kainos®

2021

Annual Report

WE ARE A UK-HEADQUARTERED IT PROVIDER, OPERATING THROUGH TWO SPECIALIST BUSINESS DIVISIONS, DIGITAL SERVICES AND OUR WORKDAY PRACTICE.

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

Our Workday Practice is focused on the deployment of Workday Inc's Finance, HR and Planning software to leading organisations across the public, commercial and healthcare sectors. We are one of Workday's most respected partners, experienced in complex deployment and integrations and trusted by our customers to launch, test, expand and safeguard their Workday systems. We are also the leader in automated testing of customers' unique Workday configurations.

Our people are central to our success. We employ more than 2,000 people across 12 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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Operational highlights

We have delivered a very strong business performance, reflecting strong sector demand, the ongoing trust and support of our customers and the dedication of our people. We have recorded our 11th consecutive year of growth, with strong financial metrics.

- Revenue growth of 31% (28% organic) to £234.7 million (2020: £178.8 million).
- Adjusted pre-tax profit increased 124% to £57.1 million (2020: £25.5 million).
- Bookings up 6% to £258.8 million (2020: £243.6 million).
- Contracted backlog growth of 15% to £206.2 million (2020: £180.0 million).
- Highly cash generative with cash conversion[5] of 112% (2020: 97%) and period-end net cash of £80.9 million (2020: £40.8 million).

We continue to deliver on our ambition to be a responsible business.

- Customer approval rating[6] remains high at 98% (2020: 97%).
- Strong recruitment has increased our staff numbers to 2,024 (2020: 1,715), with employee retention increasing to 92% (2020: 90%).
- We have made significant progress in our climate action programme, achieving carbon neutrality for the year.

Both of our operating divisions have delivered an excellent performance.

- Within Digital Services, we continue to support significant ongoing digital transformation programmes across the public sector, healthcare and in the commercial sector. This has driven very strong revenue growth of 32% to £161.6 million (2020: £122.5 million).
- Our Workday Practice continues to be the leading European Workday specialist and we are building strongly in North America. We have recorded very strong revenue growth of 30% (18% organic) to £73.1 million (2020: £56.3 million). Within this, Smart revenues increased by 27% to £24.2 million (2020: £19.1 million).

Our focus on revenue diversification has ensured that we have built a robust and well-balanced business.

- Overall, our revenues are: 45% public sector, 35% commercial, 20% healthcare.
- International revenues are up 48% to £59.0 million (2020: £39.9 million).
- Commercial revenues are up 29% to £81.1 million (2020: £63.1 million).
- Healthcare revenues are up 106% to £48.1 million (2020: £23.3 million).
- SaaS and software-related revenues are up 27% to £31.6 million (2020: £24.9 million).

Financial highlights

Revenue (m)

2021	£234.7	+ 31%
2020	£178.8	

Statutory profit before tax (m)

2021	£50.3	+ 117%
2020	£23.2	

Adjusted pre-tax profit[1] (m)

2021	£57.1	+ 124%
2020	£25.5	

Cash[2] (m)

2021	£80.9	+ 98%
2020	£40.8	

Bookings (m)

2021	£258.8	+ 6%
2020	£243.6	

Software as a Service (SaaS) bookings (m)

2021	£41.8	+ 37%
2020	£30.5	

Backlog[3] (m)

2021	£206.2	+ 15%
2020	£180.0	

Adjusted diluted earnings per share[1] (note 10)

2021	36.8p	+ 122%
2020	16.6p	

Diluted earnings per share

2021	32.1p	+ 113%
2020	15.1p	

Total dividend[4]

2021	28.2p	+ 706%
2020	3.5p	

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 Cash includes treasury deposits of £18.0 million.
3 The value of contracted revenue that has yet to be recognised.
4 Total dividend for FY21 includes a special dividend of 6.7p per share (paid September 2020), interim dividend 6.4p per share (paid December 20) and proposed final dividend of 15.1p per share.
5 Cash generated by operations as a percentage of EBITDA (calculated as being adjusted pre-tax profit add back depreciation, finance income and finance expense).
6 Data from all completed customer surveys in the year. There are five possible designations: 'Poor', 'Satisfactory', 'Good', 'Very Good' or 'Excellent'; the rating reflects the percentage of customers that rate our performance 'Good' or better.

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.

Our operating divisions

We are a UK-headquartered IT provider, operating through two specialist business divisions, Digital Services and our Workday Practice.

Digital Services

Our Digital Services division helps our customers to solve their business problems by using technology, enabling them and their users to work smarter, faster and better.

Working collaboratively with customers around the world, our innovative and transformative solutions are secure, accessible, cost-effective, and take a user-first approach. We leverage the benefits of the public cloud and enable customers to utilise their data to drive decision-making.

In the public sector, we have delivered projects helping more than 60 million citizens, while saving our customers hundreds of millions of pounds.

In the commercial sector, customers trust us to provide digital transformation that evolves their services, delivers efficiencies, increases their capabilities and future-proofs their businesses.

In healthcare, we help providers deliver a service that is faster, more cost-effective and patient-centric.

We deliver services to over 140 clients, including HM Land Registry, the Department for Environment, Food and Rural Affairs ('Defra'), NHS Digital, Concardis (Germany) and New Day (UK).

Workday Practice

Our 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, enabling enterprises to organise their staff efficiently and support their financial reporting requirements.

Workday Services

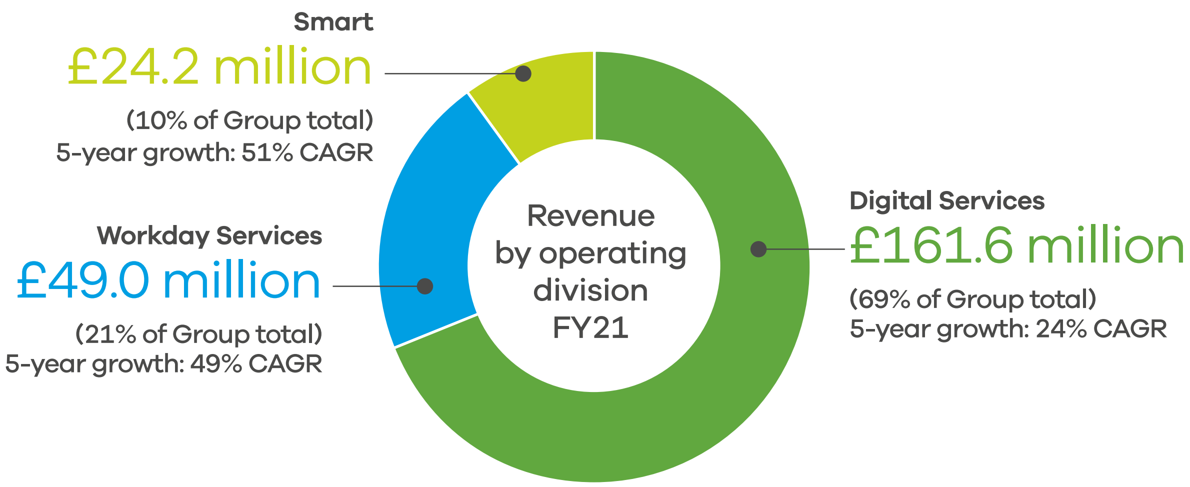
In our Workday Services business, we provide consulting, project management, integration and post-deployment services for Workday's software suite. We work with clients globally and have an exceptional relationship with Workday.

With over 100 international clients, we are proud to work with Kion Group (Germany), ASOS plc (UK), Takeaway.com (Netherlands), Match.com (USA), Raiffeisen Bank (Switzerland) and LKAB (Sweden).

Smart

Smart is our proprietary software tool. It allows Workday customers to automatically test and verify that their unique Workday configuration is operating effectively, both during implementation and in live operation. Smart is the leading automated testing platform specifically designed for Workday and is implemented as a cloud-based Software as a Service ("SaaS") solution, on a subscription basis.

Over 240 clients use Smart, including Salesforce (USA), Whole Foods (USA), Xero (New Zealand), Netflix (USA), CapitalOne (USA), BlackBerry (Canada), Primark (Ireland) and The Met (USA).



Number of staff and contractors

2,024

(2020: 1,715)

Employee retention

92%

(2020: 90%)

Offices

12

Amsterdam
Atlanta
Belfast
Birmingham
Copenhagen
Denver
Derry
Gdansk
Hamburg
Indianapolis
London
Toronto

People by region:

UK & Ireland

75%

Central Europe

18%

North America

7%

Active customers:

546

(2020: 465)

Customers rating our service as good or better:

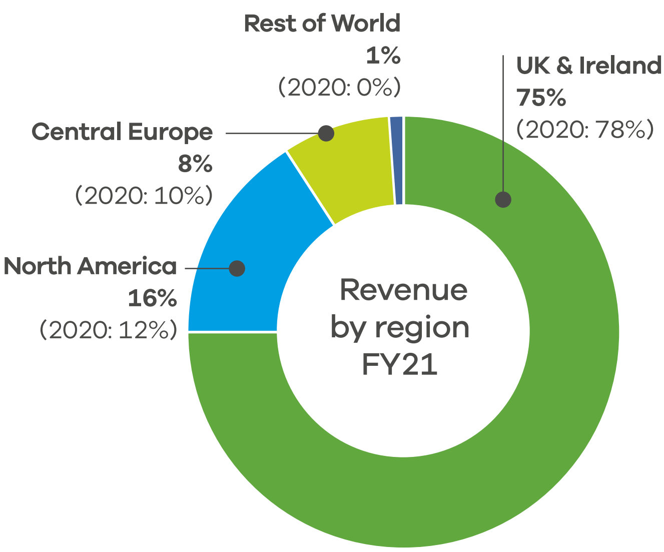
98%

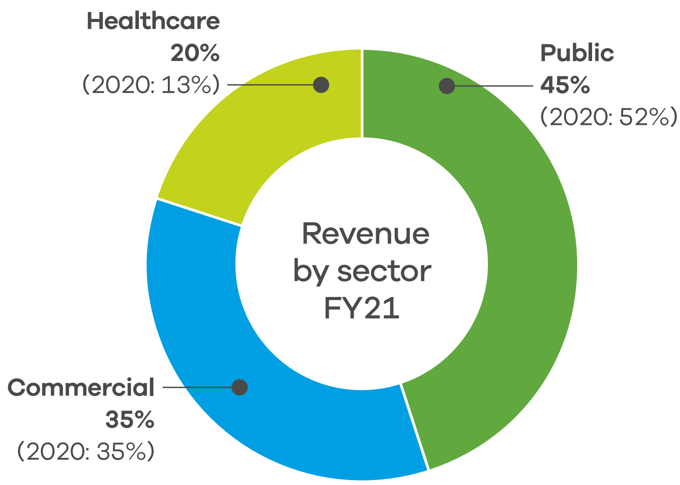
(2020: 97%)

Revenue from existing customers:

85%

(2020: 87%)





"WE HAVE NO UNIQUE INSIGHT AS TO WHAT A 'RETURN TO NORMAL' WILL MEAN BUT WE BELIEVE THAT BY RESPONDING TO THE FEEDBACK OF OUR PEOPLE AND OUR CUSTOMERS, WE WILL BE ABLE TO DESIGN AN APPROACH THAT WORKS FOR EVERYONE."

Living and working through a pandemic

When reflecting on the past 15 months, words cannot adequately describe the remarkable way that everyone in Kainos has responded to the personal and professional challenges of living and working through a global pandemic.

The work that our teams have delivered in supporting the NHS response to Covid-19 has been truly inspirational. As has been our support for our government and commercial clients, ensuring that they could continue to provide critical services to citizens, customers and colleagues in an incredibly difficult environment.

Our people have supported our customers superbly, while learning to adapt to working from home and juggling the additional care requirements imposed by the various lockdown measures. This too has been inspirational.

We owe a special thanks to the colleagues we asked to go on furlough in the early weeks of the pandemic. Their flexibility and support amidst all the uncertainty provided us with the time to make the right, considered, long-term decisions for everyone. We were delighted to welcome back all those colleagues during the summer of 2020; at the same time we repaid all the funds that we received under the UK Government Job Retention Scheme.

A strong business performance

The pandemic has also demonstrated how important it is for organisations to invest in their digital capabilities, both internally and externally. Our customers have responded and continue to prioritise their critical digital projects and place their trust in us to help deliver these ambitious projects.

This trust, coupled with the talents and hard work of our people, has once again generated a strong set of financial results, with revenue increasing to £234.7 million, and adjusted pre-tax profit increasing to £57.1 million. Our confidence in our business is reflected in our high levels of recruitment – our total workforce is now 2,024 people, an increase of 309 over the course of the year.

While we take great satisfaction in our financial results, we also recognise that our trading includes savings that we consider non-recurring in nature – reduced travel, training and marketing expenses. We expect that elements of this expenditure will return to more typical levels in the future.

In our Digital Services division, we continue to deliver significant programmes in partnership with the UK Government and with leading commercial and healthcare clients. As always, our growth is a result of demand from both existing and new clients, such as the Welsh Government, DVSA and Big Society Capital. Internationally, our patience has been rewarded as we have signed our first small projects for clients in both Canada and Switzerland.

Our Workday Practice continues to help forward-thinking organisations such as EMC Insurance, Warner Music and BlackBerry deploy Workday's innovative Software-as-a-Service (SaaS) platform to support their people and finance requirements. We remain the leading European partner within the Workday ecosystem and continue to make significant progress in both Canada and the US.

Our early-stage investments have also made good progress. We have signed major projects within our Data and Artificial Intelligence practice; our Adaptive

Planning acquisitions achieved global recognition from Workday; our Workday Extend team has established itself as one of the leading partners globally; and our Intelligent Automation practice launched and secured its first projects, all within a year. The pace of their progress highlights the long-term growth opportunities in each of these areas.

Widening our responsibilities

Whilst we have become used to working physically distant from our colleagues and our customers, there is also a greater sense of unity and shared responsibility towards our communities and our environment.

In response, we have increased the pace of our climate action. We are proud to report that we are carbon neutral for the year and are on track to achieve carbon net zero by 2025.

Equally, we are proud to have increased our support for colleagues and their allies through our LGBTQ+, ethnic diversity, women and neurodiverse employee network groups. While we acknowledge our progress, it is more important to recognise that there is still much to do to improve diversity within Kainos and in the wider technology industry. We are committed to continued progress.

Board changes

In January, we welcomed Rosaleen Blair, CBE as a Non-Executive Director. Rosaleen is the Founder and Chair of Alexander Mann Solutions (AMS), a pioneer in the global workforce solutions industry with 4,500 employees operating in 90 countries.

Our AGM later this year will mark the completion of Chris Cowan's term on our Board. Chris was appointed a Non-Executive Director in 2015 and over the past six years has been instrumental in establishing Kainos as a leading public company.

Our Executive Director, Paul Gannon, will also complete his term on our Board and will not be standing for re-election at the AGM. Paul will continue to act as a key member of the Executive Team. Having joined Kainos in 1998, Paul has contributed to our success from being a small, private company through to our life as an international public company.

We are incredibly grateful for the energy, insight and guidance that both Chris and Paul have brought to the business during their time on our Board.

A strong outlook

Our digital transformation market has been growing strongly for over a decade, with the pandemic accelerating the need for organisations to invest in their digital capabilities. Our leading position within the Digital Transformation and Workday markets allow us to look confidently to the future.

Our confidence is strengthened with the progress of our early-stage investments, which are already contributing significant additional revenue streams. Similarly, our international expansion is increasing our market size – this is an established trend within our Workday Practice but we have also recorded success within our Digital Services division, undertaking projects in Germany, Switzerland and Canada.

The pandemic has demonstrated that our sector is resilient, but it has also demonstrated that the future is unpredictable. Notwithstanding our confidence, challenges remain. Countries and customers are exiting lockdown at different speeds and with varying degrees of success. The effects of the pandemic will linger for many years and we need to remain vigilant.

More immediately, our thoughts are with our customers and our colleagues. Distributed and remote working is now established as a productive and effective way to support our customers. Our colleagues prefer a blend of office-based and home-based working.

We have no unique insight as to what a 'return to normal' will mean but we believe that by responding to the feedback of our people and our customers, we will be able to design an approach that works for everyone.

A sense of gratitude

The number of lives that we touch as an organisation is vast. In the past year, 60 million people have used a system or service that we have delivered.

However, we think most often of the stakeholders that are closest to us – our people, our customers, our communities and our shareholders.

A review of the past year cannot be complete without recognising the support, confidence and trust that everyone has placed in Kainos.

It has been inspirational; and in return has inspired a deep sense of gratitude within Kainos.

Dr Brendan Mooney
Chief Executive Officer

There are several compelling long-term trends driving demand for our services. We have designed our strategy to take advantage of these trends, giving us confidence in our growth prospects. More information can be found in Our Strategy section.

