte (NI) Ltd from Deloitte LLP. In line with EU legislation, all EU public interest entities must tender their audit every ten years. The Committee is satisfied with the effectiveness of the audit. During the year the Audit Committee reviewed and approved the scope and timetable for the interim review and final audit.

# Directors' and Corporate Governance Report continued

### Appointment, independence and objectivity

During the year the external auditor provided no non-audit services. The Group has engaged another independent accounting firm to perform tax consulting work and other assignments to further ensure the independence and objectivity of the auditor is not compromised. The Committee received a written confirmation from the external auditor that it considered itself to be independent.

Audit partners for listed companies are ordinarily rotated every five years. Richard Howard replaced David Crawford as audit engagement partner at the start of this financial year.

### Assessment of effectiveness of external audit

The Committee assessed the effectiveness of the external audit process at its meeting in May 2018. The audit was undertaken through both reliance on the Groups internal control environment and substantive testing and included significant testing in areas identified as key risks such as revenue. This gave the Committee confidence as to the overall quality of the audit. The Committee also asked Deloitte (NI) Ltd to report on control findings arising from the audit as part of the year end process. In addition, feedback on the audit was obtained from management and the finance team.

Following its review of the effectiveness of the external audit and independence of the external auditor, the Committee is satisfied that independence has been maintained and that it is appropriate to reappoint Deloitte as the external auditor. The Committee therefore recommended to the Board that Deloitte be reappointed as the external auditor for 2019 and a resolution for its appointment will be submitted to the AGM.

**Internal control and risk management**

The Board is ultimately responsible for the overall system of internal control and risk management for the Group and for reviewing their effectiveness. The system of internal controls is designed to manage, rather than eliminate, the risks to which the Group is exposed, including the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The concept of reasonable assurance recognises that the cost of control procedures should not exceed the expected benefits. Details of the principal risks are set out in the Strategic Report.

The Board confirms that Kainos has established systems, procedures and controls designed to establish an ongoing process for identifying, evaluating and managing the principal risks faced by Kainos and that they have been in place for the period under review and up to the date of approval of the Annual Report. The effectiveness of those systems, procedures and controls are regularly reviewed by the Board.

As required by the Code, the Committee has reviewed the internal controls and risk management systems, including those relating to financial reporting, information technology, business continuity, management of employees, operational and compliance matters and the Committee has confirmed to the Board that it is satisfied that Kainos has established internal controls and risk management systems that are effective and compliant with the current governance provisions.

The key elements of the Group's ongoing processes for the provision of effective internal control and risk management systems include:

- regular Board meetings to consider matters reserved for the Directors' attention;
- regular management meetings held to monitor divisional performance. Management is responsible for the identification and evaluation of significant risks applicable to their area of business, together with the design and operation of suitable internal controls;
- maintenance of a corporate risk register to identify the risks facing the business. The key risks are summarised for review by the Audit Committee;
- documentation of key policies and procedures; and
- preparation of a comprehensive annual budgetary process for review and approval by the Board and updated forecasts regularly prepared throughout the year. The operating results are reported monthly to the Board and compared to the latest forecast with explanations for all significant variances.

### Key matters considered in relation to the financial statements

During the year ended March 2018 the Committee reviewed the results of the external audit for the previous financial year including reviewing the 2017 Annual Report and Preliminary Announcement, the external auditor's half year review and the half year results as well as the external audit plan for 2018. In May 2018, the Committee received the 2018 Annual Report including the financial statements contained within it, the Preliminary Results Announcement for the year ended March 2018 and reports from the external auditor on their audit of the financial statements and Annual Report.

The Committee's prime areas of focus were:

- the integrity, completeness and consistency of financial reporting, including the adequacy, clarity and appropriateness of disclosures. This included reviewing the Annual Report and concluding that it was fair, balanced and understandable;
- the areas where significant judgements and estimates are required in the financial statements;
- the preparation and readiness of the Group for the adoption of IFRS15 Revenue from Contracts with Customers from 1 April 2018;
- the accuracy and completeness of the accounts and financial statements following the changes to financial systems during the year;
- the scope and programme of external audit, along with the quality and effectiveness of external audit processes;
- the materiality level used by the external auditor, concluding that it should be consistent with the previous year;
- whether the going concern basis of accounting should continue to apply in the preparation of the annual financial statements and whether the period applied to the viability statement was appropriate;
- reviewing the processes and systems to identify and mitigate the financial and non-financial risks and to consider the appropriateness of the controls to reduce the risk of fraud and exposure to bribery and corruption; and
- the appropriateness of the 'whistleblowing' procedures in place whereby staff may confidentially raise concerns about possible improprieties.

The preparation of financial statements requires management to make assumptions, judgements and estimates and the material ones are detailed in note 4 of the consolidated financial statements. The key areas of judgements, estimates and assumptions that have been reviewed and considered by the Committee were:

- Revenue recognition in relation to significant contracts and implementations and the level of contract or fixed price provisioning for rectification and irrecoverable accrued income. The Group has a clear revenue recognition policy, described in note 3, and performs regular contract reviews with relevant staff. The Committee has also obtained comfort over the completeness and valuation of any contract or fixed price provisions. Relevant management are consulted with on a project by project basis to assess the level of provisioning required. The Committee is satisfied that the internal processes and controls are appropriate;
- Recognition of income in relation to government grants. The Group has a clear policy, described in note 3 and the Committee is satisfied that the internal processes and controls are appropriate;
- Development costs and the approach to their capitalisation. The Committee received updates from management and the external auditor and was satisfied that the methodology and process were appropriate. The Committee concurred with management that currently none of the development costs should be capitalised; and
- The tax complexity and risk related to the multinational operations of the Group and the areas of uncertainty that arise. The Committee considered the appropriateness of deferred tax assets and tax provisions held and an analysis of the RDEC rules and their impact on the reported results in relation to the updates and reports it had received and concluded that the treatment adopted was fair and reasonable.

### Internal audit

The Group operates an audit programme which forms part of its ISO9001 (Quality Management System), ISO20000 (Information Technology Service Management System) and ISO27001 (Information Security Management System) certifications. As part of the certification process Kainos undergoes a bi-annual assessment to ensure that all of the controls are robust and any Kainos assets are appropriately protected. Information Security risks are assessed and reviewed regularly in IT steering meetings with the Group's senior management.

Kainos also participates in additional third party assessments for public and private sector customers to ensure that associated security controls are effective and address any related risks. The key elements of the Group's internal control framework and procedures are noted above, while the principal risks faced by the Group are set out in the 'Risk Factors and Uncertainties' section of the Strategic Report. Through the various audit activities outlined above and the close control of operations exercised by the Executive Directors as well as the centralisation of financial management in Belfast the Group does not require these activities to be separated into a standalone audit function.

The Audit Committee will review the internal control framework and procedures on an ongoing basis giving consideration to whether certain areas should be looked at more closely. In doing so, the Audit Committee will continue to monitor whether there is a requirement for a dedicated internal audit function.

## Nominations Committee Report

### Membership, meetings and evaluation

The Nominations Committee, which is chaired by John Lillywhite, comprises John Lillywhite, Chris Cowan and Tom Burnet and is therefore compliant with the requirements of the Code.

The performance of the Committee was evaluated as part of the Board evaluation process during the year and the conclusion was that the Committee was functioning effectively.

### Responsibilities

The Committee operates within its terms of reference, which are reviewed and updated annually and are available from the Group's website at www.kainos.com. The Committee's main responsibilities are to advise and make recommendations to the Board on the following matters:

- the size, structure and composition of the Board;
- succession planning of Board members; and
- the appointment of new directors and the re-appointment of existing directors.

### Matters considered during the year

During the year ended 31 March 2018, the Committee:

- considered and reviewed the Board's composition;
- conducted and reported to the Board on the 2017/2018 Board evaluation exercise;
- led succession planning activities at Board level and across the Group, with a focus on diversity and good practice, talent retention, training and development.

In relation to appointments and diversity, the Board believes that better diversity creates a more inclusive corporate culture and better equips companies to navigate the challenges facing businesses and support long term strategic needs. Diversity is viewed by the Board through a broad lens, to include gender, ethnicity, nationality, skills and experience.

The Board acknowledges that achieving diversity in certain sectors, including the technology sector, presents particular challenges when considering the profile of the available talent pool in those sectors. The Board confirms that whilst it is not in favour of setting specific targets for Board diversity to be achieved by particular dates, in the event that a Board position requires filling (and in all succession planning activities undertaken by the Board and the Group), it will proactively ensure that recruitment and selection practices are transparent, fair and result in appointments based on merit and objective criteria, promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. In addition, search processes will use a wide range of channels, including advertising, to encourage applications from diverse candidates with relevant skills, experience, and knowledge.

The Board recognises the importance of succession planning and the role it plays in maintaining a continuous level of quality in management and reducing the level of instability that may arise following unforeseen events, such as the departure of a key individual. As part of succession planning exercises, the Nominations Committee reviewed the Group's Executive Team and leadership structures, the output of this exercise fed into the Group's strategic objectives of facilitating business scaling for anticipated growth and furthering individual training and development requirements. The Nominations Committee, in conjunction with the Board, formally discussed and reviewed succession planning at each of the three meetings held during the year; this is a key area that the Nominations Committee will continue to monitor on an ongoing basis.

