kainos

2019

Annual Report

KAINOS GROUP PLC IS A UK-HEADQUARTERED PROVIDER OF DIGITAL SERVICES AND DIGITAL PLATFORMS.

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

The Group's Digital Platforms comprise specialised digital products in the mobile healthcare and automated testing arenas. Smart is an automated testing platform for Workday customers; Evolve Electronic Medical Records (EMR) is the market-leading product for the digitisation of patient notes in the Acute sector of the NHS.

Kainos has 1,470 people across 12 offices in Europe and North America, working interchangeably across its Services and Platforms businesses.

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

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

OPERATIONAL HIGHLIGHTS

- **A strong performance, representing the ninth consecutive year of growth in revenue and adjusted pre-tax profit, delivered organically.**
- **Very strong sales execution continues to underpin further revenue growth.**
  - Revenue growth of 56% to £151.3 million (2018: £96.7 million).
  - Adjusted pre-tax profit increased 52% to £23.3 million (2018: £15.3 million).
  - Sales orders up 31% to £171.7 million (2018: £130.7 million).
  - Contracted backlog growth of 10% to £122.2 million (2018: £110.7 million).
- **Revenue diversification continues, across a number of segments.**
  - International revenues up 44% to £29.0 million (2018: £20.2 million).
  - Commercial revenues up 42% to £40.0 million (2018: £28.1 million).
  - Healthcare revenues up 42% to £21.4 million (2018: £15.0 million).
  - SaaS and software-related revenues up 6% to £16.9 million (2018: £15.9 million).
- **Very strong revenue growth in Digital Services, up 69% to £132.6 million (2018: £78.6 million).**
  - Significant ongoing engagements in UK government's digital transformation programme.
  - Further strengthening of position as leading European Workday specialist, appointed partner in France; building presence in North America and appointed partner in Canada.
- **Digital Platforms continues to make progress against key milestones.**
  - Revenue growth of 3% to £18.7 million (2018: £18.1 million).
  - New clients boost Smart revenues by 45% to £11.3 million (2018: £7.8 million).
  - Research and Development expenditure of £4.3 million expensed (2018: £4.9 million).
- **Customer approval rated as 'good' or better by 91% of customers (2018: 99%).**
- **Headcount of 1,470 people in Kainos, up 26%, with ongoing recruitment activity.**
- **Highly cash generative, strong underlying cash conversion of 100% (2018: 96%) and period-end net cash of £42.5 million (2018: £29.0 million).**

FINANCIAL HIGHLIGHTS

	2019	2018	Change
Revenue	**£151.3m**	£96.7m	56%
Adjusted pre-tax profit[1]	**£23.3m**	£15.3m	52%
Statutory profit before tax	**£21.1m**	£14.3m	48%
Cash	**£42.5m**	£29.0m	47%
Sales orders	**£171.7m**	£130.7m	31%
SaaS sales orders	**£18.4m**	£13.3m	38%
Backlog[2]	**£122.2m**	£110.7m	10%
Adjusted diluted earnings per share[1]	**15.4p**	10.4p	48%
Diluted earnings per share	**13.9p**	9.6p	45%
Proposed total dividend	**9.3p**	6.6p	41%

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.

In what is our ninth consecutive year of growth, I am pleased to report the strongest annual performance in that period, with significant increases in the number of people working in Kainos and in sales, revenue and adjusted pre-tax profit growth.

In Digital Transformation we continue to deliver significant programmes in partnership with UK government and with leading commercial and international clients. In what is now a familiar pattern, our growth is fuelled by demand from both existing and new clients.

Within Workday Implementation we continue to be the European partner of choice for forward-thinking organisations that are choosing Workday's innovative Software-as-a-Service platform to support their people and finance requirements. To support our growing international client base, we have opened offices in Paris and Toronto in 2019, alongside existing offices in Amsterdam, Copenhagen, Frankfurt, Gdansk and Atlanta.

Smart, our market-leading Software as a Service (SaaS) platform for automated testing of the Workday suite, continues to win global brands as customers, adding Home Depot, Prudential and Vassar College during the year.

As a Group, our healthcare-related revenues have grown strongly, however Evolve, our market-leading Electronic Medical Records (EMR) solution for the NHS continues to experience the headwinds within the NHS funding landscape.

As a Group, 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, 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

Overview

The financial results for the year ended 31 March 2019 represent the ninth consecutive year of revenue and adjusted pre-tax profit growth; the success in winning projects with new and existing customers provides an excellent platform for future growth.

Revenue for the year ended 31 March 2019 grew by 56% to £151.3 million (2018: £96.7 million). Adjusted pre-tax profits increased by 52% to £23.3 million (2018: £15.3 million), which also included £4.3 million in R&D expensed in the year (2018: £4.9 million).

Sales orders for this period amounted to £171.7 million (2018: £130.7 million), a total that included £18.4 million (2018: £13.3 million) of SaaS product sales orders, an increase of 38%. The contracted backlog for the Group increased by 10% to £122.2 million (2018: £110.7 million). The proportion of revenue generated from customers outside the UK increased by 44% in 2019 and now accounts for 19% of total Group revenue (2018: 21%).

Staff and contractor numbers increased by 301 to 1,470 at 31 March 2019 (2018: 1,169). The Group continues to attract very strong interest from both graduates and experienced senior candidates in key employment markets, with 21,890 job applications received during the year; 73% of people joining Kainos were recruited directly rather than via recruitment agencies (2018: 80%). Employee engagement remains high, although the Group placed outside the Sunday Times Top 100 'Best Companies to Work For' for the first time in seven years. Attrition across the Group rose to 15% (2018: 13%) but remains below UK average (19.7%)[3].

Customer satisfaction remains high, with 91% of customers rating Group service 'good' or better. This high level of customer service underpins the Group's long-term customer relationships, with existing customers accounting for 88% of Group revenue (2018: 86%). In the year to 31 March 2019, the Group acquired 68 new customers, making a total of 362 active customers.

Across sectors, 59% of revenue is derived from government customers (2018: 56%), 27% from commercial sector (2018: 30%) and 14% from healthcare (2018: 16%). Commercial sector revenue grew 42% to £40.0 million (2018: £28.1 million).

In the year ended 31 March 2019, Digital Services experienced very strong growth across both Digital Transformation (a 70% increase) and Workday Implementation (a 63% 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 programmes for commercial customers. Workday Implementation experienced very strong growth with increased demand from existing customers, new customer acquisition and geographic expansion. The appointment of Kainos as a Workday partner in France and Canada and the subsequent opening of the Paris and Toronto offices provides the platform for further growth.

Customer satisfaction remains high, with 91% of customers rating Group service 'good' or better.

In the Digital Platforms division, the Kainos Smart automated testing platform continued its growth trajectory, adding further global customers during the period to bring the total number of customers on the platform to 154 at 31 March 2019.

The funding landscape within the NHS continues to be challenging and this has had an impact on Evolve revenues, decreasing by 27% to £7.5 million (2018: £10.3 million), which is in line with previous guidance.

Finally, the Group finished the year with a strong net cash balance of £42.5 million at 31 March 2019 (2018: £29.0 million), representing 100% cash conversion (2018: 96%).

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;
- Identifying favourable, future technology and market trends;
- Nurturing and expanding its experienced and highly-skilled employee pool; and
- Recruiting high calibre entry-level and experienced staff.

3 2018 XpertHR Survey.

Revenue 2019

£151.3m

2018

£96.7m

Financial review

Kainos achieved revenue of £151.3 million (2018: £96.7 million), representing an increase of 56%. Digital Services revenue grew 69% to £132.6 million (2018: £78.6 million) which was driven by growth in both Digital Transformation and Workday Implementation. Whilst the headline Digital Platform revenue increased by a modest 3% to £18.7 million (2018: £18.1 million), this is a combination of 45% growth in Smart to £11.3 million (2018: £7.8 million) and a decline of 27% in Evolve to £7.5 million (2018: £10.3 million).

Overall gross margin was 46% (2018: 48%) with Digital Services decreasing to 44% (2018: 46%), whilst Digital Platforms gross margin decreased to 56% (2018: 59%). The reduction in Digital Services gross margin was mainly a result of increasing the number of contractors to support the significant revenue growth and the geographic expansion within Workday Implementation services. The decrease in gross margin for Digital Platforms was due to the decline in Evolve revenue as noted below.

Operating expenses excluding share-based payments for 2019 increased by 47% to £45.9 million (2018: £31.3 million). This increase is in line with revenue growth and relates to the geographic expansion and sales investment within the Digital Services division. Within Digital Platforms one loss-making contract was identified which resulted in an onerous contract provision of £1.0 million. Investment in product development has reduced to £4.3 million (2018: £4.9 million), due to a reduction in staff involved in Evolve product development which was partially offset by a growth in Smart product development. All product development costs were expensed in the period. Research and Development Expenditure Credit (RDEC) grants recognised in the period totalled £2.0 million (2018: £2.8 million).