Alongside the long-term trends detailed in the following sections, Covid-19 has prompted a significant shift to remote working, which is likely to remain an important feature of the workplace even after the pandemic ends. Many organisations have discovered that their legacy systems do not function well in a distributed environment and need updating.

This is accelerating investment in digital capabilities as organisations adapt to this new environment. It is too early to determine if this is a short-term increase in spending or likely to be a long-term trend. Regardless, it is resulting in an immediate increase in opportunity for our Workday Practice and Digital Services divisions.

TREND 1: DEMAND FOR DIGITAL TRANSFORMATION, BUILDING BESPOKE SYSTEMS

In the UK public sector, there is a long-term drive to make public services 'digital by default' and intuitive to use. Users typically prefer digital services, which are faster, more accurate and available at a time that suits them.

This also aligns with the imperative to make services cheaper and more effective. The substantial pressures on public finances since the financial crisis have now been exacerbated by Covid-19.

Creating effective digital services significantly reduces the cost to serve. For many government services, the average cost of a telephone transaction is 20 times higher than a digital transaction; this rises to 30 times for a postal transaction and 50 times for a face-to-face interaction. Digitisation is also likely to reduce the risk of failed transactions, and therefore the business cost of having to repeat the same process multiple times.

The Government's thinking about IT outsourcing has changed substantially since the financial crisis. While outsourcing a service can still be the correct approach, the Government now prefers to procure individual components of the service and integrate those components itself, which gives it direct control over the scope, quality and cost of the service. Government departments rely on specialist agile partners like Kainos to help in the building and ongoing operation of the technology elements of the service. This trend has resulted in public sector spend on digital transformation projects increasing from £456 million in 2015 to £1.7 billion in 2020.

In the commercial sector, businesses have similar pressures and preferences, and are seeking to re-establish control over the scope, agility and cost of their customer-centric systems. In a repetition of the pattern in public sector, commercial organisations draw on the specialist skills of agile partners like Kainos. In the UK, the commercial sector outspends the public sector by more than three to one and therefore presents a substantial opportunity for us.

The NHS is our principal healthcare client. The complexity of its operating environment has often resulted in under-investment in technology to support the efficient provision of healthcare services. At a local level, NHS Trusts often prefer to purchase existing software systems that support their day-to-day operations. At a national level, there is a growing preference to adopt a similar approach to that in use across government, building digital services in partnership and at speed with companies like Kainos. This change of emphasis is reflected in the creation of the £800 million Digital Capability for Health framework (in 2021); Kainos is one of 12 approved suppliers on the framework.

How we are responding

We remain focused on supporting our existing clients as they deliver their ambitious multi-year digital transformation programmes. In thinking about acquiring new clients, although we wish to see all sectors grow, we are prioritising engagements in the commercial sector, reflecting the scale of the opportunity and the benefits of having a balanced spread of business. Internationally, we are also looking to expand by acquiring new commercial sector customers.

7 The amount of UK public sector FY21 spend that relates to Central Government and that we classify as 'digital spend', primarily through the frameworks of G-Cloud (£1,370 million) and Digital Outcomes (£885 million). Total UK public sector IT expenditure (inclusive of digital spend) is c.£12 billion in the same period.

8 This is an estimate of the services market where Kainos is a Phase 1 partner, plus the post-deployment opportunity in the USA.

9 Estimated global Workday automated testing market.

TREND 2: DEMAND FOR DIGITAL TRANSFORMATION, IMPLEMENTING WORKDAY

Workday Inc's success in attracting new customers is a key driver for our Workday Practice. Workday Inc is growing rapidly, with its most recent results to 31 January 2021 showing revenue growth of 16%. This compares with growth in the ERP market which is estimated at 8.2% per annum.

The rapid uptake of Workday Inc's product reflects its competitive advantages. Workday's primary competition, Oracle and SAP, have software that has its heritage firmly rooted in the 1970s. Workday, launched in 2005, is built to operate as a Software-as-a-Service suite of applications that are cloud-based, mobile-first and reflect the way modern organisations want to manage their employees and their finances. In addition, weekly updates mean Workday customers are always using the latest version of the software, preventing systems from becoming outdated.

Workday has also taken a different approach when building its implementation partner ecosystem. While SAP and Oracle both have several thousand implementation partners, Workday has appointed just 36 partners to deploy its software across its customer base, which now numbers over 8,000 customers, including more than 3,500 core HR and finance customers. Kainos first engaged with Workday Inc. in 2011 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.

Other important drivers of growth for us in our Workday Practice include:

- existing Workday customers wanting to implement additional modules;
- geographic expansion beyond our strong presence in Europe;
- displacing competitive partners from existing customer engagements;
- Workday Inc adding new modules and capabilities to their system; and
- building our own software components to provide niche solutions close to the Workday product. This includes Smart, our leading automated testing product, and Workday Extend, which is a newly introduced capability by Workday that will enable us to develop apps that allow clients to broaden the capabilities of their Workday systems.

How we are responding

Our strategy for growth includes international expansion, to access the large and growing base of Workday customers across Europe and particularly in the US, where over 75% of Workday customers are located. We also continue to increase market share with existing Workday customers, while growing our portfolio of Workday products such as Smart.

TREND 3: NEW TECHNOLOGIES CREATING NEW OPPORTUNITIES

Technological advances continue to open up new possibilities in our markets. For example, artificial intelligence, machine learning, intelligent automation and the rapid growth in data all have the potential to change the way that organisations operate and deliver their products and services.

How we are responding

We believe new technologies could lead to significant new revenue streams for our business in the coming years. We have a structured new business ideas process for supporting the development of new business concepts and revenue streams. Our Data and Artificial Intelligence practice was the first graduate of this process in 2019, followed in 2020 by the Intelligent Automation practice. The pace of their growth emphasises the scale of the opportunity in these areas.

We also invest in understanding early-stage technology developments through our Innovation Services team. Current areas of foresight and investigation include quantum computing, ambient computing and smart environments and places. Ideas from this research will form the next cohort of candidates for our new business ideas process.

The competitive environment

The competitive environment in our markets is largely stable, with few companies either entering or exiting. A strong track record of delivery is vital for success in both Digital Services and our Workday Practice, providing very important credibility with potential customers and creating a meaningful barrier to entry.

Digital Services

- Addressable market[7]: £1,753 million (2020: £1,332 million).
- Example competitors: Deloitte, Capgemini, BJSS, Atos, Equal Experts, NTT Data.

Workday Services

- Addressable market[8]: £751 million (2020: £385 million).
- Example competitors: Alight, One Source Virtual, Collaborative Solutions.

Smart for Workday

- Addressable market[9]: £384 million (2020: £338 million).
- Example competitors: Worksoft, Turnkey, CloudBera.

What we do

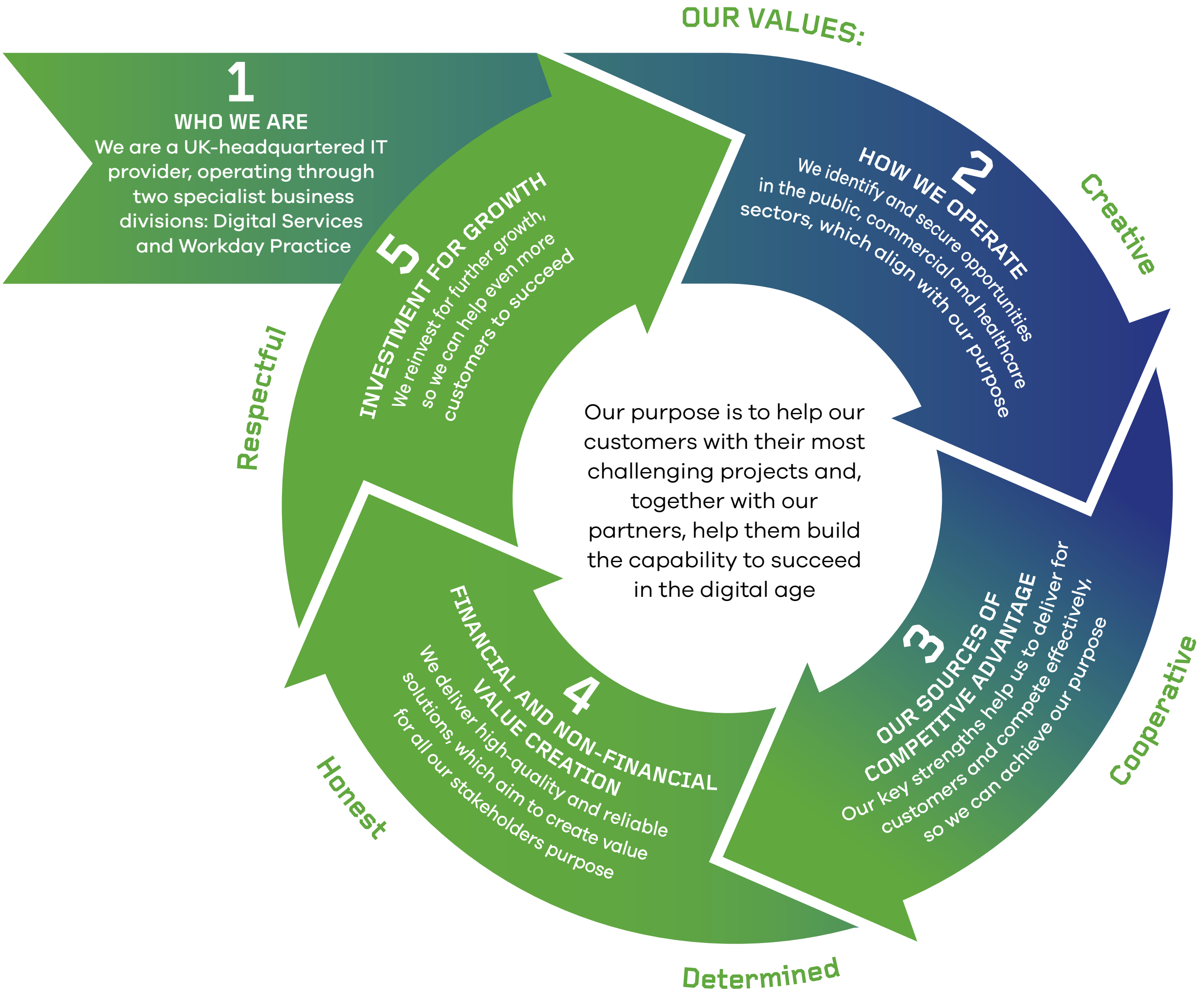
We provide sophisticated IT services to major public sector, commercial and healthcare customers.

Our Digital Services engagements are often large and complex and represent critical projects for our customers. The Passport Service, the Register to Vote Service and EU Exit trade services are excellent examples of projects that are viewed as part of the UK's national IT infrastructure.

In our Workday Practice, we help forward-thinking organisations deploy Workday to organise their staff efficiently and support their financial reporting requirements. These customers are often large and operate internationally, which is why we have our teams based in 16 countries.

How we create value

Our purpose drives everything we do and every decision we make.



How we operate

Digital Services

We win new public sector and healthcare projects primarily through our position on major frameworks, for example, the Digital Outcomes and Specialisms (DOS) framework. We are the most successful supplier on DOS, having won more than twice the amount of business of the number two supplier over the last three years[10].

In the commercial sector, we benefit from our practitioner-led sales teams, who have a deep understanding of what we can deliver for customers. As a result of our expertise, we are relied on by partners such as Amazon Web Services (AWS) and Microsoft to help solve complex client challenges.

Having secured a project, we focus on service design and then build, test and implement the solution. This is often done at pace, where timescales can be short, often ranging from six to nine months. Major transformational projects have multiple stages, with core functionality rolled out first, then further stages to build on that functionality or to add follow-on services. Projects can therefore generate revenue over many years.

Once we secure an initial piece of work for a customer, we tend to generate high levels of repeat business across multiple parts of their organisation as we earn their trust by demonstrating our ability to solve their problems.

Workday Practice

Workday Inc always contracts directly with its end customer following a sales campaign. During that sales campaign, Workday will typically recommend a shortlist of possible consulting partners to the client who will then undertake the project directly with the client. Globally, there are 36 Workday implementation partners.

We are usually recommended because of our international presence, or because of our deep knowledge in Workday modules such as HCM, Financials, Planning or Extend.

In addition to acquiring new Workday customers, we may also secure work from existing Workday customers, who want to switch from their current partner when implementing the next phase of their system.

Workday comprises over 15 modules, providing different functionality. Most customers begin with the Financial, the Planning or the HCM (HR) modules, then add further modules over time. Winning a customer therefore often generates a multi-year revenue stream.

Our commercial model

In both Digital Services and Workday Practice, we primarily charge clients on a time and materials basis for consultancy services.

In addition to our services, we derive revenue from charging for our own proprietary software. These revenue streams relate primarily to Smart, our proprietary cloud-based SaaS solution. Smart allows Workday customers to automatically verify their Workday configuration both during implementation and in live operation. Smart contracts are typically three years in duration, with a subscription fee charged annually in advance.

Our sources of competitive advantage

Our people

Our people are the key to our success. We hire the very best experienced talent and bring in young people with potential from school or university. By investing in their learning and development and providing interesting and challenging work on projects that are often of national importance, we help them to excel. We have a very low attrition rate, which means many people choose to stay and develop their careers at Kainos.

Our reputation

We have a strong reputation in our markets, based on a long track record of successful delivery for our customers. This reputation is critical for winning new work and for attracting the talent we need to grow. This is demonstrated in Digital Services, as noted earlier, by being the most successful supplier on the Government DOS framework. In the Workday Practice, we are the leading partner in Europe, consistently receiving emphatic feedback on our high levels of customer service.

Our customer relationships

We look for customers who want a partner who can add value to their business, and who are more interested in the long-term cost of ownership rather than the lowest possible up-front price.

In the public and healthcare sectors, we tend to work with the departments and agencies which have a large portfolio of transformation projects. These projects are, in turn, supported by significant budgets, since a multi-year transformation project is typically up to £30 million in value, while more complex projects can exceed £100 million. Our Workday Practice customers range from SMEs to some of the world's most recognisable brands.

10 Cumulative spend on DOS, three years, 2018-2021.
1. Kainos £240 million; 2. BJSS £110 million; 3. Deloitte £110 million, 4. Capgemini £99 million, 5. Accenture £90 million.

Every six months we survey our customers for feedback on our performance. This feedback tells us that we achieve best-in-class customer service, with 98% of our customers rating our service as good or better. This underpins our repeat revenue, with over 85% of our revenue each year coming from existing customers.

Our partner relationships
We have an excellent relationship with Workday, having been a partner since 2011 and we have supported Workday's global expansion, implementing their software platform for clients across the world. At the same time, we have built a high-growth international business with revenues in excess of £70 million.

We feel the same sense of excitement with our partnerships with Microsoft and AWS. With 96% of the world's IT expenditure still rooted to on-premise technology, there is significant work to transform organisations to being cloud-enabled. We have been working closely with the market-leading vendors for several years and in addition to our delivery excellence we are positioned as thought leaders.

Our intellectual property
We have a range of proprietary products, such as Smart for Workday, and we continue to invest in extending the capabilities of these products.

Our research and development activities also focus on the application of new technology such as artificial intelligence, machine learning and automation and we are already delivering engagements in these areas.

The value we create

We create a broad range of financial and non-financial value for our stakeholders.

For our customers
We help our customers to improve their services, save money and manage their organisation more effectively.

For our people
We provide rewarding, well-paid employment in a dynamic environment, where people can work with colleagues who are often world-class in their fields. As we grow, we create new opportunities for our people to grow with us.

For our partners
We support Workday Inc's business growth by successfully implementing its system for its customers. Similarly, we also generate growing volumes of business for our partners Microsoft and AWS.

For our shareholders
Rapidly growing revenue and profits, strong cash flow and a capital-light business model support our ability to generate high returns, invest for further growth and pay an attractive dividend to shareholders.

For society
As a rapidly expanding creator of skilled, highly paid work, we generate tax revenues that support public services. At the same time, we help NHS and public sector customers to make the best use of taxpayers' money by helping them replace ageing, inefficient, manually intensive systems with cost-effective modern digital services that are rapidly becoming the preferred interaction channel for citizens and patients.

From an environmental perspective, we are delighted to have achieved carbon neutrality in 2021 and are on schedule to achieve our ambition of being carbon net zero by 2025.

Beyond our climate-related commitments, we are proud of our track record in being a responsible organisation. This includes the above activities as well as our work in supporting our communities, with strong graduate and school-leaver recruitment, and our outreach programmes which have benefited over 6,000 young people.

More details are contained within the Environmental, Social and Governance (ESG) section of this report.

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

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. In building for the long-term, we aspire to provide our people with rewarding and fulfilling careers.

As part of our ambition, we believe that we can achieve sustained growth in terms of revenue, adjusted pre-tax profit and cash flow.

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 continue to expand in terms of locations, people and customers.

