2020

Annual Report

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

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

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

Kainos has over 1,700 people across 15 offices in Europe and North America.

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

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

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COVID-19 IMPACT

The end of FY20 brought the impact of the Coronavirus pandemic to our business. Throughout the Coronavirus pandemic our priorities have been ensuring the wellbeing of our people and supporting our customers in these difficult times.

We invoked our response plan on 5 March 2020, implementing home working for over 1,700 staff in a seamless fashion and without disruption to our customer projects. We are grateful for the active agreement of our customers in placing our people in the safest possible environment to provide ongoing support for all our customer engagements.

We anticipate that our customers in the public sector and in healthcare will likely be more robust than those in other sectors during this crisis. Nevertheless, we feel it is important to be prudent and manage the cost base, without limiting our longer-term growth prospects.

Therefore, Kainos has implemented several cost and cash containment measures, which include placing staff on furlough, pausing recruitment and reducing all non-essential expenditure, including deferment of the capital investment relating to the proposed new office in Belfast. These will result in significant cost savings on the prior year cost run-rate.

Given the backdrop, several measures have also been taken in relation to remuneration to ensure further cost containment. Across the Group, pay increases have been deferred until 2021 and bonus schemes have been curtailed. Additionally, for a period of six months, effective 1 April 2020, the Executive Directors (CEO, CFO and SVP Business Development) have elected to take no salary or bonus, the remaining members of the Executive Team have reduced their compensation by 50% and the Non-Executive Board members have reduced their fees by 20%.

Notwithstanding our strong cash balance (£40.8 million) and the cost reduction measures already implemented, in order to preserve the Group's liquidity during this period, the Board considers it prudent to maintain flexibility on dividends at this stage. Accordingly, the Board has decided not to declare a final dividend for FY20 and to take the opportunity to review the dividend position later in the year, when the impact of the Coronavirus pandemic becomes clearer.

OPERATIONAL HIGHLIGHTS

- **A strong performance, representing the tenth consecutive year of growth in revenue and adjusted pre-tax profit.**
  - Revenue growth of 18% (17.5% organic) to £178.8 million (2019: £151.3 million).
  - Adjusted pre-tax profit increased 9% to £25.5 million (2019: £23.3 million).
- **Very strong sales execution continues to underpin further revenue growth.**
  - Sales orders up 42% to £243.6 million (2019: £171.7 million).
  - Contracted backlog growth of 47% to £180.0 million (2019: £122.2 million).
- **Revenue diversification continues, across a number of segments.**
  - International revenues up 72% to £39.9 million (2019: £23.2 million).
  - Commercial revenues up 58% to £63.1 million (2019: £40.0 million).
  - Healthcare revenues up 9% to £23.3 million (2019: £21.4 million).
  - SaaS and software-related revenues up 57% to £24.9 million (2019: £15.9 million).
- **Solid revenue growth in Digital Services, up 4% to £122.5 million (2019: £117.3 million).**
  - Significant ongoing engagements in UK government's digital transformation programme.
- **Very strong revenue growth in Workday Practice, up 66% to £56.3 million (2019: £34.0 million).**
  - Smart revenues increased by 69% to £19.1 million (2019: £11.3 million).
  - Further strengthening of position as the leading European Workday specialist; building presence in North America.
  - Completed the acquisitions of Formulate (UK), IntuitiveTEK (USA) and Implexa (Germany) to enhance the Adaptive Insights practice. These contributed £1.1 million of revenue during the period.
- **Research and development expenditure of £3.9 million expensed (2019: £4.3 million).**
- **Customer approval rated as 'good' or better by 97% of customers (2019: 91%).**
- **Headcount of 1,715, up 17% (2019: 1,470 people).**
- **Highly cash generative with cash conversion of 97% (2019: 100%) and period-end net cash of £40.8 million (2019: £42.5 million).**
  - This includes outlay of £7.4 million for the purchase of a site for the development of Kainos' future Belfast office at Bankmore Square.

FINANCIAL HIGHLIGHTS

	2020	2019	Change
Revenue	£178.8m	£151.3m	+18%
Adjusted pre-tax profit[1]	£25.5m	£23.3m	+9%
Statutory profit before tax	£23.2m	£21.1m	+10%
Cash	£40.8m	£42.5m	-4%
Sales orders	£243.6m	£171.7m	+42%
SaaS sales orders	£30.5m	£18.4m	+66%
Backlog[2]	£180.0m	£122.2m	+47%
Adjusted diluted earnings per share[1] (note 10)	16.6p	15.4p	+8%
Diluted earnings per share	15.1p	13.9p	+9%
Total dividend	3.5p	9.3p	-62%

1 Adjusted measures are based on reported statutory profit numbers excluding the effect of share-based payments and acquisition-related expenses. 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

Notwithstanding the near-term uncertainty generated by the Coronavirus pandemic, the Board believes that the Group is well-positioned for growth.

We are delighted to have achieved our tenth consecutive year of growth and we extend our thanks to our ambitious customers and talented colleagues who have made the achievement of this significant milestone possible.

While not having a significant impact on FY20, during March 2020 we started to see the impact of the Coronavirus pandemic on the global economy. It is too early to predict the duration or the severity of the economic disruption and the impact it will have on our customers. We maintain confidence in our strategy and believe that we have reacted to the uncertainty of the current situation swiftly and prudently, leaving us well positioned when the economic impacts of the Coronavirus pandemic on the broader economy begin to recede.

In Digital Services we continue to deliver significant programmes in partnership with the UK government and with leading commercial and healthcare clients. In what is now a familiar pattern, our growth is fuelled by demand from both existing and new clients, such as Quantexa Ltd, The Pensions Regulator and Intelligent Growth Solutions.

Within the Workday Practice 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. 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 Match Group and Scotts Miracle-Gro as customers during the year. To support our growing international client base, we have opened offices in Indianapolis, Hamburg and Denver, and we now operate from a total of 10 international offices.

As a Group, we remain focused on providing exceptional careers for our staff and exceptional services to our customers. Notwithstanding the near-term uncertainty generated by the Coronavirus pandemic, the Board believes that the Group is well-positioned for growth.

Dr Brendan Mooney
Chief Executive Officer

Business strategy

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

People

The fundamental component of our strategy is our people. Our business is successful because of the talent, skill and motivation of our colleagues as they deliver on commitments to external and internal customers.

We will continue to recruit high calibre people, from school, college and industry; we will continue to invest in developing their skills and careers and we will continue to strive to be a great employer.

Customers

Our business model is based on the conviction that by delivering consistently to our customers we will build long-lasting, mutually beneficial relationships that will see us thrive as a business.

These relationships are built, not only on a reputation for delivery, but on exemplary customer service. By being responsive to and supportive of our customers' complex and changing business needs, we reinforce the strength of our relationships.

Therefore, our purpose is to help our customers with their most challenging projects and, together with our partners, help them build the capability to succeed in the digital age.

Markets

We are a growth-orientated business and, while we are always confident of growing market share in subdued markets, we naturally orientate towards higher growth and dynamic markets. It is in these markets where the talents of our people shine the brightest and opportunities for growth are the strongest.

We have, deliberately, developed from a national to an international organisation, both internally and in the customers and markets that we serve. We expect our international presence to expand in terms of people and locations.

It is our preference to grow organically within our markets; we will undertake acquisitions only in exceptional circumstances, for instance to obtain unique skills.

Our ambition is to be a global, independent company operating towards the disruptive end of technology, that will thrive not just today, but for generations.

Innovation

Markets and opportunities never remain static. This reality, coupled with our growth ambition, requires us to actively seek out new opportunities for our business.

Our innovation activity will focus on incremental improvement within our existing business streams and, informed by our foresight activity, identify new and separate opportunities.

Overview

The financial results for the year ended 31 March 2020 represent the tenth consecutive year of revenue and adjusted pre-tax profit growth; our success in winning projects with new and existing customers provides an excellent platform for future growth.

Revenue for the year ended 31 March 2020 grew by 18% to £178.8 million (2019: £151.3 million). Adjusted pre-tax profits increased by 9% to £25.5 million (2019: £23.3 million), which also included £3.9 million in R&D expensed in the year (2019: £4.3 million).

The Group finished the year with a strong net cash balance of £40.8 million at 31 March 2020 (2019: £42.5 million), representing 97% cash conversion (2019: 100%).

Sales orders for this period amounted to £243.6 million (2019: £171.7 million), a total that included £30.5 million (2019: £18.4 million) of SaaS product sales orders, an increase of 66%. The contracted backlog for the Group increased significantly by 47% to £180.0 million (2019: £122.2 million). The proportion of revenue generated from customers outside the UK increased by 72% in 2020 and now accounts for 22% of total Group revenue (2019: 15%).

Staff and contractor numbers increased by 17% to 1,715 at 31 March 2020 (2019: 1,470). The Group continues to attract very strong interest from both graduates and experienced senior candidates in key employment markets, with the majority of people joining Kainos recruited directly rather than via recruitment agencies. Employee engagement remains high, with the Group placing 86th in the Sunday Times 'Best Companies to Work For' survey. Employee retention across the Group rose to 90% (2019: 85%).

Customer satisfaction remains high, with 97% 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 87% of Group revenue (2019: 88%). In the year to 31 March 2020, the Group acquired 103 new customers, making a total of 465 active customers.

From a Group perspective, 52% of revenue is derived from public sector customers (2019: 59%), 35% from commercial sector (2019: 27%) and 13% from healthcare (2019: 14%).

Revenue 2020

£178.8m

2019

£151.3m

Divisional review

Kainos operates across two specialist business areas:

- Our Digital Services division focuses on the delivery of customised online digital solutions, principally for public sector, commercial sector and healthcare organisations. The solutions provided are highly cost-effective and make public-facing services more accessible and easier to use for the citizen and customer.
- The Workday Practice is closely linked to Workday Inc's software suite, which includes cloud-based software for Human Capital Management ("HCM"), Financial Management and Planning that enables enterprises to organise their staff efficiently and to support financial reporting requirements. The division comprises two areas of activity, the provision of consulting services ("Workday Services") and the Smart Automated Testing Platform ("Smart") that allows Workday customers to automatically verify their Workday configuration.

As outlined in our Interim Results, we have opted to amend our reporting structure, now grouping our business as Digital Services (formerly reported as Digital Transformation and Evolve) and Workday Practice (previously reported as Workday Implementation and Smart).

This revised reporting structure reflects our internal operational grouping, but more importantly reflects how our customers interact with the Group – Smart customers are increasingly seeking Workday consulting services and vice versa. We expect this trend to accelerate in subsequent years.

We have shown a reconciliation of the revised reporting and previous reporting structures in note 31 of the consolidated financial statements.

Digital Services

Revenue for the period grew by 4% to £122.5 million (2019: £117.3 million), sales orders increased 38% to £169.3 million (2019: £122.7 million) with backlog increased by 48% to £123.5 million (2019: £83.6 million).

Public sector

In the public sector, the financial year was overshadowed by an unsettled environment which included the UK Conservative Party leadership contest, the general election and the uncertainty generated by the Brexit debate.

Against this backdrop, our revenues increased by 2% to £86.4 million (2019: £84.6 million), which is consistent with previous Company guidance – that the number of new projects started in the public sector might decrease, but existing programmes were unlikely to be impacted.

Within central government, Kainos continues to consolidate a strong position across key accounts, extending services to deliver a number of the most high-profile digital programmes including the Passport Application service for Home Office and the future theory testing services for DVSA. In the period, we also increased our presence in large-scale digital services adding new projects such as Late Filing Penalties Appeal Service for Companies House and data migration for The Pensions Regulator.

Commercial sector

We continue to make progress in building our presence in the commercial sector, with revenues up 15% to £15.3 million (2019: £13.3 million). In addition to ongoing demand with existing clients, contracts have been signed with Quantexa Ltd, Canada Life Group Services and Gulf Agency Company.

Healthcare sector

Healthcare revenues, including Evolve, increased by 7% to £20.8 million (2019: £19.4 million). Kainos continues to enjoy a strong partnership with NHS Digital, having been awarded the renewal of the NHS App programme and having secured a second key project to deliver the National Integration Adaptor programme. As the NHS has responded to the pandemic, Kainos has been working closely with NHS Digital to help deliver a number of urgent requirements to support the NHS response. Through the year, Kainos also added to its Evolve client base with the addition of Children's Health Ireland.

Digital Services outlook

In the near-term, the digital services horizon is dominated by Covid-19. We anticipate that our customers in this public sector and in healthcare will likely be more robust than those in other sectors during this crisis. We continue to support our customers in responding to immediate requirements resulting from the pandemic – from Covid-19 amendments to the NHS App; supporting consular services for UK citizens living or stranded overseas; to emergency passport applications for urgent and compassionate reasons.

In the medium-term, 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.

Outside of the UK public sector, a growing reputation in the commercial sector and opportunities supporting NHS Digital and NHSx are expected to generate further long-term growth for the Group.

Workday Practice

Kainos first engaged with Workday Inc. in 2010 and is now one of the most experienced participants in Workday's partner ecosystem. Kainos remains the only specialist Workday partner headquartered in the UK and one of only 32 partners globally accredited to implement Workday's innovative SaaS platform.

The Workday Practice comprises two areas of activity:

- **Workday Services:** 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"), Financial Management and Planning that enables enterprises to organise their staff efficiently and to support financial reporting requirements.
- **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.

Revenue for the period grew by 66% to £56.3 million (2019: £34.0 million), sales orders increased 52% to £74.3 million (2019: £49.0 million) and backlog for the division increased by 46% to £56.5 million (2019: £38.6 million).

Adjusted pre-tax profit 2020

£25.5m

2019

£23.3m

The number of accredited Workday consultants increased by 51% to 380 people (2019: 251 people).

Workday Services

Within Europe, Kainos continues to consolidate its position as a leading Workday partner. 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[3].

Kainos has continued its geographic expansion, with the opening of an office in Paris in 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).

In North America, Kainos has been an appointed partner in Canada since 2018, opening an office in Toronto to support the expansion in this market. Within the US, Kainos has offices in Denver, Indianapolis and Atlanta. In total the Workday Practice had 106 people based in North America as at year end.

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 £17.0 million revenue (2019: £8.8 million).

Adaptive Insights

In June 2018, Workday Inc purchased Adaptive Insights for $1.6 billion. Adaptive Insight's Business Planning Cloud is a leading cloud-based platform for modernising business planning, used by over 4,700 customers worldwide.

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

We anticipate that our SaaS-related revenues in Smart will remain robust.

During the reporting period, Kainos completed the acquisition of three leading Adaptive Insights consulting organisations: Formulate (UK, 16 people), Implexa (Germany, 5 people) and IntuitiveTEK (USA, 38 people), creating one of the largest Adaptive Insights practices globally. In total the three contributed £1.1 million of revenue for the Group during the period.

In March 2020 Adaptive Insights announced IntuitiveTEK as Global Solution Provider of the Year and Formulate as EMEA Solution Provider of the Year (having placed second globally).

Adaptive Insight's Business Planning Cloud can be deployed as an integrated part of the Workday Suite to an existing Workday customer, or independently as a standalone platform for non-Workday customers.

By acquiring these businesses, Kainos has strengthened its capabilities to sell, deliver and support Adaptive Insights financial planning customer success globally.

Smart

Within Smart, revenue for the period increased by 69% to £19.1 million (2019: £11.3 million), of which £15.4 million relates to SaaS subscriptions (2019: £9.3 million).

Kainos has four Smart modules: HCM, Security, Financials and Payroll.

The Annual Recurring Revenue ("ARR") for Smart at period end was £19.4 million (2019: £11.0 million); backlog for Smart is £35.0 million (2019: £22.8 million).

Smart is now used by 206 global customers to automatically verify their Workday configurations (2019: 154).

Workday Extend

Workday Inc. has a Platform-as-a-Service offering known as Workday Extend, which is expected to have general availability by late 2020. Kainos has been part of the early adopter programme since 2017, and while Workday Extend 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.

Workday Practice outlook

As an internationally focused business, the Workday Practice has the additional complexity of operating across a number of countries, each with a different health and economic response to Covid-19.

We anticipate that our SaaS-related revenues in Smart will remain robust. Our consulting revenues will be more heavily influenced by the sector within which our clients operate, with sectors experiencing the most significant pressure likely to defer or cancel projects. Alongside this challenge, there remain opportunities for growing market share within the existing consulting market.

In the medium-term, 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.

In a similar timeframe, our consulting activity growth prospects remain very strong, driven by geographic expansion and the further development of the Post Deployment Services offering. These prospects are, in turn, underpinned by the performance of Workday Inc.

Research and development

Within Kainos, research and development takes place 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 the Workday Practice or Service Design within Digital Services.

Future Technology trends and their application operates under the guidance of the Group CTO and the Applied Innovation team. Current areas of focus include Intelligent Automation through AI and Machine Learning, Smart Environments including IOT, Edge Computing and next generation networking, and Cloud Native computing.

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 intuitive dashboard format.

Feedback is captured for quality of solution, services and people. In 2020, 223 customer engagement surveys were received. An overall feedback rating is also measured, and in 2020 97% 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.

Our people

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

Our culture

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

The 'Best Companies' survey is a confidential way for our colleagues to share their feedback and having first appeared in the Top 100 in 2012, we are delighted to still be here in 2020.