The share-based payment expense incurred in the period was £2.2 million (2018: £1.1 million). This increase relates mainly to social security costs associated with vesting of share awards. Adjusted pre-tax profit increased by 52% to £23.3 million (2018: £15.3 million). Statutory profit before tax increased by 48% to £21.1 million (2018: £14.3 million). The adjusted profit measures can be reconciled to the reported statutory numbers as follows:

	2019 (£000s)	2018 (£000s)
Statutory profit before tax	**21,125**	14,251
Share-based payments	**2,196**	1,096
Adjusted profit before tax	**23,321**	15,347

	2019 (£000s)	2018 (£000s)
Statutory profit after tax	**16,939**	11,666
Share-based payments (net of associated taxes)	**1,823**	910
Adjusted profit after tax	**18,762**	12,576

The effective tax rate for 2019 was 20% (2018: 18%). The 2019 effective tax rate was above the UK corporation tax rate due to increased overseas activity. 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 strong financial position with £42.5 million of cash (2018: £29.0 million), no debt and net assets of £48.2 million (2018: £35.7 million). Cash conversion, calculated by taking cash generated by operations over EBITDA[4], continued to be strong at 100% (2018: 96%). The combined underlying trade debtor and accrued income totalled £37.5 million (2018: £25.8 million) with the increase of 45% in line with expectations given revenue growth. The Group has acquired a site for the development of Kainos' future Belfast headquarters, as announced on 12 February 2019. The purchase price is £7.1 million, with a 10% deposit paid during the period and the balance due upon completion, which is expected on 3 June 2019. The purchase will be funded using cash on the statement of financial position.

4 EBITDA is calculated as being adjusted pre-tax profit add back depreciation and finance income.

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 6.5p and payable on 25 October 2019 to shareholders on the register on 27 September 2019, with an ex-dividend date of 26 September 2019. This will make the total dividend for the year 9.3p (2018: 6.6p) which will represent a distribution of 60% of the adjusted profit after taxation for the year (2018: 63%).

Adjusted pre-tax profit 2019

£23.3m

2018

£15.3m

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 2019 grew by 69% to £132.6 million (2018: £78.6 million). Digital Services revenue from customers in commercial sectors accounted for £29.8 million (2018: £20.8 million), an increase of 43%. Sales orders in Digital Services increased by 38% to £149.1 million (2018: £108.4 million) and backlog for the division increased by 14% to £80.6 million (2018: £70.6 million).

Digital Services – Digital Transformation

Despite the Brexit debate continuing to generate uncertainty within the wider UK economy, Digital Transformation delivered 70% growth, underpinning previous guidance that there was minimal negative impact to the programmes with which Kainos has been involved. Furthermore, the Group believes that there will be significant IT change as a result of the EU Exit, with over 300 IT systems impacted, which will present growth opportunities; the challenge, as with Brexit in general, is predicting when this will occur.

Within central government, Kainos continues to consolidate our position across key accounts, extending our services to deliver a number of the most high profile digital programmes including the Passport Application service for Home Office and the recently launched NHS App for NHS Digital. We also continue to expand our footprint in large scale digital services including the Courts Reform programme for Ministry of Justice and have commenced a two year digital partner programme with Land Registry.

Progress continues in the commercial sector, both within the UK and in Germany where contracts have been signed with Concardis and Skeyos. The partnership with NHS Digital continues to strengthen, with Kainos having a leading role in the delivery of the NHS App. The NHS App entered private beta in September 2018 and is presently being rolled out across England with a national launch planned for September 2019.

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. In the near term, there is an increased possibility that Brexit, a general election and a spending review all occur within a similar timeframe. Whilst this is unlikely to disrupt in-flight programmes, it may cause the deferral of significant new programmes by a number of months.

Outside of UK public sector, a growing reputation in the commercial sector, opportunities within NHS Digital and international expansion, most particularly in Germany, are expected to generate further long-term growth for the Group.

The UK public sector is now a key market for Workday and Kainos has been instrumental in securing early customers.

Digital Services – Workday Implementation

Kainos first engaged with Workday in 2010 and is now one of the most experienced participants in Workday's partner ecosystem. Kainos remains the only boutique Workday partner headquartered in the UK and one of only 34 partners globally accredited to implement Workday's innovative SaaS platform.

Within Europe, Kainos continues to consolidate its position as a leading Workday partner, being appointed as a partner in France during the period. This leadership position is a result of geographic expansion and high satisfaction levels within the Kainos customer base, but is also aided by the consolidation within the partner ecosystem[5].

Kainos has continued its geographic expansion, with the opening of an office in Paris in January 2019 to support growth within the French market. This is in addition to offices opened in Copenhagen (2017 to develop the Nordic markets of Denmark, Sweden, Norway and Finland), Amsterdam (2015, covering Belgium, Netherlands and Luxembourg) and Frankfurt (2017, covering Germany, Austria and Switzerland). Kainos now has 45 clients for Workday Implementation in mainland Europe (2018: 29).

In North America, Kainos has been appointed partner for Canada (October 2018) and has already secured eight customers; an office has been opened in Toronto in 2019 to support this expansion within this market. Within the US, Kainos is delivering two Workday Financials projects for clients that have substantial international operations.

The UK public sector is now a key market for Workday and Kainos has been instrumental in securing early customers. Of the eight deals signed by Workday to date, Kainos is undertaking the implementation with seven customers and Workday is delivering the remaining project directly. Kainos customers include Crown Commercial Services and the Department for Education.

5 Recent transactions include the Appirio acquisition by Wipro (2016), DayNine by Accenture (2016) and Ataraxis by HR Path (2018). In 2016, Wipro acquired Appirio, a boutique Workday and Salesforce consultancy, in 2019 Alight acquired the Workday elements of the Appirio business from Wipro, for a reported $110 million, with 350 consultants joining Alight.

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 £8.8 million revenue (2018: £4.5 million) and has 84 customers (2018: 44).

The number of accredited Workday consultants in the Group's Digital Services division has increased by 48% to 251 people (2018: 170 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 two discrete platforms:

- **Smart Automated Testing (Smart):** Smart is a proprietary software tool that allows Workday customers to automatically verify their Workday configuration both during implementation and in live operation. Smart is the only automated testing platform specifically designed for the Workday product suite. Smart is a cloud-based SaaS solution licensed on a subscription basis to customers.
- **Evolve Electronic Medical Record (EMR):** EMR is a proprietary software product that removes paper from the care process by digitising NHS patient records, thereby enabling efficient healthcare. Evolve EMR can be consumed either on-premise or in a hosted environment, with perpetual and subscription licensing options.

In aggregate, Digital Platforms revenue for the 12 months ended 31 March 2019 increased by 3% to £18.7 million (2018: £18.1 million). Sales orders for Digital Platforms increased by 1% to £22.6 million (2018: £22.3 million) of which sales orders for the Group's SaaS platforms increased by 38% to £18.4 million (2018: £13.3 million).

Within Smart, revenue for the period increased by 45% to £11.3 million (2018: £7.8 million), of which £9.4 million relates to SaaS subscriptions (2018: £6.4 million). New sales bookings for the period amounted to £20.2 million

(2018: £10.7 million), an increase of 88%. The Annual Recurring Revenue (ARR) for Smart at period end was £11.0 million (2018: £7.1 million); backlog for Smart is £22.8 million (2018: £14.2 million).

The ongoing funding constraints within the NHS continue to impact Evolve revenues. Despite a stable maintenance revenue stream, there has been a reduction in revenue, decreasing 27% to £7.5 million (2018: £10.3 million). Sales orders for the period amounted to £2.4 million (2018: £11.5 million), suggesting no material increase in revenues in the short term.

Digital Platforms – Smart

Smart is now used by 154 global customers to automatically verify their Workday configurations (2018: 115). Kainos has four Smart modules: HCM, Security, Financials and Payroll.

Workday Inc. has a Platform-as-a-Service offering known as Workday Cloud Platform (WCP), which is expected to have general availability by late 2019. Kainos has been part of the early adopter programme since 2017, and while WCP is at an early stage it may offer new future growth opportunities – 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 customer base itself and by the development and adoption of new Smart modules.

Digital Platforms – Evolve

Evolve EMR continues to be a leading supplier to the NHS and is now deployed at enterprise scale across 30 Health Trusts, managing over 2.0 billion images with 39 million patients registered on the system.

The dominant feature of the UK NHS market is that of restricted funding, which has significantly reduced procurement activity across the sector. Within the existing client base, there is growing interest in migrating to Cloud EMR.

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

Our people

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

The Group has 1,470 people working in Kainos (2018: 1,169), an increase of 301, of whom 12% are contractors (2018: 11%). Attrition across the Group rose to 15% (2018: 13%).

Locations

Kainos operates from the offices outlined in the table below, with the expectation that further locations will open based upon demand.

Office	Opened	People[6]	Address
Belfast	1987	661	4-6 Upper Crescent, Belfast, BT7 1NT
Dublin	1994	25	6-7 St Stephens Green, Dublin, D02 X827
London	2001	335	21 Farringdon Road, London, EC1M 3HA
Gdansk	2007	276	Tryton Business House, ul. Jana z Kolna 11, 80-864, Gdansk
Derry	2012	40	Timber Quay, Strand Road, BT48 7NR
Amsterdam	2015	6	World Trade Center, Strawinskylaan 601, 1077 XX, Amsterdam, Tower A, Level 6
Frankfurt	2017	15	The Square 12, Am Flughafen, 60549 Frankfurt am Main
Copenhagen	2017	11	Rådhuspladsen 16, 3, 1550 Copenhagen V
Birmingham	2017	73	Alpha Works Suffolk Street, Birmingham, B1 1TT
Atlanta	2017	23	WeWork Tower Place, 3340 Peachtree Road, Atlanta, Georgia
Toronto	2019	2	WeWork 100 University Avenue, Toronto, M5J 1V6
Paris	2019	3	WeWork Lafayette, 33 Rue la Fayette, 75009 Paris

6 Some staff will be classified as 'home workers' and may not actually spend much time in their designated office. There are 184 people classified as 'home workers', many of whom are contract staff.

Recruitment
Kainos continues to attract strong interest in key recruitment markets, with 21,890 applicants in the period (2018: 11,465). In total, 483 people joined Kainos (2018: 360), representing 2.2% of the original applicants (2018: 3%).