**Other statutory disclosures**
In accordance with Section 414C (11) of the Companies Act 2006, to the extent they are not addressed in the Directors' and Corporate Governance Report, the disclosures relating to the following matters are included in the Strategic Report: environmental matters (including greenhouse gas emissions and the impact of the Group's business on the environment); the Group's employees (including equal opportunities, gender diversity and employee engagement); and, social, community and human rights issues (including corporate social responsibility).

The financial results and position are shown in the financial statements. A fuller explanation of the results, including the recommended dividend and financial position, is provided in the Overview and the Finance Review sections of the Strategic Report and the notes to the financial statements.

No political donations were made during the year ended 31 March 2018.

There are no off-balance sheet arrangements. Details of the trusts relating to Kainos' share incentive plans are set out in note 20 to the consolidated financial statements. The shares held by the trust rank pari passu with all the other shares in issue and have no special rights.

For the purposes of LR9.8.4C R, the information required to be disclosed by LR9.8.4 R can be found in the following locations:

| Section | Topic | Location |
|---|---|---|
| 1 | Interest capitalised | Not applicable |
| 2 | Publication of unaudited financial information | Not applicable |
| 4 | Details of long term incentive schemes | Directors' Remuneration Report |
| 5 | Waiver of emoluments by a director | Not applicable |
| 6 | Waiver of future emoluments by a director | Not applicable |
| 7 | Non pre-emptive issues of equity for cash | Not applicable |
| 8 | Section (7) in relation to major subsidiary undertakings | Not applicable |
| 9 | Parent participation in a placing by a listed subsidiary | Not applicable |
| 10 | Contracts of significance | Directors' report |
| 11 | Provision of services by a controlling shareholder | Not applicable |
| 12 | Shareholder waivers of dividends | Not applicable |
| 13 | Shareholder waivers of future dividends | Not applicable |
| 14 | Agreements with controlling shareholders | Not applicable |

**Share capital and articles of association**
Details of the called-up and fully paid share capital are set out in note 18 to the consolidated financial statements. The rights and obligations attaching to the shares and the powers of the directors are set out in the Articles of Association, copies of which can be obtained from Companies House. There are no restrictions on the voting rights attached to the shares and no person holds securities carrying special rights with regard to control.

**Authority to purchase own shares**
Kainos holds a general authority to purchase up to 11,851,866 of ordinary shares in the market. This represented approximately 10% of the Kainos' issued share capital as at 26 July 2017, as voted on and approved by shareholders at the 2017 AGM. No purchase of shares has been made pursuant to this authority. There is no present intention to use such authority, but the Board considers it desirable that the possibility of making such purchases under appropriate circumstances remains available. A similar authority will be requested at the forthcoming AGM, again limited to a maximum of 10% of the issued share capital. The Board intends only to exercise this authority if it believes that it will lead to an increase in earnings per share for the remaining shareholders.

The appointment and replacement of directors is governed by the Articles of Association and the Nominations Committee's Terms of Reference. The Articles of Association may be amended by a special resolution.

### Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' and Corporate Governance Report confirm that, so far as they are each aware, there is no relevant audit information of which the auditor is unaware, and each director has taken the steps that he or she ought to have taken as a director to ascertain any relevant audit information and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Significant agreements – change of control

Members of the Group are subject to certain customer contracts which require them to notify the relevant counterparty of a change of control of the Group which, in some instances, may allow the relevant counterparty to terminate their contracts with the Group. The Directors are not aware and do not anticipate any reason or circumstances where any such customers would wish to trigger their termination rights under such change of control provisions. The only significant agreements with change of control provisions are the share incentive plans. Under the CSOP, SAYE and Polish share plans, on a change of control, options and awards that are not lapsed would generally vest in full. The PSP awards would also vest subject to the satisfaction of any performance conditions at the time, but these would be time pro-rated. Other than as set out in this statement, Kainos is not party to any other significant agreements that take effect, alter or terminate upon a change of control following a takeover or upon a takeover bid.

### Compliance with the UK Corporate Governance Code

Kainos is committed to high standards of corporate governance and is subject to the principles of the UK Corporate Governance Code. In respect of the year ended 31 March 2018 Kainos has complied with all of the provisions of the Code with the exception of the non-independence of the NED/Chairman, John Lillywhite).

### Dialogue with shareholders

Kainos values the views of its shareholders and recognises their interests in its strategy and performance. The CEO and CFO hold briefing meetings with analysts and institutional shareholders, primarily following the announcement of interim and preliminary results but also at other times during the year as may be suitable.

The CEO and CFO provide feedback to the Board from meetings with shareholders. The Board also obtains formal feedback from analysts and institutional shareholders via Kainos' PR advisers and financial advisers. Communication with private investors is through the Annual Report and the AGM. Financial and other information is made available on the website, www.kainos.com which is regularly updated.

### Principal shareholders

The following have disclosed that they have an interest in 5% or more of the issued ordinary share capital. At 18 May 2018 the last holding notified to the Company is shown below.

| Investor | Ordinary 0.5p shares | % of issued share capital |
|---|---|---|
| Qubis | 15,441,170 | 13.0% |
| Brendan Mooney | 14,107,020 | 11.9% |
| Liontrust Asset Management | 13,223,546 | 11.2% |
| Paul Gannon | 8,831,240 | 7.4% |
| Mawer Investment Management Limited | 8,082,004 | 6.8% |
| Aberdeen Standard Investments (Standard Life) | 7,448,866 | 6.3% |
| Brian Gannon | 6,039,580 | 5.3% |
| Richard McCann | 6,140,000 | 5.2% |

**Going concern and long term viability**

Kainos' business activities and position in its market are described in the Overview, Business Model and Strategy, and Risks sections of the Strategic Report. The financial position, cash flows and liquidity position are described in the Finance Review and the notes to the financial statements. In addition, the notes to the financial statements include Kainos' objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit and liquidity risk.

Having reviewed the future plans and projections for the business and its current financial position, the Board believes that Kainos is well placed to manage its business risks successfully. Kainos has 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 Board has a reasonable expectation that Kainos has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. For this reason, it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

In addition to the going concern consideration, the directors have assessed the Group's viability over a longer period than 12 months. The assessment was conducted over a three year period, ending March 2021. A period of three years was selected for the following reasons:

- The Group's strategic plan encompasses a period of three years;
- The period identified is underpinned by financial budgets and forecasts; and
- This duration is considered an adequate period to assess the rate of change in each of the key divisions.

In performing the assessment, the Group's long term strategy and focus, the growing demand for its 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 has also been given to the risks of regional and political changes in the Group's main markets. The Board believes that the Kainos global structure of its entities means that it is less susceptible to the effects of regional changes, as the vast majority of the Group's costs are incurred in sterling with most revenue also being earned in sterling and revenues earned in foreign currency including Euro and US Dollar have most of their costs in foreign currency. The Group remains optimistic that its portfolio of digital services and platforms continues to be in demand, and that it remains well positioned to help public and private sector organisations in their digital transformation initiatives.

The review included sensitivity analysis on the future performance and solvency over three years and also for the principal risks facing the business in severe but reasonable scenarios. Based on the results of this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a three year period of their assessment. In doing so it is recognised 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.

**Directors' responsibilities statement in respect of the Annual Report and the financial statements**

The directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period.

In preparing the parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that the directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance; and
- make an assessment of the company’s ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain transactions and disclose with reasonable accuracy at any time the financial position and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU and applicable law, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s position, performance, business model and strategy.

On behalf of the Board

**John Lillywhite**
Chairman
25 May 2018

# Independent Auditor's Report to the members of Kainos Group plc

## Report on the audit of the financial statements

### Opinion

In our opinion the Group and Company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Group and parent Company as at 31 March 2018 and of the Group's profit for the year then ended;
- have been prepared in accordance with the relevant financial reporting frameworks and, in particular, with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements we have audited comprise:

The Group financial statements:

- the Consolidated Income Statement
- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Cash Flow Statement;
- the Consolidated Statement of Changes in Equity; and
- the related Consolidated notes 1 to 23.

The Company financial statements:

- the Company Statement of Financial Position;
- the Company Statement of Changes in Equity; and
- the related Company notes 1 to 8.

The relevant financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRSs as adopted by the EU) and IFRSs as issued by the International Accounting Standards Board (IASB).