Everyone in Kainos will have their own individual view about our culture and experience it in their own unique way. What binds us together is our common view about the values that we cherish:

- **Creative:** using our imagination to find fresh solutions to the problems we encounter.
- **Cooperative:** understanding the mutual benefits of working in a team and a community and unselfishly sharing information, knowledge and experience.
- **Determined:** achieving personal and team goals, overcoming obstacles and getting the job done and, playing a part and taking pride in upholding Kainos' reputation.
- **Honest:** being transparent in dealings with colleagues and clients, being truthful in all commitments and statements and being constructive when giving or receiving feedback.
- **Respectful:** treating others as you would like to be treated, encouraging and supporting those we work with and accepting the need for other skills and disciplines beside our own.

We are focused on creating a workplace environment that people want to join and then stay to develop their careers. During the period, staff retention rose to 90% (2019: 85%).

Recruitment

We work hard at retaining the talented people already in Kainos; we are also very focused on recruiting new talented colleagues.

Kainos continues to attract strong interest in key recruitment markets, with several thousand candidates applying each year to join Kainos.

Over the course of the year, headcount grew by 245 to 1,715 people (2019: 1,470). Of our colleagues, 9% are contractors (2019: 12%).

Development

The Kainos Digital Academy and associated programmes are central to the development of staff. During the reporting period, 10,961 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, an accreditation that is entirely based upon employee feedback. On Glassdoor, the website allowing employees to anonymously review companies, 78% of reviewers would recommend working at Kainos.

The Company operates an employee-focused improvement team, which meets every six weeks and is alternately chaired by the Chief People Officer and the CEO and draws significantly on representatives from across the various offices.

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 2019 a total of 2,610,559 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 organisation

Outreach

The Group views it as part of its mission is to promote awareness of digital technologies amongst school leavers and young people. Over the past six years, these outreach programmes have directly benefited the lives of over 6,000 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.

Graduate and student employment

Since its formation in 1986, the Group has recognised its responsibility in providing roles for people starting their career in industry, particularly with a focus on technology.

This commitment has resulted in the creation of hundreds of jobs across the organisation and is reflected in the composition of the Executive Team, where six of the team of eleven joined the Company as graduates.

In the reporting period, the Group recruited 62 graduates and 21 placements (a placement is typically a 12-month recruitment and is fully remunerated). These roles were based across the Belfast, Derry, Birmingham, Gdansk and London offices.

Earn as You Learn® apprentice scheme

The Group continues to utilise 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 62 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 engaged an external Diversity and Inclusion (D&I) specialist, who, in consultation with staff and leaders has supported Kainos to establish a three-year D&I strategy and action plan. This strategy underpins our ambitions:

- Culture – building an inclusive workplace culture.
- Leadership – ensuring accountability and inclusive leadership.
- People – attracting, developing, retaining and showcasing a diverse talent pool.

A global D&I group consisting of a representative body of colleagues has been established and they will act on behalf of the Company, with an Executive Sponsor, to accelerate and manage D&I activities, ensuring that the strategy is right for the Company and is tightly aligned with its overall business priorities.

In this reporting period, the Company has supported staff in establishing two new Employee Network Groups in the past year. *Xpression*, for our LGBT+ colleagues and allies, and *Inspire*, our women's network, have been successfully launched, with over 400 members already engaged.

These groups work as support networks, educators and voices for these communities and each group is sponsored by a member of the Executive Team to ensure representation at all senior decision-making forums.

Kainos also looks to encourage a wider range of ethnicities and this means that today the Group employs staff with more than 42 different nationalities (2019: 36).

Gender diversity remains a challenge within the wider industry, where 17% of roles in technology are undertaken by women[4]. Within Kainos, the percentage of women in the Company remains at 30% (2019: 30%); 26% (2019: 24%) of manager level and above are female and 18% (2019: 18%) of Executive management roles are held by women (compared to 5% nationally[5]). At Group Board level, Kainos appointed a female independent director within this reporting period.

4 womenintech.co.uk.
5 PwC research report: Women in Tech.

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 in FY20, we made significant progress.

- 6,000 young people took part in a Kainos Academy initiative.
- Kainos CodeCamp, our popular two-week coding initiative aimed at students aged 14-17, was expanded to run in Belfast and Birmingham, facilitating over 300 young people.
- Digital skills training was delivered at 50 schools through staff volunteers.
- Innovation was showcased by developing a unique escape room experience from scratch and piloted it with 100 young participants.

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.

6,000 young people took part in a Kainos Academy initiative in FY20.

Financial review

Kainos achieved revenue of £178.8 million (2019: £151.3 million), representing an increase of 18%. Digital Services revenue grew 4% to £122.5 million (2019: £117.3 million) which was driven by modest growth in both Digital Services and Evolve. Workday Practice revenue grew by 66% to £56.3 million (2019: £34.0 million) which was driven by 64% growth in Workday Services to £37.2 million (2019: £22.7 million) and 69% growth in Smart to £19.1 million (2019: £11.3 million).

Overall gross margin was 47% (2019: 46%). Digital Services margins decreased to 40% (2019: 42%) mainly due to a reduction in utilisation, whilst Workday Practice margins increased to 62% (2019: 59%) driven by increased SaaS margins within Smart and improved margins in Workday Services.

Operating expenses excluding share-based payments and acquisition-related expenses for 2020 increased by 24% to £56.9 million (2019: £45.8 million). This increase is partially driven by revenue growth combined with geographic expansion and sales investment within the Workday Practice.

Investment in product development reduced to £3.9 million (2019: £4.3 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 £1.9 million (2019: £2.0 million).

The share-based payment and acquisition-related expenses incurred in the period were £2.4 million (2019: £2.2 million). This increase relates mainly to acquisition expenses of £0.3 million. Adjusted pre-tax profit increased by 9% to £25.5 million (2019: £23.3 million). Statutory profit before tax increased by 10% to £23.2 million (2019: £21.1 million).

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

To arrive at adjusted results, adjustments made include acquisition expenses, amortisation related to acquired intangibles and share-based payments.

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

	2020 (£000s)	2019 (£000s)
Statutory profit before tax	**23,150**	21,125
Share-based payments	**2,100**	2,196
Acquisition-related expenses	**266**	–
Adjusted profit before tax	**25,516**	23,321

	2020 (£000s)	2019 (£000s)
Statutory profit after tax	**18,564**	16,939
Share-based payments (net of associated taxes)	**1,701**	1,823
Acquisition-related expenses (net of associated taxes)	**219**	–
Adjusted profit after tax	**20,484**	18,762

The effective tax rate for 2020 was 20% (2019: 20%). The 2020 effective tax rate was above the UK corporation tax rate due to overseas activity. Going forward we expect the effective tax rate to remain broadly in line with the UK corporation tax rate.

The Group continues to have a strong financial position with £40.8 million of cash (2019: £42.5 million), no debt and net assets of £59.2 million (2019: £48.2 million). During the year, the Group completed the purchase of the site for the development of Kainos' future Belfast office at Bankmore Square. The purchase price of £7.4 million was funded fully from cash resources.

The Group implemented IFRS16 "Leases" effective 1 April 2019. The Group adopted this standard using the modified retrospective approach and the full impact of transition is described in further detail in note 2 of the consolidated financial statements.

Cash conversion, calculated by taking cash generated by operations over EBITDA[6], continued to be strong at 97% (2019: 100%). The combined underlying trade debtor and accrued income totalled £43.3 million (2019: £37.5 million). The increase of 16% is in line with expectations, given revenue growth.

During the reporting period, the Group completed three transactions to enhance its Adaptive Insights offering globally as part of its Workday Practice. The acquisitions were Formulate (UK) and IntuitiveTEK (USA) and a customer referral agreement with Implexa (Germany). In total, Kainos welcomed 59 employees to its Adaptive Insights practice.

Total consideration of £6.6 million was satisfied via cash of £4.6 million during the period (£0.4 million to be settled during FY21) and shares of £1.6 million. The acquisitions resulted in the recognition of goodwill (£3.2 million) and customer relationship intangible assets (£4.0 million). Deferred consideration for these transactions will be treated as post combination remuneration and will be expensed as incurred.

Dividend

Consistent with the guidance set out in our 2015 IPO Prospectus, to date 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. An interim dividend of 3.5p per share for the year ended 31 March 2020 was paid in October 2019. The Board has decided not to declare a final dividend for FY20 and to take the opportunity to review the dividend position later in the year, when the impact of the Coronavirus pandemic becomes clearer. The final dividend for the year ended 31 March 2020 will be 0.0p. The total dividend for FY20 is 3.5p.

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole.

In doing this, section 172 requires a director to have regard, among other matters, to: the likely consequences of any decision in the long-term; the interests of the Company's employees; the need to foster the Company's business relationships with suppliers, customers and others; the impact of the Company's operations on the community and the environment; the desirability of the

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

Company maintaining a reputation for high standards of business conduct; and the need to act fairly with members of the Company.

The directors give careful consideration to the factors set out above in discharging their duties under section 172. The stakeholders we consider in this regard are our staff, our customers, our shareholders and our communities. The Board recognises that building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values and operate the business in a sustainable way.

Stakeholder engagement

The Board is committed to effective engagement with all of its stakeholders. Depending on the nature of the issue in question, the relevance of each stakeholder group may differ and, as such, as part of its engagement with stakeholders, the Board seeks to understand the relative interests and priorities of each group and to have regard to these, as appropriate, in its decision making. However, the Board acknowledges that not every decision it makes will necessarily result in a positive outcome for all stakeholders.

The Board regularly receives reports from management on issues concerning customers, the environment, communities, suppliers, employees, regulators, governments and investors, which it takes into account in its discussions and in its decision-making process under section 172.

In addition to this, the Board seeks to understand the interests and views of the Group's stakeholders by engaging with them directly as appropriate. Some of the ways in which the Board has engaged directly with stakeholders over the year are set out below.

Customers: In addition to the Board receiving updates from senior management on the Group's interaction with customers, members of the Board will meet with customers.

Employees: In addition to the Board receiving updates from senior management on various metrics and feedback tools in relation to employees, members of the Board engage with the Group's employees in a variety of ways. These include office visits, attendance at the annual Kainos all-hands conference, presentations from staff across the business as well as informal interaction. Further information regarding our workforce engagement is set out in the Directors' and Corporate Governance Report.

Building strong relationships with our stakeholders will help us to deliver our strategy in line with our long-term values and operate the business in a sustainable way.

Investors and shareholders: Kainos values the views of its investors and shareholders and recognises their interest 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. Members of the Board also met shareholders immediately prior to the 2019 AGM and at the AGM itself, as well as receiving briefings from the Company Secretary on shareholders.

Financial and other information is made available on the website, www.kainos.com which is regularly updated.

BENCHMARKING PROGRESS OF OUR KEY OBJECTIVES

Key Performance Indicators (KPIs)
The Group aims to increase profitability while maintaining a healthy 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 wellbeing 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
2020
£243.6m

2019
£171.7m

Revenue
2020
£178.8m

2019
£151.3m

Adjusted pre-tax profit
2020
£25.5m

2019
£23.3m

Non-financial KPIs

Overall customer satisfaction rating[7]
2020

97%

2019

91%

Staff retention
2020

90%

2019

85%

Number of customers
2020

465

2019

362

Number of staff
2020

1,715

2019

1,470

7 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 current and emerging 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 management undertakes a robust assessment of current and emerging risks. Principal and emerging risks are regularly reported to the Board and the risk register is reviewed by the Audit Committee, including those that threaten its business model, future performance and solvency or liquidity.

The table below identifies the known principal and emerging 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.

Other than impacts specifically from the Coronavirus pandemic, there has been no material change to Kainos' underlying risks from previous years. The Coronavirus pandemic presents a new risk bringing an unprecedented level of disruption and uncertainty. It is too early to predict the duration or severity of this situation. 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, staff engagement and in March 2020, the impact of the Coronavirus pandemic.

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

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Major global disruption event	Coronavirus pandemic	In addition to an unprecedented level of economic disruption and uncertainty, the Coronavirus pandemic has affected all areas of business and personal life for both Kainos and our customers.	The Coronavirus pandemic is a major event that triggered invocation of the Kainos Business Continuity Plan. The health threat and government regulations have required changes to operational practices and ways of working. This includes moving from a largely office or customer premises-based business to fully remote working. Customers have faced the same requirements and the level of uncertainty over projects and sales continues to be unpredictable.	Early recognition of the potential impact on our business of the Coronavirus pandemic enabled Kainos to take early action to provide C-level leadership and invocation of the Business Continuity Plan moving to a fully remote workforce continuing to deliver to customers within seven days. Specific actions include: • Identification of potential Covid-19 people and business risk for Kainos and key risk areas: people, travel, customers, revenue and profit. • Initiating risk assessment and planning meetings including key stakeholders including the CEO, COO, Divisional Heads and senior staff from key business areas including internal IT, finance, People Support and risk management. • Establishment and ongoing actioning of a clear three prolonged approach: 1. Ensure the safety of Kainos' colleagues, 2. Assist customers in addressing the crisis and continue to deliver on projects through close customer engagement, and 3. Review and plan for immediate and future business impact. • Initiation of cost containment measures. • Regular and transparent communications to staff from the CEO.

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. The move to a remote workforce as part of dealing with the Coronavirus pandemic has brought a fresh aspect to this risk.	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. With regard to the use of fully remote working the Chief Information Security Officer has reviewed operations and practices specifically in this context to address the risk from this perspective. 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 and is 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.	Loss of key employees and the institutional knowledge they carry and/or the relationships they have with customers and partners could negatively impact business efficiency and relationships with an impact on revenue, profit and cash flow in the short-term, and damaging customer relationships and credibility in the market.	Staff engagement is a key focus for Kainos. Initiatives and activities mitigating this risk include: • Regular 1-2-1s with managers. • High potential talent identification measures. • The use of personal development plans. • Career coaching. • Key staff succession planning.
	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.	Market uncertainty associated with the impact of EU Exit has the potential to limit or harm Kainos' trading activities. There is also potential increase to overheads and impact on staff mobility.	The Group has evaluated scenarios associated with 'Brexit' and continues to monitor its position in the UK public sector and the impact of EU Exit 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.

We have continued to make a concerted effort to reduce our carbon footprint through initiatives across our business. In this reporting period, we have established a staff-led sustainability group. This has helped us achieve a 95% recycling target for our HQ, with less than 5% of waste going to landfill. Additional examples of initiatives include the planting of fruit trees in Malawi, through our partnership with Fruitful Office, organising staff volunteer days with local environmental charities and teaming up with AMI to ensure the safe reuse of old IT equipment.

With regard to greenhouse gas emissions, for the year ended 31 March 2020 the quantity of total emissions by Kainos was 5,524 tonnes of carbon dioxide equivalent (CO_2e) (2019: 4,964 tonnes).

We have used the GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK government's GHG Conversion Factors for Company Reporting 2019 to calculate the below disclosures. 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.

GHG emissions data for period 1 April 2019 to 31 March 2020

	Global tonnes of CO_2e			
	2020		2019	
	UK	**Off-shore**	UK	Off-shore
Combustion of fuels and operation of facility (Scope 1)	**60**	**–**	82	–
Emissions from purchase of electricity, heat, steam, and cooling purchased for own use (Scope 2) – CO_2e	**144**	**43**	318	69
Business travel (Scope 3)	**3,958**	**1,319**	3,371	1,124
Total emissions by location	**4,162**	**1,362**	3,771	1,193
Total emissions for year	**5,524**		4,964	
Energy consumption used to calculate emissions – kWh (million)	**17**	**5**	14	5

The following table expresses our annual emissions in relation to quantifiable factors associated with our activities.

Intensity ratios (tonnes of CO_2e per unit)

	2020	2019
Ratio of carbon emissions to total revenue	**0.03**	0.03
Ratio of carbon emissions to operating profit	**0.20**	0.22
Ratio of carbon emissions to employees	**3.19**	3.38

Non-financial information statement

The Group has complied with the requirements of s414CB of the Companies Act 2006 by including certain non-financial information within the Strategic Report. The information provided above is to help our stakeholders understand our position on key non-financial matters, specifically employees, social matters, respect of human rights, environmental matters, and anti-corruption and anti-bribery matters.

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

Brendan Mooney
Chief Executive Officer
22 May 2020

The directors present their report and the audited financial statements for Kainos Group plc (company number 9579188) for the year ended 31 March 2020. These will be laid before the shareholders at the Annual General Meeting (AGM) to be held on 24 September 2020. 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.

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

Statement of application of and compliance with the UK Corporate Governance Code 2018

The Board believes in strong governance and recognises the importance of complying with the various aspects of the UK governance framework. This section explains the main aspects of the Company's corporate governance structure and gives a greater understanding of how the Company has applied the principles of the 2018 UK Corporate Governance Code ("the Code") available at www.frc.org.uk.

For the year ended 31 March 2020, the Board considers that it has complied in full with the provisions of the Code, except for the following matters:

Board Committee Membership. On admission to the FTSE 250, in July 2019, the Company became non-compliant with the minimum membership requirements for Board Committees, being comprised of two as opposed to three Non-Executive Directors (NEDs). In November 2019, the Company addressed this non-compliance when Katie Davis joined the Company as a new NED and became a member of each of the Board Committees.

Independence of Company Chair. The Company was previously non-compliant with the provisions regarding the independence of the Chairman. This non-compliance was resolved in September 2019 when Tom Burnet was appointed as Company Chairman, following the retirement of John Lillywhite.