Development
The Kainos Academy and associated programmes are central to the development of staff. During the reporting period, 7,911 training days were completed, an average of six 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 from 2012 through to 2018, an accreditation that is entirely based upon employee feedback. On Glassdoor, the website allowing employees to anonymously review companies, 81% of reviewers would recommend working at Kainos.

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 December 2018 a total of 2,155,859 free shares have been distributed to staff. In addition, the Group operates SAYE schemes through which 2,340,985 options have been granted to 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 five years, these outreach programmes have directly benefited the lives of over 5,000 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 industry, Earn as You Learn® has allowed the Group to identify talent outside its traditional graduate recruitment pools. There are now 53 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, gender, marital status, sexual orientation, age, religion, disability or any other characteristic protected by law.

During 2019, Kainos has improved inclusivity within recruitment practices, expanded innovative and flexible working options for Kainos employees and is striving to have more women in senior roles. Supporting the returners programme for people who have taken time out of the workplace, Kainos have co-hosted a Data Science Bootcamp with Microsoft, in Birmingham.

The Group also looks to encourage a wider range of ethnicities and means that today the Group employs staff with more than 36 different nationalities.

Gender Diversity remains a challenge within the wider industry, where 17% of roles in technology are undertaken by women[7]. Within Kainos, the proportion of women has increased to 30% (2018: 28%); 24% (2018: 26%) of manager level and above are female and 18% (2018: 20%) of executive management roles are held by women (compared to 5% nationally[8]). There are no female appointees to the Group Board although the Group is currently engaged in recruiting additional independent directors.

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 5,000 students have benefited from these programmes. The Kainos CodeCamp, aimed at students aged 14-17 had 197 participants in 2018, 40% of whom were female.

7 womenintech.co.uk.
8 PwC research report: Women in Tech.

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 the 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 2019, 152 customer engagement surveys were received. An overall feedback rating is also measured, and in 2019, 91% 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.

Over the past five years, Kainos' outreach programmes have directly benefited the lives of over 5,000 young people in the UK and Ireland.

Research and development

Within Kainos, Research and Development occurs within two models. Each operating division seeks to evolve current offerings and solutions to reflect changes or opportunities within the marketplace. These activities operate under the guidance and direction of the divisional Chief Technology Officer (CTO). This would include product enhancements to Evolve and Smart as well as extending existing service offerings such as Post Deployment Support in Workday Implementation or Service Design within Digital Transformation.

Future Technology trends and their application operates under the guidance of the Group CTO and the Applied Innovation team. Current areas of focus include Machine Learning, Virtual and Augmented Reality and Artificial Intelligence.

BENCHMARKING PROGRESS OF OUR KEY OBJECTIVES

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

2019

£171.7m

2018

£130.7m

Revenue

2019

£151.3m

2018

£96.7m

Adjusted pre-tax profit

2019

£23.3m

2018

£15.3m

Non-financial KPIs

Overall customer satisfaction rating[9]

2019

91%

2018

99%

Staff attrition

2019

15%

2018

13%

Number of customers

2019

362

2018

294

Number of staff

2019

1,470

2018

1,169

9 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, reputation 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.

There has been no material change to Kainos' risk profile from previous years. The principal risks in this Annual Report reflect the underlying risk register and risk management processes. Key focus points this year have been the cyber threat faced by Kainos and staff engagement.

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. Kainos has cyber liability insurance in place to mitigate the impact of a cyber security event.
	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. Kainos makes staff aware of the potential impact of changing regulations and provides targeted training within business divisions.

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Operational risk	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. All staff are required to complete regular training programmes. 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/or contractual liability, 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. Measures are in place that are designed to ensure logical segregation to protect applicable data.
	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. Kainos' software development lifecycle includes following coding practices, quality assurance and testing which are audited as part of Kainos' ISO9001 accreditation. Critical incident and problem management processes are in place and are audited as part of Kainos' ISO9001 accreditation. 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.

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Operational risk	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.
	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, Birmingham 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. 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. Where practical, focused patent searches are undertaken to identify areas in which new products or services under development may conflict with third party IP. 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. Employment and consultancy contracts have clauses to protect intellectual property. 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. 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.
Macro-economic risk	Events occurring that are outside of Kainos' control	Instability of the financial system, market disruptions or suspensions. Material downturn in the financial markets or economic recession. 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. Could result in cost and disruption to Kainos' business. 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. 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 being 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. Kainos' internal processes and systems are monitored with a view to ensuring compliance with applicable laws and regulations. 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. 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 2019 the quantity of Scope 2 emissions by Kainos was 429.0 tonnes of carbon dioxide equivalent (CO_2e), (2018: 444.4 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:

	2019	2018
Total revenue	**0.00**	0.00
Operating profit	**0.02**	0.03
Employees	**0.29**	0.38

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

Brendan Mooney
Chief Executive Officer
24 May 2019

This section of the 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 Non-Executive Directors (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 2019. These will be laid before the shareholders at the Annual General Meeting (AGM) to be held on 26 September 2019. 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 NEDs and three Executive Directors. The serving directors are:

Dr. John Lillywhite (aged 78), 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, is a trustee director for a large pension fund and works for a prison reform charity. John acts as a Non-Independent Non-Executive Chairman and chairs the Nominations Committee.

Dr. Brendan Mooney (aged 52) 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.

Richard McCann (aged 54) 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 56) 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 57) 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. In June 2018, Andy was appointed as a Non-Executive Director and chair of the Audit Committee of accesso Technology Group plc. Andy acts as Senior Independent NED and chairs the Audit Committee.

Chris Cowan (aged 60) Independent Non-Executive Director
Chris holds a MA History from St Catharine's College, Cambridge. Chris runs a board advisory business focused on business performance improvement and digital transformation. He has previously served as Managing Director of Accenture's Telco, Media and Technology business in the UK and Ireland; Accenture's Telco Industry Managing Director for EMEA; COO/CTO of Accenture New Businesses; Chairman and CEO of Digiplug (an Accenture Digital business); and Managing Director of Value Partners Strategy Consulting business in the UK. Chris acts as an Independent NED and sits on the Audit Committee, Nominations Committee and Remuneration Committee.

Tom Burnet (aged 51) Independent Non-Executive Director
Tom graduated with an MBA from the University of Edinburgh. Tom was previously CEO and 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. Tom retired from his position as Executive Chairman of accesso in 2019 but continues to serve on the accesso board. 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, did not meet the independence criteria on appointment 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 short term.

The Board confirms that, as supported by the results of the 2019 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 2019 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.

The Board

At 31 March 2019 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	–	–	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 10 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	1/2	2/7	3/3
Brendan Mooney	10/10	–	–	–
Richard McCann	10/10	–	–	–
Paul Gannon	09/10	–	–	–
Andy Malpass	10/10	2/2	–	–
Chris Cowan	10/10	2/2	7/7	3/3
Tom Burnet	10/10	–	7/7	2/3

- The Chairman resigned as a member of the Audit Committee and the Remuneration Committee, effective 1 June 2018. From the start of the reporting period 1 April 2018 up to and including the date of his resignation on 1 June 2018 there was one Audit Committee meeting and two Remuneration Committee meetings; the Chairman attended all three meetings whilst a member of these committees.
- Paul Gannon was absent from one Board meeting due to illness. Brendan Mooney presented Paul Gannon's updates to the Board on his behalf. Paul Gannon subsequently requested and obtained a full briefing from the Chairman, as to the business conducted at the meeting.
- Tom Burnet was absent from one Nominations Committee meeting due to an unavoidable prior commitment. Tom Burnet subsequently requested and obtained a full briefing from the Chairman, as to the business conducted at the meeting.

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 2019 which was undertaken by way of a performance evaluation questionnaire, completed in January 2019, 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 2020.

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 2019.

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

Grainne Burns
Company Secretary
24 May 2019

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 2019.

Introduction
This is the Group's fourth 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. John Lillywhite resigned as a member of the Remuneration Committee, effective from 1 June 2018.

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 2019. The 2016 AGM approved the Directors' Remuneration Policy and the 2016, 2017 and 2018 AGM's approved the Annual Report on Remuneration. The Remuneration Committee has kept the policy under review to ensure that it remains appropriate to the delivery of long-term value for all stakeholders. At the 2019 AGM, shareholders will have an opportunity to vote on the policy. 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 to the policy being put forward for shareholder approval in 2019.

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 stretch targets 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 2018/19

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 2019. In summary, the Group has delivered good performance across all divisions, extended operations in Europe and the US and decreased expenditure in research and development of its platform portfolio. Key performance indicators are solid across the Group: revenue increased from £96.7 million to £151.3 million, adjusted profit before tax increased from £15.3 million to £23.3 million, and sales orders increased from £130.7 million to £171.7 million. The Group continues to attract high quality talent and is pleased to note that the number of staff at year end was 1,470 across 12 offices in North America 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 98%, 102% and 77% of salary, respectively.

In July 2018, the Group made performance share awards to the CEO, CFO and SVP Business Development at 32%, 37% and 31% of salary, respectively.

In July 2015, long-term incentive awards were granted to the CEO, CFO and SVP Business Development. These awards vested during the year with the CEO receiving 98,921 shares and the CFO and the SVP Business Development each receiving 68,345 shares.

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 and which will be voted on at the 2019 AGM.