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

We also look to ensure that we have a well-balanced business, which is not overly reliant on any one customer, market or sector. This occasionally requires us to prioritise smaller, early-stage opportunities ahead of established market growth. We are comfortable with taking this long-term view.

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 internal and external customers.

We will add to our existing talented workforce by recruiting high calibre people from school, college and industry; and 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 on our reputation for delivery and 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

Digital Services

Our focus is to:

- continue to grow within the public sector and Healthcare, being engaged in ambitious transformation projects across UK Government and the NHS;
- repeat our digital transformation success within the UK commercial sector, with a bias towards financial services; and
- expand internationally, focused initially within Germany and Canada where we already have established delivery teams, have built business development expertise and have an existing Workday Practice client base.

Workday Practice

Our focus is to:

- continue to grow in our existing, established markets as Workday continues to expand within these markets;
- gain market share, replacing incumbent providers to existing Workday customers through a reputation for higher service levels;
- expand internationally, opening offices in countries with large and growing numbers of Workday customers; and
- extend Smart and develop other products within the Workday ecosystem, where our blend of software skills and Workday experience makes us uniquely positioned.

New opportunities

Our focus is to:

- continue to invest in our Data and Artificial Intelligence practice, building capability and creating an international, high growth business;
- support the early progress of our Intelligent Automation practice, ensuring the foundations are in place to create a significant long-term business; and
- through our new business ideas process, identify and promote ideas that have the potential to become sizeable revenue streams in the future.

> **"EXISTING CUSTOMERS CONTINUE TO TRUST US TO DELIVER THEIR MOST CHALLENGING PROJECTS AND THIS IS REFLECTED IN OUR REVENUES, WITH 85% OF REVENUES COMING FROM OUR EXISTING CLIENTS (2020: 87%)."**

Our people

We are clear that our success is driven by the ability, energy and expertise of the people in Kainos; this past year has further underlined that belief.

Over the course of the year, our headcount has grown by 309 to 2,024 people (2020: 1,715). Of our colleagues, 15% are contractors (2020: 9%). By region, UK & Ireland increased to 1,541 people (+283), Central Europe reduced to 341 people (-10) and North America increased to 142 people (+36).

Our employee engagement levels remain high and in the past year 92% of our colleagues made the choice to stay and develop their career in Kainos (2020: 90%). Once again, our people have voted us into the Top 100 in the Sunday Times 'Best Companies to Work For' survey and we continue to receive high approval ratings on Glassdoor, the online career community.

The commitment of the people in Kainos through the pandemic has been remarkable. In recognition of this, we implemented two £1,000 'thank-you' payments to employees during the year, for a total of £3.2 million.

Our customers

We believe that by delivering consistently to our customers we build long-term relationships. This is a perspective shared by our customers, who continue to have a very positive view of our performance – 98% of respondents to our customer surveys rated our service as 'good or above' (2020: 97%).

Existing customers continue to trust us to deliver their most challenging projects and this is reflected in our revenues, with 85% of revenues coming from our existing clients (2020: 87%). We have also gained new customers during the year, and we now work with 546 customers (2020: 465).

From a sector perspective we have a well-diversified business, with 45% of our revenues from public sector customers (2020: 52%), 35% from commercial organisations (2020: 35%) and 20% from healthcare customers (2020: 13%).

Our international client base has also expanded and as a result our international revenues have grown by 48% to £59.0 million (2020: £39.9 million). Regionally, UK & Ireland accounts for 75% of our business (2020: 78%), North America for 16% (2020: 12%), Central Europe for 8% (2020: 10%), with the rest of the world representing 1% (2020: 0%).

Digital Services performance

Our Digital Services division builds solutions that are highly cost-effective and make public-facing services more accessible and easier to use for the citizen, patient and customer.

Revenues grew by 32% to £161.6 million (2020: £122.5 million), while our bookings reduced 7% to £157.7 million (2020: £169.3 million), as the pandemic disrupted the normal contracting cycle, with some contracts being signed after the close of our financial year. As a result, our backlog decreased by 3% to £119.4 million (2020: £123.5 million).

Public sector

Our public sector customers have remained committed to their digital transformation programmes and these have continued at pace. We have been impressed by how large departments have been able to switch from an office-based environment to working effectively from home.

Revenues increased by 18% to £102.2 million (2020: £86.4 million).

Within Central Government, we continue to consolidate a leading position with our key customers, delivering several high-profile digital programmes including the Passport Application service for the Home Office and an EU Exit Imports programme for Defra. We have also added new customers such as the National Crime Agency to deliver new crime intelligence services using data science and artificial intelligence.

Commercial sector

The early stages of the pandemic saw some of our commercial sector clients pause or reduce some of their programmes. By the end of the summer, however, customer confidence had returned, and our performance returned to pre-pandemic activity levels.

Over the year, our revenues increased 3% to £15.7 million (2020: £15.3 million). We have continued to assist our established customers such as New Ireland Assurance, Concardis and Early Disease Detection Research Project (EDDRP) as they increase investment in digital transformation.

We have also recorded further international successes and have been appointed to deliver projects for clients in Canada and Switzerland. While these are small engagements, we are optimistic that we will be awarded further projects during the course of next year.

Healthcare sector

Our healthcare revenues increased by 111% to £43.7 million (2020: £20.7 million).

We continue to enjoy strong partnerships with NHS Digital and NHS X, and we have been heavily involved in supporting their response to the challenges of Covid-19. This includes the Isolation Note service from NHS Digital, NHS Home Testing and managing the successful delivery of Health and Social Care Northern Ireland's track and trace system.

While the pandemic response continues to command much of the attention of the NHS, increasingly the focus is turning to broader healthcare provision and how technology can support its ambitious digital plans. In this regard, we are delighted to be named on the recently announced £800 million Digital Capability for Health framework.

Digital Services outlook

We remain extremely positive about the future of digitisation in the UK public sector and within the NHS, both immediately and over the long-term. We are confident that based upon our strong reputation and successful track record, we are well positioned to maintain a central role in this transformation drive.

The digitisation pressures and opportunities within the commercial sector are similar, and therefore the growth prospects for us are substantial. Our progress, notwithstanding the impacts of Covid-19, give us confidence that we will deliver significant growth in the years ahead.

We are similarly optimistic about the international opportunity. Our initial focus is primarily on commercial customers in Canada, Germany and Switzerland, where we already have established delivery teams, sales expertise and a Workday Practice client base.

Workday Practice performance

Having first engaged with Workday Inc. in 2011, we are now one of their most experienced partners. We are the only specialist Workday partner headquartered in the UK and one of only 36 partners globally, accredited to implement Workday's innovative SaaS platform.

Revenue for the period grew by 30% to £73.1 million (2020: £56.3 million) and backlog for the division increased by 53% to £86.7 million (2020: £56.5 million). Bookings increased 36% to £101.0 million (2020: £74.3 million), with a very strong performance in the second half of our year.

The number of accredited Workday consultants at Kainos increased by 9% to 416 (2020: 380).

Workday Services

Within Europe, we continue to consolidate our position as the leading Workday partner. This leadership position is the result of high satisfaction levels within our customer base, coupled with our geographic expansion and consolidation within the partner ecosystem.

Our international growth started in Europe in 2015 when we opened our office in Amsterdam. We now have staff based across 13 European countries. Having entered the North American market in 2018, we now have 142 people based in the US and Canada (2020: 106 people).

There is an established trend of larger partners buying smaller organisations[11], and we anticipate further transactions in the future. The reduction in the number of partners provides further growth opportunity.

In addition to the delivery of Workday for new customers, we are increasingly involved in supporting customers already live on the Workday platform. We describe this annuity-style revenue stream as Post Deployment Services.

Revenue for the year grew by 32% to £49.0 million (2020: £37.2 million); backlog increased by 62% to £34.9 million (2020: £21.5 million); and despite slower decision-making by some of our clients at the start of the pandemic, bookings for the year increased 36% to £59.8 million (2020: £43.9 million).

11 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 (350 consultants). In 2020, Accenture acquired US-focused Sierra-Cedar (275 consultants) and Cognizant completed the acquisition of Collaborative Solutions (c.1,000 consultants).

£7.8m
(2020: £1.1m)

REVENUE CONTRIBUTED BY ACQUISITIONS DURING THE YEAR

Workday Adaptive Planning
In June 2018, Workday Inc. acquired Adaptive Insights for $1.6 billion. Adaptive Insight's Business Planning Cloud (now called Workday Adaptive Planning) is a leading cloud-based platform that allows organisations to modernise their business planning, by providing budgeting, forecasting, reporting and analytics capability. At the time of their acquisition, Adaptive Insights had over 4,700 customers worldwide.

In our 2020 financial year, we 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. By acquiring these businesses, we have strengthened our capabilities to sell, deliver and support Adaptive Planning implementations.

In both 2020 and 2021, Workday named IntuitiveTek as Global Solution Provider of the Year, with Formulate confirmed as EMEA Solution Provider of the Year.

In total, the acquisitions contributed revenue of £7.8 million (2020: £1.1 million) during the year.

Smart
Kainos has developed four Smart modules: HCM, Security, Financials and Payroll. Smart is used by over 240 global customers, including Capital One, Cardinal Health and General Dynamics to automatically verify their Workday configurations.

Smart bookings increased 43% to £37.8 million (2020: £26.4 million). This strong sales performance resulted in revenue increasing 27% to £24.2 million (2020: £19.1 million), of which £21.0 million relates to SaaS subscriptions (2020: £15.4 million); the annual recurring revenue at 31 March 2021 was £25.7 million (2020: £21.0 million), an increase of 23% and backlog increased 48% to £51.8 million (2020: £35.0 million).

Workday Extend
Workday Inc. has a Platform-as-a-Service offering known as Workday Extend, (previously Workday Cloud Platform) which became generally available to customers in May 2020. Kainos has been part of the Extend early adopter programme since 2017. While Workday Extend is at an early stage it may offer new growth opportunities, such as additional product ideas for Kainos or specialised development services to other Workday customers and partners.

Workday Practice outlook
Our strong performance, despite the challenges of the pandemic, provides further evidence of the strength of the Workday market. With Workday's main competitors, Oracle and SAP, soon to mark 50 years in the ERP market, we believe that Workday's more innovative product suite can continue to gain significant market share for many years to come. This is reflected in Workday's bold goal of achieving $10 billion revenue in the next five years, up from c.$4 billion today.

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

For Smart and other products that we develop, our growth will be powered by the increase in Workday clients and by higher penetration of our products into the Workday client base.

New business ideas, innovation and research
Successful businesses continue to challenge themselves and we are keen to improve our existing offerings, develop new business ideas and assess business and technology concepts that are likely to impact our clients in the future.

Including our product investment, our research and development expenditure for the year amounted to £4.2 million (2020: £3.9 million), which was wholly expensed in the year.

New business ideas
We take the view that our people, who are often deeply engaged with our customers, are best placed to identify new ideas. To support them, we have created a process that is made up of two phases, "Identify and Develop" and "New Business Investment".

Identify and develop
When someone has an idea, which can range from a novel approach to solving customer problems to a potential partnership or a new business offering, we support the investigation of the idea. This includes exploring different aspects of the concept while making an informed judgement of its early commercial potential. The identification phase is typically an investment of up to 20 days, with some external expenditure.

New business investment
Ideas that show real potential progress to the investment stage, where the idea is presented to a panel composed of experienced Kainos leaders and external entrepreneurs. Ideas that pass this evaluation are given a formal investment package, typically composed of development time, specialist recruitment and external expenditure.

Our most recent graduate from this process is our Intelligent Automation practice, launched in June 2020. Now a team of 12 people, including externally recruited experts, have seen us undertake small, focused engagements for existing and new clients. For example, we have provided the Information Commissioner's Office (ICO) with a solution to automate its transaction entry process, allowing officers to focus on the more complex. This will also allow the current team of 30 officers to handle the expected increase in transactions, rising from 400 to 700 daily transactions.

We have every belief that our Intelligent Automation practice will follow the success of our Data and Artificial Intelligence practice, which will reach 100 people during this year.

External ideas
In addition to internally sourced ideas, we nurture relationships with a broad network of entrepreneurial start-ups. We mentor and support their leadership teams, to help increase the success prospects for their business, but also with the aspiration of being able to develop joint commercial opportunities.

Close-to-customer innovation
Technology continues to develop at pace and we look to continuously improve our delivery approach for our customers. These improvements reflect our most recent experience in delivering projects, as well as using the improvements in the platforms from Workday, Microsoft, AWS and other partners.

Within Digital Services, our continued investment makes us leaders in cloud native software and data engineering, delivering technology, practices and principles that enable our customers to achieve long-term success with digital and data transformation. We continue to develop our service design capabilities, leading on human centred design, design thinking, user research and lean product development.

Workday Inc frequently releases software and functionality updates for their platform and we ensure that these latest developments are reflected in our delivery approach and methodology. We also assess new modules, particularly Workday Extend, which allows customers to add unique functionality to their Workday system.

Innovation services
To support innovation across the organisation we have invested in a dedicated Innovation Services team. The team's activities include providing foresight, research into emerging technology, interpreting developing trends and market insights, and supporting the development of innovative ideas across the business.

Current areas of foresight and investigation include quantum computing, ambient computing, fog and distributed systems for Internet of Things and smart environments and places, and research into the advances in machine learning and AI, such as reinforcement learning.

The team is also responsible for our relationships with academic research partners and leading industry organisations, such as the Turing Institute, Digital Catapult, the Confederation of British Industry and the Institution of Engineering and Technology as well as working with our strategic partners on further-from-market technology and research.

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) COMMITMENTS

Introduction

We have used the UN Sustainability Development Goals (SDGs) as a framework to assess and guide our efforts as a responsible company. Specifically, we have focused on five SDGs: Quality Education, Gender Equality, Reduced Inequalities, Good Health & Wellbeing and Climate Action.

In this report, we have aligned our previous reporting with the ESG regulations and recommended disclosures and extend this report to include our good practice in Corporate Governance.

We are proud of our track record of being a responsible business and we are pleased to record further progress in this report, particularly in achieving carbon neutrality for our financial year 2021.

We are proud that our employees are also shareholders. Every year, we gift shares to all permanent employees and we also operate a save-as-you-earn share-based scheme[12]. In 2021 we allocated 1,828,589 shares under all our share schemes, bringing the total allocated since 2015 to 9,712,031 shares.

Responsibilities

The Kainos Board has nominated the following Directors to oversee ESG activities within the Company:

- Environment: Chair, Tom Burnet, supported by the CEO, Brendan Mooney.
- Social: CEO, Brendan Mooney.
- Governance: Senior Independent Director, Andy Malpass.

Each Director regularly meets with the appropriate internal teams to ascertain progress, set priorities and contribute to the plans in each area.

Environmental: Protecting and restoring our planet

We are delighted that we have achieved carbon neutrality[13] in 2021 and are on track to achieve our ambition of being entirely carbon net zero[13] by 2025. The process of setting science-based targets is underway, which we expect to be complete in this reporting period.

Environmental sustainability

Our focus is to ensure that we understand, manage and reduce the harmful environmental impact of our business activities. In addition to our own operations, we aim to make a wider impact by helping our customers, employees and suppliers to achieve their own low carbon futures. For many of our customers, our digital solutions significantly reduce the carbon impact of the ageing, inefficient and manually intensive systems that we are replacing.

In our reporting, we seek to adhere to regulations and utilise industry best practice – the Streamlined Energy and Carbon Reporting Regulation (SECR), the Task Force on Climate-related Financial Disclosures (TCFD) in line with regulation changes applicable from FY22 and the sustainability accounting standard for the Software & IT services sector as defined by the Sustainability Accounting Standards Board (SASB).

We can confirm that we continue to comply with all our environmental legal requirements across all our activities. In 2021 there were zero breaches of any environmental regulations (2020: zero).

CDP (previously Carbon Disclosure Project)

During the year we made our first submission to CDP, the not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts.

As part of that submission, CDP generates a 'score report' which allows participants to understand their score and identify actions to improve their climate governance. The CDP awarded our submission a C rating which places us in the awareness category, acknowledging our transparency and understanding of our climate impact.

We are currently preparing our next submission and we expect our updated assessment to be available towards the end of the year.

12 We operate share-gifting schemes in UK, Ireland and Poland and have cash equivalent schemes in all our other locations. At a closing share price on 31 March 2021 of 1,492p, our 2021 allocation is valued at £27 million.

13 Carbon neutral through purchasing avoidance and reduction offsets from the voluntary market. Net zero by reducing emissions in line with targets and investing gradually in market removals, transitioning fully in 2025.

Carbon footprint

As in previous years, we rely on external environmental experts to assess and advise on our environmental impacts. We continue to utilise Mabbett & Associates Ltd and have added assessment and guidance from specialists Carbon Intelligence.