Remuneration Committee Chair. Tom Burnet's appointment as Company Chairman, on 26 September 2019, triggered a non-compliance regarding the composition of the Remuneration Committee which states that the Company Chairman should not also act as the chair of the Remuneration Committee. Non-compliance with Code Provision 32 is the only current Company non-compliance and the Board plans to address this in the short-term, when the Nominations Committee reviews Board Committee membership.

Board leadership and Company purpose

The Board recognises that its role is to deliver the success of the Company both in terms of value for shareholders and a positive contribution to the wider society. The Company's purpose, value and strategy are set out in the Strategic Report.

Board workforce engagement

Under the guidance of the CEO, Brendan Mooney, during 2019, the Board has ensured genuine two-way dialogue between the Board and the workforce in the following ways:

Direct Engagement. Regular face-to-face update sessions between the CEO and staff groups, to share Company progress against annual objectives and strategic ambitions and to receive direct feedback and input from staff.

'Best Companies' survey. Our annual staff survey, coordinated by 'Best Companies', in which every member of staff has the opportunity to provide anonymous feedback against eight key factors – Leadership, My Manager, My Team, My Company, Wellbeing, Fair Deal, Giving Something Back and Personal Growth. The output of this survey is shared with the entire Company and the Board of Directors. Each year as part of a Continuous Improvement Working Group an annual plan of activities to address staff feedback is created and shared with staff. Progress against the Continuous Improvement Plan is reported on a monthly basis to the Executive Team, quarterly to the entire workforce and twice yearly to the Board of Directors.

Diversity and Inclusion Global Group. Commissioned by the CEO, an external, independent D&I Specialist consulted with the workforce and produced a D&I report which subsequently resulted in the creation of the Company's three-year D&I strategy. A Global Diversity and Inclusion group was established to be a representative body of colleagues who act on behalf of the Company to accelerate and manage D&I activities. The purpose of the D&I group is to ensure the D&I strategy is right for Kainos and is tightly aligned with the overall business priorities, to advise and review the business through a D&I lens and to be champions ensuring D&I is embedded at a local and global level. Plan progress is reported on a monthly basis to the senior management team, quarterly to the entire workforce and twice yearly to the Board of Directors.

Formal programme of Board/Employee Engagement. Employees leading strategic projects for the business are scheduled to present to the Board on a regular basis at Board meetings and are invited to engage with the Board through participation in Board Committee working groups and social occasions, such as regular Board dinners.

Stakeholder engagement

The Board recognises that long-term success is dependent on how it interacts with its stakeholders. Full details of our stakeholder engagement is set out in our section 172 statement contained within the Strategic Report.

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

Board composition, balance and diversity

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's policy is to appoint and retain Non-Executive Directors who bring relevant expertise to the Group.

As at 22 May 2020, the Board comprises an independent Chairman, three Independent NEDs and three Executive Directors. The Board is made up of six men (86%) and one woman (14%). The Board continues to strive towards greater diversity. The progress made in this area during the year is set out in the Nominations Committee Report.

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 Provision 10 of the Code. Due diligence was carried out on each of the NED's independence on appointment and when they were invited to continue to serve for an additional term, enabling the Board to confirm that Andy Malpass, Chris Cowan, Katie Davis and Tom Burnet are independent in character and judgement.

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

Board changes during the period

Retirements

Long-serving Board Chairman, Dr John Lillywhite, retired on 26 September 2019 from his position as Board Chairman and his role as chair of the Nominations Committee. Mr Tom Burnet, NED, assumed the role of Board Chairman and chair of the Nominations Committee.

Board appointments

On 28 November 2019, the Board welcomed a new NED, Mrs Katie Davis.

Board appointments are overseen by the Nominations Committee.

Prior to appointment, directors are required to confirm that they can allocate sufficient time to carry out their duties and responsibilities effectively.

Each Non-Executive Director is appointed for an initial 12-month term continuing for an envisaged three-year period, and subject to a three-month notice period. In addition, each Non-Executive Director is subject to annual re-election by shareholders at the AGM. At the end of the three-year period, the Board may invite a Non-Executive Director to continue for a further period, provided that the Board is satisfied with the Non-Executive Director's performance, independence and ongoing time commitment.

The Non-Executive Director letters of appointment confirm the amount of time that each Non-Executive Director is expected to commit to each year which is a minimum of 20 days. The service agreements/letters of appointment for directors are available to shareholders to view on request from the Company Secretary at the Company's registered address and at the 2020 AGM.

Succession planning process for the Board is actively considered by the Nominations Committee, in the context of the range of skills and experience that the Company would benefit from at a Board level and in the development of a diverse talent pipeline. The Nominations Committee is cognisant of the need to forward plan for NED rotation to ensure that the Board retains the experience of NEDs who are familiar with the Company whilst maintaining the necessary independence and will focus in the next period on formalising its NED rotation strategy.

All Executive team roles and roles deemed critical to the achievement of the Group's strategic objectives have a defined succession plan. To ensure business sustainability and continuity, succession plans contain an immediate plan, in the event of an emergency, as well as longer-term potential succession options for the role. Those identified as potential successors, have individual development and training plans in place to address any identified developmental gaps and to ensure readiness for role. Progress against the development plans is reported to the Nominations Committee on a quarterly basis.

Director election and re-election

At the 2020 AGM, all current directors will retire and stand for re-election.

Tom Burnet
Chairman

Directors' biographies

Tom Burnet (aged 52) Chairman
Tom graduated with an MBA from the University of Edinburgh. In addition to his responsibilities at Kainos, Tom is Non-Executive Chairman of Inspired Thinking Group and Non-Executive Chairman of The Baillie Gifford US Growth Trust plc. Previously he served as CEO, Executive Chairman and as a Non-Executive Director of AIM company accesso Technology Group plc, a leading supplier of technology platforms to the global leisure and attractions market. 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 Non-Executive Chairman, chair of the Nominations Committee and will in the short-term continue to chair the Remuneration Committee.

Dr Brendan Mooney (aged 53) Chief Executive Officer (CEO)
Brendan joined Kainos in 1989 as a trainee 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 served as a Non-Executive Director on a number of private technology companies, at the Probation Service for Northern Ireland and was a serving 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 55) 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 57) 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 58) 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 61) Independent Non-Executive Director
Chris holds a MA in 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.

Katie Davis (aged 55) Independent Non-Executive Director
Katie holds a BS in Electrical Engineering from the University of Illinois at Champaign/Urbana. Katie is an experienced leader with a strong track record for delivery in both the public and private sectors. She joined Accenture's Chicago office in 1987, moving to London in 1988 and becoming a partner in Accenture's Customer Relationship Management practice in 2000. In 2005, she joined the Cabinet Office with responsibility for increasing the capacity and capability of UK central government and the wider public sector, to deliver large-scale IT-enabled business change. Katie subsequently held several senior positions in the Cabinet Office, Home Office, Department of Health and NHS. In 2012, Katie was named one of the 25 most influential women in IT by Computer Weekly. Katie acts as an Independent Non-Executive Director and sits on the Audit Committee, Nominations Committee and Remuneration Committee at Kainos.

Board and Committee membership

At 31 March 2020 the Board comprised a Non-Executive Chairman, three Executive Directors and three NEDs whose Board and Committee responsibilities are set out in the table below:

		Board	Audit	Remuneration	Nominations
Tom Burnet	Chairman	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
Katie Davis	Independent NED	Member	Member	Member	Member

There is a written formal "Schedule of Matters Reserved for the Board."

The Board meets formally on a regular basis to discharge its key areas of responsibility: to monitor operating issues, risk and trading performance, to review forecasts, strategy and policy, to consider key projects, major investments, critical operating issues and to oversee appropriate shareholder reporting.

The Board also approves all circulars, listing particulars, resolutions and correspondence to the shareholders including the Preliminary Announcement, Annual Report, Interim Financial Report.

The Board is responsible for corporate governance and delegates operational control to the Executive Directors. During the year, the Board met on 12 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 principal committees of the Board are the Audit Committee, the Nominations Committee and the Remuneration Committee. The composition and Terms of Reference, which set out the main areas and division of responsibilities of each of the Committees can be found in the Investor Relations area of the website www.kainos.com.

Board and Committee meeting attendance

The Chairman and NEDs also held meetings throughout the year with various senior managers to improve insight into the business operations and marketplace. Additionally, the Company's brokers seek independent feedback from analysts and investors following the full and half year results announcements, which is reported to the Board.

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
Tom Burnet	12/12	–	6/6	5/6
Brendan Mooney	12/12	–	–	–
Richard McCann	12/12	–	–	–
Paul Gannon	12/12	–	–	–
Andy Malpass	12/12	3/3	–	–
Chris Cowan	12/12	3/3	6/6	6/6
Katie Davis	4/4	1/1	2/2	1/1
John Lillywhite	4/5	–	–	3/3

Katie Davis was appointed to the Board on 28 November 2019 and has attended all scheduled Board and Committee meetings since her appointment.

Dr John Lillywhite retired on 26 September 2019 and attended scheduled Board and Committee meetings up to that date, save one Board meeting from which he was absent due to an unavoidable prior commitment. Dr Lillywhite subsequently requested and obtained full briefing from the acting Chairman, as to the business conducted at the meeting.

Tom Burnet was absent from one Nominations Committee meeting due to an unavoidable prior commitment. At the time of this absence, Tom was serving as a NED and had not yet been appointed as Board Chairman. Tom subsequently requested and obtained a full briefing from the acting 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 regularly.

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.

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.

Board evaluation

There was a formal evaluation of the performance of the Board during 2020 which was undertaken by way of a performance evaluation questionnaire, completed in January 2020, 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 the right size, with appropriate skills represented.

The Board confirms that, as supported by the results of the 2020 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 2020 Board Evaluation exercise, the performance of the Chairman continues to be effective.

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 2021 and in compliance with the Code, this Board evaluation will be externally facilitated.

Division of responsibilities

There is a formal written policy on the division of responsibilities between the Chairman and the CEO and the SID such that their roles are complementary to each other.

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.

Tom Burnet 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.

Andy Malpass as Senior Independent Director (SID) provides a sounding board for the Chairman and acts as an intermediary for the other directors and shareholders.

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 2020.

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

Gráinne Burns
Company Secretary
22 May 2020

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 2020.

Introduction

This is the Group's fifth 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. My fellow members Chris Cowan and Katie Davis were appointed in July 2015 and November 2019 respectively.

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:

i. The Directors' Remuneration Policy, which sets out the policy on the remuneration of the Executive and Non-Executive Directors of the Company. The policy was approved at the Annual General Meeting on 26 September 2019 and took effect from this date.
ii. Annual Report on Remuneration, which provides details on remuneration as required by the Regulations. It will be subject to an advisory shareholder vote at the 2020 Annual General Meeting scheduled for 24 September 2020.

The Remuneration Committee considered the application of the policy during the year and concluded it remains appropriate and has operated as intended in terms of company performance and quantum during the year.

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) and Performance Share Plan (PSP) awards to more senior staff, 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 2019/20

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 2020. Key performance indicators are solid across the Group: revenue increased from £151.3 million to £178.8 million, adjusted profit before tax increased from £23.3 million to £25.5 million, and sales orders increased from £171.7 million to £243.6 million. The Group continues to attract high quality talent and is pleased to note that the number of staff at year end was 1,715 across 15 offices in North America and Europe.

Performance against the sales order value target was ahead of target with performance against the adjusted pre-tax profit target and Group revenue being between threshold and target. As a result, bonuses payable to the CEO, CFO and SVP Business Development are 77%, 80% and 61% of salary, respectively.

In July 2019, the Group made performance share awards to the CEO, CFO and SVP Business Development at 39%, 45% and 38% of salary, respectively.

In June 2016, long-term incentive awards were granted to the CEO, CFO and SVP Business Development. These awards vested during the year with the CEO receiving 51,810 shares options, the CFO receiving 57,403 share options and the SVP Business Development receiving 45,923 share options.

Directors' remuneration policy

The policy set out below is a copy of the policy which was approved by shareholders at the 2019 AGM held on 26 September 2019 and is effective for a further three years from this date.

The Group's remuneration policy seeks to ensure that the Group can 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, share price performance measured over many years and employee engagement which is driven from the 'Best Companies' survey results. The focus on financial performance, shareholder return and employee engagement encourages consistent performance over multiple years and aligns remuneration with the Kainos strategy, shareholder and stakeholder 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	Operation	Purpose	Potential remuneration	Performance metrics
Base salary	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	To attract and retain Executives.	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	The Executive Directors are entitled to a car allowance, private medical insurance, life insurance and permanent health insurance.	To attract and retain Executives.	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	Operation	Purpose	Potential remuneration	Performance metrics
Pension	The Executive Directors are entitled to participate in the Group's pension scheme or receive a payment in lieu of pension.	To attract and retain Executives.	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	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.	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.	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	Operation	Purpose	Potential remuneration	Performance metrics
Long-term incentive plan (LTIP)	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.	To motivate Executives, incentivise performance over the long-term and to facilitate share ownership.	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.	The 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	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.	To motivate and facilitate share ownership.	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	Operation	Purpose	Potential remuneration	Performance metrics
Save As You Earn Option Plan (SAYE)	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.	To motivate, facilitate share ownership and align employees with shareholders.	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)	The Share Incentive Plan (SIP) is a tax-advantaged all employee plan, 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 has been implemented to date). The Board shall determine if and when further SIP awards will be made and the terms of those awards.	To motivate, facilitate share ownership and align employees with shareholders.	At the time of IPO and each consecutive year since, free shares with a value up to £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	Operation	Purpose	Potential remuneration	Performance metrics
Poland and Ireland Share Schemes	The Group has implemented share schemes for employees in Poland and the Republic of Ireland to make share awards to these employees on similar terms and of a similar value to those made under the UK SAYE and SIP schemes.	To motivate, facilitate share ownership and align employees with shareholders.	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	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 chair 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.	To attract and retain NEDs with appropriate experience and skills.	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 NED fees were benchmarked during the year by independent remuneration consultant Paul Fretton. The results of benchmarking showed that the levels of remuneration paid to the NEDs fell significantly below market and merited an adjustment. With effect from 1 October 2019 the NED fees were increased to bring them in line. At the same time, the contractual right to additional remuneration for days worked over the stated contractual minimum was removed. The Chairman's fee is currently £100,000 per annum. The base fee for NEDs is currently £50,000 per annum. Additional fees per annum are set out below: SID – £10,000 Chairman of Audit Committee – £8,000 Chairman of Remuneration Committee – £8,000	None

Service contracts – Executive Directors
The key terms of the Executive Director contracts are summarised in the table below:

Provisions	
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 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
At the 2019 AGM, the Directors' Remuneration Policy, and the Annual Report on Remuneration for the year ended 31 March 2019, were unanimously approved as follows:

Approval of the Remuneration Report for the year ended 31 March 2019:

Number of votes cast for	Percentage of votes cast for	Number of votes against	Percentage of votes cast against	Total votes cast	Number of votes withheld
97,850,886	98.7%	1,239,869	1.3%	99,090,755	496

Approval of the Directors' Remuneration Policy:

Number of votes cast for	Percentage of votes cast for	Number of votes against	Percentage of votes cast against	Total votes cast	Number of votes withheld
97,704,550	98.6%	1,386,205	1.4%	99,090,755	496

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. To date, Kainos has not received any significant dissenting shareholder votes on remuneration policy and outcomes.

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, 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. No such discretion was applied during the year ended 31 March 2020.

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
The members of the Remuneration Committee are Tom Burnet (Chairman), Chris Cowan and Katie Davis (appointed 28 November 2019). All are considered 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 £14,400 and £10,140 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 and neither h2glenfern or Skyfall Consulting Limited are connected with the Company or any of its directors.

Remuneration details

In accordance with the Regulations, the tables below set out the remuneration for each director for the years ended 31 March 2020 and 31 March 2019.

Single total figure of remuneration for each director

Name	Year	Salary/fees (£000s)	Benefits[1] (£000s)	Bonus (£000s)	Pension[2] (£000s)	Other[3] (£000s)	Incentives vested (£000s)	Total (£000s)
Executive Directors								
Brendan Mooney	2020	220	7	169	19	2	266	683
	2019	220	7	215	19	2	573	1,036
Richard McCann	2020	210	7	169	11	2	294	693
	2019	212	6	215	11	2	461	907
Paul Gannon	2020	€230	€22	€141	€35	€3	€266	€697
	2019	€233	€22	€179	€35	€4	€489	€962
Non-Executive Directors								
John Lillywhite	2020	40	N/A	N/A	N/A	N/A	N/A	40
	2019	80	N/A	N/A	N/A	N/A	N/A	80
Andy Malpass	2020	62	N/A	N/A	N/A	N/A	N/A	62
	2019	56	N/A	N/A	N/A	N/A	N/A	56
Chris Cowan	2020	45	N/A	N/A	N/A	N/A	N/A	45
	2019	40	N/A	N/A	N/A	N/A	N/A	40
Tom Burnet	2020	76	N/A	N/A	N/A	N/A	N/A	76
	2019	44	N/A	N/A	N/A	N/A	N/A	44
Katie Davis	2020	17	N/A	N/A	N/A	N/A	N/A	17
	2019	N/A	N/A	N/A	N/A	N/A	N/A	N/A

1 Benefits are the taxable value of benefits received by directors in the year including car allowance and private health insurance.