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 primarily 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 Group'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 and fixed for 12 months, commencing 1 June each year. The Remuneration Committee takes into account: • an individual's experience, knowledge and performance in the role • business and individual performance • achievement of objectives • comparative salaries and periodic reviews • the Group's financial position • the salary increases being provided to Kainos employees.	Percentage increases will normally be in line with other employees in the same location. 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. 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. Annual bonus is normally paid in cash following the completion of the audit of that year's financial statements. 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. Payments may be deferred for up to three years and then paid in cash or in shares. 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. 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). 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. The Remuneration Committee determines the performance conditions, weighting and target performance levels at the point of award. 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. In the event of a new appointment the Remuneration Committee would expect to make a higher award, closer to the normal maximum. 30% of awards vest at threshold levels of performance.	For the awards at the time of IPO and each year thereafter, 50% was linked to growth in adjusted EPS and 50% linked to total shareholder return. 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. 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. 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. 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. 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 and in July 2018, 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. UK Employees, including Executive Directors, may be awarded free shares up to a maximum value of £3,600 each year. 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, 2017 or 2018 SIP awards). The Board shall determine if and when further SIP awards will be made and the terms of those awards.	At the time of IPO and each consecutive year since, 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. 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. 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. 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. The Chairman's fee is currently £80,000 per annum. The base fee for NEDs is currently £40,000 per annum. Additional fees per annum are set out below: SID – £10,000 Chairman of Audit Committee – £6,000 Chairman of Remuneration Committee – £4,000. 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.

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 2019 AGM will be the Group's fourth 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 2018 Annual Report on Remuneration was approved at the 2018 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. John Lillywhite resigned as a member of the Remuneration Committee with effect from 1 June 2018.

All members of the Remuneration Committee 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) and Skyfall Consulting Limited. Both h2glenfern and Skyfall Consulting Limited operate 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. For the year under review, h2glenfern and Skyfall Consulting Limited received fees of £9,500 and £7,000 respectively, related to advisory work for the Remuneration Committee on operational matters. Both h2glenfern and Skyfall Consulting Limited do not provide any other consulting services to Kainos.

Remuneration details

In accordance with the Regulations, the tables below set out the remuneration for each director for the year ended 31 March 2019.

Single total figure of remuneration for each director

Name	Financial year	Salary/fees (000s)	Benefits[2] (000s)	Bonus (000s)	Total (excluding pension) (000s)	Pension[1] (000s)	Other[3]	Incentives vested	Total (including pension) (000s)
Executive Directors									
Brendan Mooney	2019	£220	£7	£215	£442	£19	£1	£141	£603
	2018	£220	£8	£175	£403	£19	£1	N/A	£423
Richard McCann	2019	£212	£6	£215	£433	£11	£1	£99	£544
	2018	£195	£7	£151	£353	£10	£1	N/A	£364
Paul Gannon	2019	€233	€22	€179	€434	€35	€4	€114	€587
	2018	€243	€19	€299	€561	€36	€1	N/A	€598
NEDs									
John Lillywhite	2019	£80	N/A	N/A	£80	N/A	N/A	N/A	£80
	2018	£80	N/A	N/A	£80	N/A	N/A	N/A	£80
Andy Malpass	2019	£56	N/A	N/A	£56	N/A	N/A	N/A	£56
	2018	£56	N/A	N/A	£56	N/A	N/A	N/A	£56
Chris Cowan	2019	£40	N/A	N/A	£40	N/A	N/A	N/A	£40
	2018	£40	N/A	N/A	£40	N/A	N/A	N/A	£40
Tom Burnet	2019	£44	N/A	N/A	£44	N/A	N/A	N/A	£44
	2018	£44	N/A	N/A	£44	N/A	N/A	N/A	£44

1 Pension amounts for Brendan Mooney and Richard McCann are payments in lieu of pension.
2 Benefits are the taxable value of benefits received by directors in the year including car allowance and private health insurance.
3 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 2019 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)	(£000s)	(£000s)
					B Mooney	R McCann	P Gannon[10]
Revenue	30%	133,300	113,305	151,294	68	68	50
Adjusted pre-tax profit	40%	20,366	16,293	23,321	88	88	64
Sales order value	30%	157,000	133,450	171,700	59	59	43
Totals	100%				215	215	157

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

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 98%, 102% and 77% 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 2018 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 2018	17,621	£70,956	Nominal	July 2021	July 2028
Richard McCann	July 2018	19,552	£78,732	Nominal	July 2021	July 2028
Paul Gannon	July 2018	15,690	£63,180	Nominal	July 2021	July 2025

The 2018 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 2021 using the financial year ended 31 March 2018 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 419p 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	2018 SIP shares	Face value	Vesting period
Brendan Mooney	400	£1,692	3 years from the date of grant
Richard McCann	400	£1,692	3 years from the date of grant
Paul Gannon[11]	400	£1,692	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 performance measurement period ended on 6 July 2018 with the following outcome:

Award	Measure	Weighting	Vesting scale	Performance achieved	% of award vesting
2015	TSR	50%	No vesting if TSR growth below 9% p.a. 30% of awards vest if TSR growth equals 9% p.a. and 100% vests if TSR growth exceeds 16% p.a. Straight-line pro-rata basis from 30% to 100% if TSR growth exceeds 9% but is less than 16% p.a.	46.36% compound growth per annum.	100%

	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	100%	98,921	–	407p	£402,608
Richard McCann	68,345	100%	68,345	–	407p	£278,164
Paul Gannon	68,345	100%	68,345	–	407p	£278,164

2016 PSP

On 23 June 2016, awards were granted under the Kainos PSP to Brendan Mooney, Richard McCann and Paul Gannon. The TSR performance measurement period does not end until 22 June 2019. However, the performance measurement period for the EPS performance condition ended on 31 March 2019, with the following outcome:

Award	Measure	Weighting	Vesting scale	Performance achieved	% of award vesting
2016	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.	14.4% compound growth per annum.	83.7%

11 Paul Gannon awarded 400 shares under the Republic of Ireland Restricted Share Scheme which have a vesting period of 5 years and 1 week.

	No of shares	% vested	Number of shares vested	Number of shares lapsed	Share price at end of performance period	Value at vesting
Brendan Mooney	28,205	83.7%	23,605	4,600	556p	£131,244
Richard McCann	31,250	83.7%	26,154	5,096	556p	£145,416
Paul Gannon	25,000	83.7%	20,905	4,095	556p	£116,232

Directors' shareholdings

The interests of the directors and their connected persons in Kainos ordinary shares at 31 March 2019 were:

Name	Current shareholding	Unvested SIP shares	Vested but unexercised options	Unvested performance options
Brendan Mooney	14,205,941	1,492	–	97,756
Richard McCann	6,211,582	1,492	–	106,191
Paul Gannon	8,499,585	1,492	–	85,036
John Lillywhite	460,000	–	–	–
Andy Malpass	38,950	–	–	–
Chris Cowan	31,582	–	–	–
Tom Burnet	14,388	–	–	–

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 Group 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 four 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
2019	£246	£215	£461	66%	51%
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
2019	–	7.1%	23.2%	32.3%	–	–	9.9%	11.8%
2018	–	10.9%	15.8%	1.6%	–	–	6.0%	11.7%
2017	2.0%	6.5%	(18.8%)	(18.3%)	–	–	(7.1%)	(4.7%)

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)
2019	73,899	21,125	(4,186)	20%	(8,917)
2018	55,881	14,251	(2,585)	18%	(7,581)
2017	43,747	13,320	(2,904)	22%	(7,208)
2016	35,373	14,261	(1,834)	13%	(13,309)
2015	30,954	11,837	(2,072)	18%	(1,325)
2014	22,954	7,056	(1,600)	23%	(651)

AGM

The 2019 AGM will be the Group's fourth 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 2019

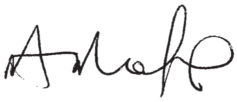
Salary	The Committee will continue to monitor the remuneration of Executive Directors of other companies in the IT sector and other listed companies with similar market capitalisation to ensure that the Executive Directors remain sufficiently rewarded to promote long-term success. The Committee will 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 2019.
Pension	There will be no change to the pension arrangements of the Executive Directors in the year commencing 1 April 2019.
Annual bonus	Annual bonus for the year commencing 1 April 2019 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 2020 will be similar to those applied during the year ended 31 March 2019. The targets for the annual bonus for 2019/20 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 2020 Annual Report.
Long term incentives	The Committee intends to make further performance share awards in mid-2019. 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 2020 Annual Report.
NED remuneration	For the year commencing 1 April 2019, it is proposed that NED fees remain the same as in the year ended 31 March 2019.

On behalf of the Board

Tom Burnet
Chairman of the Remuneration Committee
24 May 2019

Audit Committee Report

As Chairman of the Audit Committee, I am pleased to introduce the Audit Committee Report for the year ended 31 March 2019. The Audit Committee has met two times during the year, in May 2018 and November 2018. 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 two independent NEDs. 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 one Non-Executive Director, Chris Cowan, who has 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 announcements 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 10 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.

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.

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 Group's 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 2020 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 controls 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 31 March 2019 the Committee reviewed the results of the external audit for the previous financial year including reviewing the 2018 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 2019. In May 2019, the Committee received the 2019 Annual Report including the financial statements contained within it, the Preliminary Results Announcement for the year ended 31 March 2019 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 Group's adoption of IFRS15 Revenue from Contracts with Customers from 1 April 2018;
- 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 its basis 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 and revenue recognition is in line with IFRS15;
- 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, an analysis of the RDEC rules and their impact on the reported results in relation to the updates and reports it had received, the transfer pricing rates applied between the jurisdictions in which the Group operates and their impact on the reported results, and concluded that the treatment adopted was fair and reasonable in all cases.