The relevant financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice) ("relevant financial reporting frameworks").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent Auditor's Report to the members of Kainos Group plc continued

### Summary of our audit approach

| | |
|---|---|
| Key audit matters | The key audit matters that we identified in the current year were:<br>• Revenue recognition relating to misstatement of accrued and deferred revenue<br>• Recognition of Research and Development Credits (RDEC)<br>• Mid-year implementation of new financial management system |
| Materiality | The materiality that we used for the Group financial statements was £762,000, which was determined on the basis of approximately 5% of operating profit. |
| Scoping | The Group and Company is headquartered from Belfast in Northern Ireland where the Group finance function is also located. All of the audit work covering the Group's revenue and profit for the year and its assets and liabilities is undertaken and performed by the audit team based in Belfast. |
| Significant changes in our approach | A new key audit matter has been identified in relation to the transition at the half year to a new financial management system. Apart from the introduction of a new financial management system, the operations of the Group are largely unchanged from the previous year. |

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the disclosures in the Strategic Report that describe the principle risks and explain how they are being managed or mitigated;
- the directors' confirmation in the Strategic Report that they have carried out a robust assessment of the principal risks facing the Group and Company, including those that would threaten the business model, future performance, solvency or liquidity.
- The directors statement in note 3 to the financial statements about whether the directors consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors identification of any material uncertainties in the Group and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.
- Whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R (3) is materially inconsistent with our knowledge obtained in the audit; or
- The directors' explanation in the Directors' and Corporate Governance Report as to how they have assessed the prospects of the Group and Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group and Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In prior years, contract provisioning was included as a separate key audit matter, however this is not as material to the business in the current year due to the nature and size of the Group's business. A new key audit matter has been identified in relation to the transition at the half year to a new financial management system.

| Revenue Recognition relating to Misstatement of Accrued and Deferred Income | |
|---|---|
| Key audit matter description | The delivery of licensing or service revenue may occur over multiple accounting periods such that revenue is misstated at the balance sheet date due to incorrect recognition of accrued or deferred revenue.<br><br>Such revenue could be misstated where the correct revenue recognition policies may not have been applied to contracts primarily due to the following factors:<br><br>• Multi-element contracts may not have been correctly unbundled where they contain separable deliverables;<br>• Accrued income balances recorded at year end may not reflect the appropriate level of revenue to be recognised at the balance sheet date; and<br>• Revenue may not be deferred over the appropriate period for services contracts or where the related billed service has not yet been performed.<br><br>Revenue recognition has been identified in the Audit Committee report as a significant financial reporting item. Management's accounting policies for revenue are detailed within note 3 to the financial statements, with the critical judgements applied in revenue recognition set out in note 4 to the financial statements. |
| How the scope of our audit responded to the key audit matter | In order to address the key audit matter, we performed the following procedures:<br><br>• Obtained an understanding of the process and related controls for ensuring appropriate recognition of revenue and evaluated the design and determined the implementation of the controls relating to accrued and deferred revenue;<br>• Carried out a review of the appropriateness of revenue recognition policies adopted under IFRS including disclosures in the financial statements;<br>• Tested a sample of contracts including a recalculation of revenue to be recognised based on the contract terms and comparing this to actual revenue, with each contractual element reviewed to assess the appropriateness of revenue recognition;<br>• Tested accrued income and deferred income to assess the appropriateness of accrued or deferred revenue as at the balance sheet date; and<br>• Tested fixed price contracts to assess whether the revenues recognised to date were appropriate; this work included reviewing stage of completion by reference to post year end data and understanding budget versus actual variances where applicable and the impact on revenue to be recognised by reference to the stage of completion. |

# Independent Auditor's Report to the members of Kainos Group plc continued

| Recognition of Research and Development Credits (RDEC) | |
|---|---|
| Key audit matter description | The financial statements include disclosure of significant assumptions made in respect of the eligibility of research and development costs for tax relief. In the prior year, the Group implemented the research and development expenditure credit regime (RDEC) with recognised RDECs for the current period totalling £2.8 million.<br><br>This is a key audit matter due to the risk associated with the appropriateness of management assumptions regarding the eligibility and valuation of research and development costs for RDECs and the adequacy of disclosure in the financial statements of the nature and extent of these assumptions.<br><br>The accuracy and disclosure of RDEC assumptions has been identified in the Audit Committee report as a significant financial reporting item. Management's associated accounting policies are detailed in note 3 to the financial statements, with the material judgements relating to RDEC tax credits explained in note 4 to the financial statements. |
| How the scope of our audit responded to the key audit matter | To address this key audit matter, we performed the following procedures:<br><br>• Documented our understanding of management's process to calculate the qualifying research and development costs and evaluated the design and determined the implementation of the controls relating to appropriate recognition of RDECs and the appropriate valuation of the year end RDEC receivable balance;<br>• Developed an understanding of the supporting documentation and submissions prepared by the Group's tax advisors to support the RDEC claims including eligibility of costs incurred;<br>• Tested the validity of a sample of the costs on which the claims are based back to the clients underlying workings; and<br>• Challenged the underlying assumptions used by management in assessing the recoverability of RDEC claims and assessed the conclusions reached by the Board on the quantification of amounts to be included in the financial statements. |

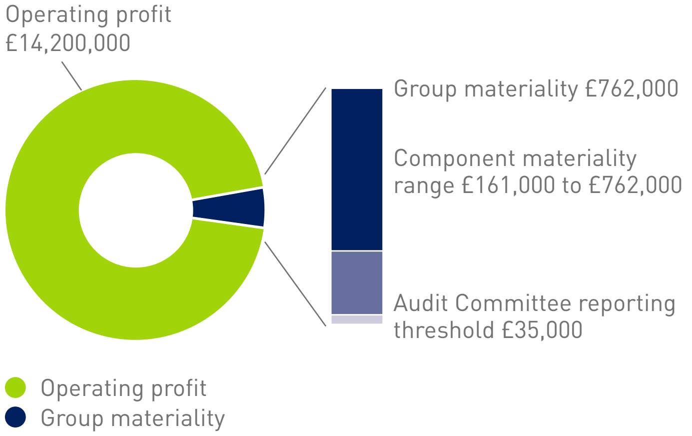
| Mid-year implementation of new financial management system | |
|---|---|
| Key audit matter description | At the half year, the Group implemented a new financial management system. Consequently, the first 6 months trading was recorded in one system and the final 6 months on the new financial management system. The key audit matter related to the risk that the mid-year implementation of the new financial management system could result in errors in the transition of balances to the new system and inconsistencies in mapping against comparative balances which could impact the presentation of the financial statements. |
| How the scope of our audit responded to the key audit matter | To address the key audit matter:<br><br>• We obtained an understanding from management of the controls in place over the transfer of data to the new system and evaluated the design and determined the implementation of the controls used by management in the transition;<br>• We reviewed the mapping of the Chart of Accounts between the two systems to determine whether these are consistent;<br>• We reconciled the roll forward of net assets at the date of transition, including opening reserves at date of transition and tested the roll forward balances for a sample of balance sheet accounts; and<br>• Through the use of IT specialists as part of our audit team, we performed procedures to assess access and change controls in the new financial management system. |

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

| | Group financial statements | Company financial statements |
|---|---|---|
| Materiality | £762,000 | £332,000 |
| Basis for determining materiality | Approximately 5% of operating profit | Approximately 1% of net assets |
| Rationale for the benchmark applied | Operating profit has been chosen as the basis for determining materiality as we determine this to be the most relevant measure to users of the financial statements. | Net assets has been chosen as a benchmark as it is considered the most relevant benchmark given the nature of the Company as being primarily an investment holding company |




We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £35,000 for the Group and £16,600 for the Company, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope on the audit work at the Belfast location, where all of the Group entities finance functions are centrally managed.

There were no component audit teams, with the entire audit including the testing of the consolidation being conducted in Kainos Group plc's Belfast office by one central audit team.

All of the Group entities were subject to full audit scope covering 100% of the Group's revenue and profit for the year and 100% of its assets and liabilities. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those entities. Our audit work was executed at levels of materiality applicable to each individual entity which ranged from £161,000 to £762,000.

# Independent Auditor's Report to the members of Kainos Group plc continued

**Other information**

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our Auditor's Report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in respect of these matters.

In this context, we also have nothing to report with regards to our responsibility to specifically address the following items in other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable –** the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting –** the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code –** the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**Responsibilities of directors**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company'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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and Company internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Concludes on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group or Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluates the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the group to express an opinion on the consolidated financial statements. The Group auditor is responsible for the direction, supervision and performance of the group audit. The Group auditor remains solely responsible for the audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

**Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

# Independent Auditor's Report to the members of Kainos Group plc continued

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

### Matters on which we are required to report by exception

We have nothing to report in respect of the provisions of the Companies Act 2016 which require us to report to you if in our opinion:

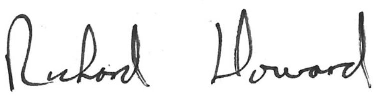
- we have not received all the information and explanations we require for our audit or adequate accounting records have not been kept by the company; or
- returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We also have nothing to report in respect of the provisions of the Companies Act 2006 which require us to report to you if, in our opinion certain disclosures of Directors' Remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns.

### Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board of Directors in 2017 to audit the financial statements for the year ending 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm, and its predecessor firm is 7 years, covering the years ending 31 March 2012 to 31 March 2018.

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).