2 Pension amounts for Brendan Mooney and Richard McCann are payments in lieu of pension.

3 Other relates to the award of SIP shares or ROI restricted shares for Paul Gannon.

Annual bonus

The Executive Directors' bonus for the year ended 31 March 2020 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)	Bonus pay-out (£000s)	Bonus pay-out (£000s)
					B Mooney	R McCann	P Gannon
Revenue	30%	185	158	179	43	43	32
Adjusted pre-tax profit	40%	27	21	26	68	68	50
Sales order value	30%	225	191	244	58	58	44
Totals					**169**	**169**	**126**

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 payable to Brendan Mooney, Richard McCann and Paul Gannon are 77%, 80% and 61% 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 2019 as outlined in the table below. The awards are share options with a nominal exercise price of £0.005 per option.

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 2019	13,140	£85,410	Nominal	July 2022	July 2029
Richard McCann	July 2019	14,580	£94,770	Nominal	July 2022	July 2029
Paul Gannon	July 2019	11,700	£76,050	Nominal	July 2022	July 2026

The 2019 PSP awards are subject to the following performance conditions:

Performance condition	Weighting	Minimum performance	Mid performance	Maximum performance
TSR performance (FTSE techMARK Index)	50%	30% vesting at median performance	Linear vesting between min and max performance	100% vesting if in upper quartile
EPS percentage growth	30%	30% vesting for growth of 5%	Linear vesting between min and max performance	100% vesting if growth is 13% or higher
'Best Companies' survey performance[8]	20%	100% vesting if BCI score at end of three-year measurement period is at least equal to this score at start of period	N/A	N/A

8 Based on the 'Best Companies Index' (BCI) score in the survey undertaken by 'Best Companies'.

SIP and SAYE schemes

The Executive Directors are 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	2019 SIP shares	Face value	Vesting period
Brendan Mooney	400	£2,416	3 years from the date of grant
Richard McCann	400	£2,416	3 years from the date of grant
Paul Gannon[9]	400	£2,416	5 years, 1 week from the date of grant

The Group did not offer a new SAYE scheme during the year ended 31 March 2020.

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 ended on 22 June 2019 with the following outcome:

Award	Measure	Weighting	Vesting scale	Performance achieved	% of award vesting
2016	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.	54.36%	100%

Name	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	100%	28,205	–	676p	£190,666
Richard McCann	31,250	100%	31,250	–	676p	£211,250
Paul Gannon	25,000	100%	25,000	–	676p	£169,000

2017 PSP

On 11 July 2017, awards were granted under the Kainos PSP to Brendan Mooney, Richard McCann and Paul Gannon. The TSR performance measurement period does not end until 10 July 2020. However, the performance measurement period for the EPS performance condition ended on 31 March 2020, with the following outcome:

Award	Measure	Weighting	Vesting scale	Performance achieved	% of award vesting
2017	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.	20.8%	100%

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

Name	No of shares	% vested	Number of shares vested	Number of shares lapsed	Share price at end of performance period	Value at end of performance period
Brendan Mooney	10,862	100%	10,862	–	658p	£71,472
Richard McCann	12,069	100%	12,069	–	658p	£79,414
Paul Gannon	9,673	100%	9,673	–	658p	£63,648

Directors' shareholdings

The interests of the directors and their connected persons in Kainos ordinary shares at 31 March 2020 was:

Name	Current shareholding	SIP (available to withdraw)	SIP shares (not available to withdraw)	Vested but unexercised options	Unvested performance options
Brendan Mooney	14,205,941	3,221	1,260	51,810	52,486
Richard McCann	4,711,582	2,070	1,260	57,403	58,271
Paul Gannon	8,045,508	3,221	1,260	–	46,736
Andy Malpass	38,590	N/A	N/A	N/A	N/A
Chris Cowan	31,582	N/A	N/A	N/A	N/A
Tom Burnet	14,388	N/A	N/A	N/A	N/A
Katie Davis	NIL	N/A	N/A	N/A	N/A

No changes took place in the interests of the directors between 31 March 2020 and 13 May 2020.

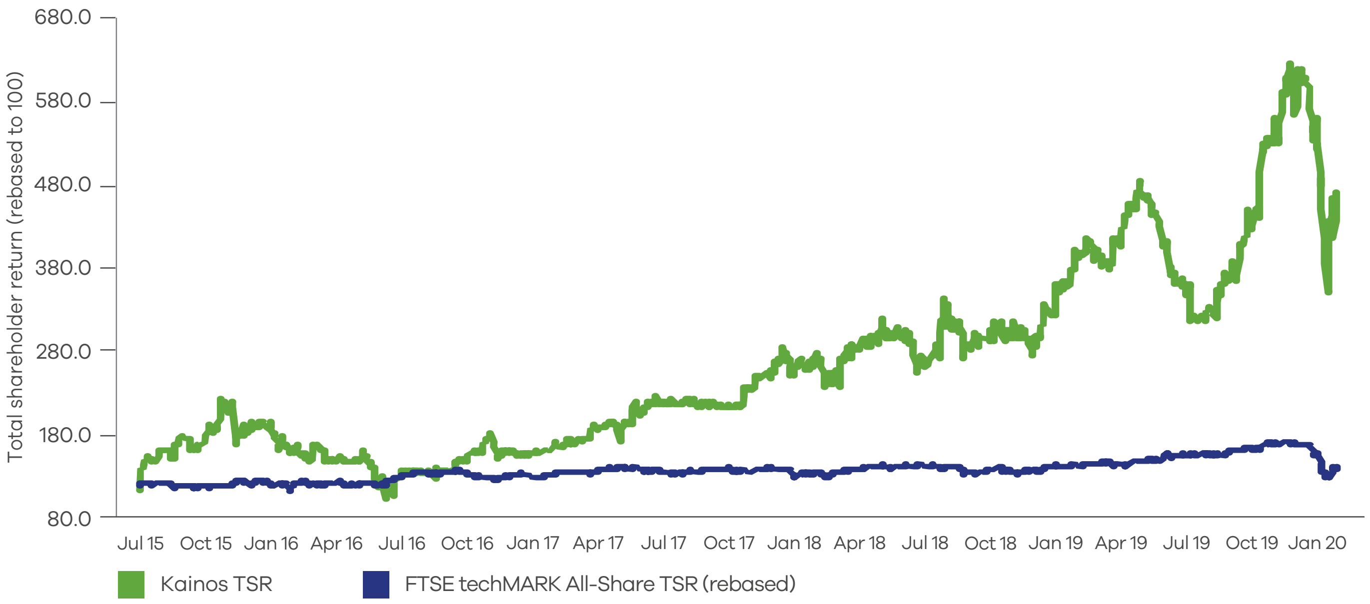
Share ownership guideline

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. It is also the index used by the Group for the performance criterion for the 2019 PSP. 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 2020 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 TSR performance against FTSE techMARK All-Share Index



CEO remuneration

The table below sets out the total remuneration delivered to the CEO over the last five 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 five most recent financial years.

	Salary and benefits (£000s)	Annual bonus (£000s)	Total remuneration (£000s)	Bonus as percentage of maximum (%)	Vesting of long-term incentives as percentage of maximum (%)
2020	246	169	415	51	100
2019	246	215	461	65	96
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 both the current period and the prior period. 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.

	Percentage increase in remuneration in 2020 compared with remuneration in 2019	
	CEO	UK employees
Salary and fees	0.0%	8.8%
Taxable benefits	0.0%	0.0%
Annual bonuses	-21.4%	-2.1%
Total	-9.8%	7.3%

Pay ratios

The following table sets out the ratio of the CEO's latest single total figure of remuneration versus UK full-time equivalent (FTE) employees' remuneration.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2020	A	22:1	15:1	10:1

Kainos has adopted option A as the preferred method for calculating the pay ratio for the year ended 31 March 2020. Option A was selected as it was considered the most efficient and robust approach in respect of gathering data for the year. Given the number of employees relevant to this disclosure and in line with the guidance, wages and salaries were used to form the basis of the calculation to present an equivalent single figure remuneration for full-time equivalent UK employees.

The wages and salaries figures for the median, 25th and 75th percentile employees used in the pay ratio calculation are as follows:

	Y25	Y50	Y75
Wages and salaries	30,800	46,000	67,000

Relative importance of spend on pay

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.

	2020 (£000s)	2019 (£000s)	Change (£000s)	Change (%)
Staff remuneration	94,456	73,899	20,557	28
Profit before tax	23,150	21,125	2,025	10
Corporation tax	(4,586)	(4,186)	400	10
Effective tax rate	20%	20%	–	–
Dividends	(12,147)	(8,917)	3,230	36

Employee engagement

During the year, the Board also considered the requirements of the 2018 Code for Board engagement with the wider workforce to explain how Executive Director remuneration aligns with the wider Group pay policy and this is a focus item on the Remuneration Committee's agenda in the forthcoming year.

AGM

The 2020 AGM will be the Group's fifth 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 2020

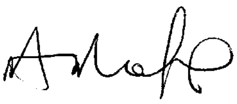
Salary	The Committee will continue to monitor the remuneration of Executive Directors of other companies in the IT sector and other listed companies with similar market capitalisation to ensure that the Executive Directors remain sufficiently rewarded to promote long-term success. The Committee will also take into account the salary increases across the wider workforce. As part of cost containment measures announced within the Group's response to the current Coronavirus pandemic, for a period of six months (effective 1 April 2020), the Executive Directors have elected to take no salary or accrue bonus.
Benefits	There will be no change to the benefits for the Executive Directors in the year commencing 1 April 2020.
Pension	There will be no change to the pension arrangements of the Executive Directors in the year commencing 1 April 2020.
Annual bonus	Annual bonus for the year commencing 1 April 2020 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 2021 will be similar to those applied during the year ended 31 March 2020. The targets for the annual bonus for 2020/21 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 2021 Annual Report. As noted above, for a period of six months, effective 1 April 2020, the Executive Directors have elected to take no salary or accrue bonus.
Long-term incentives	The Committee intends to make further performance share awards in mid-2020. 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 2021 Annual Report.
NED remuneration	The Non-Executive Board members have reduced their fees by 20% for a period of six months effective 1 April 2020. For the remainder of the year ended 31 March 2021 it is proposed their fees revert to the existing fees structures in effect from 1 October 2019.

On behalf of the Board

Tom Burnet
Chairman of the Remuneration Committee
22 May 2020

Audit Committee Report

As Chairman of the Audit Committee, I am pleased to introduce the Audit Committee Report for the year ended 31 March 2020. The Audit Committee has met three times during the year: May 2019, November 2019 and February 2020. The Audit Committee plays a central role in the review of Kainos Group's financial reporting, risk review and internal control processes. As a Committee, our responsibilities include providing advice (where requested by the Board) on whether the Annual Report and accounts, 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. 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.



Andy Malpass
Chairman of the Audit Committee

Composition and evaluation

The Audit Committee is comprised of three Non-Executive Directors all of whom are considered independent. The Audit Committee is chaired by Andy Malpass. The Board considers that Andy Malpass, who is a fellow of the Chartered Institute of Management Accountants with significant financial experience including serving as Finance Director of Fidessa Group plc until October 2015, and from June 2018, serving as a Non-Executive Director and chair of the Audit Committee of accesso Technology Group plc, has the recent and relevant experience required to act as Chairman of the Committee. In addition to Andy Malpass, the Committee comprises, Chris Cowan, who has considerable experience in the technology sector and Katie Davis who was appointed on 28 November 2019 and is experienced in the delivery of large-scale IT-enabled business change, in both the public and private sector. Accordingly, the Committee continues to comprise both the financial and industry relevant experience required. The range and depth of their financial and commercial experience enables them to deal effectively with the matters they are required to address and to challenge management when necessary. Further details of relevant experience of all members of the Committee are detailed in the Directors' and Corporate Governance Report.

The Company Secretary is secretary to the Committee.

The performance of the Committee was evaluated as part of the 2020 Board evaluation process which sought views from all members of the Board and the Company Secretary, through the completion and review of an evaluation questionnaire. The conclusion was that the Committee was functioning effectively. Directors were pleased with the functioning of the Committee and the manner in which Committee activities were reported to the Board. Only the members of the Committee have the right to attend Committee meetings, however, the Chief Financial Officer, Chairman, Chief Executive Officer, senior representatives of the external auditor, Deloitte (NI) Limited ("Deloitte") and other senior management attend meetings by invitation of the Committee. If the presence of any attendee is inappropriate or might compromise discussion, then the Committee would either not invite the attendee concerned or request that they recuse themselves from that part of the meeting.

Audit Committee meetings and key activities during 2019/20

At every meeting, the Committee considered risk reviews, project assurance reviews and fraud reports.

The Committee also monitored the Group's financial reporting and risk management procedures, reviewed the services provided by Deloitte, considered any significant legal claims and regulatory issues in the context of their impact on financial reporting and reported on the activities of the internal audit and compliance functions.

During the year, the Committee also discussed the finance and IT controls environment and conducted detailed risk review sessions and reviewed the Group's crisis management strategy.

The Committee reviewed the 2019 Annual Report and accounts, including the preliminary results announcement, financial statements, Strategic Report and Directors' Report.

At the February 2020 meeting the Committee focused on internal audit within the Group.

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 were initially appointed as the Group's external auditor for the year ended 31 March 2012. In line with EU legislation, all EU public interest entities must tender their audit every 10 years. The Board will tender the Group's audit for the year ending 31 March 2022 and expects to commence this process immediately following the preliminary announcement of results for the year ended 31 March 2021.

The Group confirms that it was in compliance with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee responsibilities) Order 2014 during the financial year ended 31 March 2020.

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.

The current audit partner is Richard Howard who has been in the role since 1 April 2017. Audit partners for listed companies are ordinarily rotated every five years.

Fees paid to Deloitte for the audit of the consolidated financial statements are set out in note 6 of the consolidated financial statements.

Assessment of effectiveness of external audit
The Committee assessed the effectiveness of the external audit process at its meeting in May 2019. 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 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 2021 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 is 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.

Significant issues related to the financial statements
During the year ended 31 March 2020 the Committee reviewed the results of the external audit for the previous financial year including reviewing the 2019 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 2020. In May 2020, the Committee received the 2020 Annual Report including the financial statements contained within it, the Preliminary Results Announcement for the year ended 31 March 2020 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 new accounting standards applicable from 1 April 2019;
- 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. 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 was satisfied that the methodology and process were appropriate. The Committee concurred with management that currently none of the development costs should be capitalised;
- 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; and
- The application of IFRS3 Business combinations to the acquisition of Formulate Adaptive Limited and Intuitive Technologies LLC during the period.

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.

The Audit Committee completed a full review of the internal control framework and procedures during the February 2020 meeting. This will be monitored by the Committee on an ongoing basis. The Audit Committee determined following that meeting that there is currently no requirement for a dedicated internal audit function. That determination will be kept under review. The Audit Committee also considers that the absence of an internal audit function does not directly affect the work of the external auditors.

Preparation for the February 2020 meeting included a full review and consideration of the purpose and operation of internal audit within the Company. The current position is detailed in the sections below.

The purpose of Kainos' internal audit activities are to assist the Board and senior management in protecting the assets, reputation and sustainability of Kainos. The key aims are to:

(i) Ensure all significant risks are identified and appropriately reported
(ii) Assess risk controls and mitigations
(iii) Act as a challenge function to improve governance, risk management and internal controls.

Internal audit functions and activities are owned and discharged by Business Unit and Central Services teams subject matter experts for the collective benefit of Kainos.

The principles underlying the internal audit activities carried out within the Group are:

(i) Unrestricted scope of subject matter – all aspects of Kainos' business are open to review
(ii) Internal audit activities are owned by senior level subject matter experts in each field
(iii) Focus and activities are based on the weighted risk profile of Kainos Group
(iv) Risk assessment is informed by stakeholder management
(v) Reporting on Group level issues and all risks to Audit Committee two times per year
(vi) Report on various focus areas at regular scheduled intervals to Audit Committee
(vii) Ad hoc reporting and review of emerging or significant risks as required to Group COO, relevant business stakeholders and the Audit Committee
(viii) Review of the principle and operation of internal audit activities at a minimum once per year to ensure these remain appropriate.

The key focus areas for internal audit activities are:

(i) Information Security
(ii) Corporate Governance & Legal Compliance
(iii) Financial Compliance
(iv) Commercial Review
(v) Delivery Assurance
(vi) Financial Planning and Analysis Risk Reporting

Individual named owners are identified for each key area. Specific focus areas will report individually to the Audit Committee during the year.

Nominations Committee Report

Membership, meetings and evaluation

The Nominations Committee, which is chaired by Tom Burnet, comprises Tom Burnet, Chris Cowan and Katie Davies 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 2020, the Committee:

- Considered and reviewed the Board's composition;
- Conducted and reported to the Board on the 2019/2020 Board evaluation exercise;
- Led succession planning activities at Board level and across the Group, with a focus on diversity and good practice, talent retention, training and development;
- Led the appointment of a new Group Chairman;
- Led the appointment of a new NED;
- Supported the establishment of a formal Diversity and Inclusion strategy and roll out of the action plan.

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.

Diversity – Board and senior management
The Board has actively sought to address the lack of Board diversity and is delighted to welcome Katie Davies as a new NED. Katie has developed and implemented significant and transformative digital strategies on a large scale across public and private sectors. Her experience will be invaluable to the Board as it continues to deliver major IT transformation programmes and digital services across the UK public sector and for commercial clients.

The Board is cognisant and supportive of the Hampton-Alexander targets for diversity and will continue to strive to meet them.