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 2019, the Committee:

- Considered and reviewed the Board's composition;
- Conducted and reported to the Board on the 2018/2019 Board evaluation exercise; and
- 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 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 reviews the Group's Executive Team and leadership structures, and the output of this exercise feeds into the Group's strategic objectives of facilitating business scaling for growth and furthering individual training and development requirements. The Nominations Committee, in conjunction with the Board, formally discusses and reviews succession planning at each of the three meetings held during the year; this is a key area of focus for the Nominations Committee.

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 Financial Review sections of the Strategic Report and the notes to the financial statements.

No political donations were made during the year ended 31 March 2019.

There are no off-balance sheet arrangements. Details of the trusts relating to Kainos' share incentive plans are set out in note 23 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 20 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 regarding control.

Authority to purchase own shares
Kainos holds a general authority to purchase up to 11,892,035 of ordinary shares in the market. This represented approximately 10% of the Kainos' issued share capital as at 20 July 2018, as voted on and approved by shareholders at the 2018 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 2019 Kainos has complied with all of the provisions of the Code with the exception of the non-independence on appointment 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 16 May 2019, the last holding notified to the Company is shown below.

Investor	Ordinary 0.5p shares	% of issued share capital
QUBIS Ltd	15,441,170	12.8%
Brendan Mooney	14,206,541	11.7%
Standard Life Aberdeen plc	13,322,833	11.0%
Liontrust investment Partners LLP	13,069,835	10.8%
Paul Gannon	8,499,585	7.0%
Richard McCann	6,211,582	5.1%
Dr Brian Gannon	6,086,288	5.0%

Going concern and long term viability

Kainos' business activities and position in its market are described in the Overview, Divisional Review and Risks sections of the Strategic Report. The financial position, cash flows and liquidity position are described in the Financial 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 the 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
24 May 2019

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 2019 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 26.

The Company financial statements:

- The Company Statement of Financial Position;
- The Company Statement of Changes in Equity; and
- The related Company notes 1 to 26.

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 FRS101 "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.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition relating to misstatement of accrued and deferred revenue; • Recognition of research and development credits (RDECs); and • Appropriateness of transfer pricing rates.
Materiality	The materiality that we used for the Group financial statements was £1,051,000 which was determined on the basis of approximately 5% of profit before tax.
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 appropriateness of transfer pricing rates used. This reflects the increasing number of jurisdictions in which the Group is operating, with operations commencing in the current financial year in France and Canada.

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 principal 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 12 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 the prior year the mid-year implementation of the new financial management system was included as a separate key audit matter, however this was a matter discrete to the prior financial year, with the new system in place in the current period for the full financial year. A new key audit matter has been identified in relation to the appropriateness of transfer pricing rates.

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. Revenue could be misstated where the correct revenue recognition policies may not have been applied to contracts primarily due to the following factors: • Multi-element contracts may not have been correctly unbundled where they contain separable deliverables; • Accrued income balances recorded at year end may not reflect the appropriate level of revenue to be recognised at the balance sheet date; and • Revenue may not be deferred over the appropriate period for services contracts or where the related billed service has not yet been performed. 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: • 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; • Carried out a review of the appropriateness of revenue recognition policies adopted under IFRS including disclosures in the financial statements; • Testing 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; • Testing accrued income and deferred income to assess the appropriateness of accrued or deferred revenue as at the balance sheet date; and • Testing 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.

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. The Group avails of the UK research and development expenditure credit regime (RDEC) with recognised RDECs for the current period totalling £2.0 million. 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. 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: • Documented our understanding of management's processes 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; • 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; • Tested the validity of a sample of the costs on which the claims are based back to the clients' underlying workings; and • 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.

Appropriateness of Transfer Pricing Rates	
Key audit matter description	The global nature of the Group's business means it is subject to taxation in numerous jurisdictions and cross-border transactions can be challenged by taxation authorities resulting in tax exposures. As a result of the interaction of tax laws in different jurisdictions, there is significant complexity in determining the most appropriate transfer pricing rates and thus the appropriate tax liabilities in each. There is a risk that tax authorities could have different interpretations to those of the directors resulting in potential misstatement of taxation provisions. Refer to note 3 and 17 to the financial statements. The Audit Committee has included their assessment of this risk on page 39.

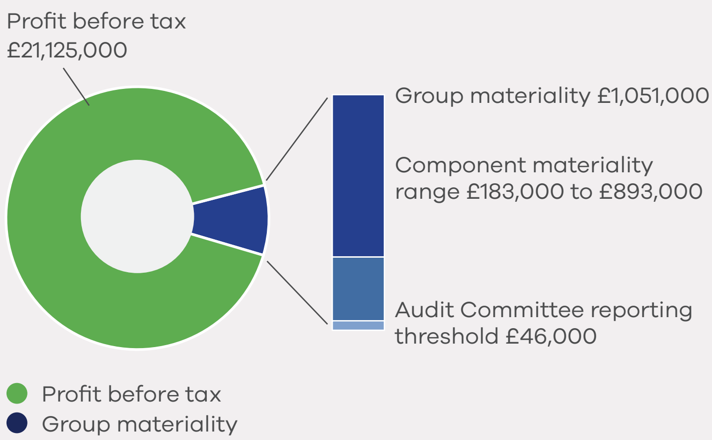
How the scope of our audit responded to the key audit matter	• We obtained an understanding of the Group's tax strategy and management's process for determining the appropriate transfer pricing rates applicable to cross-border transactions; • Assisted by our transfer pricing tax specialists, who are part of the audit team, we reviewed material cross-border intergroup agreements and transactions and the underlying data used in determining applicable royalty and mark-up rates and assessed the appropriateness of the royalties and mark-up rates being used; and • We challenged and evaluated management's assumptions and critical estimates and judgements in respect of tax exposures, based on the royalty and mark-up rates utilised and their interpretation of the relevant tax laws in jurisdictions where the Group has significant operations.
Key observations	• We have no observations that impact on our audit in respect of the amounts and disclosures related to the taxation provisions.

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	£1,051,000	£420,000
Basis for determining materiality	Approximately 5% of profit before tax	Approximately 1.2% of net assets
Rationale for the benchmark applied	Profit before tax 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 £46,000 for the Group and £21,000 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 £183,000 to £893,000.

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; and
- 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.

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 eight years covering the years ending 31 March 2012 to 31 March 2019.

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

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 2019

	Note	2019 (£000s)	2018 (£000s)
CONTINUING OPERATIONS			
Revenue	3,5	**151,294**	96,680
Cost of sales	5	**(82,189)**	(50,076)
GROSS PROFIT	5	**69,105**	46,604
Operating expenses excluding share-based payments	5	**(45,895)**	(31,308)
Share-based payments	23	**(2,196)**	(1,096)
Operating expenses		**(48,091)**	(32,404)
OPERATING PROFIT		**21,014**	14,200
Finance income		**111**	53
Finance expense		**–**	(2)
PROFIT BEFORE TAX		**21,125**	14,251
Taxation on ordinary activities	8	**(4,186)**	(2,585)
PROFIT FOR THE YEAR		**16,939**	11,666

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2019 (£000s)	2018 (£000s)
PROFIT FOR THE YEAR		**16,939**	11,666
Other comprehensive income:			
Currency translation difference		**240**	(201)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**17,179**	11,465
EARNINGS PER SHARE			
Basic	10	**14.3p**	10.0p
Diluted	10	**13.9p**	9.6p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	Note	2019 (£000s)	2018 (£000s)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**2,978**	2,109
Investments	13	**1,025**	1,025
Deferred tax assets	16	**1,310**	1,289
		5,313	4,423
CURRENT ASSETS			
Trade and other receivables	14	**29,302**	23,157
Prepayments		**2,652**	2,647
Accrued income	15	**11,305**	6,106
Cash and bank balances		**42,488**	28,961
		85,747	60,871
TOTAL ASSETS		**91,060**	65,294
CURRENT LIABILITIES			
Trade creditors and accruals	18	**(21,412)**	(13,039)
Deferred income	18	**(10,820)**	(6,993)
Corporation tax	18	**(2,755)**	(3,157)
Other tax and social security	18	**(6,514)**	(6,028)
		(41,501)	(29,217)
NON-CURRENT LIABILITIES			
Other provisions	18	**(1,392)**	(347)
		(1,392)	(347)
TOTAL LIABILITIES		**(42,893)**	(29,564)
NET ASSETS		**48,167**	35,730
EQUITY			
Share capital	20	**605**	593
Share premium account	20	**3,596**	1,702
Capital reserve	20	**665**	666
Share-based payment reserve		**3,895**	2,549
Translation reserve		**(210)**	(450)
Retained earnings	20	**39,616**	30,670
TOTAL EQUITY		**48,167**	35,730

Richard McCann
Director
24 May 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

	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 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 23)	–	–	–	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
Profit for the year	–	–	–	–	–	16,939	16,939
Other comprehensive income	–	–	–	–	240	–	240
Total comprehensive income for the year	–	–	–	–	240	16,939	17,179
Share-based payment expense (note 23)	–	–	–	1,346	–	–	1,346
Adjustments in relation to prior periods	–	–	–	–	–	33	33
Current tax for equity-settled share-based payments	–	–	–	–	–	899	899
Deferred tax for equity-settled share-based payments	–	–	–	–	–	(8)	(8)
Issue of share capital	12	1,894	(1)	–	–	–	1,905
Dividends	–	–	–	–	–	(8,917)	(8,917)
BALANCE AT 31 MARCH 2019	**605**	**3,596**	**665**	**3,895**	**(210)**	**39,616**	**48,167**