**Richard Howard**
(Senior statutory auditor)

For and on behalf of Deloitte (NI) Limited
Statutory Auditor
Belfast, United Kingdom

# Consolidated income statement

for the financial period ended 31 March 2018

| | Note | 2018 (£000s) | 2017 (£000s) |
|---|---|---|---|
| CONTINUING OPERATIONS | | | |
| **Revenue** | 3,5 | **96,680** | 83,504 |
| Cost of sales | 5 | **(50,076)** | (41,479) |
| GROSS PROFIT | 5 | **46,604** | 42,025 |
| Operating expenses excluding share-based payments | 5 | **(31,308)** | (27,821) |
| Share-based payments | 20 | **(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 | 8 | **(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 | | | |
| Basic | 10 | **10.0p** | 8.9p |
| Diluted | 10 | **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 | 11 | **2,109** | 2,002 |
| Investments | 13 | **1,025** | 900 |
| Other non-current assets | 15 | **1,289** | 324 |
| | | **4,423** | 3,226 |
| **CURRENT ASSETS** | | | |
| Trade and other receivables | 14 | **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 | 17 | **(13,039)** | (8,683) |
| Deferred income | 17 | **(6,993)** | (6,320) |
| Corporation tax | 17 | **(3,157)** | (2,075) |
| Other tax and social security | 17 | **(6,028)** | (3,573) |
| | | **(29,217)** | (20,651) |
| **NON-CURRENT LIABILITIES** | | | |
| Other provisions | 17 | **(347)** | (297) |
| | | **(347)** | (297) |
| **TOTAL LIABILITIES** | | **(29,564)** | (20,948) |
| **NET ASSETS** | | **35,730** | 29,986 |
| **EQUITY** | | | |
| Share capital | 18 | **593** | 592 |
| Share premium account | 18 | **1,702** | 1,626 |
| Capital reserve | 18 | **666** | 667 |
| Share-based payment reserve | | **2,549** | 1,279 |
| Translation reserve | | **(450)** | (249) |
| Retained earnings | 18 | **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 (note 20) | – | – | – | 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 (note 20) | – | – | – | 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 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 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 (paid)/received | **(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 public company limited by shares incorporated in the UK under the Companies Act and is registered in England and Wales (company registration number 09579188), having its registered office at 4th Floor, 111 Charterhouse Street, London EC1M 6AW.

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").

The Group's operations and principal activities are outlined in the Strategic Report. The financial position is outlined in the Finance Review and the notes to the financial statements.

The financial statements were authorised for issue by the directors on 25 May 2018.

## 2. Adoption of new and revised standards

At the date of authorisation of these consolidated financial statements, the following standards and amendments have been adopted for the first time, none of which had a material impact on the consolidated or Company's financial statements:

- IAS7 Disclosure Initiative (amendments).
- IAS12 Recognition of Deferred Tax Assets for Unrealised Losses (amendments).
- Annual Improvements to IFRSs 2014-2016 Cycle.

The accounting policies set out below have, unless otherwise stated, been applied consistently in the consolidated and Company financial statements to all periods presented.

### Recent accounting developments

The following standards and interpretations which have not been applied in these consolidated financial statements were in issue, but not yet mandatory and early adoption has not been applied.

- IFRS15 Revenue from Contracts with Customers.
- IFRS9 Financial Instruments.
- IFRS16 Leases.
- IFRS2 Classification and Measurement of Share-based Payment Transactions (amendments).
- IFRS4 Applying IFRS9 Financial Instruments with IFRS4 Insurance Contracts (amendments).
- IFRS10 and IAS28 Sale of Contribution of Assets between an Investor and its Associate or Joint Venture.
- IFRIC22 Foreign Currency Transactions and Advance Consideration.
- IFRIC23 Uncertainty over Income Tax Treatments.

The directors do not expect that the adoption of the Standards listed above will have a significant impact on the financial statements of the Group in future periods, except as noted below:

### IFRS9 Financial Instruments

IFRS9 is effective for annual periods beginning on or after 1 January 2018. The Group will therefore apply this new standard for the financial reporting period commencing 1 April 2018 and has elected not to restate comparatives on the initial adoption of IFRS9. The Group believes that the main impact for the Group is moving to an expected lifetime loss model for impairment. The Group does not expect the impact of this change to be material.

**IFRS16 Leases**
IFRS16 was published in January 2016 and will become effective for accounting periods beginning on or after 1 January 2019. IFRS16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard. The Group has started to assess the potential impact of the adoption of IFRS16 on its consolidated financial statements.

**IFRS15 Revenue from Contracts with Customers**
IFRS15 is effective for annual periods beginning on or after 1 January 2018. The Group will adopt IFRS15 for the first time in the financial year commencing 1 April 2018. This new standard establishes a comprehensive framework for determining core principles for revenue recognition and disclosures. The Group plans to adopt IFRS15 using the modified retrospective transition method with the cumulative effect of initially applying the standard reflected as an adjustment to the opening balance of retained earnings as of 1 April 2018.

IFRS15 contains a new set of principles on when to recognise and measure revenue as well as new requirements related to presentation and disclosure. Under IFRS15, revenue earned from contracts with customers will be recognised based on a five-step model which requires, for each contract, the transaction price to be apportioned to the separate performance obligations arising under the contract on a relative standalone selling price basis and recognised as revenue at the point at which control of goods or services is transferred to the customer. The transaction price will be the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer. The incremental costs of obtaining a contract and contract fulfilment costs will be recognised as an expense consistent with the transfer of the related goods or services to the customer.

The Group has performed a detailed analysis of the impact of IFRS15 by reviewing a sample of material contracts across each business area and revenue type. The Group does not expect there to be a material impact on the consolidated financial statements under the final issued version of the standard and the latest guidance. It is not anticipated to have any impact on service revenue which is our main revenue stream, 82% of total revenue for the year ended 31 March 2018 (2017: 78%). The adoption of IFRS15 may have an impact on the recognition of some perpetual and fixed term licence revenue and a small proportion of managed service subscription revenue which currently represents approximately 3% of total Group revenue. It is not expected there will be an impact relating to the capitalisation of contract acquisition costs. Revenue recognition in these areas will be assessed on a contract by contract basis applying the guidance contained within IFRS15.

## 3. Significant accounting policies

### Basis of accounting

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The consolidated financial statements have been prepared on the historical cost basis modified by revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The consolidated financial statements have been prepared on the going concern basis as detailed in the Directors' Report. The principal accounting policies adopted are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the Group and entities controlled by the Group (its subsidiaries) made up to 31 March each year. Control is achieved when the Group:

- has the power over the investee;
- is exposed, or has rights, to variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Group has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

**Revenue**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding applicable taxes or duty.

Revenue from the Group's activities is recognised as follows:

**Service revenue**
**Time and materials contracts**
Contracts for the provision of services generally tend to be 'time and materials' contracts whereby the customer is contractually bound to pay for services for each hour or day spent in delivering a contractually agreed services scope. These contracts typically have no payment milestones, refunds or bundling with other services or products. Revenue is therefore recognised in line with the chargeable 'time and materials' which are allocated to the contracted project.

**Fixed price contracts**
When the outcome of a fixed price contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion. This is normally measured by the proportion of contract costs incurred for work performed to date against the estimated total contract costs. This is reviewed on a monthly basis.

**Support and maintenance**
Support and maintenance fees are recognised on a straight-line basis over the contracted term in line with the estimated delivery of performance obligations.

**Third party goods**
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

**Perpetual licence income**
Licences charged to customers for the use of proprietary software are assessed on a contract by contract basis and depending on the terms, revenue is recognised on a straight-line basis during the licence implementation period.

**Software as a Service (SaaS)**
SaaS is charged on a subscription basis and the revenue is recognised pro-rata over the period that the service is provided.

**Managed service subscription**
Subscription revenue for the management of software applications for customers in the cloud will be recognised pro-rata over the period the service is provided.

**Leases**
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessee**
Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### Foreign currencies
The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group entity are expressed in Pounds Sterling, which is the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in the income statement in the period in which they arise, except for, exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future (therefore forming part of the net investment in the foreign operation), which are recognised initially in the statement of comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the statement of financial position date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in the statement of comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

### Government grants
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are generally recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase non-current assets are recognised as deferred revenue in the statement of financial position and transferred to the income statement on a systematic and rational basis over the useful lives of the related assets. Other grants are credited to the income statement when there is reasonable assurance the grant conditions have been complied with and that the grant money will be received.

### RDEC
Research and development credits are accounted for as having the substance of a government grant and are offset against related operating expenditure. The grants are recognised on the basis of the fair value of claims made.
A corresponding other receivable is recognised at the time the grants are earned and will subsequently be offset against tax payable.

### Retirement benefit costs
The Group operates two defined contribution pension schemes and the pension charge represents the amounts payable by the Group to the funds in respect of the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

### Taxation
The tax expense represents the sum of the tax currently payable and deferred tax.

# Notes to the consolidated financial statements continued

**Current tax**

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Current tax is recognised in the income statement, except when it relates to items that are recognised in the statement comprehensive income or directly in equity, in which case, the current tax is also recognised in the statement of comprehensive income or directly in equity respectively.

**Deferred tax**

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in the statement of comprehensive income, in which case the deferred tax is also dealt with in the statement of comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

**Property, plant and equipment**
Property, plant and equipment assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost less residual value of each asset on a straight-line basis, over its expected life.