In the event that a further Board position requires filling (and in all succession planning activities undertaken by the Board and the Group), the Board 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 Nominations Committee meeting; this is a key area of focus for the Nominations Committee.

Diversity and Inclusion – the Group strategy
Rather than having a sole, standalone policy, Diversity and Inclusion (D&I) permeates across all Group people policies and working practices. Through the expertise of an external D&I specialist, engaged by the Group and in consultation with our workforce, the Group has established a three-year D&I strategy, underpinned by an annual action plan to support our three D&I ambitions:

1. Culture – building an inclusive workplace culture

2. Leadership – ensuring accountability and inclusive leadership

3. People – attracting, developing, retaining and showcasing a diverse talent pool

The D&I strategy not only targets addressing gender imbalances – 18% of Executive Team positions are filled by females with 12.1% in Leadership positions – but also intends to achieve the following:

- A culture where everyone can be their authentic selves and perform to the best of their ability;
- Colleagues who live by the Kainos values and value diversity in others;
- Colleagues from all diverse groups who recognise Kainos as a compelling place to build a career;
- Increased female representation at all levels;
- To better reflect the BAME diversity of the local community across all office locations;
- A Group increase in:
  - the number of mature colleagues;
  - the number of colleagues with a disability;
  - the proportion of young people from deprived areas and under-represented groups by actively inspiring them to engage in a career in technology.

A global D&I group consisting of a representative body of colleagues has been established and they will act on behalf of the Group, with an Executive Sponsor, to accelerate and manage D&I activities ensuring that the D&I strategy is right for the Company and is tightly aligned with its overall business priorities.

In 2019, the Group has supported staff to launch Employee Network Groups – *Xpression* (representing the LGBT+ community) consisting of 214 members and *Inspire* (Women's network) with over 204 members. These groups work as support networks, educators and voices for these communities as each group is sponsored by a member of the Executive Team.

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 consolidated 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 2020.

There are no off-balance sheet arrangements. Details of the trusts relating to Kainos' share incentive plans are set out in note 26 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 24 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 12,142,235 of ordinary shares in the market. This represented approximately 10% of Kainos' issued share capital as at 8 August 2019, as voted on and approved by shareholders at the 2019 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.

Principal shareholders
The following have disclosed that they have an interest in 5% or more of the issued ordinary share capital. At 13 May 2020, the last holding notified to the Company is shown below.

Investor	Ordinary 0.5p shares	% of issued share capital
QUBIS Ltd	14,261,217	11.7%
Brendan Mooney	14,205,941	11.6%
Standard Life Aberdeen plc	13,767,310	11.3%
Liontrust investment Partners LLP	11,662,308	9.6%
Paul Gannon	8,045,508	6.6%

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 consolidated financial statements. In addition, the notes to the consolidated 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, considering the possible short and medium-term scenarios arising due to the Covid-19 pandemic, 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 2023. A period of three years was selected for the following reasons:

- 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 and the estimated impact of Covid-19 on both the Digital Services and Workday Practise business areas. 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 Group's has a proportionally low fixed cost base which enables swift responses to adverse economic conditions when required, further supported by the strong cash position, low capital commitments and no borrowings.

The review included sensitivity analysis on the future performance and solvency over three years and 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 the profit or loss of the Group 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

Tom Burnet
Chairman
22 May 2020

Report on the audit of the financial statements

1. Opinion

In our opinion:

- **the financial statements of Kainos Group plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

We have audited the financial statements which 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 32.

The Company financial statements:
- the Company Statement of Financial Position;
- the Company Statement of Changes in Equity; and
- the related Company notes 1 to 10.

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

2. 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 Financial Reporting Council's (the "FRCs") 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.

3. 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 (RDEC); and • Valuation and completeness of Goodwill and other intangible assets recognised on acquisition. Within this report, key audit matters are identified as follows: • Newly identified • Similar level of risk
Materiality	The materiality that we used for the Group financial statements was £1,158,400, which was determined based on approximately 5% of profit before tax. The materiality that we used for the Company financial statements was £600,000, which was determined based on approximately 1.5% of net assets.
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 valuation and completeness of goodwill and other intangible assets recognised on acquisition. This reflects the acquisitions of Formulate Adaptive Ltd and Intuitive Technologies LLC in the current financial year. The key audit matter from prior year in relation to the appropriateness of transfer pricing rates has been removed following no material change in the Group's international structure and given the approach adopted in the current year to transfer pricing by the Group is consistent with the policy applied in the prior year.

4. Conclusions relating to going concern, principal risks and viability statement

4.1. Going concern

We have reviewed the directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's 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.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

4.2. Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures in the Strategic Report (Risk factors and uncertainties section) that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation in the Strategic Report (Risk factors and uncertainties section) that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation in the Directors' and Corporate Governance Report (Going concern and long-term viability statement) as to how they have assessed the prospects of the Group, 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 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.

We are also required to report 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.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. 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 period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that 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 appropriateness of transfer pricing rates was a key audit matter. However, this has been removed following no material change in the Group's international structure and given the approach adopted in the current year to transfer pricing by the Group is consistent with the policy applied in the prior year.

A new key audit matter has been identified in relation to the valuation and completeness of goodwill and other intangible assets recognised on acquisition at the financial statement level.

5.1. 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 statement of financial position date due to incorrect recognition of accrued or deferred revenue as a consequence of either fraud or error. 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 statement of financial position 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 relevant controls for ensuring appropriate recognition of revenue and evaluated the design and determined the implementation of the relevant controls relating to accrued and deferred revenue; – review of the appropriateness of revenue recognition policies adopted under IFRS15 including assessing the adequacy of the disclosure in the financial statements; – testing Time and Material contracts using substantive analytical procedures where we analysed the correlation between the billed revenue and the underlying hours and rates for both the current and prior year; – where contracts were Non-Time and Material, we selected a sample of contracts and recalculated the revenue to be recognised based on the contract terms and comparing this to actual revenue; and – testing accrued income and deferred income substantively to assess the appropriateness of accrued or deferred revenue as at the statement of financial position date.

5.2. 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 credits for tax relief. The Group avails of the UK research and development expenditure credit regime (RDEC) with recognised RDECs for the current period totalling £1.9 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 as included in note 4 of the financial statements. 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 sources of estimation uncertainty 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 relevant 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; – sampled a number of the costs on which the claims are based back to the Company's' underlying workings to test the validity; – challenged the underlying assumptions used by management in assessing the eligibility and valuation of RDEC claims and assessed the conclusions reached by the Board on the quantification of amounts to be included in the financial statements; and – assessed the adequacy of the disclosures in the financial statements, in particular those included in note 4 to the financial statements relating to key sources of estimation uncertainty.

5.3. Valuation and completeness of goodwill and other intangible assets recognised on acquisition

Key audit matter description	As described in note 30 to the financial statements, the Group acquired Formulate Adaptive Limited and Intuitive Technologies LLC during the year, resulting in goodwill of £3,220k and other intangibles of £4,045k being recorded on acquisition. Valuing these intangible assets is a subjective process requiring a high level of estimation and judgement by the directors including determining assumptions in relation to the discount factor applied and the useful life of contracts and the resulting amortisation period. Therefore, we have identified a key audit matter in relation to the valuation and completeness of separately identifiable intangible assets recognised upon acquisition. The accounting for transactions at the financial statement level 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 intangible assets acquired in business combination are 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: – assessed the design and determined the implementation of the key relevant controls relating to the completeness and valuation of the identifiable intangible assets; – challenged the key valuation assumption, being the discount rate; – challenging directors' key assumptions regarding the useful life of the contracts and the resulting amortisation period; – evaluated the completeness and accuracy of the disclosures in relation to the acquisition and whether they were appropriate and meet the requirements of the relevant accounting standards; and – assessed whether the accounting treatment was in line with IFRS3.

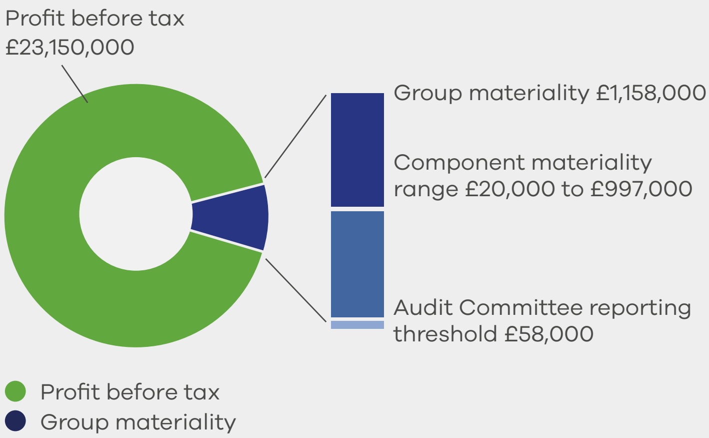
6. Our application of materiality

6.1. 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	£1,158,400 (PY: £1,051,000)	£600,000 (PY: £420,000)
Basis for determining materiality	Approximately 5% (PY: 5%) of profit before tax	Approximately 1.5% (PY: 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.



6.2. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £57,900 (PY: £46,000) for the Group and £30,000 (PY: £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.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

We determined the scope of our Group audit 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 a 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 £20,000 to £997,000.

8. 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **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.

We have nothing to report in respect of these matters.

9. 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.

10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out further below in our report.

As part of an audit in accordance with ISAs (UK), the auditor exercises professional judgment 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.
- Where the auditor is required to report on consolidated financial statements, obtains sufficient appropriate audit evidence regarding the financial information of the entities or 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.

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the FRC's Ethical Standard, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the Auditor's Report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the Auditor's Report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud
We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including IT and tax specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in Revenue Recognition relating to Misstatement of Accrued and Deferred Income. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Companies Act 2006, Taxation Legislation, Pension legislation, Listing Rules, and UK Corporate Governance Code.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included for example GDPR and MiFID II regulations.

11.2. Audit response to risks identified
As a result of performing the above, we identified Revenue Recognition relating to Misstatement of Accrued and Deferred Income as a key audit matter with a potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 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.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required 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 have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report 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.

We have nothing to report in respect of these matters.

14. Other matters

14.1. Auditor tenure

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 is nine years, covering the years ending 31 March 2012 to 31 March 2020.

14.2. Consistency of the audit report with the additional report to the Audit Committee

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

15. 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.

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 2020

	Note	2020 (£000s)	2019 (£000s)
CONTINUING OPERATIONS			
Revenue	3,5	**178,778**	151,294
Cost of sales	5	**(94,817)**	(82,189)
GROSS PROFIT	5	**83,961**	69,105
Operating expenses excluding share-based payments and acquisition-related expenses	5	**(56,912)**	(45,842)
Share-based payments	26	**(2,100)**	(2,196)
Acquisition-related expenses		**(266)**	–
Operating expenses		**(59,278)**	(48,038)
Impairment loss on trade receivables	17	**(1,840)**	(53)
OPERATING PROFIT		**22,843**	21,014
Finance income		**368**	111
Finance expense		**(61)**	–
PROFIT BEFORE TAX		**23,150**	21,125
Taxation on ordinary activities	8	**(4,586)**	(4,186)
PROFIT FOR THE YEAR		**18,564**	16,939

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2020

	Note	2020 (£000s)	2019 (£000s)
PROFIT FOR THE YEAR		**18,564**	16,939
Other comprehensive income:			
Currency translation difference		**577**	240
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**19,141**	17,179
EARNINGS PER SHARE			
Basic	10	**15.5p**	14.3p
Diluted	10	**15.1p**	13.9p

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

	Note	**2020 (£000s)**	2019 (£000s)
NON-CURRENT ASSETS			
Goodwill	11	**3,220**	–
Other intangible assets	12	**3,989**	–
Property, plant and equipment	13	**9,854**	2,978
Right-of-use assets	16	**4,468**	–
Investments	15	**1,025**	1,025
Deferred tax asset	19	**1,559**	1,310
		24,115	5,313
CURRENT ASSETS			
Trade and other receivables	17	**29,269**	29,302
Prepayments		**2,368**	2,652
Accrued income	18	**16,883**	11,305
Cash and cash equivalents		**40,785**	42,488
		89,305	85,747
TOTAL ASSETS		**113,420**	91,060
CURRENT LIABILITIES			
Trade creditors and accruals	21	**(23,599)**	(21,412)
Deferred income	21	**(13,752)**	(10,820)
Corporation tax	21	**(2,145)**	(2,755)
Lease liabilities	20	**(1,619)**	–
Other tax and social security	21	**(8,157)**	(6,514)
		(49,272)	(41,501)
NON-CURRENT LIABILITIES			
Other provisions	22	**(2,528)**	(1,392)
Lease liabilities	20	**(2,466)**	–
		(4,994)	(1,392)
TOTAL LIABILITIES		**(54,266)**	(42,893)
NET ASSETS		**59,154**	48,167
EQUITY			
Share capital	24	**610**	605
Share premium account	24	**5,446**	3,596
Capital reserve	24	**664**	665
Share-based payment reserve		**5,610**	3,895
Translation reserve		**655**	(210)
Retained earnings	24	**46,169**	39,616
TOTAL EQUITY		**59,154**	48,167

These financial statements were approved by the Board of Directors and authorised for issue on 22 May 2020. They were signed on its behalf by:

Richard McCann
Director
22 May 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	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 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	–	–	–	1,346	–	–	1,346
Adjustments in respect of 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
Profit for the year	–	–	–	–	–	18,564	18,564
Other comprehensive income	–	–	–	–	577	–	577
Total comprehensive income for the year	–	–	–	–	577	18,564	19,141
Share-based payment expense	–	–	–	1,715	–	–	1,715
Adjustments in relation to prior periods	–	–	–	–	288	(288)	–
Current tax for equity-settled share-based payments	–	–	–	–	–	541	541
Deferred tax for equity-settled share-based payments	–	–	–	–	–	(117)	(117)
Issue of share capital	5	1,850	(1)	–	–	–	1,854
Dividends	–	–	–	–	–	(12,147)	(12,147)
BALANCE AT 31 MARCH 2020	**610**	**5,446**	**664**	**5,610**	**655**	**46,169**	**59,154**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2020

	2020 (£000s)	2019 (£000s)
NET CASH FROM OPERATING ACTIVITIES	**24,231**	22,520
Investing activities		
Interest received	**368**	–
Purchases of property, plant and equipment	**(8,186)**	(2,016)
Acquisition of subsidiaries	**(4,464)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(12,282)**	(2,016)
Financing activities		
Dividends paid	**(12,147)**	(8,917)
Interest paid	**(61)**	–
Repayment of lease liabilities	**(1,716)**	–
Proceeds on issue of shares	**253**	1,905
NET CASH USED IN FINANCING ACTIVITIES	**(13,671)**	(7,012)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,722)**	13,492
Cash and cash equivalents at beginning of year	**42,488**	28,961
Effects of foreign exchange rate changes	**19**	35
CASH AND CASH EQUIVALENTS AT END OF YEAR	**40,785**	42,488

	2020 (£000s)	2019 (£000s)
PROFIT FOR THE YEAR	**18,564**	16,939
Adjustments for:		
Finance income	**(368)**	–
Finance expense	**61**	–
Income tax expense	**4,586**	4,186
Share-based payment expense	**2,100**	2,196
Depreciation of property, plant and equipment	**1,310**	1,147
Depreciation of right-of-use assets	**1,884**	–
Amortisation of intangible assets	**56**	–
Profit on disposal of property, plant and equipment	**–**	(22)
Increase in provisions	**243**	1,045
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	**28,436**	25,491
Increase in trade and other receivables	**(3,612)**	(11,215)
Increase in trade and other payables	**2,749**	10,146
CASH GENERATED BY OPERATIONS	**27,573**	24,422
Income taxes paid	**(3,342)**	(1,902)
NET CASH FROM OPERATING ACTIVITIES	**24,231**	22,520

1. General information and basis of preparation

Kainos Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 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 financial statements were authorised for issue by the directors on 22 May 2020.

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 (Amendment) Prepayment Features with Negative Compensation	1 January 2019
• IFRS16 Leases	1 January 2019
• 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

With the exception of IFRS16, none of the above standards had a material impact on the consolidated or Company financial statements.

IFRS16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases. Recognition exemptions are available for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in note 3. The impact of the adoption of IFRS16 on the Group's consolidated financial statements is described below.

The date of initial application of IFRS16 for the Group is 1 April 2019.

Approach to transition

The Group has applied IFRS16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases, the Group has elected to measure its right-of-use assets arising from leases using the approach set out in IFRS16.C8(b)(ii). Under this approach the right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application, less any lease incentives received.

The Group's incremental borrowing rate applied to lease liabilities as at 1 April 2019 is 1.7%, reflecting the lease term, asset value, economic environment and security.

Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS17 and IFRIC4 will continue to be applied to those leases entered into or modified before 1 April 2019.

The Group has also elected to use the following practical expedients:

- no recognition of right-of-use assets or lease liabilities for low value leases or leases where less than 12 months remains of the lease term;
- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics; and
- hindsight has been used in determining the lease term.

Financial impact

The application of IFRS16 to leases previously classified as operating leases under IAS17 resulted in the recognition of right-of-use assets and lease liabilities. Operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-of-use assets and lease liabilities.

	1 April 2019 (£000s)
Right-of-use assets	6,125
Lease liabilities	(5,556)
Adjustment for prepaid and accrued lease expenses	324
Property provisions	(893)

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.

£6.0 million of the right-of-use assets relate to property leases.