Our carbon impact for the year, detailed across Scope 1, 2 and 3, was as follows:

- Scope 1 comprises emissions from the direct burning of fossil fuels. We generated 94 tonnes of carbon dioxide equivalent (CO_2e), relating to oil-based central heating in our UK premises. (2020: 65 tonnes).
- Scope 2 describes emissions that result during the generation of purchased energy. These emissions largely relate to our offices. We generated 92 tonnes CO_2e within the UK and a further 87 tonnes worldwide (total: 179 tonnes CO_2e) (2020: 182 tonnes).
- Scope 3 emissions relating to business travel. In 2021, our emissions in this category reduced to 8 tonnes CO_2e (2020: 5,277 tonnes).

Our total emissions reduced significantly during the year. While this reflects the benefits of our climate actions, we also recognise that Covid-19 resulted in a reduction of typical activities, most significantly business travel. We, therefore, view our 2020 emissions as the appropriate base point for our science-based targets (SBT), which we expect to be defined this year and represent a key milestone in our aim to become net zero by 2025.

Our climate positive journey has begun with achieving carbon neutrality for our total 2021 GHG emissions. Initially focused on our neutralising our disclosed 2021 emissions, during this year we will also fully offset our wider Scope 3 impact.

To achieve carbon neutrality we will utilise a portfolio of high-quality, certified offsets that blend local and international projects. We feel this best reflects our global business and gives us the best opportunity to invest in programmes that offer positive social, as well as environmental, impacts. The cost to offset our Scope 1, 2 and full Scope 3 for FY21 is £45,000.

"WE ARE DELIGHTED THAT WE HAVE ACHIEVED CARBON NEUTRALITY[13] IN 2021 AND ARE ON TRACK TO ACHIEVE OUR AMBITION OF BEING ENTIRELY CARBON NET ZERO[13] BY 2025."

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 two such intensity ratios, set out below. These figures were calculated from data available for our main operations and extrapolated to take account of our smaller locations.

GHG emissions data for period 1 April 2020 to 31 March 2021

	Global tonnes of CO_2e			
	2021		2020	
	UK	**Non-UK**	UK	Non-UK
Combustion of fuels and operation of facility (Scope 1)	**94**	**18**	65	–
Emissions from purchase of electricity, heat, steam and cooling purchased for own use (Scope 2) – CO_2e	**92**	**87**	139	43
Business travel (Scope 3)	**6**	**2**	3,958	1,319
Total emissions by location	**192**	**107**	4,162	1,362
Total emissions for year	**299**		**5,524**	

Total emissions from activities for which the Company is responsible

	2021	2020
kWh (thousand)	**1,286**	22,247

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

Intensity ratios

	2021	2020
tCO_2e/£ million revenue	**1.27**	30.9
tCO_2e/average number of employees	**0.19**	3.88

103

PEOPLE JOINED KAINOS IN 2021 VIA OUR EMPLOYEE REFERRAL SCHEME

Activity-based working
In delivering projects to our customers, we have always prided ourselves on being able to work flexibly; whether responding to a customer deadline, a location preference or a change in priorities. Our approach internally has been the same, with a focus on supporting our colleagues in working in the most effective way possible, whether that is working from home, from one of our offices, from client site or while travelling.

This approach was one of the reasons that we were able to respond so quickly at the start of the pandemic, in a matter of days successfully moving over 1,700 people to work from home. Covid-19 has introduced significant and, likely, long-lasting changes to the patterns of work – where people will now alternate between office-based and home-based work locations. There are various terms used to describe this working pattern – 'blended', 'hybrid' and 'mobile'; we prefer the term 'activity-based working'.

To us, activity-based working is about combining remote and office-based working, giving our people greater flexibility to work in the location that best suits them, taking into consideration the needs of their role, their work, their team members and the customer.

In addition to supporting our people to work effectively in a more flexible manner, activity-based working also provides a unique opportunity to reduce our environmental impact across Scopes 1, 2 and 3, especially in the areas of business travel and employee commuting, which are significant contributors to our environmental impact.

Secure equipment recycling
As we operate a cloud-based infrastructure, most of our equipment recycling is focused on our laptops. During the year we recycled over 380 pieces of equipment, partnering with Vyta Secure Limited, who use military grade techniques to remove all data from the system (Vyta have, among other certifications, DIPCOG (Defence INFOSEC Product Co-Operation Group) approval). Typically, 85% of our equipment is reused as a working system, with the remainder broken down for WEEE recycling.

We are in the third year of our arrangement with Vyta and over that time have generated £75,000 for charitable causes from disposing of our old equipment. These funds have been donated to our charity partners, principally Doctors without Borders (Médecins sans Frontières) as well as being used for our charity grants which support our colleagues when fund-raising for their preferred, individual charities.

Social: Our people and our communities

Our success depends upon the ability, skills and motivation of our people. We therefore focus on engaging with our people, providing them with opportunities to develop their careers and making it easy for them to stay at Kainos to build their career.

Everyone in Kainos shares in the responsibility of creating a great place to work, however it is our Chief People Officer, Colette Kidd, appointed in 2017, who sets the strategy for all our people-related activity.

Alongside supporting them while they are working, part of our responsibility is to support them outside of work. This ranges from healthcare benefits to community volunteering.

To make sure that we perform consistently, every year and in every location, we use our Workday platform to record all our employee information – everything from salary and benefits to performance and career planning, colleague feedback and diversity characteristics.

Engagement
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 annual Sunday Times 'Best Companies to Work For' survey as a confidential way for our colleagues to share their feedback across eight different categories: Leadership, My Company, My Manager, My Team, Wellbeing, Giving Something Back, Fair Deal and Personal Growth.

Having first appeared in the Top 100 in 2012, we are delighted to still be included in 2021, once again retaining the two-star "outstanding company" accreditation.

Engagement can also be measured through Glassdoor, the online career community with over 60 million users. Glassdoor allows current and former employees to provide feedback on companies. In March 2021, Kainos had an approval rating of 86% and 83% of respondents would recommend working at Kainos to a friend; these are well above the average ratings across 1.3 million companies of 70% and 65% respectively.

We work hard to retain the talented people already in Kainos. We are also very focused on recruiting new talented colleagues. We continue to attract strong interest in key recruitment markets, with tens of thousands of candidates applying each year to join Kainos. During the year, our headcount grew by 309 to 2,024 people (2020: 1,715).

As part of our recruitment activity, we operate a referral scheme. We believe that referrals, where a new employee has joined Kainos because of a recommendation from an existing employee, is a good indicator of existing employee engagement. During the year, 103 people joined via a referral.

We are focused on creating a workplace that people want to join and then stay to develop their careers. In the past year, over 92% of our colleagues made the choice to stay and develop their career at Kainos (2020: 90%).

We take great enjoyment in marking the significant work anniversaries of our colleagues, with 100 people celebrating their 5-year anniversary, and a further 45 marking their 10-, 15-, 20-, 25- or 30-year anniversary of joining Kainos.

We believe that it is important to celebrate the achievements of our colleagues and our recognition scheme allows any person in Kainos to nominate an inspirational colleague. We centre this scheme around our values – creativity, honesty, cooperation, determination and being respectful. During the year, over 1,250 people took the time to recognise the contribution of their colleagues.

We also believe that our colleagues have many ideas about how we can improve as an organisation. Over the past five years, our staff ideas portal has received 384 suggestions. Of these, 107 have been implemented, 106 are being evaluated or undergoing implementation and 171 were not taken forward.

Measures:

- Sunday Times 'Best Companies' position: 86th (2020: 86th).
- Glassdoor approval rating: 86% (2020: 78%).
- Staff retention: 92% (2020: 90%).
- Headcount: 2,024 people (2020: 1,715), an increase of 309 (2020: 245 people).
- Employee referrals: 103 new people employed.
- Recognition awards: 1,279 people recognised.

Wellbeing
Employee wellbeing is a key priority for us. We strive to create the conditions for our people to deal with the normal stresses of life, to feel fulfilled and productive at work and to be able to contribute to their communities. In our wellbeing approach, we focus on empowering and supporting our people across five areas: emotional, physical, social, career and financial wellbeing.

We have a dedicated wellbeing intranet site which contains self-care information to help our people manage their own wellbeing and that of their friends, colleagues and team members. This is the most-visited internal site in Kainos, with over 50,000 visits every quarter.

92%

OF OUR COLLEAGUES CHOSE TO STAY AND DEVELOP THEIR CAREER IN 2021

Emotional
We are focused on the mental and psychological wellbeing of our colleagues, to ensure that they are realising their full potential and coping with their dynamic lives.

During the year we launched our online Mindset wellbeing platform supporting self-awareness and reflection. There are 19 modules, such as growth mindset, emotional intelligence, and resilience. Over 950 people are actively using the system, posting a satisfaction rating of 94%.

More recently, we launched our wellbeing app, which covers physical and emotional wellbeing, including fitness, nutrition, mediation techniques and wellbeing insights. To date, over 375 people are using the app.

"AS A RESULT OF OUR SWIFT ACTION AND THE CAUTION AND DILIGENCE OF OUR COLLEAGUES WE EXPERIENCED A RELATIVELY LOW RATE OF CONFIRMED POSITIVE COVID-19 TESTS."

In addition to these self-directed activities, we have trained 32 volunteers from across all our office locations as 'wellbeing champions'. These dedicated volunteers are equipped to have supportive conversations with our people and, if required, direct them to further support or professional help.

Professional support is available globally through our Employee Assistance Programmes, offering 24/7 confidential access to expert advice (telephone, virtual and face-to-face) across a range of areas, including wellbeing, financial and legal advice.

Measures:

- Using the mindset platform: 950+ people.
- Using the wellbeing app: 375+ people.
- Wellbeing champions: 32 people.
- Accessing the employee assistance programme: 75 people.

Physical

In the past year, we have been focused on reducing the risks of Covid-19 for our colleagues. On 5 March 2020 we invoked our Covid-19 response plan, which prioritised the physical safety of our people. As part of that response, we asked them to work from home or another safe location. This guidance remains in force.

As a result of our swift action and the caution and diligence of our colleagues we experienced a relatively low rate of confirmed positive Covid-19 tests.

More typically, we concentrate in helping our colleagues manage their physical health and energy levels. This includes the self-directed mindset and wellbeing platforms described earlier, but also a range of activities that include yoga sessions, mindfulness sessions, activity-based charity events and support for cycling schemes.

While these measures focus on preventing health issues, we also recognise that our colleagues can require support when health-related issues arise. On a global basis, Kainos continues to offer private medical and permanent health insurance.

During the year, sickness absence reduced by 20% to 5.1 days (2020: 6.4 days), which is now broadly in line with the industry average. Our health-related programmes will have helped in this area; we believe that the main reason for this reduction will have been the various lockdown measures, coupled with our colleagues being diligent around their health.

Measures:

- Absence levels: 5.1 days per person (2020: 6.4 days).
- Accessing private medical insurance: 960 claims.
- Accessing permanent health insurance: 4 people.

Social events

We enjoy being a social company, providing the opportunity to have meaningful relationships and creating an environment where our people feel engaged, supported and included.

We have volunteer-led Social Committees at all our locations and each committee organises events that appeal to the local teams. These can be unique to individual offices (axe-throwing!), but there are also themes across our locations: a staff party and family-friendly events in December, summer BBQ and payday lunch or drinks. Kainos pays for all expenses linked to these events.

Covid-19 has severely disrupted these events and while we switched to virtual events or festive hampers, we look forward to the time when we can safely resume social events 'in real life'.

Measures:

- Staff entertainment expenditure: £0.7 million (2020: £1.2 million).

Career

As a growing company, we are continually able to offer people opportunities to develop their career and to undertake meaningful, professional work.

At a planning level, our global capabilities are responsible for developing the skills, qualifications and confidence of our colleagues. There are over 20 global capabilities, including cybersecurity, experience design, engineering and reporting and analytics. We have approximately 600 People Managers of varying levels of seniority, who are responsible for supporting our people's career development day-to-day.

We use an annual performance appraisal, conducted between each person and their People Manager, as a dedicated, detailed review of the year and as a planning exercise for the year(s) ahead. This conversation is complemented with monthly 1-2-1s, that ensure career plans are being progressed, although a person can reduce the frequency of the 1-2-1 discussion to match their career requirements.

People Managers are supported in their key role by practical tools such as our online coaching portal which comprises 24 self-study modules, with over 570 People Managers accessing the portal. People Managers also undertake our three-day Effective Manager programme, which covers core management skills, personal leadership skills, everyday coaching and giving and receiving feedback. Over 450 of our People Managers have completed this training.

Alongside the career planning and support, we invest heavily in training and certifications for our people. We have a diverse curriculum of internal courses (which we call 'Kainos MAP') and comprehensive self-study materials to support external technical and professional qualifications and certifications.

In response to Covid-19, we have transitioned our learning curriculum and approach to a virtual delivery model. Similarly, we have replaced our in-person attendance at conferences with participating virtually. Despite this, the pandemic has impacted our training activity.

Measures:

- Number of promotions: 265 people (2020: 341 people).
- Annual appraisals completed: 98.9% (2020: 98.6%).
- Training expenditure: £0.6 million (2020: £1.7 million).

Financial

We recognise the significant role that we play in the financial wellbeing of our people. We have therefore created a compelling reward framework for our colleagues, designed to support their needs as they move through their career at Kainos.

This encompasses salary, bonus (where applicable) and pension. It also includes a comprehensive benefits package, some of which has been detailed in previous sections.

During our Covid-19 response, we provided our colleagues with the physical office and technology infrastructure to allow them to work safely and effectively from home. Our people have been outstanding during the Covid-19 period and, in recognition of their hard work, we issued 'thank-you' payments of £2,000 to our colleagues during the year.

One of the reasons that we chose to become a public company was the ability to make it easy for everyone in Kainos to become a shareholder and to share in the value that they have created.

Every year, we gift shares to all permanent employees in the UK, Ireland and Poland, operating cash-equivalent schemes in all our other locations. In addition, we operate a save-as-you-earn share-based scheme. In 2021 we allocated 1,828,589 shares under all our share schemes, bringing the total allocated to 9,712,031 since we became a public company.

Our colleagues regularly share stories of how they have used the proceeds from their share sales to support them in various life events – ranging from a first car to a deposit on a first home.

Measures:

- Covid-19 'thank-you' payments: 1,549 recipients, costing £3.2 million.
- Shares allocated in 2021: 1,828,589 shares or £27 million at 31 March 2021 closing price[14].
- Shares allocated since 2015: 9,712,031 shares or £145 million at 31 March 2021 closing price[14].

Diversity and inclusion

We have colleagues from 43 different nationalities and, whilst diversity is not only defined by nationality, we appreciate the value of having a diverse workforce.

We are focused on creating an inclusive culture that champions diversity of thinking and ensures everyone has an equal opportunity to develop, be rewarded and be recognised for their contribution to Kainos. Our publicly available Diversity and Inclusion (D&I) policy commits to a culture that is responsive to the needs of all groups and a zero-tolerance attitude to bullying, harassment, exclusion or victimisation.

How we are organised

We have a Global D&I Council comprising colleagues from various levels across our entire business. Sponsored by our Chief People Officer, this group drives delivery of our D&I programme. This is supported by our Employee Network Groups; Xpression (LGBTQ+), Inspire (gender diversity) and Voice (ethnic diversity), with the group for neurodivergent colleagues in the process of launching.

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.

14 KNOS closing share price on 31 March 1,492p.

Measures: members in Employee Network Groups:

- Inspire (women): 270 members.
- Xpression (LGBTQ+): 243 members.
- Voice (ethnic diversity): 138 members.
- Neurodiversity: Being formed.

Our data

Historically we have collected a small subset of the data required to truly gain insight into the diversity of our organisation. Early in 2021 we launched a specialised module, Workday VIBE (Value, Inclusion, Belonging and Equity™), and asked our colleagues to voluntarily disclose details on ethnicity, marital status, religion, citizenship status, nationality, sexual orientation, sex at birth and gender identity.

Although only launched recently, over 850 of our colleagues have already updated their diversity information.

Progress

During the year, we established two new Employee Network Groups – Voice, our ethnic diversity group, and most recently a network for our neurodivergent colleagues.

We continue to work to review and enhance our people policies, to ensure that we are supporting all our people. This has ranged from new policies supporting transgender colleagues transitioning at work through to our Neurodiversity Manager's Guide.

Our progress has also included achieving Disability Level 1 employer status and signing the Race at Work Charter. We have also pledged our support to the Office of the United Nations High Commissioner for Human Rights (OHCHR) UN Standards of Conduct for Business Tackling Discrimination against LGBTI People. These add to our commitment on the Armed Forces Covenant and our membership of Inclusive Employers, the leading membership organisation who are experts in workplace inclusion.

Improving our own understanding and behaviours has continued to be a focus. Our unconscious bias eLearning module, covering behaviours, bias, inclusivity and policy, has been completed by over 1,730 colleagues and we supplement this with webinars, hosted panel sessions and information packs.