The principal annual rates are as follows:

| | |
|---|---|
| Long term leasehold property | 2.5% |
| Short term leasehold property | Over the term of the lease |
| Fixtures and fittings | 20% |
| Office equipment | 33% |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Loans and receivables**
Trade receivables, loans and other receivables that have fixed or determinable payments not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

**Share-based payments**
Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 20.

Where the Company has granted rights to its equity instruments to employees of other Group companies, such arrangements are accounted for as equity-settled share-based payment arrangements. A capital contribution is recognised in the subsidiary company accounts to the extent that they are not recharged with a corresponding increase in the investment in the subsidiary held by the Company.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each statement of financial position date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

**Internally generated intangible assets – research and development expenditure**
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if all of the following conditions have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated intangible asset can be recognised, development expenditure is recognised in the income statement in the period in which it is incurred.

**Financial instruments**
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

**Impairment of financial assets**
Financial assets are assessed for indicators of impairment at each balance sheet date. For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the historical average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

**Financial liabilities**
Financial liabilities are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

**Derecognition of financial liabilities**
The Group derecognises financial liabilities when the Group's obligations are discharged, cancelled or expire.

**Investments**
Investments in companies, which are all unquoted equity investments, are stated at fair value unless fair value cannot be reliably measured.

In the Company financial statements, investments in subsidiaries are stated at cost and, where appropriate, less provisions for impairment.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

## 4. Material accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Significant judgements and estimates in applying the Group's accounting policies

In the application of the Group's accounting policies and preparation of financial statements in conformity with IFRSs, management are required to make judgements and estimates that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors considered relevant and take account of the circumstances and facts at the period end. Actual results may differ from these estimates. This summary is not a list of all uncertainties, estimates and judgements encountered and others could arise that cause a material adjustment to the carrying value of assets or liabilities within the next financial year.

(a) Key sources of estimation that have been made that have the most significant effect on the amounts recognised in the consolidated financial statements include:

#### Revenue recognition

Service revenue

Kainos charges for its digital services on a time and materials or fixed price basis. In 2018, the majority of service revenue (approximately 87%) was derived from time and materials contracts and the remainder from fixed price contracts. Where there are fixed price contracts revenue is recognised based on the stage of completion. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs. The Group estimates costs to complete its contractual obligations by reference to the current run rate of these costs until contractual completion. Estimates can vary as there will be technical issues to overcome, timescales change and there could be commercial issues. Therefore, the status of customer contracts is assessed on an ongoing basis.

### Perpetual licence income
The Group's Digital Platforms are licensed to customers on a recurring annual basis following a SaaS business model and less frequently as a fixed one-off lifetime perpetual licence (for some Evolve customers). Licences charged to customers for the use of proprietary software are assessed on a contract by contract basis depending on the implementation terms specified in the underlying contract. The implementation period may change due to customer requirements, and as such changes in the estimated implementation period can impact the amount of licence revenue recognised.

### RDEC income
Estimates are made in determining the product development expenditure eligible for RDEC. RDEC grants are recognised when there is certainty that related conditions have been met and the grant will be received. The unrecognised RDEC component at 31 March 2018 equates to £1.8 million and appropriate amounts will be released as and when the conditions have been met and the grants in relation to that amount have been received.

### Fair values
IFRSs require many assets, liabilities and expenses to be recognised at fair value. Where open market values are not available the fair values are estimates and therefore subject to assumptions. This applies to share-based payments as detailed in note 20.

(b) The significant judgements that have been made that have the most significant effect on the amounts recognised in the consolidated financial statements include:

### Product development expenditure
Kainos invests on a continual basis in the development of new and enhanced features in the product suite. There is a continual process of enhancements to and expansion of the overall product suite. Judgement is required in assessing whether the development costs meet the criteria for capitalisation. These judgements have been applied consistently year to year. In making this judgement, the Group evaluates, amongst other factors, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, the likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Research and product development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria in order to capitalise. Such expenditure is therefore recognised as an expense.

Therefore, judgement is required in determining the practice for capitalising development costs. The accounting policy for research and product development is in note 3 and in the current year there are no development expenses that have been capitalised (2017: nil). The total product development expenditure in the period is £4.9 million (2017: £4.6 million). Product development expenditure is partially offset against RDEC grants received from HMRC.

Generally, commercial viability of new products is not proven until all high-risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Accordingly, development costs have not been capitalised.

Costs which are incurred after the general release of internally generated software or costs which are incurred in order to enhance existing products are expensed in the period in which they are incurred and included within research and development expense in the financial statements.

### Grant income
Government grants are generally recognised in the income statement on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Judgement is applied in assessing when there is reasonable assurance the grant conditions have been complied with and that the grant money will be received.

## 5. Segment reporting

All of the Group's revenue during the period to 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 largest partner for Workday in Europe, responsible for implementing Workday's innovative Software-as-a-Service (SaaS) platform for enterprise customers.

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

### Segment revenue and results

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

| **2018**<br>**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[15] | **(9,297)** | **(9,099)** | **(18,396)** |
| CONTRIBUTION | **26,690** | **1,518** | **28,208** |
| Central overheads[15] | | | **(12,861)** |
| ADJUSTED PRE-TAX PROFIT | | | **15,347** |

| 2017<br>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)[16] | (41,479) |
| GROSS PROFIT | 31,152 | 10,873 | 42,025 |
| Direct expenses[15] | (6,186) | (8,922) | (15,108) |
| CONTRIBUTION | 24,966 | 1,951 | 26,917 |
| Central overheads[15] | | | (12,648) |
| ADJUSTED PRE-TAX PROFIT | | | 14,269 |

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

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

**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 |

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 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment assets and liabilities are not reported to the chief operating decision maker (CODM) on a segmental basis and therefore are not disclosed.

**Significant customer**

A Digital Services client ("Customer A") accounted for £7.3 million (or 8%) of total Group revenue during 2018 (2017: £10.4 million or 13%). Another Digital Services client ("Customer B") accounted for £12.6 million (or 13%) of total 2018 Group revenue (2017: £12.8 million or 15%). No other single customer contributed 10% or more to the Group's consolidated revenue during the period 31 March 2018.

## 6. Profit for the year

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

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Total staff costs (note 7) | **55,881** | 44,696 |
| Government grants | **(3,076)** | (1,676) |
| Operating lease rentals (note 19) | **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 (note 11) | **976** | 897 |
| Net foreign exchange loss/(gain) | **43** | (784) |

The analysis of auditor's remuneration is as follows:

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Fees payable to the Group's auditor for the audit of the Group's annual accounts | **57** | 52 |
| Fees payable to the Group's auditor for the audit of subsidiaries | **32** | 32 |
| Total audit fees | **89** | 84 |
| Fees payable to the Group's auditor for other services to the Group: | | |
| Review of interim report | **16** | 16 |
| Other audit related services | **–** | – |
| **Total audit related fees** | **105** | 100 |
| Non-audit fees | **–** | – |
| **Total audit and non-audit fees** | **105** | 100 |
| Total % of non-audit fees | **0%** | 0% |

## 7. Staff numbers and costs

The average number of employees during the year was:

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

Their aggregate remuneration comprised:

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Wages and salaries | **47,037** | 37,749 |
| Social security costs | **6,192** | 4,643 |
| Other pension costs | **1,556** | 1,355 |
| Share-based payments | **1,096** | 949 |
| | **55,881** | 44,696 |

## 8. 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 (note 17) | **(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 income statement 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 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 |

## 9. Dividends

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | |
| Interim dividend for 2018 of 2.0p 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.

## 10. Earnings per share

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

| | 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 (net of 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 |

## 11. Property, plant and equipment

| | Leasehold property (£000s) | Office equipment (£000s) | Fixtures and fittings (£000s) | Total (£000s) |
|---|---|---|---|---|
| At 1 April 2016 | 2,545 | 2,596 | 1,283 | 6,424 |
| Additions | – | 646 | 167 | 813 |
| Disposals | – | (52) | – | (52) |
| At 31 March 2017 | 2,545 | 3,190 | 1,450 | 7,185 |
| Additions | 5 | 1,091 | 34 | 1,130 |
| Disposals | (8) | (835) | (167) | (1,010) |
| **At 31 March 2018** | **2,542** | **3,446** | **1,317** | **7,305** |
| **Accumulated depreciation** | | | | |
| At 1 April 2016 | 1,992 | 1,465 | 881 | 4,338 |
| Charge for the year | 35 | 705 | 157 | 897 |
| Eliminated on disposals | – | (52) | – | (52) |
| At 31 March 2017 | 2,027 | 2,118 | 1,038 | 5,183 |
| Charge for the year | 37 | 786 | 153 | 976 |
| Eliminated on disposals | (8) | (788) | (167) | (963) |
| **At 31 March 2018** | **2,056** | **2,116** | **1,024** | **5,196** |
| **Carrying amount** | | | | |
| **At 31 March 2018** | **486** | **1,330** | **293** | **2,109** |
| At 31 March 2017 | 518 | 1,072 | 412 | 2,002 |
| At 31 March 2016 | 553 | 1,131 | 402 | 2,086 |

## 12. Subsidiaries

The subsidiary undertakings at 31 March 2018 are in the table below. All principally operate in their country of incorporation.