The table below presents a reconciliation from operating lease commitments disclosed at 31 March 2019 to lease liabilities recognised at 1 April 2019.

	(£000s)
Operating lease commitments disclosed under IAS17 at 31 March 2019	4,024
Short-term and low value lease commitments straight-line expensed under IFRS16	(783)
Effect of discounting	(170)
Payments due in periods covered by extension options that are included in the lease term	2,485
Lease liabilities recognised at 1 April 2019	**5,556**

The recognition value for right-of-use assets is summarised below:

	(£000s)
Initial right-of-use assets at amounts equal to the associated liability	5,556
Adjustment for prepaid and accrued lease payments	(324)
Adjustment for additional property provisions	893
Right-of-use assets recognised at 1 April 2019	**6,125**

Income statement

During the year ended 31 March 2020, the Group, in relation to leases under IFRS16, has recognised depreciation of £1.9 million and interest costs of £0.1 million, instead of IAS17 operating lease expenses of £1.8 million. There was no material deferred tax impact.

Cash flow statement

Lease and interest payments totalling £1.8 million have been reclassified from operating activities to financing activities.

New and revised IFRS Standards in issue but not yet effective

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
- IFRS17 Insurance Contracts — 1 January 2023
- Amendments to IAS1 and IAS8 Definition of Material — 1 January 2022
- Amendments to IFRS9, IAS39 and IFRS17: Interest Rate Benchmark Reform — 1 January 2020
- Amendments to References to Conceptual Framework in IFRS Standards — 1 January 2020

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods. IFRS17 has not yet been endorsed by the EU.

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 principal accounting policies adopted are set out below.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation

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

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

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company 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 Company obtains control over the subsidiary and ceases when the Company 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 in 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.

Business combinations
Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3, "Business Combinations" are recognised at their fair values at the acquisition date.

Deferred and contingent consideration arrangements in a business combination are assessed to determine if the amounts payable are consideration for the business or are payable for post-combination employee services. Deferred and contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in the income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity. Deferred and contingent consideration that is assessed as being payment for post-combination services (remuneration) is expensed as incurred in the post-combination period.

Acquisition-related costs, other than those associated with the issue of debt or equity securities, are expensed as incurred and included in operating expenses.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed. Identifiable intangibles are those which can be sold separately, or which arise from contractual or legal rights regardless of whether those rights are separable.

Goodwill
Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

The Group recognises a contract asset (accrued income) when the value of the satisfied performance obligations is in excess of the payment due to the Group or a contract liability (deferred income) when the amount of unconditional consideration is in excess of the value of satisfied performance obligations. Once a right to receive consideration is unconditional, that amount is recognised as a receivable.

Payment for the services is generally on industry standard payment terms.

A provision for forecasted excess costs over forecasted revenue is made as soon as a loss is foreseen.

Contract assets are represented by accrued income (note 18) and contract liabilities are represented by deferred income (note 21) and onerous contract provisions (note 22).

Service revenue

Time and materials contracts

Contracts for the provision of software-related 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. Such services are recognised as a performance obligation satisfied over time in line with the chargeable 'time and materials' which are allocated to the contracted project.

Fixed price contracts

Other contracts for the provision of software-related services are contracted on a fixed price basis. The directors have assessed that the stage of completion determined as a proportion of the total cost expected for the project that has elapsed at the end of the reporting period is an appropriate measure of progress towards complete satisfaction of the performance conditions under IFRS15. This is reviewed on a monthly basis. Payment for services are not due from the customer unless milestones have been achieved or the project is complete therefore a contract asset is recognised over the period in which the services are performed representing the Group's right to consideration for the services performed to date. Where costs are anticipated to be in excess of revenues an onerous contract will be recognised.

Support and maintenance

Revenue relating to support and maintenance services are recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transactions and is released 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 control of the goods has transferred to the customer, 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 over time 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.

Commission revenue

Commission income is earned when the Group secures orders for end-user access to Adaptive Insights software and the provision of support services over the subscription term. Performance obligations are satisfied over time and as a result the commission revenue is recognised on a straight-line basis over the term.

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group continues to recognise the lease payments mainly as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits of the lease are consumed.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease when it can be readily determined. If this rate cannot be readily determined the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used.
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

Right-of-use asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and less any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS37. These costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

The depreciation starts at the commencement date of the lease. The Group does not have any leases that include purchase options or transfer ownership of the underlying asset.

The Group applies IAS36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Comparatives
The Group has applied IFRS16 using the modified retrospective approach, without restatement of the comparative information. In the prior year, rentals payable under operating leases were charged to the income statement on a straight-line basis over the term of the relevant lease.

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.

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.

Research and Development Expenditure Credit
Research and Development Expenditure Credits are accounted for as having the substance of a government grant. 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.

Retirement benefit costs
The Group operates three 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 end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

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 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 of goodwill or 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. In addition, a deferred tax liability is not recognised if the temporary difference arises from the initial recognition of goodwill.

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 reporting date.

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 under construction are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, determined on the same basis as other property assets, commences when the assets are ready for their intended use.

Property, plant and equipment assets are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

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.

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

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.

Acquired intangible assets
Separately identified intangible assets acquired in a business combination are initially recognised at their fair value (which is regarded as their cost). Intangible assets are subsequently stated at fair value or cost less accumulated amortisation and any accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life of the asset. The carrying value of intangible assets is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Estimated useful lives typically applied are as follows:

Customer relationships – over 10 years

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, and only 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.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

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.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and deposits repayable in 72 days or less. All of the cash and cash equivalents balance is available for use by the Group.

Investments
Investments in equity shares, which are all unquoted equity investments, are stated at fair value through profit or loss (FVTPL).

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

Impairment of financial assets
The Group recognises a loss allowance for expected credit losses (ECLs) on investments in debt instruments that are measured at amortised cost or at FVTOCI, trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group recognises lifetime expected credit losses for trade receivables and contract assets. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

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 (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the amortised cost of a financial liability.

Derecognition of financial assets and financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

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.

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 26.

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. The share-based payment expense relating to employees of other Group companies is recharged to these companies.

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 the share-based payment reserve.

4. Material accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, which are described in note 3, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of the 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.

Critical judgements in applying the Group's accounting policies
The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

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 (2019: nil). The total product development expenditure in the period is £3.9 million (2019: £4.3 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. Certain development costs are incurred for specific projects and there is a lack of certainty that the work may have future economic benefit on future projects. 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 the research and development expense in the financial statements.

Intangible assets acquired in business combinations
IFRS3 requires the identification of acquired intangible assets as part of a business combination. The methods used to value such intangible assets require management to apply judgement.

During the year the Group acquired Formulate Adaptive Limited and Intuitive Technologies LLC. Management considered intangible assets relating to customer relationships in both transactions qualified for recognition separately from goodwill.

Key assumptions and estimates made in valuing customer relationships include:

- Cash flow forecasts estimating future business volumes
- Discount rate applied to forecasted future cash flows
- Customer attrition rate

Future results are impacted by the amortisation periods adopted and changes to the estimated useful lives would result in different effects on the income statement.

The total fair value of intangible assets (excluding goodwill) acquired was £4.0 million. Full analyses of the consideration transferred, assets and liabilities acquired and goodwill recognised in business combinations are set out in note 30.

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.

Lease term with extension options

The impact of the adoption of IFRS16 on the Group's consolidated financial statements is described in note 2. IFRS16 defines the lease term as the non-cancellable period for which a lessee has the right to use an underlying asset, including periods covered by an option to extend the lease, if it is considered reasonably certain this option will be exercised. Judgement has been applied in determining the lease term for some underlying property leases upon transition to IFRS16. The judgements reflect management's best estimate of property requirements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

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.

Licence income

The Group's proprietary software is licensed to customers on a recurring annual basis following a SaaS business model and less frequently as a fixed one-off lifetime perpetual licence. 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.

Note 5 presents further information regarding the components of revenue.

RDEC income

Estimates are made in determining the product development expenditure eligible for RDEC. RDEC income is recognised when there is certainty that related conditions have been met and the income will be received. The unrecognised RDEC component as at 31 March 2020 equates to £3.1 million and has been assessed by reference to IAS37 Provisions, Contingent Liabilities and Contingent Assets. Appropriate amounts will be released to the income statement as and when the conditions have been met and the income in relation to that amount has been received.

Goodwill impairment

The determination of whether or not goodwill has been impaired requires an estimate to be made of the value in use of the cash generating unit (CGU) or group of CGUs to which goodwill has been allocated. The value in use calculation includes estimates about the future financial performance of the CGUs, management's estimates of discount rates, long-term operating margins and long-term growth rates (note 11). If the results of the CGU in a future period are materially adverse to the estimates used for the impairment test, an impairment charge may be triggered.

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 26.

5. Segment reporting

All of the Group's revenue during the period to 31 March 2020 was derived from continuing operations. Kainos is structured into two divisions: Digital Services and the Workday Practice.

The Digital Services division focuses on the delivery of customised online digital solutions, principally for public sector, commercial sector and healthcare organisations. The solutions provided are highly cost-effective and make public-facing services more accessible and easier to use for the citizen and customer.

The Workday Practice is closely linked to Workday Inc's software suite, which includes cloud-based software for Human Capital Management ("HCM") and Financial Management and Planning that enables enterprises to organise their staff efficiently and to support financial reporting requirements. The division comprises two areas of activity, the provision of consulting services ("Workday Services") and the Smart Automated Testing Platform ("Smart") that allows Workday customers to automatically verify their Workday configuration.

The Group has opted to amend the reporting structure, both internally to the CEO and publicly, by now grouping the business as Digital Services (formerly Digital Transformation and Evolve) and Workday Practice (previously Workday Implementation and Smart, our Workday testing product).

This revised reporting structure better reflects the internal operational grouping and more importantly reflects how customers interact with the Group – Smart customers are increasingly seeking Workday consulting services and vice versa. This trend is expected to accelerate in subsequent years.

A full reconciliation between the previous and current segmental reporting is provided in note 31.

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

2020 12 months to 31 March	**Digital Services (£000s)**	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	**122,500**	**56,278**	**178,778**
Cost of sales	**(73,580)**	**(21,237)**	**(94,817)**
GROSS PROFIT	**48,920**	**35,041**	**83,961**
Direct expenses[10]	**(15,158)**	**(23,053)**	**(38,211)**
CONTRIBUTION	**33,762**	**11,988**	**45,750**
Central overheads[10]			**(20,234)**
ADJUSTED PRE-TAX PROFIT			**25,516**

2019 12 months to 31 March	Digital Services (£000s)	Workday Practice (£000s)	Consolidated (£000s)
Revenue	117,299	33,995	151,294
Cost of sales	(68,299)	(13,890)	(82,189)
GROSS PROFIT	49,000	20,105	69,105
Direct expenses[10]	(13,378)	(13,486)	(26,864)
CONTRIBUTION	35,622	6,619	42,241
Central overheads[10]			(18,920)
ADJUSTED PRE-TAX PROFIT			23,321

10 Operating expenses excluding share-based payments and acquisition-related costs includes direct expenses, central overheads, impairment loss on trade receivables and finance income/expenses.

Reconciliation of adjusted pre-tax profit to profit before tax:

	2020 (£000s)	2019 (£000s)
ADJUSTED PRE-TAX PROFIT	**25,516**	23,321
Share-based payments	**(2,100)**	(2,196)
Acquisition-related expenses	**(266)**	–
PROFIT BEFORE TAX	**23,150**	21,125

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

	2020 (£000s)	2019 (£000s)
United Kingdom	**133,935**	122,304
Republic of Ireland	**4,971**	5,827
USA	**21,530**	10,597
Other	**18,352**	12,566
	178,788	151,294

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

	Digital Services 2020 (£000s)	Digital Services 2019 (£000s)	Workday Practice 2020 (£000s)	Workday Practice 2019 (£000s)	Total 2020 (£000s)	Total 2019 (£000s)
Type of revenue						
Services	**114,114**	108,921	**36,973**	22,751	**151,087**	131,672
SaaS and related	**5,689**	4,657	**19,282**	11,213	**24,971**	15,870
Third party and other	**2,697**	3,721	**23**	31	**2,720**	3,752
	122,500	117,299	**56,278**	33,995	**178,778**	151,294
Revenue recognition						
At a point in time	**2,697**	3,721	**23**	31	**2,720**	3,752
Over time	**119,803**	113,578	**56,255**	33,964	**176,058**	147,542
	122,500	117,299	**56,278**	33,995	**178,778**	151,294

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) (Executive Board) on a segmental basis and therefore are not disclosed.

The Group's non-current assets (excluding deferred tax assets) are located in locations outside Northern Ireland as follows:

	2020 (£000s)
UK (excluding Northern Ireland)	**1,048**
Republic of Ireland	**96**
USA	**4,405**
Other	**1,830**

There were no significant non-current assets located outside Northern Ireland as at 31 March 2019, accordingly no comparative information has been presented.

Significant customer

A Digital Services client ("Customer A") accounted for £22.0 million (or 12%) of total Group revenue during 2020 (2019: £21.1 million or 14%). Digital Services client ("Customer B") accounted for £15.5 million (or 9%) of total 2020 Group revenue (2019: £13.6 million or 9%). No other single customer contributed 9% or more to the Group's consolidated revenue during the period to 31 March 2020.

6. Profit for the year

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

	2020 (£000s)	2019 (£000s)
Total staff costs (note 7)	**94,456**	73,899
Government grants	**26**	(984)
Research and development costs	**3,863**	4,321
Research and Development Expenditure Credit	**(1,866)**	(2,014)
Depreciation of property, plant and equipment (note 13)	**1,310**	1,147
Depreciation of right-of-use assets (note 16)	**1,884**	–
Net foreign exchange loss/(gain)	**509**	(69)
Amortisation of acquired intangibles (note 12)	**56**	–

The analysis of auditor's remuneration is as follows:

	2020 (£000s)	2019 (£000s)
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**65**	60
Fees payable to the Group's auditor for the audit of subsidiaries	**42**	42
Total audit fees	**107**	102
Fees payable to the Group's auditor for other services to the Group:		
Review of interim report	**20**	16
Other audit-related services	**–**	–
Total audit-related fees	**127**	118
Non-audit fees	**–**	–
Total audit and non-audit fees	**127**	118
Total % of non-audit fees	**0%**	0%

7. Staff numbers and costs

The average number of employees during the year was:

	2020 Number	2019 Number
Technical	**1,189**	1,004
Administration	**163**	115
Sales	**72**	59
	1,424	1,178

Their aggregate remuneration comprised:

	2020 (£000s)	2019 (£000s)
Wages and salaries	**80,995**	62,627
Social security costs	**8,466**	7,128
Other pension costs	**2,895**	1,948
Share-based payments	**2,100**	2,196
	94,456	73,899

The number of employees at 31 March 2020 was:

	2020 Number	2019 Number
Technical	**1,311**	1,056
Administration	**179**	175
Sales	**79**	65
	1,569	1,296

The split of remuneration between cost of sales and operating expenses is as follows:

	2020 (£000s)	2019 (£000s)
Cost of sales	**57,987**	44,015
Operating expenses	**36,469**	29,884
	94,456	73,899

8. Tax on ordinary activities

	2020 (£000s)	2019 (£000s)
Corporation tax:		
Current year (UK)	**3,917**	3,657
Current year (overseas)	**1,238**	599
Adjustments in respect of prior years	**(45)**	(33)
	5,110	4,223
Deferred tax (note 19)	**(524)**	(37)
	4,586	4,186

UK corporation tax is calculated at 19% (2019: 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 2020 was 20% (2019: 20%).

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 was expected to reduce to 17% from 1 April 2020. In the 2020 budget, the UK government announced that the main rate of corporation tax would not reduce and would remain at 19%. 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:

	2020 (£000s)	2019 (£000s)
Profit before tax on continuing operations	**23,150**	21,125
Tax at the UK corporation tax rate of 19% (2019: 19%)	**4,399**	4,014
Non-deductible expenses	**67**	66
Non-taxable income	**(9)**	(1)
Effect of foreign exchange on consolidation	**61**	29
Effect of non-UK tax rates	**64**	17
Movement in prior year unrecognised deferred tax assets	**–**	15
Adjustments to tax charge in respect of prior years	**14**	46
Change in UK tax rates	**(10)**	–
Tax expense for the year	**4,586**	4,186

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

	2020 (£000s)	2019 (£000s)
CURRENT TAX		
Permanent element of stock option deduction	**541**	899
DEFERRED TAX		
Adjustments in respect of previous periods	**10**	–
Deferred tax on stock option	**(127)**	(8)
Total tax recognised directly in equity	**424**	891

9. Dividends

	2020 (£000s)	2019 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2020 of 3.5p per share	**4,252**	–
Final dividend for 2019 of 6.5p per share	**7,895**	–
Interim dividend for 2019 of 2.8p per share	**–**	3,382
Final dividend for 2018 of 4.6p per share	**–**	5,535
	12,147	8,917

No final dividend will be declared for the financial year ended 31 March 2020.

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.