Measures

- People opting to disclose their diversity data: 52%.

Gender balance

Gender diversity remains a challenge within the wider industry, where 17% of roles in technology are undertaken by women[15] and nationally, women hold 5% of executive management roles[16].

In considering Kainos employees, there are 518 women (2020: 468), 1,156 men (2020: 1,093) and 51 colleagues that are non-binary or transgender or have chosen not to disclose that information (2020: data not collected). Viewed as proportions, 30% of our workforce is female (2020: 30%), 67% is male (2020: 70%), 3% is non-binary, transgender or prefer not to disclose (2020: no data).

Of our female colleagues, 95 are at manager level or above (2020: 78) and two women hold executive management roles (2020: 2). As proportions, women holding manager level roles represent 21% (2020: 26%) with women holding 20% of executive management roles (2020: 18%).

On the Kainos Board, two of the five (40%) Non-Executive Directors are female (2020: 25%). Including the Executive Directors, our Board is 25% female (2020: 14%). All Board members identify 'White/ European' as their ethnic group.

Measures:

- Gender identity: 30% female (2020: 30%); 67% male (2020: 70%), 3% non-binary, transgender or prefer not to disclose this information.
- Females at manager level and above: 21% (2020: 26%).
- Females at executive level: 20% (2020: 18%).

Communities

Outreach

Part of our role as a leading digital company is to promote awareness of digital technologies amongst school leavers and young people. This responsibility extends to helping these young people to build the skills that can help them forge a fulfilling career in technology.

Over the past six years, our outreach programmes have directly benefited over 6,000 young people in the UK, Ireland and Poland. These programmes have catered for students from a range of socio-economic backgrounds and with a high percentage of female students taking part.

15 Womenintech.co.uk.
16 PwC research report: Women in Tech.

This year we switched our activity to delivering virtual events. With a scheduled 1,000 virtual work placements, we are offering students aged 14-19 an enjoyable and engaging insight into the career opportunities in digital technology. We have also switched our popular CodeCamp to being a digital event, launching it as a global programme, engaging with students in the 16 countries where we have operations. In a similar manner, our education-based conference is also switching to a virtual event, with over 500 young people expected to attend.

We have also launched our Digital Bursaries, aimed at widening the participation of young people who are traditionally under-represented at university. These bursaries are not specifically aimed at digital courses and our commitment over the next three years is to support 60 young people attending university in Belfast and Birmingham.

Graduate employment and our Earn as You Learn® apprentice scheme

Since Kainos was founded in 1986, we have recognised our responsibility to provide roles for people starting their career in industry, particularly with a focus on technology.

Covid-19 impacted our normal employment cycle, delaying the summer intake of graduates until November; and reducing the number of people joining – we look forward to returning to a typical pattern and scale in 2021. In the year, we recruited 50 graduates and 13 placements (a placement is typically a 12-month engagement and is fully remunerated). These roles were based across our Belfast, Derry, Birmingham, Gdansk and London offices.

We continue to operate our 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 us to identify talented young people outside our traditional graduate recruitment activity. There are now 67 Earn as You Learn® recruits working across Kainos.

Charities

Our people propose and decide on our global charity, which we support for a minimum of two years. We allocate 50% of our funds to our global charity (currently Doctors Without Borders or Médecins sans Frontières), with the other 50% supporting local charities.

1,000

VIRTUAL WORK EXPERIENCE PLACEMENTS ON OFFER THIS YEAR

We have volunteer-led Charity Committees at all our locations, who organise fund-raising activities and decide which local charities receive support. Kainos provides financial support for all these activities.

As with all in-person events during the pandemic, we experienced a reduction in fund-raising activities. However, charitable donations increased to £22,000 (2020: £17,000).

We experienced the same challenge around our 'volunteering days'. Everybody in Kainos can avail of two, paid-for days every year to get involved in social and charitable activities. In the past this has covered activities like volunteering on emergency transport and nature reserve maintenance; however pandemic restrictions saw our volunteering days reduce.

Measures:

- Virtual placements: 1,000 placements on offer.
- Digital inclusion bursaries: 60 young people over three years.
- Graduates and students employed: 63 (2020: 94).
- EAYL apprenticeships: 71 places in eight years.
- Charity donations: £22,000 (2020: £17,000).

Governance: Our stakeholders

Over the past 35 years, we have constantly demonstrated our commitment to honesty and integrity in our business undertakings; and adhering to best practice in terms of corporate governance.

We view this as spanning our commitments to all our stakeholder groups, our policies underpinning our business ethics and ensuring that all our employee and customer data is held confidentially.

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 support the long-term success of the company and its various stakeholders.

"WE DO NOT TOLERATE SLAVERY OR HUMAN TRAFFICKING AND WE TAKE A RISK-BASED APPROACH TO OUR SUPPLY CHAINS."

In doing this, our Directors need to consider a variety of factors, including: the long-term impact of any decision; the interests of our employees; our relationships with our suppliers and customers; the impact that we have in our communities and on the environment; maintaining our reputation for high standards of business conduct; and the need to act fairly for our shareholders.

Our Directors have exercised care in their decision-making, cognisant of their section 172 obligations, and taking into consideration the needs and interests of the various stakeholder groups as part of all Board decision-making.

Stakeholder engagement
Under section 172, we consider our stakeholder groups to be our staff, our customers, our shareholders and our communities.

We recognise that the importance of a topic may vary between stakeholder groups and that there may, occasionally, be a conflict in the interests of different groups. Recognising that not every decision can support each group equally, the Board is committed to effective engagement with our stakeholders to understand their interests and priorities.

In addition to the detailed reports provided to the Board as part of our monthly internal reporting, the Directors engage directly with stakeholder groups as appropriate, with examples of this interaction are set out on this page and in the Strategic Report.

Customers
We use an online survey to encourage our customers to share feedback about our performance and their satisfaction with our service. Surveys happen on a rolling basis, with customers asked for their feedback twice a year. The output is shared monthly with the Board and is reported in our investor presentations every six months.

In 2021, 302 customer engagement surveys were received and 98% of responses gave us an overall rating of 'Good', 'Very Good' or 'Excellent'.

We use these statistics to inform our continuous improvement programme, which is designed to meet and often exceed customer expectations on every engagement.

Employees
The skills, motivation and engagement of the people working in Kainos is key to our success. As the previous sections indicate, we place immense value on ensuring that our colleagues are engaged, rewarded and that we are focused on their wellbeing.

Our monthly written reports to the Board contain detailed information about our people and feature regularly in detailed discussions at Board-level. Our Board has nominated our Culture and Development Group (chaired jointly by the CEO and Chief People Officer) to regularly report on employee-related matters.

In addition to this information, the directors have regular opportunities to engage with the wider company through office visits, attending our all-staff annual conference and presentations from staff as part of our monthly Board meetings. The in-person, informal interaction that normally surrounds our Board meetings has understandably been impacted by Covid-19.

Further information regarding our workforce engagement is set out in the Directors' Report and is referenced in the Social section of this report.

Investors and shareholders
We value the support of our shareholders and recognise their interest in our strategy and our progress on key strategic programmes. Our CEO and CFO hold briefing meetings with analysts and institutional shareholders throughout the year, but with a focus on providing detailed updates following the publication of our interim and full year results.

While the CEO and CFO provide feedback to the Board regularly, formal feedback is captured by our PR and financial advisors and these reports are shared with our Board.

We communicate with private investors through the RNS Service, the Annual Report and the Annual General Meeting.

Financial and other information is made available on our website (www.kainos.com) which is regularly updated.

Business ethics: Human rights, anti-bribery, anti-corruption and whistleblowing

We are committed to conducting our business with honesty and integrity – this is a commitment which resonates with all our stakeholder groups.

We operate a zero-tolerance approach to corruption and bribery in all our business dealings and encourage staff to report suspected wrongdoing as soon as possible. We also recognise that all businesses face the risk of things going wrong from time to time, or of unknowingly harbouring illegal or unethical conduct. Our culture is one of openness and accountability, which we believe is essential to reduce the possibility of these situations occurring, but also to swiftly address them should they occur.

These principles are reflected in our Global Anti-Corruption and Anti-Bribery Policy and our Whistleblowing Policy and there is mandatory training for all staff on these issues.

We do not tolerate slavery or human trafficking and we take a risk-based approach to our supply chains. We strongly support the enactment and enforcement of human trafficking laws that recognise and protect victims, while seeking to bring traffickers to justice. Our whistleblowing policy encourages staff to report any wrongdoing, and this extends to human rights violations, such as modern slavery.

These policies are reviewed on a regular schedule to ensure they reflect the most recent legislation and that they adopt best practice in this area. The review and update schedule of these policies is:

- Global Anti-Corruption and Anti-Bribery Policy. Updated every two years, current version is April 2020, with the previous version dated April 2018.
- Whistleblowing Policy. Updated every five years, current version is March 2021, with the previous version dated April 2016.
- Modern Slavery Statement. Updated every year, current version is March 2021, with versions updated every year since 2016.

In this reporting period, there were zero incidents of breaches of our Anti-Corruption and Anti-Bribery policies (2020: zero); and there were zero breaches of our Modern Slavery Statement (2020: zero). There were zero incidents referred through our whistleblowing process (2020: zero).

Quality standards, data privacy and security

Our commitment to delivering a high-quality service to our customers has been established over 35 years in business. To achieve this consistent quality, we have invested in our Quality Management System.

This system is based upon the following quality certifications:

- ISO9001 (Quality Management System), held since 1993.
- ISO20000 (Information Technology Service Management System), held since 2009.
- ISO27001 (Information Security Management System), held since 2011.

We ensure adherence to these standards through our own internal training programme, supplemented by our internal audit review.

As part of the certification process, we are subject to a six-monthly external assessment to ensure that our controls are robust, that we are applying them consistently and we are updating them regularly to reflect the most recent best practice.

In addition, information security risks are assessed and reviewed regularly in IT steering meetings with the Group's senior management.

Kainos also participates in third-party assessments for public and private sector customers to evidence that our associated security controls are effective and address any related risks.

During 2021 there were no incidents of data security or privacy breaches that required reporting to the Information Commissioner (2020: zero).

We recognise the sensitivity of the information which we process daily and have prioritised secure data handling processes, product design, hosting and operational management.

Our people complete security awareness and data handling training annually.

We have selected SOC2 Certification for our Smart product. This covers security, availability, processing integrity, confidentiality and privacy. These practices are subject to external assessment annually, by EY.

Revenue 2021

£234.7m

2020

£178.8m

2021 was a year of strong financial performance despite the challenges presented by Covid-19. Kainos achieved revenue of £234.7 million (2020: £178.8 million), representing an increase of 31%. Digital Services revenue grew 32% to £161.6 million (2020: £122.5 million), reflecting customers continuing to prioritise digital transformation programmes in the NHS and public sector. Workday Practice revenue grew by 30% (18% organic) to £73.1 million (2020: £56.3 million) which was driven by 32% growth in Workday Services to £49.0 million (2020: £37.2 million) and 27% growth in Smart to £24.2 million (2020: £19.1 million). The Workday Practice continues to benefit from its international scale and ability to secure new consulting contracts across our geographies.

Overall gross margin was 50.4% (2020: 47.0%). Digital Services margins increased to 44.6% (2020: 39.9%) mainly due to an increase in utilisation and partly to a reduction in holidays taken by staff and reduced travel costs. The margin has benefited from some savings in the period that are considered non-recurring in nature. Workday Practice margins increased to 63.3% (2020: 62.3%), also driven mainly by an increase in utilisation.

Operating expenses

Operating expenses for the period increased by 15% to £68.2 million (2020: £59.3 million). Despite revenue increasing by 31%, the growth in operating expenses has been lower due to reduced expenditure on costs such as training, recruitment, facilities and travel during the pandemic lockdown. Some of these savings are non-recurring in nature. The timeframe for the rephasing of these costs is dependent on the speed with which life returns to normal post the pandemic.

At 31 March 2020, in light of the significant economic uncertainty caused by the Covid-19 pandemic, the Group considered there was increased credit risk notably in respect of clients in vulnerable sectors and an impairment loss of £1.8 million was recognised. For the current period, the impact of Covid-19 continues to be a significant consideration in the calculation of the lifetime expected credit loss. Overall, the results for the year ended 31 March 2021 reflect an impairment credit in relation to trade receivables of £0.3 million. At 31 March 2021 the carrying value of the loss allowance on trade receivables is £1.6 million (2020: £1.8 million).

Investment in product development increased to £4.2 million (2020: £3.9 million). All product development costs were expensed in the period. Research and Development Expenditure Credit (RDEC) grants recognised in the period totalled £3.6 million (2020: £1.9 million).

Alternative performance measures

The business is managed and measured on a day-to-day basis using underlying results. The Directors believe that the 'adjusted 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 (including deferred consideration regarded as post acquisition remuneration), amortisation related to acquired intangible assets and share-based payments.

Adjusted pre-tax profit increased by 124% to £57.1 million (2020: £25.5 million). Profit before tax increased by 117% to £50.3 million (2020: £23.2 million).

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

	2021 (£000s)	2020 (£000s)
Statutory profit before tax	50,341	23,150
Share-based payments and costs	4,513	2,100
Acquisition-related expenses, including amortisation of acquired intangible assets and deferred consideration	2,219	266
Adjusted profit before tax	57,073	25,516

	2021 (£000s)	2020 (£000s)
Statutory profit after tax	39,601	18,564
Share-based payments and related costs (net of associated taxes)	3,656	1,701
Acquisition-related expenses, including amortisation of acquired intangible assets and deferred consideration (net of associated taxes)	2,143	219
Adjusted profit after tax	45,400	20,484

Corporation tax charge
The effective tax rate for FY21 was 21% (2020: 20%), which is higher than the UK tax rate of 19% due to the Group's geographic mix of profits.

Financial position
The Group continues to have a strong financial position, with £80.9 million of cash and treasury deposits (2020: £40.8 million), no debt and net assets of £87.6 million (2020: £59.2 million). The combined underlying trade receivables and accrued income totalled £52.1 million (2020: £43.3 million).

Adjusted pre-tax profit 2021

£57.1m

2020

£25.5m

Cash flow and cash conversion
The Group entered the period with a cash balance of £40.8 million and paid a special dividend of £8.2 million on 4 September 2020 and an interim dividend of £7.8 million on 18 December 2020.

Cash conversion, calculated by taking cash generated by operations as a percentage of EBITDA[17], continued to be strong at 112% (2020: 97%).

Dividend
As part of the Covid-19 related cost reduction measures, the Board elected not to declare a final dividend for the year ended 31 March 2020. In light of the Group's performance, during the period, and following the repayment of the monies originally claimed under the furlough schemes, a special dividend of 6.7p per share (£8.2 million) was approved by the Board and paid on 4 September 2020 to shareholders on the register at the close of business on 7 August 2020.

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 to invest in long-term growth. Kainos has consistently been profitable and has generated a strong cash balance. The proposed final dividend, if approved by shareholders, will be 15.1p and payable on 29 October 2021 to all shareholders on the Register of Members on 1 October 2021, and with an ex-dividend date of 30 September 2021. This will make the total dividend (including the special dividend) for the year 28.2p (2020: 3.5p) which will represent a distribution of 76% of the adjusted profit after taxation for the year (2020: 21%).

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

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.

We track several 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

Bookings

2021

£258.8m

2020

£243.6m

Revenue

2021

£234.7m

2020

£178.8m

Adjusted pre-tax profit

2021

£57.1m

2020

£25.5m

Non-financial KPIs

Overall customer satisfaction rating[18]
2021
98%

2020
97%

Staff retention
2021
92%

2020
90%

Number of customers
2021
546

2020
465

Number of staff
2021
2,024

2020
1,715

18 Data collated from regular feedback surveys conducted with subset of Kainos customers over the course of the year.

There are a number of current 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 our actual results to differ materially from historical and forecast results.

During the year, management undertook a robust assessment of current and emerging risks, including those that threaten our business model, future performance and solvency or liquidity. There are no newly identified emerging risks. A key business 'Risk Register' is maintained as a living document, managed at Leader level, regularly updated to reflect emerging risks and track the status and mitigating actions in respect of existing risks. Each risk on the Risk Register has a dedicated owner who owns and manages the risk and the mitigations. The risk owner updates the risk on an ad-hoc basis (to reflect any significant changes) and also at two scheduled checkpoints during the year. The checkpoints are timetabled in advance of the Audit Committee meetings in May and November. Significant changes to the Risk Register are reported to the Board at the monthly board meeting and the Board receives an updated from the Audit Committee report after each scheduled checkpoint. The Board considers the risk assessment processes to be robust and comprehensive.

The table over the following pages identifies the known principal and emerging risks, which reflect the underlying risk register and risk management processes. 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 we do not currently consider to be serious or which we do not currently know, as well as risks that are outside our control. Where reasonably possible, we have taken steps to manage or mitigate the risks, or potential risks, but we cannot entirely safeguard against all of them. Where feasible, we have also purchased reasonable levels of insurance, including cyber liability cover, to mitigate the financial exposure arising from known or potential risks.