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2019

	2019 (£000s)	2018 (£000s)
NET CASH FROM OPERATING ACTIVITIES	22,520	14,152
Investing activities		
Purchases of trading investments	–	(125)
Purchases of property, plant and equipment	(2,016)	(1,130)
NET CASH USED IN INVESTING ACTIVITIES	(2,016)	(1,255)
Financing activities		
Dividends paid	(8,917)	(7,581)
Proceeds on issue of shares	1,905	76
NET CASH USED IN FINANCING ACTIVITIES	(7,012)	(7,505)
NET INCREASE IN CASH AND CASH EQUIVALENTS	13,492	5,392
Cash and cash equivalents at beginning of year	28,961	23,722
Effects of foreign exchange rate changes	35	(153)
CASH AND CASH EQUIVALENTS AT END OF YEAR	42,488	28,961

Net cash from operating activities

	2019 (£000s)	2018 (£000s)
Profit for the year	16,939	11,666
Adjustments for:		
Income tax expense	4,186	2,585
Share-based payment expense	2,196	1,096
Government grants released	–	(13)
Depreciation	1,147	976
(Profit)/loss on disposal of property, plant and equipment	(22)	47
Increase in provisions	1,045	50
Operating cash flows before movements in working capital	25,491	16,407
Increase in receivables	(11,215)	(8,087)
Increase in payables	10,146	7,370
Cash generated by operations	24,422	15,690
Income taxes (paid)	(1,902)	(1,538)
NET CASH FROM OPERATING ACTIVITIES	22,520	14,152

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 2006 and is registered in England and Wales (company registration number 09579188), having its registered office at 21 Farringdon Road, 2nd Floor, London, EC1M 3HA.

The 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 Financial Review and the notes to the financial statements.

The financial statements were authorised for issue by the directors on 24 May 2019.

2. Adoption of new and revised standards

At the date of authorisation of these financial statements, the following standards and interpretations were in issue and applicable to periods commencing on or after:

• IFRS9 Financial Instruments	1 January 2018
• IFRS15 Revenue from Contracts with Customers	1 January 2018

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue and applicable to periods commencing on or after:

• IFRS3 (Amendment) Definition of a Business	1 January 2020
• IFRS9 (Amendment) Prepayment Features with Negative Compensation	1 January 2019
• IFRS16 Leases	1 January 2019
• IFRS17 Insurance Contracts	1 January 2021
• AS1 (Amendment) Definition of Material	1 January 2020
• IAS8 (Amendment) Definition of Material	1 January 2020
• IAS19 (Amendment) Plan Amendment, Curtailment or Settlement	1 January 2019
• IAS28 (Amendment) Long-term Interests in Associates and Joint Arrangements	1 January 2019
• Annual Improvements to IFRS Standards 2015-2017 Cycle (Amendment)	1 January 2019
• IFRIC23 Uncertainty over Income Tax Treatments	1 January 2019
• Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020

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 is currently finalising the quantification of the impact that IFRS16 will have on its consolidated financial statements. All of the Group's leases are currently accounted for as operating leases, and the most significant leases, by value, are those for rented office space. The main impact on transition to the new standard will be a significant increase in the Group's total liabilities due to the recognition of a liability for the present value of future lease payments on these leases, and a corresponding increase in total assets for the right of use lease asset. Information on the Group's operating lease commitments and expense recognised in the year is included within note 21.

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 certain financial instruments which are carried at fair value. 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 depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The Group has adopted the five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. This involves identifying the contract with customers, identifying the performance obligations, determining the transaction price, allocating the price to the performance obligations within the contract and recognising revenue when the performance obligations are satisfied.

Revenue from the Group's activities is recognised as detailed below.

IFRS15 contains a new set of principles on when to recognise and measure revenue as well as new requirements related to presentation and disclosure. Prior to adoption, the Group performed detailed analysis of the impact of IFRS15 on the consolidated financial statements and no material impact was identified. Service revenue remains the largest revenue stream (88% of total revenue for the year ended 31 March 2019 (81% for the year ended 31 March 2018)) and the adoption of IFRS15 had no impact on revenue recognition. IFRS15 has also had no impact on revenue recognition for our other revenue streams, such as licence revenue and managed service revenue and no contract acquisition or contract fulfilment costs have been identified thus far that meet the criteria for capitalisation under IFRS15. As a result, there was no adjustment to retained earnings on application at 1 April 2018.

Unbilled revenue relates to work undertaken where the contract value is known but the billing has not yet occurred at the balance sheet date and is classified as a contract asset and is included within accrued income in the Consolidated Balance Sheet. Unearned revenue is classified as a contract liability and is included within deferred income in the Consolidated Balance Sheet. Amounts invoiced for services which will be performed over a period of time are deferred and recognised over the relevant period. Time and material projects are generally billed when the inputs are known so will therefore occur after the balance sheet date, which gives rise to accrued revenue at the balance sheet date. Payment for the services is generally on industry standard payment terms.

If the total estimated costs and revenues of a contract cannot be reliably estimated, revenue is recognised only to the extent that costs have been incurred and where the Group has an enforceable right to payment as work is being performed. A provision for forecast excess costs over forecasted revenue is made as soon as a loss is foreseen. On occasion, the Group may have a limited number of contracts where revenue is recognised on a percentage of completion basis, which is determined by reference to the costs incurred as a proportion of the total estimated costs of the contract. Due to the nature of the Group's business revenue is generally recognised over time and point in time revenue is not material.

Contract assets are represented by trade debtors (note 14) and accrued income and contract liabilities are represented by deferred income (note 18) and onerous contract provisions (note 18).

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. Where costs are anticipated to be in excess of revenues an onerous contract will be recognised.

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 generally recognised on a straight-line basis during the licence implementation period as are the licence fee and related implementation.

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 the presentation currency which is Pounds Sterling.

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.

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 up to five years
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.

Trade receivables

Trade receivables, which generally have 30- to 90-day credit terms, are initially recognised and carried at their original invoice amount less an allowance for any uncollectable amounts. Trade receivables are held for the collection of contractual cash flows that are solely payments of principal and interest on the principal amounts outstanding, are subsequently measured at amortised cost. Given the short lives of the trade receivables, there are generally no material fair value movements between initial recognition and the derecognition of the receivable. The Group assesses for doubtful debts (impairment) using the expected credit losses model as required by IFRS9. For trade receivables, the Group applies the simplified approach which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

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 23.

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.

IFRS9 replaced the classification and measurement models for financial instruments previously used in IAS39, including a new expected credit loss model for calculating impairment on financial assets. The vast majority of financial assets held are trade receivables and cash, which continue to be accounted for at amortised cost. Due to the general quality and short-term nature of trade receivables, the move from an incurred loss model to an expected loss model has not had a material impact. As permitted by IFRS9, the Group applies the simplified approach to measure expected credit losses which uses a lifetime expected loss allowance. The impact of adopting IFRS9 on the consolidated financial statements was not material for the Group and there was no adjustment to retained earnings on application at 1 April 2018.

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.

IFRS9 introduces an 'expected loss' model for the assessment of impairment of financial assets. The 'incurred loss' model under IAS39 required the Group to recognise impairment losses when there was objective evidence that an asset was impaired. Under the expected loss model, impairment losses are recorded if there is an expectation of credit losses, even in the absence of a default event. However, as permitted by IFRS9, the Group applies the 'simplified approach' to trade receivable balances. Due to the general quality and short-term nature of the trade receivables, there is no significant impact on introduction of the 'simplified approach'.

There has been no adjustment required on transition to IFRS9 to the loss allowance against financial assets.

Financial liabilities
Financial liabilities are initially measured at fair value, net of transaction costs. 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 equity shares, which are all unquoted equity investments, are stated at fair value.

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. 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 2019 equates to £2.1 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 23.

(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, whether there are future economic benefits beyond the current period, 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 (2018: nil). The total product development expenditure in the period is £4.3 million (2018: £4.9 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 2019 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:

2019 **12 months to 31 March**	Digital Services (£000s)	Digital Platforms (£000s)	Consolidated (£000s)
Revenue	**132,587**	**18,707**	**151,294**
Cost of sales	**(73,961)**	**(8,228)**	**(82,189)**
GROSS PROFIT	**58,626**	**10,479**	**69,105**
Direct expenses[12]	**(16,926)**	**(9,938)**	**(26,864)**
CONTRIBUTION	**41,700**	**541**	**42,241**
Central overheads[12]			**(18,920)**
ADJUSTED PRE-TAX PROFIT			**23,321**

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

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

Reconciliation of adjusted pre-tax profit to profit before tax

	2019 (£000s)	2018 (£000s)
ADJUSTED PRE-TAX PROFIT	23,321	15,347
Share-based payments	(2,196)	(1,096)
PROFIT BEFORE TAX	21,125	14,251

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

	2019 (£000s)	2018 (£000s)
United Kingdom	122,304	76,478
Republic of Ireland	5,827	6,632
US	10,597	6,715
Other	12,566	6,855
	151,294	96,680

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 £21.1 million (or 14%) of total Group revenue during 2019 (2018: £4.4 million or 5%). Digital Services client ("Customer B") accounted for £13.6 million (or 9%) of total 2019 Group revenue (2018: £12.6 million or 15%). No other single customer contributed 10% or more to the Group's consolidated revenue during the period 31 March 2019.