| Subsidiary undertakings | Incorporated | Registered office | Principal activity | Proportion of ordinary share capital held |
|---|---|---|---|---|
| Kainos Software Limited | Northern Ireland | Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT | Software development | 100% |
| Kainos Software Ireland Limited | Republic of Ireland | 6-7 Saint Stephen's Green, Dublin 2 | Software development | 100% |
| Kainos Software Poland Spólka z.o.o | Poland | Tryton Business House, ul. Jana z Kolna 11, 80-864 Gdansk | Software development | 100% |
| Kainos Trustees Limited | Northern Ireland | Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT | Share Scheme Trustee | 100% |
| Kainos Managers Limited | Northern Ireland | Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT | Dormant | 100% |
| Kainos Evolve Limited | Northern Ireland | Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT | Software development | 100% |
| Kainos WorkSmart Limited | Northern Ireland | Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT | Software development | 100% |
| Kainos WorkSmart Inc. | US | 470 Atlantic Avenue, 4th Floor, Boston, Massachusetts 02210 | Software development | 100% |
| Kainos Evolve Inc. | US | 470 Atlantic Avenue, 4th Floor, Boston, Massachusetts 02210 | Software development | 100% |
| Kainos Worksmart GmbH | Germany | The Squaire 12, Am Flughafeb Hessen, Frankfurt 60549 | Software development | 100% |
| Kainos Worksmart ApS | Denmark | Radhuspladsen 16, 3., 1550 Copenhagen V, Denmark | Software development | 100% |

There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities. The directors consider that the Group has no ultimate controlling party.

# Notes to the consolidated financial statements continued

## 13. Investments

The Group has unlisted investments as follows:

| | (£000s) |
|---|---|
| **Cost at 1 April 2017** | **900** |
| Additions | **125** |
| **At 31 March 2018** | **1,025** |
| **Provision for impairment** | |
| **At 31 March 2017 and 2018** | **–** |
| **Carrying amount** | |
| **At 31 March 2018** | **1,025** |
| **At 31 March 2017** | **900** |

In February 2016, the Group acquired 10% of the share capital of Cirdan Imaging Limited, a privately-owned supplier of medical diagnostic hardware and software, incorporated in Northern Ireland, for £0.9 million. Cirdan's wide international presence and its strong credentials in the healthcare industry offers the potential to strengthen significantly the Evolve proposition in new global markets.

In March 2018, the Group purchased an additional 23,443 shares in Cirdan for £0.1 million resulting in a total shareholding in Cirdan of 11.2% at 31 March 2018.

The directors consider that the carrying amount of the investment approximates to its fair value.

## 14. 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 |

Included in trade receivables are the following amounts from significant customers listed in note 5 above (Segment Reporting): Customer A – 2018: £0.5 million (2017: £3.2 million) and Customer B – 2018: £2.2 million (2017: £1.4 million). In addition to Customer A and B there are two further customers who represent greater than 5% of the total balance of trade receivables as at 31 March 2018.

The average credit period extended to customers is 30 days. Specific provision on overdue amounts is made based on historical trade with the counterparty and the counterparty's current financial standing.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

The ageing of the Group's trade debtors which are past due but not impaired is shown below:

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| 31-60 days | **3,301** | 2,397 |
| 61-90 days | **983** | 539 |
| 91+ days | **26** | 173 |
| **Sub-total** | **4,310** | 3,109 |

The Group's impaired trade debtors at each statement of financial position date were aged as follows:

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| 91+ days | **–** | 15 |

The movement in the allowance for doubtful debts is shown below:

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Balance at the beginning of the period | **15** | 66 |
| Impairment losses recognised | **–** | 15 |
| Amounts recovered during the year | **(15)** | (66) |
| **Balance at the end of the period** | **–** | 15 |

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

## 15. Other non-current assets

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Deferred tax asset (note 16) | **1,289** | 324 |
| | **1,289** | 324 |

## 16. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon.

| | Accelerated capital allowances (£000s) | Share-based payment (£000s) | Tax losses (£000s) | Other (£000s) | Total (£000s) |
|---|---|---|---|---|---|
| At 1 April 2016 | (115) | 62 | – | 24 | (29) |
| Foreign exchange differences | – | – | – | (4) | (4) |
| Credit to retained earnings | – | 172 | – | – | 172 |
| Credit to profit | 38 | 3 | 19 | 124 | 184 |
| Effect of change in tax rate in retained earnings | – | (4) | – | – | (4) |
| Effect of change in tax rate in income statement | 6 | 2 | – | (3) | 5 |
| At 1 April 2017 | (71) | 235 | 19 | 141 | 324 |
| Foreign exchange differences | – | – | – | 2 | 2 |
| Credit to retained earnings | – | 606 | – | – | 606 |
| Credit to profit | 51 | 58 | 8 | 240 | 357 |
| **At 31 March 2018** | **(20)** | **899** | **27** | **383** | **1,289** |

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

| | **2018 (£000s)** | 2017 (£000s) |
|---|---|---|
| Deferred tax liabilities | **(20)** | (71) |
| Deferred tax assets | **1,309** | 395 |
| | **1,289** | 324 |

## 17. 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 creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs, including payroll. For most suppliers no interest is charged on payables.

Deferred income is analysed as follows:

| By type | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Arising from advance payments | **6,993** | 6,307 |
| Arising from government grants | **–** | 13 |
| **Total deferred income** | **6,993** | 6,320 |

The deferred income can arise in respect of support and maintenance contracts billed quarterly or annually in advance and certain licence agreements which are billed annually in advance, with revenue being recognised for both over the licence implementation period.

Other provisions are analysed as follows:

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Property-related provision | **347** | 297 |
| Non-current | **347** | 297 |
| | **347** | 297 |

| | Property-related provision (£000s) | Total (£000s) |
|---|---|---|
| At 1 April 2017 | 297 | 297 |
| Additional provision in the year | 50 | 50 |
| **At 31 March 2018** | **347** | **347** |

The property-related provision represents management's best estimate of the Group's liability for future contractual repair works at the end of the lease period.

## 18. Share capital and reserves

**Share capital**

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| ISSUED AND FULLY PAID: | | |
| **Ordinary shares** | | |
| Opening balance | **592** | 590 |
| Issued during the year | **1** | 2 |
| **Total share capital** | **593** | 592 |

The Company has one class of ordinary share which carries no right to fixed income. The Company's Articles of Association do not specify any limit on the total authorised share capital of the Company.

At 31 March 2018, the Company has 118,574,272 ordinary shares (2017: 118,342,144) with a nominal value of £0.005 each.

**Share premium account**

| | (£000s) |
|---|---|
| Balance at 31 March 2017 | 1,626 |
| Issue of share capital at a premium | 76 |
| **Balance at 31 March 2018** | **1,702** |

**Capital reserve account**

| | (£000s) |
|---|---|
| Balance at 31 March 2017 | 667 |
| Issue of share capital | (1) |
| **Balance at 31 March 2018** | **666** |

**Retained earnings**

| | (£000s) |
|---|---|
| Balance at 31 March 2016 | 22,534 |
| Deferred tax equity movement | 147 |
| Current tax equity movement | (12) |
| Adjustments in respect of previous periods | 194 |
| Dividends paid | (7,208) |
| Profit for the year | 10,416 |
| Balance at 31 March 2017 | 26,071 |
| Deferred tax equity movement | 606 |
| Current tax equity movement | 82 |
| Adjustments in respect of previous periods | (174) |
| Dividends paid | (7,581) |
| Profit for the year | 11,666 |
| **Balance at 31 March 2018** | **30,670** |

## 19. Operating leases

**The Group as a lessee**

| | **2018 (£000s)** | 2017 (£000s) |
|---|---|---|
| Lease payments recognised as an expense in the year | **1,499** | 1,272 |

The Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

| | **2018 (£000s)** | 2017 (£000s) |
|---|---|---|
| Within one year | **1,326** | 854 |
| In the second to fifth years inclusive | **1,440** | 1,212 |
| Greater than five years | **–** | 202 |
| | **2,766** | 2,268 |

Operating lease payments represent rentals payable by the Group for certain of its office properties and vehicles. The Group's property leases cover its offices and the apartments required to deliver customer projects. The lease terms vary in duration and are all priced at prevailing market rate.

## 20. Share-based payments

The Group has the following share schemes:

**Kainos Group Performance Share Plan**

Share options are granted to employees as determined by the Remuneration Committee and will only vest in accordance with the performance conditions established by the Committee. The options cannot generally be exercised within three years and have a maximum life of ten years. The options will be settled by the issue of new shares and there are no cash settlement alternatives.

**Company Share Option Plan**

Share options are granted to employees as determined by the Remuneration Committee. The CSOP is a sub-plan of the PSP and permits the Company to grant CSOP options which have tax advantages pursuant to the provisions of Schedule 4 to the Income Tax (Earnings & Pensions) Act 2003 ("Schedule 4"). The options cannot be ordinarily exercised within three years and have a maximum life of ten years. Exercise of the options will be settled by the issue of shares and there are no cash alternatives.