There has been no material change to our underlying risk profile from previous years. Our key focus this year has been the cyber threat we face, the impact of the Coronavirus pandemic and climate risk.

The Coronavirus pandemic continues to cause an unprecedented disruption across the globe. To date, this has not had an adverse impact on our business. We continue to monitor that position. Climate risk and sustainability generally have been a key focus for Kainos over the last year; as part of that we have established the Kainos Sustainability Group. This climate risk is a new addition to our principal risks this year and while we do not currently consider it to be a major risk to our business, it is risk that requires focus, monitoring and tracking against a clear framework of sustainability goals.

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Major global disruption event	Coronavirus pandemic	In addition to unprecedented 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 regulation 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 which continues as at 31 March 2021. Customers have faced the same requirements and while there continues to be difficulty in predicting sales and projects in certain areas, generally the pandemic has presented an opportunity to us as an accelerant of digital transformation trends.	Early recognition of the potential impact on our business of the Coronavirus pandemic enabled us to take early action to provide C-level leadership and invoke our Business Continuity Plan, moving to a fully remote workforce that continued to deliver for customers within seven days. Specific actions include: • Identifying the key risk areas: people, travel, customers, revenue and profit. • Initiating risk assessment and planning meetings including the CEO, COO, Divisional Heads and senior staff from key business areas including IT, Finance, People Support and risk management. • Establishing and implementing a clear three-pronged approach: 1. Ensure the safety of 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. • Initiating cost containment measures which, as the pandemic progressed, have been reconfigured or rolled back as appropriate. • Ensuring regular and transparent communications to staff from the CEO. • Establishing a Modern Workplace Programme to assess and address employee requirements in the shift to fully remote working and consider an appropriate future working model for Kainos.

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Climate risks	Sustainability	With the increasing global focus on sustainability and climate risk, Kainos is prioritising the implementation of its ESG strategy.	Given the increased international focus on sustainability and corporate responses to it, our failure to appropriately respond to climate risk and sustainability would run contrary to the Kainos values and could result in fines for non-compliance with any regulations and reputational damage. It could also deter: (i) prospective employees from joining us; (ii) customers from appointing us to projects; and (iii) investors from owning our shares.	Our ESG initiatives are set out below. For more information on this area refer to the Environmental section. • Established the Kainos Sustainability Group with executive sponsorship at Board-level and cross-business input. • Appointed the Board Chair, Tom Burnet, as the Board-level sponsor, for overseeing and informing the Group's ESG response. • Established the Kainos Sustainability Goals and published them internally. • Developed plans to map our current environmental impact and CO_2 emissions, establish SBTI emission targets and achieve carbon net zero within an annual monitoring framework. • Review supply chain management with a sustainability focus. • Engage with customers to maintain reduced carbon emissions associated with travel.
Operational risk	Cyber security risk	We rely on the confidentiality, integrity and availability of our IT systems, both internally and as part of our service offerings to customers. Cyber security events are occurring more frequently, and are more complex. The move to remote working as part of dealing with the Coronavirus pandemic has brought a fresh aspect to this risk.	A major cyber security event causing loss of customer data could limit our operations, expose us to fines (for example under GDPR) and/or contractual liability, reduce short-term profit and cash flow, cause reputational damage, and damage customer relationships and credibility in the market.	We regularly review and improve our 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 our internal controls, processes and working practices at both 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. The Chief Information 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.

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Operational risk	Compliance with information security and data privacy laws and requirements	We need to comply with legal, regulatory and contractual information security and data privacy requirements.	Non-compliance could expose us to liability and fines (for example under GDPR), reduce profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market.	We review the impact of new information security and data privacy regulations and legislation will affect us and our customers. The output of these reviews influences our internal controls and processes and the design of products, solutions and working practices. We make staff aware of the potential impact of changing regulations and provide targeted training within business divisions.
	Employee action	We may be subject to fraud, theft or other disruptive actions by employees.	Employee action could affect our operations, exposing us 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 our policies and processes. All staff are required to complete regular training programmes. We have systems and processes in place to protect against data loss. Incidents are managed in accordance with our incident management processes.
	Data loss	We need to guard against the loss of sensitive customer or employee data.	Loss of customer or our data whether through a cyber security incident, employee action or otherwise could expose us to liability and fines (for example under GDPR), and/or contractual liability, and reduce profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market.	We have systems and processes 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 could affect our customer service.	This could expose us to liability and negatively impact profit and cash flow in the short term, cause reputational damage and harm our customer relationships and credibility in the market.	We design our systems, customer solutions and infrastructure to provide both resilience and service availability. Our software development lifecycle includes following coding practices, quality assurance and testing and is audited as part of our ISO9001 accreditation. Critical incident and problem management processes are in place and are audited as part of our ISO9001 accreditation. Professional indemnity insurance is in place.

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Operational risk	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 us to liability, reduce profit and cash flow in the short term, cause reputational damage and damage customer relationships and credibility in the market.	We have a track record of delivering successful projects and we apply the staff and expertise to meet contractual requirements in a timely manner.
	Loss of key employees	There is a risk of losing key employees who carry out critical activities across the business.	Loss of key employees, along with their institutional knowledge and/or the relationships they have with customers and partners could negatively impact business efficiency and relationships. This could reduce revenue, profit and cash flow in the short-term, and damage customer relationships and credibility in the market.	Staff engagement is a key focus for us. 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	We may be unable to recruit employees with suitable qualifications at all required levels in core locations.	This could impact our ability to provide contracted solutions and services exposing us to liability, negatively impacting profit and cash flow in the short term and causing damage to our reputation, customer relationships and staff morale.	We have worked to become an employer of choice in some of our key locations, notably Belfast, Birmingham and Gdansk, and have 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	Our intellectual property (IP) is centred around the software and services we develop for customers. We have to manage the risk of infringing a third party's intellectual property rights in its development of software and services.	If we infringe a third party's intellectual property rights it could expose us to liability, negatively impact profit and cash flow in the short term and cause reputational damage. If a third party infringes our intellectual property rights, it can expose us to competitive or security risk.	We enter into non-disclosure agreements with employees, independent contractors and third parties in the ordinary course of our 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. We monitor the use of third-party software in our product offerings. The choice of third-party components is subject to technical review and assessment at design stage. Our 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	We need to maintain our partner relationships, or we risk losing access to essential intellectual property or a 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.	We have entered into contracts with our main partners including, to detail the relationship which Workday may include secure access to proprietary materials including code, know-how and branding which we need to deliver or enhance our services. Our partner managers have regular contact with key partners to maintain and build relationships. Kainos operates a Strategic Alliances Team to establish and manage relationships with all key partners.
	Investment decisions	Our 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.	We undertake regular strategic reviews using customer and market intelligence to inform and support our decision-making processes.
Macroeconomic risk	Events occurring that are outside of Kainos' control	We may be affected by: • Instability of the financial system, market disruptions or suspensions. • A material downturn in the financial markets or an economic recession. • The insolvency, closure, consolidation or rationalisation of parts of our customer base.	If these events occur, they could harm our revenue, profit, growth and cash flow over a sustained period. Result in higher costs and disruption to our business. Damage to our reputation or financial loss if customers do not renew their contracts.	Our business model includes both service and platform offerings, which lessens the immediate effect of downturns in individual end markets. Our service line structure together with our 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	We may suffer unauthorised access or misuse of our bank accounts or other resources leading to loss of funds.	Fraud or theft could harm our revenue, profit, growth and cash flow.	We have system, review and approval controls in place restricting access to accounts and these controls are regularly monitored.
	EU Exit	We may face 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 our trading activities. There is also a potential increase to overheads and an impact on staff mobility.	We continue to monitor our position in the UK public sector and the impact of EU Exit. We do not envisage substantial short-term risk to operations, given that: (i) our supply chain requirements are not impacted by EU Exit; (ii) we have not identified any significant issues with staff mobility; and (iii) we are not overly reliant on UK-EU trade, with our most significant customers being UK public sector organisations. However, given the uncertainty surrounding the impact of EU Exit in the medium to long-term, we are maintaining a watching brief to monitor changes and facilitate the early identification and implementation of any required mitigations.
	Exchange rate fluctuations	There is a risk of material detrimental movements in foreign exchange rates.	This could harm our revenue, profit, growth and cash flow over a sustained period.	We have a documented treasury policy, to mitigate currency risk, which is reviewed and approved annually.

Principal risk	Type	Description	Potential impact on Kainos	How the risk is mitigated
Legal and compliance risk	Non-compliance with laws and regulations	We have to comply with laws and regulations applicable to us and design our products and services to meet laws and regulations applicable to our customers.	Non-compliance could expose us to liability and/or fines, negatively impact profit and cash flow in the short-term and cause reputational damage.	Our finance and legal teams review 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 we deliver to customers. Kainos' internal processes and systems are monitored with a view to ensuring compliance with applicable laws and regulations. We have processes in place designed to ensure awareness of regulatory requirements and that the relevant information is appropriately disseminated. There are well established training and awareness activities. In relation to bribery and corruption, we have an established Anti-Bribery and Corruption (ABC) policy.

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:

Dr Brendan Mooney
Chief Executive Officer
21 May 2021

The Directors present their report and the audited financial statements for Kainos Group plc (company number 9579188) for the year ended 31 March 2021. These will be laid before the shareholders at the Annual General Meeting (AGM) to be held on 23 September 2021. 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 Kainos Group plc's (the Company") 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 2021, the Board considers that it has complied in full with the provisions of the Code, except for the following matters:

Code Provision 32. Remuneration Committee Composition. Tom Burnet's appointment as Company Chair on 26 September 2019 triggered a Remuneration Committee composition non-compliance, insofar as he was also, at that time, the Remuneration Committee Chair, contrary to Code Provision 32. This non-compliance was resolved when Katie Davis was appointed as Chair of the Remuneration Committee on 1 September 2020.

Code Provision 36. Share Award Vesting & Holding Periods. There is a three-year share vesting and holding period applicable to all current schemes as opposed to the recommended five-year period under Code provision 36. The three-year period was set in consideration of the long tenure of the Executive Directors and their demonstrated commitment to the organisation. The Board will review share vesting and holding periods and the policy for post-employment shareholding requirements (encompassing both unvested and vested shares) as part of the three-year Remuneration Policy Review scheduled later in the year.

Code Provision 38. Alignment of Pension Contributions. The CFO and CEO (and all new hires) pension contributions are aligned with the workforce. The Board will undertake a review of a small number of exceptions of legacy contributions as part of the three-year Remuneration Policy Review scheduled later in the year.

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, the Board has ensured genuine two-way dialogue between the Board and the workforce in the following ways:

Direct Engagement. Regular update sessions (Kainos In Brief) between the CEO and staff groups, to share Company progress against annual objectives and strategic ambitions, share Company news and to receive direct feedback and input from staff.

External "Best Companies to Work For" Annual Staff Survey. Our annual staff survey, hosted by the "Sunday Times Best Companies to Work For", in which every member of staff has an 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 & 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 quarterly 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.

In November 2020, in a Board review of Workforce Engagement arrangements, the Board elected to expand the remit of the current Culture and Development Group to act as a formal workforce advisory panel, to further enrich the engagement between staff and the Board. The first of these updates took place in January 2021 focusing on the results of the annual staff survey and the initiatives planned as a result of the feedback.

Stakeholder engagement

The Board recognises that long-term success is dependent on how it interacts with its stakeholders. Full details of our stakeholder engagement are 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 21 May 2021, the Board comprises an independent Chairman, five Independent Non-Executive Directors (NEDs) and three Executive Directors. The Board is made up of six men (75%) and two women (25%). 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 the incumbent NEDs were invited to continue to serve for an additional term. In addition, board independence is regularly considered. The Board can confirm that Andy Malpass, Chris Cowan, Katie Davis, Rosaleen Blair 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

Board appointments

On 1 January 2021, the Board welcomed a new NED, Mrs Rosaleen Blair. 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 Directors' 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 2021 Annual General Meeting.

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 is actively managing 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 2021 AGM, all current Directors will retire and stand for election/re-election with the exception of Paul Gannon, who will not be standing for re-election.

Tom Burnet
Chairman

Directors' biographies

Tom Burnet (aged 53) 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, Non-Executive Chairman of The Baillie Gifford US Growth Trust plc and Non-Executive Chairman at Aker Systems. He is also a Non-Executive Director for the BMO Private Equity Trust. 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 member of the Remuneration Committee.

Dr Brendan Mooney (aged 54) 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 56) 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 58) 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 59) 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 62) Independent Non-Executive Director
Chris holds a MA History from St Catharine's College, Cambridge. Chris runs a Board advisory business focused on business performance improvement and digital transformation. He has previously served as Managing Director of Accenture's Telco, Media and Technology business in the UK and Ireland; Accenture's Telco Industry Managing Director for EMEA; COO/CTO of Accenture New Businesses; Chairman and CEO of Digiplug (an Accenture Digital business); and Managing Director of Value Partners Strategy Consulting business in the UK. Chris acts as an Independent NED and sits on the Audit Committee, Nominations Committee and Remuneration Committee.

Katie Davis (aged 56) 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 chairs the Remuneration Committee.

Rosaleen Blair (aged 55) Independent Non-Executive Director
Rosaleen is the Founder and Chair of Alexander Mann Solutions (AMS), a pioneer in the global workforce solutions industry. She served as CEO of AMS for 23 years, leading the business from a start-up to a global business working in partnership with clients such as Deloitte, HSBC, Novo Nordisk, Rolls-Royce and Santander. AMS has 4,500 employees operating in 90 countries. A serial entrepreneur and adviser to numerous companies, Rosaleen is also the Chair of Everywoman, an organisation dedicated to the advancement of women in business. Rosaleen is involved in several not-for-profit initiatives, notably serving as Chair of the London Irish Centre and as an Enterprise Fellow of the Prince's Trust. She is chairing EY's World Entrepreneur of the Year Awards in 2021. Rosaleen is recognised as an industry leader and entrepreneur, winning numerous awards including Veuve Clicquot Businesswoman of the Year (2007) and EY London Entrepreneur of the Year (2006). She was awarded a CBE for services to business and recruitment in the New Year's Honours in 2017. Rosaleen acts as an Independent Non-Executive Director and sits on the Nominations Committee and Remuneration Committee.

Board and Committee membership

On 31 March 2021 the Board comprised a Non-Executive Chairman, three Executive Directors and five NEDs whose Board and Committee responsibilities are set out in the table below:

		Board	Audit	Remuneration	Nominations
Tom Burnet	Chair	Chair	–	–	Chair
Brendan Mooney	CEO	Member	–	–	–
Richard McCann	CFO/COO	Member	–	–	–
Paul Gannon	SVP Business Development	Member	–	–	–
Andy Malpass	Senior Independent NED	Member	Chair	–	–
Chris Cowan	Independent NED	Member	Member	Member	Member
Katie Davis	Independent NED	Member	Member	Chair	Member
Rosaleen Blair	Independent NED	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 Full Year Results Announcement, Annual Report, Half Year Results Announcement.

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	4/4
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	4/4
Katie Davis	12/12	3/3	6/6	
Rosaleen Blair	3/3	–	2/2	1/1

Rosaleen Blair was appointed to the Board on 1 January 2021 and has attended all scheduled Board and Committee meetings since her appointment.

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' 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

During the year there was a formal external evaluation of the performance of the Board which was undertaken by Lintstock Ltd (Lintstock). Lintstock has no connection with the Group or the individual Directors and is independent.

The Board evaluation process captured the views of all Board Directors and the Company Secretary, through the completion and review of an in-depth questionnaire across the following areas:

- The effectiveness of the Board's response to the pandemic.
- Board composition.
- Stakeholder oversight.
- Board dynamics.
- Board support.
- Board Committee reporting.
- Focus of meetings.
- Strategic oversight.
- Risk management and internal control.
- Succession planning and people management.
- Priorities for change.

Lintstock's scores placed the Board predominantly in the "excellent" or "good" category.

The results of the evaluation exercise were discussed at the January 2021 Nominations Committee meeting 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 positive and constructive. Priorities for the Board over the coming year were discussed and identified. Following Lintstock's detailed evaluation, the Board remains confident that it is operating effectively and is the right size, with appropriate skills represented.

The Board confirms that, as supported by the results of Lintstock's Board Evaluation exercise, 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.

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

The next formal evaluation of the Board's performance is scheduled to be conducted in 2021 and will be internally 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 2021.