6. Profit for the year

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

	2019 (£000s)	2018 (£000s)
Total staff costs (note 7)	73,899	55,881
Government grants	(984)	(3,076)
Operating lease rentals (note 21)	2,272	1,499
Research and development costs	4,321	4,909
Research and Development Expenditure Credit grant	(2,014)	(2,781)
Depreciation of property, plant and equipment (note 11)	1,147	976
Net foreign exchange (gain)/loss	(69)	43

The analysis of auditor's remuneration is as follows:

	2019 (£000s)	2018 (£000s)
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**60**	57
Fees payable to the Group's auditor for the audit of subsidiaries	**42**	32
Total audit fees	**102**	89
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	**118**	105
Non-audit fees	**–**	–
Total audit and non-audit fees	**118**	105
Total % of non-audit fees	**0%**	0%

7. Staff numbers and costs

The average number of employees during the year was:

	2019 Number	2018 Number
Technical	**1,004**	780
Administration	**115**	129
Sales	**59**	55
	1,178	964

Their aggregate remuneration comprised:

	2019 (£000s)	2018 (£000s)
Wages and salaries	**62,627**	47,037
Social security costs	**7,128**	6,192
Other pension costs	**1,948**	1,556
Share-based payments	**2,196**	1,096
	73,899	55,881

8. Tax on ordinary activities

	2019 (£000s)	2018 (£000s)
Corporation tax:		
Current year (UK)	**3,657**	2,434
Current year (overseas)	**599**	489
Adjustments in respect of prior years	**(33)**	19
	4,223	2,942
Deferred tax (note 17)	**(37)**	(357)
	4,186	2,585

UK corporation tax is calculated at 19% (2018: 19%) 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 2019 was 20% (2018: 18%).

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:

	2019 (£000s)	2018 (£000s)
Profit before tax on continuing operations	**21,125**	14,251
Tax at the UK corporation tax rate of 19% (2018: 19%)	**4,014**	2,708
Non-deductible expenses	**66**	19
Non-taxable income	**(1)**	–
Effect of foreign exchange on consolidation	**29**	(91)
Effect of non-UK tax rates	**17**	98
Movement in prior year unrecognised deferred tax assets	**15**	(218)
Adjustments to tax charge in respect of prior years	**46**	34
Change in UK tax rates	**–**	35
Tax expense for the year	**4,186**	2,585

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

	2019 (£000s)	2018 (£000s)
CURRENT TAX		
Permanent element of stock option deduction	**899**	82
DEFERRED TAX		
Adjustments in respect of previous periods	**–**	28
Deferred tax on stock option	**(8)**	578
Total tax recognised directly in equity	**891**	688

9. Dividends

	2019 (£000s)	2018 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2019 of 2.8p per share	3,382	–
Final dividend for 2018 of 4.6p per share	5,535	–
Interim dividend for 2018 of 2.0p per share	–	2,371
Final dividend for 2017 of 4.4p per share	–	5,215
	8,917	7,586

The proposed final dividend for 2019 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 6.5p and payable on 25 October 2019 to shareholders on the register on 27 September 2019, with an ex-dividend date of 26 September 2019.

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.

	2019 (£000s)	2018 (£000s)
Profit for the period	16,939	11,666

	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	118,318	117,231
Effect of dilutive potential ordinary shares from share options	3,250	3,668
Weighted average number of ordinary shares for the purposes of diluted earnings per share	121,568	120,899
Basic earnings per share	14.3p	10.0p
Diluted earnings per share	13.9p	9.6p

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

	2019 (£000s)	2018 (£000s
Profit for the period	16,939	11,666
Share-based payments (net of associated taxes)	1,823	910
Adjusted profit for the period	18,762	12,576

	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	118,318	117,231
Effect of dilutive potential ordinary shares from share options	3,250	3,668
Weighted average number of ordinary shares for the purposes of diluted earnings per share	121,568	120,899
Adjusted basic earnings per share	15.9p	10.7p
Adjusted diluted earnings per share	15.4p	10.4p

11. Property, plant and equipment

	Leasehold property (£000s)	Office equipment (£000s)	Fixtures and fittings (£000s)	Total (£000s)
At 1 April 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
Additions	185	1,831	–	2,016
Disposals	–	(419)	–	(419)
At 31 March 2019	**2,727**	**4,858**	**1,317**	**8,902**
Accumulated depreciation				
At 1 April 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
Charge for the year	59	957	131	1,147
Eliminated on disposals	–	(419)	–	(419)
At 31 March 2019	**2,115**	**2,654**	**1,155**	**5,924**
Carrying amount				
At 31 March 2019	**612**	**2,204**	**162**	**2,978**
At 31 March 2018	486	1,330	293	2,109
At 31 March 2017	518	1,072	412	2,002

12. Subsidiaries

The subsidiary undertakings at 31 March 2019 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%
Kainos Worksmart Canada Inc	Canada	500–20 Wellington Street East, Toronto, ON, M5E 1C5	Software development	100%
Kainos Worksmart SAS	France	3-5 Rue Saint Georges TMF Pole 750008, Paris, France	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.

13. Investments

The Group has unlisted investments as follows:

	2019 (£000s)	2018 (£000s)
Carrying value	**1,025**	1,025

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

	2019 (£000s)	2018 (£000s)
Trade receivables	**26,216**	19,738
Allowance for doubtful debts	**(53)**	–
	26,163	19,738
Other receivables	**3,139**	3,419
	29,302	23,157

Included in trade receivables are the following amounts from significant customers listed in note 5 above (Segment Reporting): Customer A – 2019: £3.4 million (2018: £0.6 million) and Customer B – 2019: £2.7 million (2018: £3.0 million). In addition to Customer A and B there are three further customers who represent greater than 5% of the total balance of trade receivables as at 31 March 2019.

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 receivables which are past due but not impaired is shown below:

	2019 (£000s)	2018 (£000s)
31-60 days	**522**	3,301
61-90 days	**518**	983
91+ days	**2,204**	26
Sub-total	**3,244**	4,310

The aged 90+ days receivable balance includes £2.0 million of overdue amounts for services invoiced and not yet performed with a corresponding balance booked to deferred income.

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

	2019 (£000s)	2018 (£000s)
91+ days	**53**	–

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

	2019 (£000s)	2018 (£000s)
Balance at the beginning of the period	**–**	15
Impairment losses recognised	**53**	–
Amounts recovered during the year	**–**	(15)
Balance at the end of the period	**53**	–

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 with the customer base consisting primarily of government bodies, state agencies and blue-chip corporates.

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of the conditions at the reporting date.

15. Accrued income

	2019 (£000s)	2018 (£000s)
Accrued income	**11,305**	6,106
	11,305	6,106

All accrued income relates to contractual revenue recognised in the income statement.

16. Other non-current assets

	2019 (£000s)	2018 (£000s)
Deferred tax asset (note 17)	**1,310**	1,289
	1,310	1,289

17. 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 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 1 April 2018	(20)	899	27	383	1,289
Foreign exchange differences	–	–	(4)	(3)	(7)
Debit to retained earnings	–	(9)	–	–	(9)
Credit/(debit) to profit	34	(17)	(23)	43	37
At 31 March 2019	**14**	**873**	**–**	**423**	**1,310**

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:

	2019 (£000s)	2018 (£000s)
Deferred tax liabilities	**–**	(20)
Deferred tax assets	**1,310**	1,309
	1,310	1,289

18. Trade and other payables

	2019 (£000s)	2018 (£000s)
Trade creditors and accruals	**21,412**	13,039
Deferred income	**10,820**	6,993
Corporation tax	**2,755**	3,157
Other tax and social security	**6,514**	6,028
	41,501	29,217

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

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.

There was no revenue recognised in the current reporting period that related to performance obligations that were satisfied in a prior year. All deferred income is recognised within 12 months.

Other provisions are analysed as follows:

	2019 (£000s)	2018 (£000s)
Property-related provision	**394**	347
Onerous contract provision	**998**	–
	1,392	347

	2019 (£000s)	2018 (£000s)
Current	**771**	–
Non-current	**621**	347
	1,392	347

	Property-related provision (£000s)	Onerous contract provision (£000s)	Total (£000s)
At 1 April 2018	347	–	347
Additional provision in the year	47	998	1,045
At 31 March 2019	**394**	**998**	**1,392**

Property-related provision
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.

Onerous contract provision
Regular review of all customer contracts identified one loss-making contract. Management have determined that the costs of completing the contract exceed expected revenues resulting in an expected total loss of £1.0 million. The total loss has been provided for in 'other provisions' in accordance with IAS37. The directors are satisfied with this approach and have assessed that the total provision is reasonable.

19. Contingent liability

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

20. Share capital and reserves

Share capital

	2019 (£000s)	2018 (£000s)
ISSUED AND FULLY PAID:		
Ordinary shares		
Opening balance	**593**	592
Issued during the year	**12**	1
Total share capital	**605**	593

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 2019, the Company has 121,009,439 ordinary shares (2018: 118,575,272) with a nominal value of £0.005 each.

Share premium account

	(£000s)
Balance at 31 March 2018	1,702
Issue of share capital at a premium	1,894
Balance at 31 March 2019	3,596

Capital reserve account

	(£000s)
Balance at 31 March 2018	666
Issue of share capital	(1)
Balance at 31 March 2019	665

Retained earnings

	(£000s)
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
Deferred tax equity movement	(8)
Current tax equity movement	899
Adjustments in respect of previous periods	33
Dividends paid	(8,917)
Profit for the year	16,939
Balance at 31 March 2019	**39,616**

21. Operating leases

The Group as a lessee

	2019 (£000s)	2018 (£000s)
Lease payments recognised as an expense in the year	**2,272**	1,499

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

	2019 (£000s)	2018 (£000s)
Within one year	**2,307**	1,326
In the second to fifth years inclusive	**1,717**	1,440
Greater than five years	**–**	–
	4,024	2,766

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.