	2020 (£000s)	2019 (£000s)
Profit for the period	**18,564**	16,939
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**120,112**	118,318
Effect of dilutive potential ordinary shares from share options	**2,957**	3,250
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**123,069**	121,568
Basic earnings per share	**15.5p**	14.3p
Diluted earnings per share	**15.1p**	13.9p

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

	2020 (£000s)	2019 (£000s
Profit for the period	**18,564**	16,939
Share-based payments (including associated taxes)	**1,701**	1,823
Acquisition-related expenses (including associated taxes)	**219**	–
Adjusted profit for the period	**20,484**	18,762
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**120,112**	118,318
Effect of dilutive potential ordinary shares from share options	**2,957**	3,250
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**123,069**	121,568
Adjusted basic earnings per share	**17.1p**	15.9p
Adjusted diluted earnings per share	**16.6p**	15.4p

11. Goodwill

Cost	Total (£000s)
At 1 April 2019	–
Recognised on acquisition of subsidiary	3,220
At 31 March 2020	**3,220**

Accumulated impairment losses	
At 1 April 2019	–
Impairment losses for the year	–
At 31 March 2020	**–**

Carrying amount	
At 31 March 2020	**3,220**
At 31 March 2019	–

The carrying amount of goodwill has been allocated to the cash-generating unit (CGU) as follows:

	2020 (£000s)
Kainos Workday Adaptive Practice	**3,220**
Total	**3,220**

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. For the purpose of impairment testing, goodwill is allocated to the CGU which represents the lowest level within the Group at which goodwill is monitored.

The recoverable amount of the relevant CGU has been determined based on a value-in-use calculation using cash flows derived from financial projections covering a three-year period, with cash flows thereafter calculated using a terminal value methodology.

Key assumptions
The key assumptions used in the estimation of the recoverable amount are summarised as follows:

- Budgeted revenues
- Budgeted gross margins
- Discount rate – 11%-12%
- Terminal value growth rate – 2%

Projected cash flows are most sensitive to assumptions regarding future growth of the CGU and its profitability. The values applied to these key assumptions are derived from a combination of external and internal factors, based on past experience together with management's future expectations about business performance.

The discount rate is the pre-tax rate that reflects current market assessments of the time value of money and risks specific to the CGU.

Summary of results
As a result of this review, no impairment has been identified.

Sensitivity analysis
The Group conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions. Management concluded that no reasonably possible change in any of the key assumptions would reduce the recoverable amount below its carrying value.

12. Other intangible assets

Cost	Customer relationships (£000s)	Total (£000s)
At 1 April 2019	–	–
Acquired on business combination	4,045	4,045
At 31 March 2020	**4,045**	**4,045**

Amortisation and impairment		
At 1 April 2019	–	–
Charge for the year	56	56
At 31 March 2020	**56**	**56**

Carrying amount		
At 31 March 2020	**3,989**	**3,989**
At 31 March 2019	–	–

Amortisation of customer relationships is calculated using the straight-line method over a period of 10 years.

13. Property, plant and equipment

	Property under construction (£000s)	Leasehold property (£000s)	Office equipment (£000s)	Fixtures and fittings (£000s)	Total (£000s)
At 1 April 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
Additions	7,431	56	676	23	8,186
Disposals	–	–	(122)	–	(122)
At 31 March 2020	**7,431**	**2,783**	**5,412**	**1,340**	**16,966**

Accumulated depreciation					
At 1 April 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
Charge for the year	–	87	1,125	98	1,310
Eliminated on disposals	–	–	(122)	–	(122)
At 31 March 2020	**–**	**2,202**	**3,657**	**1,253**	**7,112**

Carrying amount					
At 31 March 2020	**7,431**	**581**	**1,755**	**87**	**9,854**
At 31 March 2019	–	612	2,204	162	2,978

14. Subsidiaries

The subsidiary undertakings at 31 March 2020 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	Property company	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	WeWork Tower Place, 3340 Peachtree Road, Atlanta, Georgia, 30326, USA	Software development	100%
Kainos Evolve Inc.	US	WeWork Tower Place, 3340 Peachtree Road, Atlanta, Georgia, 30326, USA	Software development	100%
Kainos Worksmart GmbH	Germany	The Squaire 12, Am Flughafen Hessen, Frankfurt 60549	Software development	100%
Kainos Worksmart ApS	Denmark	Office no. 280110080 Harsdorffs Hus Office Club, Kongens Nytorv 5 1050 Copenhagen	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 75009, Paris, France	Software development	100%
Kainos WorkSmart OY	Finland	c/o TMF Finland Oy, Erottajankatu 9 B 3, 00130, Helsinki	Software development	100%
Formulate Kainos Limited	England	2nd Floor, 21 Farringdon Road, London, EC1M 3HA	Software services	100%
Intuitive Technologies LLC	US	7700 E. Arapahoe Road, Suite 220, Centennial, Colorado 80112	Software services	100%

There are no significant restrictions on the ability of the Group to access or use assets and settle liabilities.

15. Investments

The Group has unlisted investments as follows:

	2020 (£000s)	2019 (£000s)
Carrying value	**1,025**	1,025

The Group acquired shares in Cirdan Imaging Limited ("Cirdan") in February 2016 and March 2018. As at 31 March 2020, the Group has a total shareholding of 9.9% in Cirdan.

Cirdan's wide international presence and its strong credentials in the healthcare industry offer the potential to strengthen significantly the Group's healthcare proposition in new global markets

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

16. Right-of-use assets

Cost	Property (£000s)	Other (£000s)	Total (£000s)
Adjustment on initial application of IFRS16	6,071	54	6,125
Additions	168	59	227
At 31 March 2020	**6,239**	**113**	**6,352**

Accumulated depreciation			
1 April 2019	–	–	–
Charge for the year	1,845	39	1,884
At 31 March 2020	**1,845**	**39**	**1,884**

Carrying amount			
At 31 March 2020	**4,394**	**74**	**4,468**

The Group leases several assets including buildings, vehicles and IT equipment. The average lease term is 2.5 years. The Group is committed to £0.2 million for leases not yet commenced and therefore not reflected as at 31 March 2020.

The maturity analysis of lease liabilities is presented in note 20.

Amounts recognised in the profit and loss:

	2020 (£000s)
Depreciation expense on right-of use assets	**1,884**
Interest expense on lease liabilities	**61**
Expense relating to short-term leases	**1,113**

At 31 March 2020, the Group is committed to £0.7 million (2019: £0.8 million) for short-term leases.

17. Trade and other receivables

	2020 (£000s)	2019 (£000s)
Trade receivables	28,294	26,216
Loss allowance	(1,840)	(53)
	26,454	26,163
Other receivables	2,815	3,139
	29,269	29,302

Included in trade receivables are the following amounts from significant customers listed in note 5 above (Segment Reporting): Customer A – 2020: £3.1 million (2019: £3.4 million) and Customer B – 2020: £1.8 million (2019: £2.7 million). In addition to Customer A and B there is one further customer who represents greater than 5% of the total balance of trade receivables as at 31 March 2020. (Three customers represented greater than 5% of the total balance at 31 March 2019).

The average credit period extended to customers is 30 days. Generally, no interest is charged on outstanding trade receivables.

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:

	2020 (£000s)	2019 (£000s)
31-60 days	5,763	522
61-90 days	929	518
91+ days	4,134	2,204
Sub-total	10,826	3,244

The following table shows the movement in the lifetime ECL that has been recognised for trade receivables in accordance with the simplified approach set out in IFRS9.

	2020 (£000s)	2019 (£000s)
Balance at the beginning of the period	53	–
Impairment losses recognised	1,840	53
Amounts recovered during the year	(53)	–
Balance at the end of the period	1,840	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 consisting largely of public sector bodies, state agencies and blue-chip corporates.

The Group uses a provision matrix to measure the expected lifetime credit loss of trade receivables. Loss rates are calculated based on the probability of a receivable progressing through successive stages of delinquency to write-off. Probabilities are calculated based on the following common credit characteristics – historical payment behaviours, current economic circumstances of customers and type of product purchased.

IFRS9 requires that historical loss rates are adjusted as appropriate to reflect current conditions and estimates of future economic conditions. Historically Kainos has had a minimal credit loss history with regards to its customers; however in light of Covid-19 the Group has revised its assessment of expected credit losses as at 31 March 2020.

Greater volatility in economic conditions has led the Group to consider multiple economic scenarios in determining the expected loss rates. In addition to specifically providing for any customers with debt aged older than six months, the Group has analysed the customer base by sector to model expected operational disruption.

The tables below detail the expected loss rate applied to the aging profile of the carrying value of trade receivables.

31 March 2020	**Expected loss rate (%)**	**Carrying amount (£000s)**	**Loss allowance (£000s)**
Not past due	**23**	**3,852**	**897**
Past due 0-30 days	**2**	**13,252**	**200**
Past due 31-60 days	**2**	**5,866**	**124**
Past due 61-90 days	**0**	**949**	**–**
Past due 90 days +	**14**	**4,375**	**619**
Loss allowance at 31 March 2020	**7**	**28,294**	**1,840**

31 March 2019	Expected loss rate (%)	Carrying amount (£000s)	Loss allowance (£000s)
Past due 90+ days	2%	2,257	53

18. Accrued income

	2020 (£000s)	2019 (£000s)
Accrued income	**16,883**	11,305
	16,883	11,305

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

19. 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 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 1 April 2019	14	873	–	423	1,310
Foreign exchange differences	–	–	–	(10)	(10)
Arising on consolidation of acquisition	–	–	–	(148)	(148)
Debit to retained earnings	–	(117)	–	–	(117)
(Debit)/credit to profit	(70)	(89)	303	380	524
At 31 March 2020	**(56)**	**667**	**303**	**645**	**1,559**

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:

	2020 (£000s)	2019 (£000s)
Deferred tax assets	**1,559**	1,310
	1,559	1,310

20. Lease liabilities

Maturity analysis	**2020 (£000s)**
Less than one year	**1,676**
One to five years	**2,534**
More than five years	**–**
	4,210
Less: unearned interest	**(125)**
	4,085
Analysed as:	
Non-current	**2,466**
Current	**1,619**

21. Trade and other payables

	2020 (£000s)	2019 (£000s)
Trade creditors and accruals	**23,599**	21,412
Lease liabilities	**1,619**	–
Deferred income	**13,752**	10,820
Corporation tax	**2,145**	2,755
Other tax and social security	**8,157**	6,514
	49,272	41,501

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 contracted 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.

The directors consider that the carrying amount of trade payables approximates to their fair value.

22. Provisions

Other provisions are analysed as follows:

	2020 (£000s)	2019 (£000s)
Property-related provision	**1,287**	394
Onerous contract provision	**1,241**	998
	2,528	1,392

	2020 (£000s)	2019 (£000s)
Current	**819**	771
Non-current	**1,709**	621
	2,528	1,392

	Property-related provision (£000s)	Onerous contract provision (£000s)	Total (£000s)
At 1 April 2019	394	998	1,392
Additional provision in the year	893	243	1,136
At 31 March 2020	**1,287**	**1,241**	**2,528**

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. Upon adoption of IFRS16 the Group recognised an additional provision of £0.9 million in relation to property with lease end dates ranging from August 2022 to July 2023.

Onerous contract provision

Regular review of all customer contracts identified two loss-making contracts. Management has determined that the costs of completing the contracts exceed expected revenues resulting in an expected total loss of £1.2 million. The total loss has been provided for in 'other provisions' in accordance with IAS37. £0.8 million of this loss is expected to be incurred in the period to 31 March 2021. The directors are satisfied with this approach and have assessed that the total provision is reasonable.

23. 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.

24. Share capital and reserves

Share capital

	2020 (£000s)	2019 (£000s)
ISSUED AND FULLY PAID:		
Ordinary shares		
Opening balance	**605**	593
Issued during the year	**5**	12
Total share capital	**610**	605

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 2020, the Company has 122,089,878 issued ordinary shares (2019: 121,009,439) 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
Issue of share capital at a premium	1,850
Balance at 31 March 2020	**5,446**

Capital reserve account

	(£000s)
Balance at 31 March 2019	666
Issue of share capital	(1)
Balance at 31 March 2019	665
Issue of share capital	(1)
Balance at 31 March 2020	**664**

The capital reserve arises from the capital reorganisation which occurred in 2015.

Retained earnings

	(£000s)
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
Deferred tax equity movement	(117)
Current tax equity movement	541
Adjustments in respect of previous periods	(288)
Dividends paid	(12,147)
Profit for the year	18,564
Balance at 31 March 2020	**46,169**

25. Capital commitments

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

	2020 (£000s)	2019 (£000s)
Land	–	6,692

During the financial year the Group acquired a site for the development of Kainos' future Belfast headquarters at Bankmore Square. The purchase price of £7.4 million was fully funded by cash resources. No capital commitments relating to this site exist at 31 March 2020.

26. Share-based payments

The Group has the following equity-settled share plans:

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. Options ordinarily are forfeited if the employee leaves the Group before the options vest.

The specific performance conditions relating to the Group Performance Share Plan are described in further detail as part of the Directors' Remuneration Report.

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. Options ordinarily are forfeited if the employee leaves the Group before the options vest.

SAYE Scheme

The Group has an all-employee share plan open to UK employees. To date there has been two grants under this scheme. Employees who participate enter 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. Options ordinarily are forfeited if the employee leaves the Group before the options vest.

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. Options ordinarily are forfeited if the employee leaves the Group before the options vest.

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. A minimum period of three years is imposed before the employee can withdraw.

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. A minimum period of five years and one week is imposed before the employee can withdraw any free shares. 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's Polish subsidiary. Share options will not generally be exercisable within three years and have a maximum life of 3.5 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. Options and awards ordinarily are forfeited if the employee leaves the Group before vesting occurs.

Fair values and awards outstanding

For share awards under the PSP, CSOP, Republic of Ireland (ROI) and Poland share option schemes, the fair value has been measured using the Black-Scholes model. The following table lists the key inputs to the model used in the year of grant. Expected volatility was determined by calculating the historical volatility of the Group's share price over the expected term.

PSP	**Granted during year to 31 March 2020**	Granted during year to 31 March 2019
Weighted-average exercise price	**£0.05**	£0.05
Fair value at grant date	**£3.65-£5.80**	£2.42-£3.84
Share price at grant	**£6.34**	£4.19
Expected volatility	**48%**	31%
Expected life (years)	**3.5**	3.5
Risk-free interest rate	**0.3%**	1.1%
Expected dividends per annum	**2.4%**	2.3%

CSOP	**Granted during year to 31 March 2020**	Granted during year to 31 March 2019
Weighted-average exercise price	**£6.50**	£4.03
Fair value	**£2.06**	£0.97
Share price at grant	**£6.34**	£4.19
Expected volatility	**48%**	31%
Expected life (years)	**5**	5
Risk-free interest rate	**0.3%**	1.1%
Expected dividends per annum	**2.4%**	2.3%

UK SAYE	**Granted during year to 31 March 2020**	Granted during year to 31 March 2019
Weighted-average exercise price	**–**	£3.36
Fair value	**–**	£1.13
Share price at grant	**–**	£4.19
Expected volatility	**–**	31%
Expected life (years)	**–**	3.25
Risk-free interest rate	**–**	1.1%
Expected dividends per annum	**–**	2.3%

ROI share options	**Granted during year to 31 March 2020**	Granted during year to 31 March 2019
Weighted-average exercise price	**–**	£3.36
Fair value	**–**	£1.13
Share price at grant	**–**	£4.19
Expected volatility	**–**	31%
Expected life (years)	**–**	3.25
Risk-free interest rate	**–**	1.1%
Expected dividends per annum	**–**	2.3%

Poland share options	**Granted during year to 31 March 2020**	Granted during year to 31 March 2019
Weighted-average exercise price	–	£3.36
Fair value	–	£1.15
Share price at grant	–	£4.19
Expected volatility	–	31%
Expected life (years)	–	3.5
Risk-free interest rate	–	1.1%
Expected dividends per annum	–	2.3%

Reconciliation of outstanding share options and share awards

Share options	PSP (000s)	CSOP (000s)	UK SAYE (000s)	ROI share options (000s)	Poland share options (000s)	Total (000s)
Outstanding at 31 March 2019	852	622	506	20	264	2,264
Granted during the period	160	51	–	–	–	211
Exercised during the period	(342)	(152)	(11)	–	(13)	(518)
Forfeited during the period	(43)	(2)	(40)	(2)	(24)	(111)
Outstanding at 31 March 2020	**627**	**519**	**455**	**18**	**227**	**1,846**
Weighted average exercise price	**£0.005**	**£2.43**	**£3.36**	**£3.36**	**£3.36**	
Weighted average remaining contractual life in years	**7.9**	**6.4**	**2**	**2**	**1.8**	

The weighted average share price at the date of exercise for share options exercised during the period was £6.14 (2019: £3.93) per share.

Restricted shares	UK SIP (000s)	ROI (000s)	Poland conditional share awards (000s)	Total (000s)
Outstanding at 31 March 2019	1,231	56	230	1,517
Granted during the period	347	7	101	455
Released during the period	(73)	–	(76)	(149)
Forfeited during the period	(42)	(1)	(20)	(63)
Outstanding at 31 March 2020	**1,463**	**62**	**235**	**1,760**

The Group recognised total expenses of £2.1 million related to share-based payment transactions during the year (2019: £2.2 million).

27. Pensions

The Group operates three 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 £2.9 million (2019: £1.9 million) represents contributions payable to these funds by the Group at rates specified in the rules of the schemes. As at 31 March 2020, contributions of £0.06 million (2019: £0.7 million) were payable to the funds and are included in trade creditors and accruals (note 21).

28. Financial instruments

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, 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 reserves, banking facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Cash and cash equivalents comprise cash and short-term bank deposits. The interest rates obtained on the Group's bank deposits during the year attracted interest at below 1.5% per annum. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position.