G Burns

Gráinne Burns
Company Secretary
21 May 2021

Statement from the Chair of the Remuneration Committee

As the newly appointed Chair of the Remuneration Committee, I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2021. I took over the role of Chair in September 2020, succeeding Tom Burnet. I would like to thank Tom for his leadership of the Committee since the Group's admission to the Official List of the London Stock Exchange in July 2015. I am pleased to say that Tom remains a member of the Committee along with Chris Cowan who has supported Tom on the Committee since the time of Listing. I am also delighted to introduce Rosaleen Blair who was appointed to the Committee in January 2021.

Continued growth in a challenging environment

As you will have read elsewhere in this Annual Report, the Covid-19 pandemic has brought both challenge and opportunity for Kainos. The year began with a great deal of uncertainty, and the leadership team responded by taking strong action to safeguard the organisation on behalf of both shareholders and employees. Effective 1 April 2020, the Executive Directors elected to take no salary and to accrue no bonus for a period of six months. Alongside this, Non-Executive Board members reduced their fees by 20%, and Executive Managers elected to reduce their total compensation by 50%.

In the UK, 131 colleagues were placed on furlough in April 2020 as part of our overall cost containment measures. These employees worked in areas of the business most impacted by the pandemic, for example, recruitment, travel, facilities and marketing. As soon as it became obvious that the pandemic was not going to have a negative impact on financial performance for the year, all employees who had initially been placed on furlough returned to work, and the furlough payments received as part of the UK Government Job Retention Scheme were repaid in full.

In recognition of the impact that continued uncertainty would have on our employees, we communicated our intentions on reward regularly and clearly. In March 2020, we communicated to employees that pay increases would be deferred, but that this would be kept under review. We also communicated that bonuses for FY20 would be paid as usual, but that target setting for FY21 would be deferred. We carefully managed employee expectations around the level of potential bonus payments for FY21, in recognition of the potential impact of the pandemic on our financial results.

Despite the uncertainties of the early part of the financial year, I am pleased to say that we have been able to reward our employees for their efforts. In August 2020, a 'thank you' payment of £1,000 was paid to colleagues in recognition of their continued support for the business. The salary reduction which Executive Managers elected to take in the early days of the pandemic was repaid in October 2020. The Annual Salary Review was completed as soon as was practical with new salaries being paid in October 2020. Due to employees' tremendous efforts over this challenging year, we have been able to pay FY21 Executive Director, Executive Manager and employee bonuses in full, and all colleagues who were not eligible for a bonus were given a further 'thank you' payment of £1,000 in March 2021.

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 2021. Key performance indicators are strong across the Group: revenue increased from £178.8 million to £234.7 million, adjusted profit before tax increased from £25.5 million to £57.1 million, and bookings increased from £243.6 million to £258.8 million. The Group continues to attract high-quality talent and the Committee is pleased to note that the number of staff and contractors at year end was 2,024 across 12 offices in North America and Europe.

As part of our Covid-19 cost containment measures, the Board elected not to declare a final dividend for the year ended 31 March 2020. Based on our continued strong performance despite the pandemic, the Board elected to declare a special dividend of 6.7p per share which was paid in September 2020 in lieu of the final dividend.

Executive Director annual bonuses are based on revenue, adjusted pre-tax profit and bookings targets. While the Covid-19 pandemic created a great deal of uncertainty in March 2020 which made it difficult to finalise performance targets, the target figures that were discussed were:

Revenue: £200.0 million (up from £178.0 million in FY20).

Adjusted pre-tax profit: £31.0 million (up from £26.0 million in FY20).

Bookings: £215.0 million (down from £250.0 million in FY20).

Given the weightings in our scheme, our strong performance for the year translates to 167% pay-out against these targets. However, in recognition of the challenges faced by our employees, customers, suppliers and the wider community this year, the Executive Directors have elected to reduce their bonuses to reflect 120% pay-out against their on-target bonus.

In July 2020, the Group made performance share awards to the CEO, CFO and SVP Business Development at 37%, 42% and 37% of salary respectively.

In July 2017, long-term incentive awards were granted to the CEO, CFO and SVP Business Development. These awards vested during the year with the CEO receiving 21,725 share options, the CFO receiving 24,139 share options and the SVP Business Development receiving 19,346 share options.

The Committee believes that these levels of reward are appropriate in the context of the Group's outstanding performance and continued growth in such challenging circumstances. We are proud of the fact that employees and shareholders have continued to share in the success of the business.

Rewards linked to strategy

Stepping back from the successes of this year, however, the Committee recognises the importance of continuing to link rewards to our strategy. Elsewhere in this report, we have highlighted the ambitions set out in our future strategy. As our purpose states, we leverage technology to help our customers thrive and create rewarding work for our people. In doing this, we follow three key principles:

- Be a great employer;
- Delight our customers;
- Be a growing, profitable and responsible company.

Our main asset is our people. Without them, we cannot develop the innovative digital solutions which delight our customers and help them, in turn, to delight their customers. On behalf of the Committee, I would like to extend my thanks to all Kainos colleagues for their contribution throughout the pandemic. It has been a priority for us to continue to create a positive work environment for them, with continued opportunities for skills development and career advancement. Our ability to deliver the ambitious goals set out in our future strategy is dependent upon attracting, retaining and incentivising talent through a simple, clear and compelling reward structure.

Executive Director packages are set at attractive levels to retain and motivate leaders 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 based on revenue, adjusted pre-tax profit and bookings 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.

Attracting, retaining and motivating future senior leaders is critical to the ongoing delivery of our strategy. With this in mind, senior manager salaries are set at median levels compared to peer companies. Short-term performance is incentivised through an annual bonus which is paid in cash and varies by role. The bonus recognises an individual's contribution to Company-wide performance and/or individual and team contribution. As with Executive Directors, long-term performance is incentivised through a performance share plan through which shares are awarded subject to achieving stretch targets over a three-year period. To further incentivise senior managers below the Executive Director level, UK senior manager employees may receive tax advantaged awards under the Company Share Option Plan (CSOP) sub-plan which awards options with a market value exercise price and a normal vesting period of three years.

The Board applies a policy of using share incentives extensively across the Group. The Board regards this as an important principle which aligns all employees with shareholders and allows employees the potential to benefit from the Group's success. All employees within the Group benefit from the Save as You Earn (SAYE) and Share Incentive Plan (SIP), including Executives. In global locations outside of the UK where these share schemes are not available, alternative employee incentive arrangements have been put in place to allow these employees to share in the Group's success.

The challenges of this year have highlighted the importance of engagement with the workforce on reward. As we have developed the People Approach within our future strategy, we have made it a priority to engage with our employees to help them to understand and provide input to our future reward strategy which sets out the approach to reward for Executive Directors, Executive Managers and other employees.

"I was delighted to be consulted early on in the development of our future strategy and the People approach that supports it. As Product Capability Lead, with responsibility for the growth, development and engagement of people across the capability, it is important that colleagues' opinions are listened to and reflected in our overall approach. This is particularly relevant for reward initiatives to ensure they continue to be aligned to what employees value, are fair and transparent and drive overall engagement". (Charlene McDonald, Product Capability Lead).

Looking forward

Listening to our workforce has always been a priority for Kainos, and our strong position in the Top 100 Best Companies survey is a testament to this. Over the course of this year, we have refreshed our People Approach to focus on what we need to do to attract, develop and retain the best talent to support delivery of our future strategy. Our People Approach has two key themes: Open and Inclusive Culture and Diverse and High Performing Workforce. The activities planned under each theme will take time, commitment and leadership at every level of the organisation, but we know we are starting from a great place.

Key priorities for the Remuneration Committee over the next year are:

- Reviewing and refreshing our Remuneration Policy. We strongly believe that our current Remuneration Policy continues to drive growth and manage risk through appropriate incentives which are aligned to the shareholder and employee experience. We want to ensure that our policies remain simple and clear and continue to help us to attract, retain and incentivise Executives as we grow and expand into new geographies.
- Building on the engagement we have had with our workforce in developing our People Approach and the Reward Strategy within that. As with broader engagement on our future strategy, we will work closely with the Kainos Culture and Development Group to ensure that our remuneration policy for Executive Directors and Executive Managers is aligned with the employee experience.
- Continuing to take steps to ensure pay is fair across our organisation. The Committee is absolutely committed to ensuring that we attract and retain a diverse talent pool as we know that diversity in every regard will help us to innovate and deliver the results which delight our customers.

While the world around us continues to feel uncertain, and financial success for any organisation is not guaranteed, the Committee strongly believes that we are in a fantastic position to continue to deliver successful outcomes for our shareholders and our employees.

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 2021 Annual General Meeting scheduled for 23 September 2021.

The Remuneration Committee considered the application of the policy during the year and concluded that it remains appropriate and has operated as intended in terms of company performance and quantum during the year. However, the Remuneration Committee feels that it is no longer appropriate for car allowances to be provided as a benefit in UK & Ireland, so this benefit has been removed effective 1 June 2021.

Directors' remuneration policy

The policy set out over the following pages 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. In setting this policy, the Remuneration Committee has taken into account the need for Executive Director remuneration arrangements to reflect the six factors set out in code provision 40, namely clarity, simplicity, risk, predictability, proportionality and alignment to culture as demonstrated within this report.

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 bookings in the year, the long-term share-based incentives are primarily focused on earnings per share, share price performance measured over multiple years and employee engagement which is driven from our Best Companies Top 100 score. 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 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.
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.	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
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. 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 Chairs 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 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 Chair 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, 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.

The Remuneration Committee takes into consideration the pay and benefits of employees when reviewing the remuneration of the Executive Directors and senior management. In addition, the Remuneration Committee consults with employees through the Kainos Culture and Development Group to ensure that remuneration policy is aligned with the Kainos culture and employee experience.

Shareholders and statement of voting at AGM

At the 2020 AGM the Annual Report on Remuneration for the year ended 31 March 2020 was approved as follows:

Approval of the Remuneration Report for the year ended 31 March 2020:

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
98,184,464	98.6%	1,355,685	1.4%	99,540,149	13,416

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 Chair 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 table, the Remuneration Committee retains flexibility to determine the objectives, weightings and target levels of performance under its annual bonus at the start of each year. The Remuneration Committee may also alter the performance criteria during the year, reflecting the overall circumstances and the Group's performance to ensure targets remain both challenging and appropriate.

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

No such discretion was applied during the year ended 31 March 2021 although it should be noted that the Executive Directors elected to reduce their bonuses to reflect 120% pay-out against their on-target bonus as opposed to full entitlement.

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.

Membership, meetings and evaluation

The members of the Remuneration Committee are Katie Davis (Chair), Tom Burnet, Chris Cowan and (following her appointment in January 2021) Rosaleen Blair. 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.

Board evaluation

The performance of the Remuneration Committee this year was externally evaluated by Lintstock Ltd (Lintstock). Lintstock has no connection with the Group or the individual Directors and is independent. The 2020 Board evaluation process sought views from all Board Directors and the Company Secretary, through the completion and review of a comprehensive evaluation questionnaire across a wide range of areas to include:

- Composition and management of meetings.
- Committee support.
- The Work of the Remuneration Committee.
- Priorities for change.

Lintstock's conclusion was that the Remuneration Committee was rated highly overall and the Remuneration Committee looked forward to the engagement and leadership of the new Committee Chair.

Work of the Committee

The Remuneration Committee met three times during FY21. Due to Covid-19 restrictions, the majority of these meetings took place virtually via Microsoft Teams. During the course of the year, the Committee discussed a range of important strategic and operational issues. For example:

- The Committee reviewed the existing Remuneration Policy and concluded that current arrangements continue to drive appropriate behaviours and outcomes and are well aligned with the shareholder and employee experience.
- The Committee looked forward to the next three-year Remuneration Policy review and identified key areas for focus as part of that review. For example, the Committee concluded that Executive Director and senior manager pension arrangements should be reviewed with a view to ensuring continued alignment with employee pensions.
- The Committee approved Executive Director and senior manager salary, bonus and long-term incentive awards and targets.
- The Committee considered the current situation as regards to gender pay gaps and the wider issue of fair pay and identified key next steps.

Remuneration consultants

During the year, the Remuneration Committee did not take any independent advice from remuneration consultants.

Remuneration details

In accordance with the Regulations, the tables below set out the remuneration for each Director for the years ended 31 March 2021 and 31 March 2020.

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)	Total fixed (£000s)	Total variable (£000s)
Executive Directors										
Brendan Mooney	2021	128	5	216	11	4	227	591	144	447
	2020	220	7	169	19	2	266	683	246	437
Richard McCann	2021	139	7	216	12	4	252	630	158	472
	2020	210	7	169	11	2	294	693	228	465
Paul Gannon	2021	€134	€22	€180	€20	€4	€199	€559	€176	€383
	2020	€230	€22	€141	€35	€3	€266	€697	€287	€410

Name	Year	Salary/fees (£000s)	Total fixed (£000s)	Total variable (£000s)
Non-Executive Directors				
John Lillywhite	2021	N/A	N/A	N/A
	2020	40	40	N/A
Andy Malpass	2021	62	62	N/A
	2020	62	62	N/A
Chris Cowan	2021	46	46	N/A
	2020	45	45	N/A
Tom Burnet	2021	99	99	N/A
	2020	76	76	N/A
Katie Davis	2021	46	46	N/A
	2020	17	17	N/A
Rosaleen Blair	2021	13	13	N/A
	2020	N/A	N/A	N/A

1 Benefits are the taxable value of benefits received by Directors in the year including travel 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 payments are generally based on revenue, adjusted pre-tax profit and bookings targets. As mentioned earlier in this report, FY21 bonus targets were discussed but not formally approved due to uncertainty in the early days of the Covid-19 pandemic. The table below details the eligible bonus pay-out with respect to the targets discussed.

Objective	Weighting	Target performance (£million)	Threshold performance (£million)	Outcome (£million)	Eligible Bonus pay-out (£000s)	(£000s)	(£000s)
					Brendan Mooney	Richard McCann	Paul Gannon
Revenue	30%	200	170	235	73	73	52
Adjusted pre-tax profit	40%	31	25	57	163	163	116
Bookings	30%	215	183	259	65	65	4
Totals					**301**	**301**	**214**

In recognition of the challenges faced by our employees, customers, suppliers and the wider community this year, the Executive Directors have elected to reduce their bonuses to reflect 120% pay-out against their on-target bonuses as summarised below:

Actual bonus pay-out

	(£000s)	(£000s)	(£000s)
	Brendan Mooney	Richard McCann	Paul Gannon
Bonus	216	216	155

The bonuses payable to Brendan Mooney, Richard McCann and Paul Gannon are 98%, 90% and 78% 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 June 2020 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	Face value[1]	Exercise price per ordinary share	First exercise date	Lapsing date
Brendan Mooney	June 2020	10,969	£80,622	Nominal	June 2023	June 2030
Richard McCann	June 2020	12,171	£89,457	Nominal	June 2023	June 2030
Paul Gannon	June 2020	9,767	£71,787	Nominal	June 2023	June 2030

1. Face value is calculated using the average middle market closing price for the five days prior to grant date.

The 2020 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[19]	20%	100% vesting if BCI score at end of three-year measurement period is at least equal to this score at start of period[19]	N/A	N/A

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	2020 SIP shares	Face value[1]	Vesting period
Brendan Mooney	298	£3,600	3 years from the date of grant
Richard McCann	298	£3,600	3 years from the date of grant
Paul Gannon[20]	298	£3,600	5 years, 1 week from the date of grant

1. Face value is calculated using the average middle market closing price for the five days prior to grant date.

The SAYE options granted during the year are shown below:

Name	Date. of grant	Number of ordinary shares under option	Face value[1]	Exercise price per ordinary share	First exercise date	Lapsing date
Brendan Mooney	July 2020	580	£4,497	£6.20	July 2023	Feb 2024
Richard McCann	July 2020	580	£4,497	£6.20	July 2023	Feb 2024
Paul Gannon	July 2020	580	£4,497	£6.20	July 2023	Feb 2024

1. Face value is calculated using the average closing price between 08 -10 June 2020.

19 Based on the Best Companies Index (BCI) score in the survey undertaken by Best Companies.
20 Paul Gannon awarded 298 shares under the Republic of Ireland Restricted Share Scheme which have a vesting period of 5 years and 1 week.

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 ended on 10 July 2020 with the following outcome:

Award	Measure	Weighting	Vesting scale	Performance achieved	% of award vesting
2017	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.	48%	100%

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	10,863	100%	10,863	–	£7.64	£82,993
Richard McCann	12,070	100%	12,070	–	£7.64	£92,215
Paul Gannon	9,673	100%	9,673	–	£7.64	£73,902

2018 PSP

On 4 July 2018, awards were granted under the Kainos PSP to Brendan Mooney, Richard McCann and Paul Gannon. The TSR performance measurement period does not end until 3 July 2021. However, the performance measurement period for the EPS performance condition ended on 31 March 2021, with the following outcome:

Award	Measure	Weighting	Vesting scale	Performance achieved	% of award vesting
2018	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.	51.5%	100%

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	8,811	100%	8,811	–	£14.70	£129,522
Richard McCann	9,776	100%	9,776	–	£14.70	£143,707
Paul Gannon	7,845	100%	7,845	–	£14.70	£115,322

Directors' shareholdings

The interests of the Directors and their connected persons in Kainos ordinary shares at 31 March 2021 was:

Name	Current shareholding	SIP shares (available to withdraw)	SIP shares (not available to withdraw)	Vested but unexercised options	Unvested performance options
Brendan Mooney	14,205,941	3,681	1,098	73,535	41,730
Richard McCann	4,711,582	2,530	1,098	81,542	46,303
Paul Gannon	7,329,008	3,221	1,588	19,346	37,157
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
Rosaleen Blair	N/A	N/A	N/A	N/A	N/A
Katie Davis	N/A	N/A	N/A	N/A	N/A

No changes took place in the interests of the Directors between 31 March 2021 and 30 April 2021.