22. Capital commitments

Significant capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	2019 (£000s)	2018 (£000s)
Land	**6,692**	–

During the financial year the Group entered negotiations to purchase a site with intention of constructing a new headquarter office in Belfast. Included in this amount are existing commitments outstanding.

23. 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 10 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 10 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.

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 2019**	Granted during year to 31 March 2018	Granted during year to 31 March 2017
Fair value	**£2.42-£3.84**	£0.88-£2.41	£0.50-£1.38
Share price at grant	**£4.19**	£2.82	£1.62
Expected volatility	**31%**	30%	30%
Expected life (years)	**3.5**	3.5	3.5
Expected dividends per annum	**2.3%**	3.0%	3.1%

CSOP	Granted during year to 31 March 2019	Granted during year to 31 March 2018	Granted during year to 31 March 2017
Fair value	**£0.97**	£0.54	£0.28 - £0.38
Share price at grant	**£4.19**	£2.87	£1.62 - £2.06
Expected volatility	**31%**	30%	30%
Expected life (years)	**5**	5	5
Expected dividends per annum	**2.3%**	3%	3.1%

UK SAYE	Granted during year to 31 March 2019	Granted during year to 31 March 2018	Granted during year to 31 March 2017
Fair value	**£1.13**	–	–
Share price at grant	**£4.19**	–	–
Expected volatility	**31%**	–	–
Expected life (years)	**3.25**	–	–
Expected dividends per annum	**2.3%**	–	–

ROI share options	Granted during year to 31 March 2019	Granted during year to 31 March 2018	Granted during year to 31 March 2017
Fair value	**£1.13**	–	–
Share price at grant	**£4.19**	–	–
Expected volatility	**31%**	–	–
Expected life (years)	**3.25**	–	–
Expected dividends per annum	**2.3%**	–	–

Poland share options	Granted during year to 31 March 2019	Granted during year to 31 March 2018	Granted during year to 31 March 2017
Fair value	**£1.15**	–	£0.72
Share price at grant	**£4.19**	–	£1.90
Expected volatility	**31%**	–	30%
Expected life (years)	**3.5**	–	3.5
Expected dividends per annum	**2.3%**	–	2.63%

Restricted shares	UK SIP (000s)	ROI (000s)	Poland conditional share awards (000s)	Total (000s)
Outstanding at 31 March 2018	1,131	53	337	1,521
Granted during period	275	8	75	358
Exercised during the period	(103)	–	(139)	(242)
Forfeited during the period	(72)	(8)	(46)	(126)
Outstanding at 31 March 2019	**1,231**	**53**	**227**	**1,511**

	PSP (000s)	CSOP (000s)	UK SAYE (000s)	ROI share options (000s)	Poland share options (000s)	Total (000s)
Outstanding at 31 March 2018	1,836	1,021	907	55	298	4,117
Granted during the period	144	67	532	20	229	992
Exercised during the period	(562)	(428)	(878)	(45)	(246)	(2,159)
Forfeited during the period	(566)	(31)	(59)	–	(52)	(708)
Outstanding at 31 March 2019	**852**	**629**	**502**	**30**	**229**	**2,242**

The Group recognised total expenses of £2.2 million related to share-based payment transactions during the year (2018: £1.1 million).

The weighted average share price at the date of exercise for share options exercised during the period was £3.93 per share.

24. 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 £1.9 million (2018: £1.6 million) represents contributions payable to these funds by the Group at rates specified in the rules of the schemes. As at 31 March 2019, contributions of £693,840 (2018: £21,000) were payable to the funds and are included in trade creditors and accruals (note 18).

25. 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 2018 to 31 March 2019. 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, 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 and US Dollars. 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 2019 are as follows:

	Liabilities		Assets	
	2019 (£000s)	2018 (£000s)	**2019 (£000s)**	2018 (£000s)
Polish Zloty	**1,773**	1,422	**1,196**	1,314
Euro	**3,315**	2,104	**6,825**	5,197
US Dollar	**7,039**	3,447	**7,125**	5,502

Foreign currency sensitivity analysis

The Group is mainly exposed to the currency of Poland (Polish Zloty currency), Ireland and Germany (Euro currency), 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		PLN impact		USD impact	
	2019 (£000s)	2018 (£000s)	**2019 (£000s)**	2018 (£000s)	**2019 (£000s)**	2018 (£000s)
1% increase in strength of Sterling	**35**	31	**(6)**	(1)	**1**	21

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 2019 (2018: nil).

The Group does not currently hedge expected future revenue denominated in Euro 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 £110,549 during the year ended 31 March 2019 (2018: £53,000).

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 three further customers that represent greater than 5% of the total balance of trade receivables as at 31 March 2019.

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.

All financial liabilities of the entity will be settled within 12 months of the financial year end.

26. 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	
	2019 (£000s)	2018 (£000s)	**2019 (£000s)**	2018 (£000s)
Cirdan Imaging Limited	**750**	685	**–**	–
Queen's University Belfast	**–**	–	**299**	259
Total	**750**	685	**299**	259

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

	Amounts owed by related parties		Amounts owed to related parties	
	2019 (£000s)	2018 (£000s)	**2019 (£000s)**	2018 (£000s)
Cirdan Imaging Limited	**199**	395	**–**	–

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.

	2019 (£000s)	2018 (£000s)
Short-term employee benefits (emoluments)	**1,512**	1,495
Post-employment benefits (pension contributions)	**31**	32
Gains on exercise of share options	**889**	–
Share-based payments	**165**	105
	2,597	1,632

One director is a member of the Group's defined contribution pension schemes (2018: one). Three directors exercised options over shares in the Group (2018: none). Remuneration of the highest paid director was £516,607 (2018: £525,000), including pension contributions of £30,872 (2018: £32,000). The highest paid director exercised 101,510 share options in the year (2018: none).

Aggregate directors' remuneration

	2019 (£000s)	2018 (£000s)
Salaries, fees, bonuses and benefits in kind	**1,512**	1,495
Amounts receivable under long-term incentives schemes	**165**	105
Gains on exercise of share options	**889**	–
Money purchase pension contributions	**31**	32
	2,597	1,632

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

	Note	**2019 (£000s)**	2018 (£000s)
NON-CURRENT ASSETS			
Investments in subsidiaries	3	**6,524**	6,524
Deferred tax		**–**	176
		6,524	6,700
CURRENT ASSETS			
Debtors	4	**18,123**	23,730
Prepayments		**35**	23
Cash at bank and in hand		**17,008**	1,511
		35,166	25,264
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	5	**(874)**	(850)
NET CURRENT ASSETS		**34,292**	24,414
TOTAL ASSETS LESS CURRENT LIABILITIES		**40,816**	31,114
NET ASSETS		**40,816**	31,114
CAPITAL AND RESERVES			
Called up share capital	6	**605**	593
Share premium account	6	**3,596**	1,700
Share-based payments reserve	6	**3,895**	2,549
Capital reserve	7	**5,938**	5,938
Profit and loss account	8	**26,782**	20,334
SHAREHOLDERS' FUNDS		**40,816**	31,114

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 £15.4 million (2018: £15.8 million).

The financial statements of Kainos Group plc (registered number 09579188) were approved by the Board of Directors and authorised for issue on 24 May 2019. They were signed on its behalf by:

Richard McCann
Director
24 May 2019

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 2017	592	1,626	1,279	5,939	12,158	21,594
Issue of share capital (note 6)	1	74	–	(1)	–	74
Share-based payments (note 6)	–	–	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
Issue of share capital (note 6)	12	1,896	–	–	–	1,908
Share-based payments (note 6)	–	–	1,346	–	–	1,346
Profit and total comprehensive income	–	–	–	–	15,365	15,365
Dividends paid	–	–	–	–	(8,917)	(8,917)
Balance at 31 March 2019	**605**	**3,596**	**3,895**	**5,938**	**26,782**	**40,816**

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 £15.4 million (2018: £15.8 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, Brendan Mooney and Richard McCann (2018: 2).

	2019 (£000s)	2018 (£000s)
Wages and salaries	**977**	779
Social security costs	**70**	14
	1,047	793

Further information about share-based payments is provided in note 23 to the consolidated financial statements.

3. Investments in subsidiaries

	(£000s)
COST	
At 31 March 2018 and 31 March 2019	**6,524**
Provisions for impairment	
At 31 March 2018 and 31 March 2019	**–**
Carrying amount	
At 31 March 2018 and 31 March 2019	**6,524**

Details of the Group's subsidiaries at 31 March 2019 are included in note 12.

4. Debtors

	2019 (£000s)	2018 (£000s)
AMOUNTS FALLING DUE WITHIN ONE YEAR:		
Amounts owed from Group undertakings	**18,114**	23,730
Trade receivables	**9**	–
	18,123	23,730

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.

Amounts owed from group undertakings are assessed for credit risks and no impairments noted as being required.

5. Creditors: Amounts falling due within one year

	2019 (£000s)	2018 (£000s)
Trade creditors and accruals	**861**	550
Corporation tax	**–**	284
Other tax and social security	**13**	16
	874	850

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 20 of the consolidated financial statements.

7. Capital reserve

The movements in the reserve are disclosed in note 20 of the consolidated financial statements.

8. Profit and loss account

	2019 (£000s)	2018 (£000s)
Opening balance	**20,334**	12,158
Dividends paid	**(8,917)**	(7,581)
Deferred tax equity movement	**–**	109
Adjustments in respect of previous periods	**–**	(174)
Profit for the period	**15,365**	15,822
	26,782	20,334

COMPANY INFORMATION

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