**SAYE Scheme**

The Group has an all-employee share plan open to UK employees. To date there has been only one grant under this scheme. Under the scheme, employees who participate have entered into a savings contract under which they agree to save between £5 and £100 per month (or such limit as may be permitted by the tax legislation governing SAYE schemes from time to time) for three years. Options cannot be ordinarily exercised within three years and must be exercised within six months of the end of the three-year period.

**Republic of Ireland Share Option Scheme**

The Group has a share option scheme for employees of Kainos Software Ireland Limited. This scheme utilised the PSP Scheme to grant options to all eligible employees. Options cannot be ordinarily exercised within three years and must be exercised within six months of the end of the three year period. The options will be settled by shares and there are no cash alternatives.

**UK Share Incentive Plan (SIP)**

The Group has established a Share Incentive Plan for UK employees. Under this scheme all eligible employees are awarded a number of shares determined by length of service of each employee at a specified date for each respective grant. The shares are held in trust for each employee by Yorkshire Building Society, which also administers the scheme. The vesting period for these shares is three years.

**Republic of Ireland Restricted Share Scheme**

The Group introduced a Restricted Share Scheme for all eligible employees of Kainos Software Ireland Limited. Under this scheme all eligible employees were awarded a number of shares determined by length of service of each employee. The vesting period for these shares is five years and one week and the shares are not accessible by the employee until expiry of that period. The shares are held in trust for the employees until they vest.

**Kainos Group plc Poland Share Plans**

In order to replicate the share-based awards available to staff in the UK and Ireland, the Group implemented the Kainos Group plc Poland Share Plan. The Remuneration Committee may grant Share Options or Conditional Share Awards to employees of the Group Polish subsidiary. Share options will not generally be exercisable within three years and have a maximum life of 10 years. Conditional Share Awards may be granted for free or at a purchase price determined by the Committee. Conditional Share Awards will generally be subject to a minimum three year vesting period. All options and awards will be satisfied out of newly issued shares and there are no cash settlement alternatives.

Vesting conditions are detailed within the remuneration report for the schemes with vesting conditions.

# Notes to the consolidated financial statements continued

**Fair values and awards outstanding**

For share awards under the PSP, CSOP and ROI share option schemes, the fair value has been measured using the Black Scholes model. In the absence of historic volatility data, expected volatility has been estimated using the volatility rates of comparable companies.

| PSP | **Granted during year to 31 March 2018** | Granted during year to 31 March 2017 | Granted during year to 31 March 2016 |
|---|---|---|---|
| Fair value | **£0.88-£2.41** | £0.50 -£1.38 | £0.43 - £1.22 |
| Share price at grant | **£2.82** | £1.62 | £1.39 |
| Expected volatility | **30%** | 30% | 30% |
| Expected life (years) | **3.5** | 3.5 | 3.5 |
| Expected dividends per annum | **3.0%** | 3.08% | 3.69% |

| CSOP | **Granted during year to 31 March 2018** | Granted during year to 31 March 2017 | Granted during year to 31 March 2016 |
|---|---|---|---|
| Fair value | **£0.54** | £0.28 - £0.38 | £0.22 - £0.37 |
| Share price at grant | **£2.87** | £1.62 - £2.06 | £1.39 - £2.31 |
| Expected volatility | **30%** | 30% | 30% |
| Expected life (years) | **3.5%** | 3.5 | 3.5 |
| Expected dividends per annum | **3.0%** | 3.08% | 3.69% |

| UK SAYE | **Granted during year to 31 March 2018** | Granted during year to 31 March 2017 | Granted during year to 31 March 2016 |
|---|---|---|---|
| Fair value | **–** | – | £0.33 |
| Share price at grant | **–** | – | £1.39 |
| Expected volatility | **–** | – | 30% |
| Expected life (years) | **–** | – | 3.25 |
| Expected dividends per annum | **–** | – | 3.69% |

| ROI share options | **Granted during year to 31 March 2018** | Granted during year to 31 March 2017 | Granted during year to 31 March 2016 |
|---|---|---|---|
| Fair value | **–** | – | £0.83 |
| Share price at grant | **–** | – | £2.09 |
| Expected volatility | **–** | – | 30% |
| Expected life (years) | **–** | – | 3.25 |
| Expected dividends per annum | **–** | – | 3.69% |

| Poland share options | **Granted during year to 31 March 2018** | Granted during year to 31 March 2017 | Granted during year to 31 March 2016 |
|---|---|---|---|
| Fair value | **–** | £0.72 | – |
| Share price at grant | **–** | £1.90 | – |
| Expected volatility | **–** | 30% | – |
| Expected life (years) | **–** | 3.5 | – |
| Expected dividends per annum | **–** | 2.63% | – |

| Restricted shares | UK SIP (000s) | ROI (000s) | Poland conditional share awards (000s) | Total (000s) |
|---|---|---|---|---|
| Outstanding at 31 March 2017 | 953 | 43 | 271 | 1,267 |
| Granted during period | 269 | 11 | 101 | 381 |
| Forfeited during the period | (91) | (1) | (35) | (127) |
| **Outstanding at 31 March 2018** | **1,131** | **53** | **337** | **1,521** |

| | PSP (000s) | CSOP (000s) | UK SAYE (000s) | ROI share options (000s) | Poland share options (000s) | Total (000s) |
|---|---|---|---|---|---|---|
| Outstanding at 31 March 2017 | 1,794 | 1,009 | 981 | 55 | 336 | 4,175 |
| Granted during the period | 213 | 78 | – | – | – | 291 |
| Exercised during the period | – | (45) | (10) | – | – | (55) |
| Forfeited during the period | (171) | (21) | (64) | – | (38) | (294) |
| **Outstanding at 31 March 2018** | **1,836** | **1,021** | **907** | **55** | **298** | **4,117** |

The Group recognised total expenses of £1.1 million related to equity-settled share-based payment transactions during the year (2017: £0.9 million).

## 21. Pensions

The Group operates two defined contribution retirement benefit schemes. The assets of the schemes are held separately from those of the Group in independently administered funds under the control of trustees. The total cost charged to the income statement of £1.6 million (2017: £1.4 million) represents contributions payable to these funds by the Group at rates specified in the rules of the schemes. As at 31 March 2018, contributions of £21,000 (2017: £0.5 million) were payable to the funds and are included in trade creditors and accruals (note 17).

## 22. Financial instruments

### Capital risk management

The Group manages its capital to ensure that all Group entities will be able to continue as going concerns while maximising the return to shareholders. The Group's overall strategy remained unchanged throughout the period 1 April 2017 to 31 March 2018. The capital structure of the Group consists of Company equity only (comprising issued capital, reserves and retained earnings). The Group is not subject to any externally imposed capital requirements and has no borrowings.

### Financial risk management objectives

The Group's Corporate Treasury function provides services to the business, manages and forecasts cash balances on each bank account held and researches available facilities and reports to the CFO on the financial risks relating to the operations of the Group. These risks include market (including currency risk and price risk), credit and liquidity risk.

The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the CFO and the Finance function on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Finance function reports to the Group's Audit Committee which monitors risks and policies implemented to mitigate risk exposures.

### Foreign currency risk

The Group's activities expose it to changes in foreign currency exchange rates. This risk is measured through the Group's budgeting and cash flow forecasting processes which identify net foreign currency exposures in Polish Zloty, Euro, US Dollars and Danish Krone. The Finance function quantifies and suggests risk mitigation measures to manage the risk in accordance with Group policies and obtains CFO approval for implementation of these risk mitigation procedures.

There has been no change to the nature of market risk which the Group was exposed to during the year, but consistent with the overall growth of the Group's business, the value of this exposure has increased in absolute size, as shown below.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 March 2018 are as follows:

| | Liabilities | | Assets | |
|---|---|---|---|---|
| | **2018 (£000s)** | 2017 (£000s) | **2018 (£000s)** | 2017 (£000s) |
| Polish Zloty | **1,422** | 1,288 | **1,314** | 785 |
| Euro | **2,104** | 337 | **5,197** | 4,589 |
| Danish Krone | **119** | – | **120** | – |
| US Dollar | **3,447** | 107 | **5,502** | 3,029 |

### Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of Poland (Polish Zloty currency), Ireland and Germany (Euro currency), Denmark (Danish Krone) and the US (US Dollar currency). The following table details the Group's profit and loss sensitivity to a 1% increase in Sterling against the relevant foreign currencies. 1% is the sensitivity rate used when considering foreign currency risk internally by key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 1% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where Sterling strengthens 1% against the relevant currency. For a 1% weakening of Sterling against the relevant currency, there would be a comparable impact on the profit and other equity and the balances below would be negative:

| | Euro impact | | Kr. Impact | | PLN impact | | USD impact | |
|---|---|---|---|---|---|---|---|---|
| | **2018 (£000s)** | 2017 (£000s) | **2018 (£000s)** | 2017 (£000s) | **2018 (£000s)** | 2017 (£000s) | **2018 (£000s)** | 2017 (£000s) |
| 1% increase in strength of Sterling | **31** | 43 | **–** | – | **(1)** | (5) | **21** | 29 |

**Forward foreign exchange contracts**

The Group may enter into forward foreign exchange contracts to manage the risk associated with anticipated costs for a period up to 12 months.