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

The Group has a strong period end cash balance of £40.8 million and no borrowings. In light of the ongoing Coronavirus pandemic, the Group has announced some cost and cash containment measures to protect its cash reserves, effective 1 April 2020. The Group does not anticipate requiring additional credit facilities to manage liquidity.

All financial liabilities of the entity, with the exception of lease liabilities (note 20), will be settled within 12 months of the financial year end.

Capital 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 2019 to 31 March 2020. The capital structure of the Group consists of Company equity only (comprising issued capital, reserves and retained earnings) as disclosed in note 24. 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 risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

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

The Finance function reports to the Group's Audit Committee, an independent body that monitors risks and policies implemented to mitigate risk exposures.

Foreign currency risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates (see below). 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.

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

	Liabilities		Assets	
	2020 (£000s)	2019 (£000s)	**2020 (£000s)**	2019 (£000s)
Polish Zloty	**1,393**	1,773	**2,118**	1,196
Euro	**1,393**	3,315	**4,948**	6,825
US Dollar	**2,857**	7,039	**4,948**	7,125
Canadian Dollar	**339**	216	**429**	832
Danish Krone	**123**	178	**53**	226
Swedish Krona	**27**	3	**2**	0

Foreign currency sensitivity analysis

The Group is mainly exposed to Polish Zloty, Euro and US Dollar currencies.

The following table details the Group's sensitivity to a 1% increase in Sterling units against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year 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	
	2020 (£000s)	2019 (£000s)	**2020 (£000s)**	2019 (£000s)	**2020 (£000s)**	2019 (£000s)
1% increase in strength of Sterling	**23**	35	**7**	(6)	**21**	1

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 2020 (2019: nil).

The Group does not currently hedge expected future revenue denominated in Euro or US Dollars. The Finance function minimises exposure to currency risk by converting surplus foreign currency balances into Sterling on a regular basis while ensuring the balance remaining in foreign currency is sufficient to meet working capital requirements.

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 £0.4 million during the year ended 31 March 2020 (2019: £0.1 million).

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. In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, 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 public sector bodies. The Group uses publicly available financial information and its own trading records to rate its major customers.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts on an ongoing basis. Furthermore, the Group reviews the recoverable amount of each trade debt on an individual basis at the end of the reporting period to ensure that an adequate ECL is made for irrecoverable amounts. Historically Kainos has had a minimal credit loss history with regards to its customers, however in light of Covid-19 the Group has revised its assessment of expected credit losses as at 31 March 2020.

Greater volatility in economic conditions has led the Group to consider multiple economic scenarios in determining the expected loss rates. In addition to specifically providing for any customers with debt aged older than six months, the Group has analysed the customer base by sector to model expected operational disruption.

In addition to Customer A and Customer B (noted as significant customers in note 5 – Segment Reporting), there is one further customer that represents greater than 5% of the total balance of trade receivables as at 31 March 2020.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. As at 31 March 2020, over 97% of the Group's funds were held in counterparty banks with ratings of "A" and above (as assessed by Fitch).

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.

29. 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 a related party who is not a member of the Group:

	Sale of goods and services	
	2020 (£000s)	2019 (£000s)
Cirdan Imaging Limited	**879**	750

Amounts outstanding at the period end date

	Amounts owed by related parties	
	2020 (£000s)	2019 (£000s)
Cirdan Imaging Limited	**263**	199

Cirdan Imaging Limited is a related party due to the Group's shareholding in this company (note 15).

Remuneration of key management personnel
The remuneration of the Executive 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.

	2020 (£000s)	2019 (£000s)
Short-term employee benefits (emoluments)	**1,179**	1,311
Post-employment benefits (pension contributions)	**30**	31
Gains on exercise of share options	**291**	889
Share-based payments charge	**147**	165
	1,647	2,396

One director is a member of the Group's defined contribution pension schemes (2019: one). One director exercised options over shares in the Group (2019: three). Remuneration of the highest paid director was £424,000 (2019: £516,607), including pension contributions of £Nil (2019: £30,872). The highest paid director exercised no share options in the year (2019: 101,510).

Aggregate directors' remuneration
The Executive Directors are considered the key management personnel of the Group for both the current and prior periods. Aggregate directors' emoluments are presented in the table above.

30. Acquisitions during the year

Acquisition of Formulate Adaptive Limited
On 8 November 2019, Kainos WorkSmart Limited acquired 100% of the share capital of Formulate (Adaptive) Limited ("Formulate") for cash consideration of £2.8 million. The acquisition was funded by internal cash resources. Formulate is a leading UK and European partner to Adaptive Insights: a financial and business planning software business which is part of Workday Inc. This acquisition helps the Group build and expand on its Workday offering, and to grow its presence in key markets. It strengthens the Group's capabilities to both sell and execute Adaptive Insights contracts across UK and wider Europe.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

Fair value of identifiable net assets acquired	**Fair value (£000s)**
Intangible assets	**782**
Trade and other receivables	**624**
Cash and cash equivalents	**(31)**
Trade and other payables	**(311)**
Corporation tax	**(56)**
Deferred revenue	**(308)**
Deferred tax	**(149)**
Net identifiable assets and liabilities	**551**
Goodwill	**2,231**
Total consideration	**2,782**

Satisfied by:	**(£000s)**
Cash	**2,782**
Total consideration	**2,782**

Outflow of cash and cash equivalents	**(£000s)**
Cash consideration	**2,359**
Less cash and equivalents acquired	**(31)**
Total cash consideration	**2,328**

Of the cash consideration £0.4 million was outstanding as at 31 March 2020 and will be paid during the year ending 31 March 2021.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the skilled and assembled workforce of the acquired entity and the ability to attain new customers going forwards. The value of goodwill is not expected to be deductible for tax purposes. The carrying value of goodwill at 31 March 2020 remains at £2.2 million as no impairment was identified during the period.

Measurement of fair values

Trade receivables comprise gross contractual amounts of £0.3 million, of which £0.05 million was expected to be uncollectable at the date of acquisition and has therefore been provided for within these financial statements. As well as the identification and recognition of an intangible asset relating to customer relationships, adjustments to recognise a holiday accrual in line with Group policy and to restate deferred income to its fair value at the acquisition date have also been recorded in these financial statements.

The Group incurred acquisition-related costs of £0.05 million on legal fees and due diligence costs. These costs have been included in operating expenses.

For the five months ended 31 March 2020, Formulate contributed revenue of £0.6 million and a loss before tax of £0.1 million to the Group's results. The revenue of the Group for the year ended 31 March 2020 would have increased by £1.5 million and the profit would have reduced by £0.2 million if Formulate had been included in the Group for the whole of the year.

Acquisition of Intuitive Technologies LLC

On 28 February 2020, Kainos WorkSmart Inc. acquired 100% of the membership interest of Intuitive Technologies LLC ("IntuitiveTEK") for consideration of £3.8 million. The acquisition was funded by internal cash resources and issue of new share capital. IntuitiveTEK is a leading American partner to Adaptive Insights. IntuitiveTEK has a workforce of 38 and has completed more than 500 Adaptive Insights projects. This acquisition, in addition to the acquisition of Formulate, makes Kainos one of the largest Adaptive Insights practices globally. The addition of IntuitiveTEK will also enable Kainos to accelerate the growth of its North America practice.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

Fair value of identifiable net assets acquired	Provisional fair value (£000s)
Intangible assets	3,263
Trade and other receivables	1,705
Cash and cash equivalents	148
Trade and other payables	(817)
Deferred revenue	(1,462)
Net identifiable assets and liabilities	2,837
Goodwill	989
Total consideration	**3,826**

Satisfied by:	(£000s)
Cash	2,136
Issue of shares	1,690
Total consideration	**3,826**

Outflow of cash and cash equivalents	(£000s)
Cash consideration	2,136
Less cash and equivalents acquired	(148)
Total cash consideration	**1,988**

All of the cash consideration was paid prior to 31 March 2020. 207,590 shares were issued to satisfy the share component of consideration.

The initial accounting for the acquisition of IntuitiveTEK has been provisionally determined due to the short period of time between the acquisition date and the approval of these consolidated financial statements. Adjustments could be made to the allocation of value between intangible assets, trade and other payables and trade and other receivables.

The main factors leading to the recognition of goodwill are the presence of certain intangible assets, such as the skilled and assembled workforce of the acquired entity and the ability to attain new customers going forwards. The value of goodwill is expected to be fully deductible for tax purposes. The carrying value of goodwill at 31 March 2020 remains at £1.0 million as no impairment was identified during the period.

Measurement of fair values

Trade receivables comprise gross contractual amounts of £1.5 million, of which £0.1 million was expected to be uncollectable at the date of acquisition and has therefore been provided for within these financial statements. As well as the identification and recognition of an intangible asset relating to customer relationships, other adjustments on acquisition include recognition of a holiday accrual in line with Group policy. Acquired assets and liabilities remain provisional until completion of the fair value exercise.

The Group incurred acquisition-related costs of £0.2 million on legal fees and due diligence costs. These costs have been included in operating expenses.

For the month ended 31 March 2020, IntuitiveTEK contributed revenue of £0.4 million and a small loss to the Group's results. The revenue of the Group for the year ended 31 March 2020 would have increased by £5.1 million and the profit would have increased by £0.9 million if IntuitiveTEK had been included in the Group for the whole of the year.

Implexa transaction

During the period the Group entered into a customer referral and recommendation agreement with Implexa GmbH "Implexa", a leading German business in the field of Adaptive Insights software. Implexa ceased trading on 31 December 2019 and Kainos welcomed their five existing employees to the Group effective 1 January 2020. Although not a material transaction in the context of these consolidated financial statements, it is worthy of comment given this transaction in conjunction with the acquisitions described above further enhances Kainos' position as a leading, global Adaptive Insights partner.

31. Impact of change in segmental reporting on financial years

As described in note 5, during the period the Group implemented a change on how it reports the results from its underlying business operations. The tables below present the results for periods ending 31 March 2020 and 31 March 2019 in the current segmental reporting structure and as per the previous reporting structure for comparison purposes.

New Segmental

2020 12 months to 31 March	Digital Transformation (£000s)	Evolve (£000s)	**Digital Services (£000s)**	Workday implementation (£000s)	Smart (£000s)	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	**112,238**	**10,262**	**122,500**	**37,213**	**19,065**	**56,278**	**178,778**
Cost of sales	**(67,437)**	**(6,143)**	**(73,580)**	**(16,341)**	**(4,896)**	**(21,237)**	**(94,817)**
Gross profit	**44,801**	**4,119**	**48,920**	**20,872**	**14,169**	**35,041**	**83,961**
Direct expenses			**(15,158)**			**(23,053)**	**(38,211)**
Contribution			**33,762**			**11,988**	**45,750**
Central overheads							**(20,234)**
ADJUSTED PRE-TAX PROFIT							**25,516**

Previous Segmental

2020 12 months to 31 March	Digital Transformation (£000s)	Workday implementation (£000s)	**Digital Services (£000s)**	Smart (£000s)	Evolve (£000s)	**Digital Platforms (£000s)**	**Consolidated (£000s)**
Revenue	**112,238**	**37,213**	**149,451**	**19,065**	**10,262**	**29,327**	**178,778**
Cost of sales	**(67,437)**	**(16,341)**	**(83,778)**	**(4,896)**	**(6,143)**	**(11,039)**	**(94,817)**
Gross profit	**44,801**	**20,872**	**65,673**	**14,169**	**4,119**	**18,288**	**83,961**
Direct expenses			**(28,135)**			**(10,076)**	**(38,211)**
Contribution			**37,538**			**8,212**	**45,750**
Central overheads							**(20,234)**
ADJUSTED PRE-TAX PROFIT							**25,516**

New Segmental

2019 12 months to 31 March	Digital Transformation (£000s)	Evolve (£000s)	**Digital Services (£000s)**	Workday implementation (£000s)	Smart (£000s)	**Workday Practice (£000s)**	Consolidated (£000s)
Revenue	109,847	7,452	**117,299**	22,740	11,255	**33,995**	151,294
Cost of sales	(63,215)	(5,084)	**(68,299)**	(10,746)	(3,144)	**(13,890)**	(82,189)
Gross profit	46,632	2,368	**49,000**	11,994	8,111	**20,105**	69,105
Direct expenses			**(13,378)**			**(13,486)**	(26,864)
Contribution			**35,622**			**6,619**	42,241
Central overheads							(18,920)
ADJUSTED PRE-TAX PROFIT							23,321

Previous Segmental

2019 12 months to 31 March	Digital Transformation (£000s)	Workday implementation (£000s)	**Digital Services (£000s)**	Smart (£000s)	Evolve (£000s)	**Digital Platforms (£000s)**	**Consolidated (£000s)**
Revenue	109,847	22,740	132,587	11,255	7,452	18,707	151,294
Cost of sales	(63,215)	(10,746)	(73,961)	(3,144)	(5,084)	(8,228)	(82,189)
Gross profit	46,632	11,994	58,626	8,111	2,368	10,479	69,105
Direct expenses			(16,926)			(9,938)	(26,864)
Contribution			41,700			541	42,241
Central overheads							(18,920)
ADJUSTED PRE-TAX PROFIT							23,321

32. Significant events

In early 2020, the existence of a new Coronavirus (Covid-19) was confirmed. It since spread across a significant number of countries and was declared a pandemic by the World Health Organization on 11 March 2020. There has been significant disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets.

At 31 March 2020, the Group has a strong cash balance of £40.8 million and going forward it anticipates that its customers in the public sector and in healthcare will likely be more robust than those in other sectors during this crisis. Despite this, the Group considers it important to be prudent and manage the cost base and has implemented several cost and cash containment measures effective 1 April 2020.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2020

	Note	2020 (£000s)	2019 (£000s)
NON-CURRENT ASSETS			
Investments in subsidiaries	4	**6,524**	6,524
		6,524	6,524
CURRENT ASSETS			
Debtors	5	**15,372**	18,123
Prepayments		**29**	35
Cash at bank and in hand		**19,324**	17,008
		34,725	35,166
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	6	**(916)**	(874)
NET CURRENT ASSETS		**33,809**	34,292
TOTAL ASSETS LESS CURRENT LIABILITIES		**40,333**	40,816
NET ASSETS		**40,333**	40,816
CAPITAL AND RESERVES			
Called up share capital	7	**610**	605
Share premium account	7	**5,446**	3,596
Share-based payments reserve	7	**5,610**	3,895
Capital reserve	8	**5,936**	5,938
Profit and loss account	9	**22,731**	26,782
SHAREHOLDERS' FUNDS		**40,333**	40,816

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 £8.1 million (2019: £15.4 million).

The financial statements of Kainos Group plc (registered number 09579188) were approved by the Board of Directors and authorised for issue on 22 May 2020. They were signed on its behalf by:

Richard McCann
Director
22 May 2020

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 2018	593	1,700	2,549	5,938	20,334	31,114
Issue of share capital (note 7)	12	1,896	–	–	–	1,908
Share-based payments (note 7)	–	–	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
Issue of share capital (note 7)	5	1,850	–	–	–	1,855
Share-based payments (note 7)	–	–	1,715	(2)	–	1,713
Profit and total comprehensive income	–	–	–	–	8,096	8,096
Dividends paid	–	–	–	–	(12,147)	(12,147)
Balance at 31 March 2020	**610**	**5,446**	**5,610**	**5,936**	**22,731**	**40,333**

1. General information

Kainos Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales (company registration number 09579188), having its registered office at 21 Farringdon Road, 2nd Floor, London, EC1M 3HA.

2. 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.

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.

3. 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 £8.1 million (2019: £15.4 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 two, Brendan Mooney and Richard McCann (2019: two).

	2020 (£000s)	2019 (£000s)
Wages and salaries	**1,120**	977
Social security costs	**96**	70
	1,216	1,047

Further information about share-based payments is provided in note 26 to the consolidated financial statements.

4. Investments in subsidiaries

Cost and Net book value	**(£000s)**
At 31 March 2019 and 31 March 2020	**6,524**

Details of the Group's subsidiaries at 31 March 2020 are included in note 14 of the consolidated financial statements.

5. Debtors

	2020 (£000s)	2019 (£000s)
AMOUNTS FALLING DUE WITHIN ONE YEAR:		
Amounts owed from Group undertakings	**15,089**	18,114
Trade receivables	**10**	9
Other debtors	**273**	–
	15,372	18,123

Amounts owed from other Group companies are repayable on demand, unsecured and carry interest of between 3%-5% per annum charged on the average outstanding loan balances..

6. Creditors: Amounts falling due within one year

	2020 (£000s)	2019 (£000s)
Trade creditors and accruals	**881**	861
Other tax and social security	**35**	13
	916	874

Amounts owed to other Group companies are repayable on demand, unsecured and carry interest of between 3%-5% per annum charged on the average outstanding loan balances.

7. Share capital, share-based payments and share premium accounts

The movements on these items are disclosed in note 24 of the consolidated financial statements.

8. Capital reserve

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

9. Profit and loss account

	2020 (£000s)	2019 (£000s)
Opening balance	**26,782**	20,334
Dividends paid	**(12,147)**	(8,917)
Profit for the period	**8,096**	15,365
	22,731	26,782

10. Distributable reserves

The Company's distributable reserves as at 31 March 2020 total £28.3 million. Distributable reserves comprise the retained earnings and share-based payments reserves.

COMPANY INFORMATION

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Designed and produced by www.farraday.com
Printed by Maxim on GenYous®, an FSC Mix.

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