There were no forward contracts entered into during the year and subsequently there are no outstanding forward contracts at 31 March 2018 (2017: nil).

The Group does not currently hedge expected future revenue denominated in Euro, Danish Krone or US Dollars as the net exposure is not material to the Group's financial performance or position.

**Interest rate risk management**

The Group's exposures to interest rates on financial assets are detailed in the liquidity risk management section of this note. The Group's exposure to interest rate risk is immaterial to its financial performance and position given that no external borrowings are held, and bank deposit interest income amounted to £53,000 during the year ended 31 March 2018 (2017: £66,000).

**Credit risk management**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above, many of whom are UK government public sector bodies. The Group uses publicly available financial information and its own trading records to rate its major customers.

In addition to Customer A and Customer B (noted as significant customers in note 5 – Segment Reporting), there are two further customer that represent greater than 5% of the total balance of trade receivables as at 31 March 2018.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the CFO in line with Group policies. The expected maturity of the financial assets and liabilities is the same as the reported contractual maturity.

### Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities and by matching the maturity profiles of financial assets and liabilities.

The interest rates obtained on the Group's bank deposits during the year attracted interest at below 1% per annum. All other cash balances are instantly accessible.

The Group expects to meet its obligations from existing cash balances and future operating cash flows.

## 23. Related party transactions
Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

### Trading transactions
During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

| | Sale of goods and services | | Purchase of goods and services | |
|---|---|---|---|---|
| | **2018 (£000s)** | 2017 (£000s) | **2018 (£000s)** | 2017 (£000s) |
| Cirdan Imaging Limited | **685** | 991 | **–** | – |
| Queen's University Belfast | **–** | – | **259** | 301 |
| **Total** | **685** | 991 | **259** | 301 |

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

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---|---|---|---|---|
| | **2018 (£000s)** | 2017 (£000s) | **2018 (£000s)** | 2017 (£000s) |
| Cirdan Imaging Limited | **395** | 390 | **–** | – |
| Queen's University Belfast | **–** | – | **–** | – |

Queen's University Belfast is a related party as one of the Group's material shareholders.

Cirdan Imaging Limited is a related party due to the Group's purchases of share capital in Cirdan in February 2016 and March 2018.

**Remuneration of key management personnel**

The remuneration of the directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS24 Related Party Disclosures.

| | **2018 (£000s)** | 2017 (£000s) |
|---|---|---|
| Short term employee benefits (emoluments) | **1,495** | 1,387 |
| Post-employment benefits (pension contributions) | **32** | 29 |
| Share-based payments | **105** | 48 |
| | **1,632** | 1,464 |

One director is a member of the Group's defined contribution pension schemes (2017: one). No directors exercised options over shares in the Company (2017: none). Remuneration of the highest paid director was £525,000 (2017: £459,000), including pension contributions of £32,000 (2017: £29,000). The highest paid director did not exercise any share options in the year (2017: none).

**Aggregate directors' remuneration**

| | **2018 (£000s)** | 2017 (£000s) |
|---|---|---|
| Salaries, fees, bonuses and benefits in kind | **1,495** | 1,387 |
| Amounts receivable under long term incentives schemes | **105** | 48 |
| Money purchase pension contributions | **32** | 29 |
| | **1,632** | 1,464 |

# Company statement of financial position

as at 31 March 2018

| | Notes | 2018 (£000s) | 2017 (£000s) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investments in subsidiaries | 3 | **6,524** | 6,524 |
| Deferred tax | | **176** | 62 |
| | | **6,700** | 6,586 |
| **CURRENT ASSETS** | | | |
| Debtors | 4 | **23,730** | 19,936 |
| Prepayments | | **23** | – |
| Cash at bank and in hand | | **1,511** | 338 |
| | | **25,264** | 20,274 |
| **CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR** | 5 | **(850)** | (5,266) |
| **NET CURRENT ASSETS** | | **24,414** | 15,008 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **31,114** | 21,594 |
| **NET ASSETS** | | **31,114** | 21,594 |
| **CAPITAL AND RESERVES** | | | |
| Called up share capital | 6 | **593** | 592 |
| Share premium account | 6 | **1,700** | 1,626 |
| Share-based payments reserve | 6 | **2,549** | 1,279 |
| Capital reserve | 7 | **5,938** | 5,939 |
| Profit and loss account | 8 | **20,334** | 12,158 |
| **SHAREHOLDERS' FUNDS** | | **31,114** | 21,594 |

As permitted by section 408 of the Companies Act 2006, the parent company has elected not to present its own profit and loss account for the year. The parent company reported a profit for the year of £15.8 million (2017: £12.6 million).

The financial statements of Kainos Group plc (registered number 09579188) were approved by the Board of Directors and authorised for issue on 25 May 2018. They were signed on its behalf by:

**Richard McCann**
Director
25 May 2018

# Company statement of changes in equity

| | Equity attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Share capital (£000s) | Share premium account (£000s) | Share-based payments (£000s) | Capital reserve (£000s) | Retained earnings (£000s) | Total equity (£000s) |
| Balance at 31 March 2016 | 590 | 1,607 | 524 | 5,940 | 6,565 | 15,226 |
| Issue of share capital (note 7) | 2 | 19 | – | (1) | – | 20 |
| Share-based payments (note 7) | – | – | 949 | – | – | 949 |
| Adjustments in respect of previous periods | – | – | (194) | – | 194 | – |
| Deferred tax for equity-settled share-based payments | – | – | – | – | 6 | 6 |
| Profit and total comprehensive income | – | – | – | – | 12,604 | 12,604 |
| Dividends paid | | | | | (7,211) | (7,211) |
| Balance at 31 March 2017 | 592 | 1,626 | 1,279 | 5,939 | 12,158 | 21,594 |
| Issue of share capital (note 7) | 1 | 74 | – | (1) | – | 74 |
| Share-based payments (note 7) | – | – | 1,096 | – | – | 1,096 |
| Adjustments in respect of previous periods | | – | 174 | – | (174) | – |
| Deferred tax for equity-settled share-based payments | – | – | – | – | 109 | 109 |
| Profit and total comprehensive income | – | – | – | – | 15,822 | 15,822 |
| Dividends paid | | – | – | – | (7,581) | (7,581) |
| **Balance at 31 March 2018** | **593** | **1,700** | **2,549** | **5,938** | **20,334** | **31,114** |

# Notes to the Company financial statements

## 1. Significant accounting policies

The separate financial statements of the parent company are presented as required by the Companies Act 2006. The parent company meets the definition of a qualifying entity under FRS100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council and the recognition and measurement criteria of IFRS as adopted by the EU.

As permitted by FRS101, the parent company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements.

## 2. Profit for the year

As permitted by section 408 of the Companies Act 2006, the parent company has elected not to present its own profit and loss account for the year. The parent company reported a profit for the year of £15.8 million (2017: £12.6 million).

The auditor's remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements. The average monthly number of employees (including executive directors) was 2 (2017: 3).

| | **2018 (£000s)** | 2017 (£000s) |
|---|---|---|
| Wages and salaries | **779** | 1,211 |
| Social security costs | **14** | 167 |
| Other pension costs | **–** | 29 |
| | **793** | 1,407 |

Further information about share-based payments is provided in note 20 to the consolidated financial statements.

## 3. Investments in subsidiaries

| | (£000s) |
|---|---|
| COST | |
| **At 31 March 2017 and 31 March 2018** | **6,524** |
| PROVISIONS FOR IMPAIRMENT | |
| **At 31 March 2017 and 31 March 2018** | **–** |
| CARRYING AMOUNT | |
| **At 31 March 2017 and 31 March 2018** | **6,524** |

Details of the Group's subsidiaries at 31 March 2018 are included in note 12.

## 4. Debtors

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| AMOUNTS FALLING DUE WITHIN ONE YEAR: | | |
| Amounts owed from Group undertakings | **23,730** | 19,936 |
| | **23,730** | 19,936 |

Amounts owed from other Group companies are repayable on demand, unsecured and carry interest of 5% per annum charged on the average outstanding loan balances.

## 5. Creditors: Amounts falling due within one year

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Amounts owed to Group undertakings | **–** | 4,467 |
| Trade creditors and accruals | **550** | 678 |
| Corporation tax | **284** | 86 |
| Other tax and social security | **16** | 35 |
| | **850** | 5,266 |

Amounts owed to other Group companies are repayable on demand, unsecured and carry interest of 5% per annum charged on the average outstanding loan balances.

## 6. Share capital, share-based payments and share premium accounts

The movements on these items are disclosed in note 18 of the consolidated financial statements.

## 7. Capital reserve

The movements in the reserve are disclosed in note 18 of the consolidated financial statements.

## 8. Profit and loss account

| | 2018 (£000s) | 2017 (£000s) |
|---|---|---|
| Opening balance | **12,158** | 6,565 |
| Dividends paid | **(7,581)** | (7,211) |
| Deferred tax equity movement | **109** | 6 |
| Adjustments in respect of previous periods | **(174)** | 194 |
| Profit for the period | **15,822** | 12,604 |
| | **20,334** | 12,158 |

# Company information

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