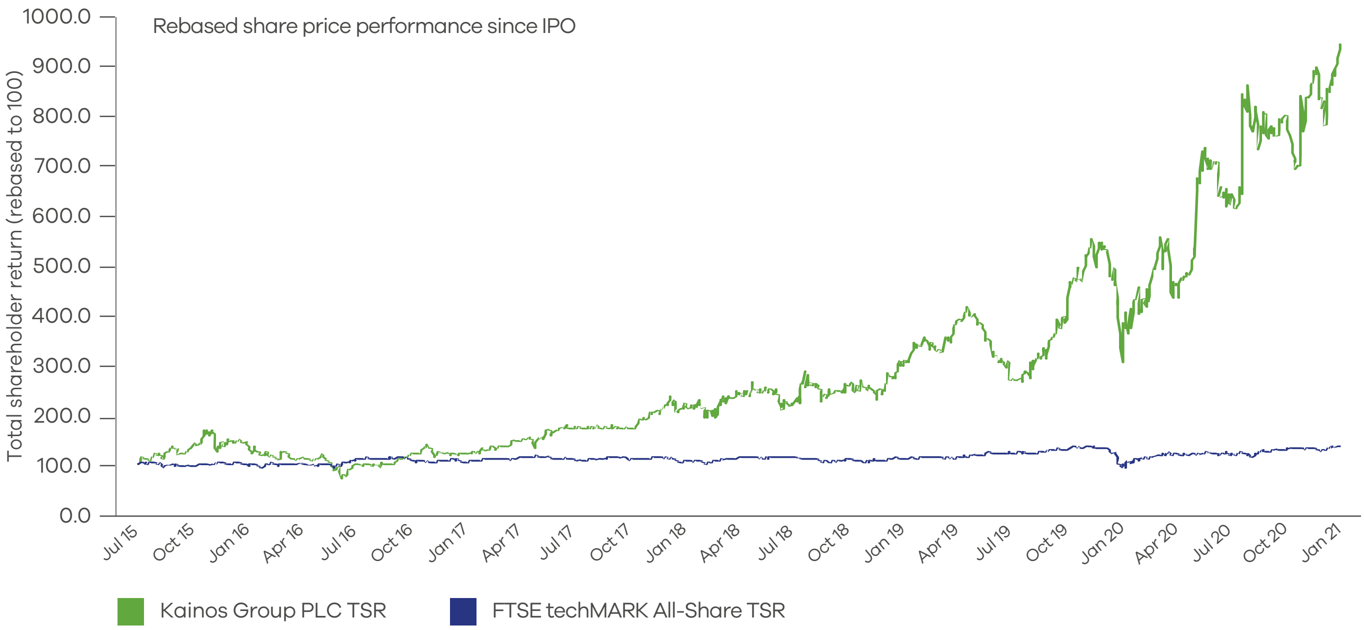
Share ownership guideline

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 and 2020 PSPs. 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 2021 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 six 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 six most recent financial years.

	CEO single figure of total remuneration (£000s)	Bonus as percentage of maximum (%)	Vesting of long-term incentives as percentage of maximum (%)
2021	591	65	100
2020	683	51	100
2019	1,036	65	96
2018	423	53	n/a
2017	399	46	n/a
2016	428	57	100

Percentage change in remuneration

The tables below shows the percentage change in remuneration for each Director 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.

Executive Directors

	Percentage increase in remuneration in 2021 compared with remuneration in 2020			
2021	Brendan Mooney	Richard McCann	Paul Gannon	Employees
Salary and fees[1]	(41.8%)	(33.8%)	(41.7%)	5%
All taxable benefits[2]	(28.6%)	0%	0%	0%
Annual bonuses	27.8%	27.8%	27.7%	95.1%
Total	(13.5%)	(9.1%)	(19.8%)	27.9%

1. Executive Directors elected to take no salary between April and August 2020.
2. Brendan Mooney did not receive travel allowance between April and August 2020.

Non-Executive Directors

	Percentage increase in remuneration in 2021 compared with remuneration in 2020					
2021	Andy Malpass	Chris Cowan	Tom Burnet[1]	Katie Davis[2]	Rosaleen Blair	Employees
Salary and fees	%	2.2%	30.3%	170.6%	–	5%
All taxable benefits	–	–	–	–	–	0%
Annual bonuses	–	–	–	–	–	95.1%
Total	0%	2.2%	30.3%	170.6%	–	27.9%

1. Tom Burnet replaced John Lillywhite as Independent Non-Executive Chairman.
2. Katie Davis joined the Board on 28 November 2019.

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
2021	A	18:1	12:1	8:1
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 2021. 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	33,550	50,200	73,850

The pay ratio has reduced for the year ended 31 March 2021 which can be attributed to the CEO electing to take no salary between April and August 2020.

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.

	2021 (£000s)	2020 (£000s)	Change (£000s)	Change (%)
Staff remuneration	125,962	94,456	31,506	33%
Profit before tax	50,341	23,150	27,191	117%
Corporation tax	(10,740)	(4,586)	(6,154)	134%
Effective tax rate	21%	20%	–	1%
Dividends	(16,026)	(12,147)	(3,879)	32%

Employee engagement
As we have developed the People Approach within our future strategy, we have made it a priority to engage with our employees to help them to understand our current reward strategy for Executive Directors, Executive Managers and other employees and to provide input to our future reward strategy.

It is a priority for the Remuneration Committee to ensure that our remuneration policy for Executive Directors and Executive Managers is aligned with the employee experience. As with the main Kainos Board, the Remuneration Committee will continue to engage with the wider workforce through the Kainos Culture and Development Group.

AGM
The 2021 AGM will be the Group's sixth 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 2021

Salary	The Committee will continue to monitor the remuneration of Executive Directors of other companies in the IT sector and other listed companies with similar market capitalisation to ensure that the Executive Directors remain sufficiently rewarded to promote long-term success. The Committee will also take into account the salary increases across the wider workforce.
Benefits	There will be a change to the car allowance currently paid to Executive Directors. This will be removed as a separate benefit and rolled into base salary effective 1 June 2021. This is a legacy benefit and the same approach is being applied to all UK and Ireland employees who currently have this benefit. There are no other changes to the benefits for the Executive Directors in the year commencing 1 April 2021.
Pension	There will be no change to the pension arrangements of the Executive Directors in the year commencing 1 April 2021. We will review our approach to executive pensions during FY22 as part of our overall review of Remuneration Policy.
Annual bonus	Annual bonus for the year commencing 1 April 2021 will be operated within the policy disclosed in this report. The targets for the annual bonus for 2021/22 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 2022 Annual Report.
Long-term incentives	The Committee intends to make further performance share awards in mid-2021. 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 2022 Annual Report.
NED remuneration	For the year commencing 1 April 2021 it is proposed NEDs fees remain in line with the structures in effect from 1 October 2019.

On behalf of the Board

Katie Davis
Chairman of the Remuneration Committee
21 May 2021

As Chairman of the Audit Committee, I am pleased to introduce the Audit Committee Report for the year ended 31 March 2021. The Audit Committee has met three times during the year: May 2020, November 2020, and February 2021. The Audit Committee fulfils a vital role in the Group's governance framework, providing valuable independent challenge and oversight of the accounting, financial reporting and internal control processes, risk management, and the relationship with the external auditor. 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 Audit 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 comprises three Non-Executive Directors all of whom are considered independent. The membership of the Audit Committee has been selected with the aim of providing the range of financial and commercial expertise necessary to meet its responsibilities and the membership meets the requirements of the UK Corporate Governance Code 2018. The Audit Committee is chaired by Andy Malpass. Mr Malpass 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. The Board considers that he has the recent and relevant financial experience required to act as Chair of the Audit Committee. In addition to Andy Malpass, the Committee comprises, Chris Cowan, who has considerable experience in the technology sector and Katie Davis who is experienced in the delivery of large-scale IT-enabled business change, in both the public and private sector. Accordingly, the Audit 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 Audit Committee along with details of attendance at Audit Committee meetings are included in the Directors' Report.

The Company Secretary is secretary to the Audit Committee.

The performance of the Audit Committee this year was externally evaluated by Lintstock Ltd (Lintstock). Lintstock has no connection with the Group or the individual Directors and is independent. The 2020 Board evaluation process sought views from all Board Directors and the Company Secretary, through the completion and review of a comprehensive evaluation questionnaire across a wide range of areas to include:

- The Audit Committee's composition and management;
- The quality of the information that the Audit Committee receives;
- Areas where additional support, training or induction were required;
- The Audit Committee's monitoring of the integrity of the Group's financial reporting;
- The effectiveness of the Audit Committee's review of the Group's internal controls and risk management systems; and
- The Audit Committee's performance and potential areas of improvement.

Lintstock's conclusion was that the Audit Committee was rated highly overall.

Only the members of the Audit Committee have the right to attend Audit Committee meetings; however, the Executive Directors, relevant members of the Finance team and senior representatives of the external auditor, Deloitte (NI) Limited ("Deloitte") and other senior management attend meetings by invitation of the Audit Committee. If the presence of any attendee is inappropriate or might compromise discussion, then the Audit Committee would either not invite the attendee concerned or request that they recuse themselves from that part of the meeting.

Responsibilities

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

- Monitoring the integrity of the financial statements, including the Group's annual and interim reports, announcements of full year 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;
- Challenging 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.

Audit Committee meetings and key activities during 2020/21

The Audit Committee has a broad agenda of business which focuses on the Group's assurance, risk, and audit processes. The following principal activities have been carried out by the Audit Committee during the financial year:

May 2020

- Review of the Auditor's Report to the Audit Committee for the year ended 31 March 2020.
- Review of significant judgements and issues in relation to the financial statements.
- Review of going concern and viability statements.
- Review and recommendation to the Board to approve the Preliminary Announcement and the 2020 Annual Report, concluding it was fair, balanced, and understandable.
- Review of the effectiveness of external auditors.
- Information security update – cyber and information security risk management.
- Group Risk Register update.

November 2020

- Review of the Interim Report, including the going concern statement and key disclosures, and recommendation of its approval to the Board.
- Review of Deloitte Audit Planning Report for FY21 and approval of audit fees.
- Review of Digital Services risk assurance processes.
- Group Risk Register update.
- Serious incident management review.

February 2021

- Internal control review including Deloitte's interim control review.
- Review of internal audit function and requirements.
- Review of Workday Practice risk assurance processes.
- Update on audit tender process.
- Update relating to the Financial Reporting Council (FRC) review.

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 UK legislation, all public interest entities must tender their audit every 10 years. The Group has therefore commenced a competitive tender process for audit services for the year ended 31 March 2022. The tender process is being led by the Audit Committee with the support of the Group Head of Finance. The preferred auditor is expected to be selected before 31 July 2021.

The Group confirms that it was compliant 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 2021.

The Audit Committee considered the approach, scope and risk assessments of external audit as well as the effectiveness and independence of the external auditor, Deloitte. The Audit Committee met with Deloitte in May 2020 to discuss the FY20 external auditor's report to the Committee and the letter of representation. The Audit Committee met with Deloitte in November 2020 and February 2021 to discuss and consider the FY21 external audit plan, which was set taking into consideration the nature of risks to, and the strategy of, the Group.

Appointment, independence and objectivity

The external auditor provided no non-audit services during the year ended 31 March 2021. 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 Audit Committee received 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 the external audit

The Audit Committee assessed the effectiveness of the external audit process at its meeting in May 2020. 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 Audit Committee confidence as to the overall quality of the audit. The Audit 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.

The Audit Committee will make a recommendation to the Board before 31July 2021 regarding the preferred external auditor for 2022 and a resolution for their appointment will be submitted to the AGM.

Significant issues related to the financial statements

During the year ended 31 March 2021 the Audit Committee reviewed the results of the external audit for the previous financial year including reviewing the 2020 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 2021. In May 2021, the Audit Committee received the 2021 Annual Report including the financial statements contained within it, the Full Year Results Announcement for the year ended 31 March 2021 and reports from the external auditor on their audit of the financial statements and Annual Report.

The Audit Committee's prime areas of focus were:

- The integrity, completeness and consistency of financial reporting, including the adequacy, clarity and appropriateness of disclosures and compliance with financial reporting requirements;
- Assisting the Board in an assessment of whether 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;
- The material areas in which significant judgements and key sources of estimation uncertainty are included in the financial statements;
- Correspondence with the Financial Reporting Council in relation to financial reporting;
- 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. The impact of Covid-19 was considered and the Audit Committee is satisfied that the impact has not resulted in a heightened going concern risk for the Group;
- 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 Audit 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 Audit Committee has also obtained comfort over the completeness and valuation of any contract or fixed price provisions. The Audit 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 Audit Committee is satisfied that the internal processes and controls are appropriate;
- Development costs and the approach to their capitalisation. The Audit Committee received updates from management and was satisfied that the methodology and process were appropriate. The Audit Committee concurred with management that currently none of the development costs should be capitalised; and
- The tax complexity and risk related to the multinational operations of the Group and the areas of uncertainty that arise. The Audit 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.

There were no material changes to significant accounting policies during the year ended 31 March 2021.

Financial Reporting Council (FRC) Review
In January 2021, the Conduct Committee of the Financial Reporting Council notified the Audit Committee of its review of the Group's Annual Report and Accounts to 31 March 2020.

The Group responded with the additional clarification and information requested with regards to presentation and disclosure and the review was satisfactorily closed in March 2021. The scope of this FRC review was limited to consider compliance with reporting requirements only and not to verify the information contained in the Annual Report.

Risk management and internal control
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 and emerging 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 and emerging risks faced by Kainos and that they have been in place for the period under review and up to the date of approval of the Annual Report. The effectiveness of those systems, procedures and controls are regularly reviewed by the Board.

As required by the Code, the Audit 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 Audit 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 Group Risk Register to identify the risks facing the business. The key risks are summarised for review by the Audit Committee and are operationally owned and managed by the Group;
- 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.

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 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.

Ownership of Internal Audit lies with the Executive Team, with execution at a business unit level and with oversight by the Audit Committee and the Board – this is working effectively.

Collectively the operating divisions of Digital Services and the Workday Practice alongside Central Services discharge the duties that an internal audit function would typically own. The principles of operation and the systems of internal controls in place to identify and mitigate risks and issues impacting the business and specified owners, is documented and reviewed annually for effectiveness by the Audit Committee.

The Audit Committee completed a full review of the internal control framework and procedures at the February 2021 meeting. At this meeting, the Audit Committee discussed the merits of establishing a separate internal audit function.

The collective view of the Audit Committee was whilst there was an obvious 'independence' benefit from having a separate audit function, this was not currently required given the Audit Committee's confidence that the internal controls were being well managed and the overlap inefficiencies that a separate audit function would introduce to a Company of Kainos' size. The requirement for a separate internal audit function will be kept under review by the Audit Committee.

The key elements of the Group's internal control framework and procedures are noted below, 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 also considers that the absence of an internal audit function does not directly affect the work of the external auditors. Preparation for the February 2021 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 is to assist the Board and senior management in protecting the assets, reputation and sustainability of Kainos. The key aims are to:

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

Internal audit functions and activities are owned and discharged by the operating divisions and Central Services team's subject matter experts for the collective benefit of Kainos.

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

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

The key focus areas for internal audit activities are:

- Information security.
- Corporate governance and legal compliance.
- Financial compliance.
- Commercial review.
- Project delivery assurance.
- 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.

Membership, meetings, and evaluation

The Nominations Committee, which is chaired by Tom Burnet, comprises Tom Burnet, Chris Cowan, Katie Davies and Rosaleen Blair and is therefore compliant with the requirements of the Code.

The performance of the Nominations Committee was this year externally evaluated by Lintstock Ltd (Lintstock).

Lintstock has no connection with the Group or the individual Directors and is independent.

Lintstock's external evaluation process captured the views of all Board Directors and the Company Secretary, through the completion and review of an in-depth questionnaire across the following areas:

- The effectiveness of the Board's response to the pandemic.
- Board composition.
- Stakeholder oversight.
- Board dynamics.
- Board support.
- Board Committee reporting.
- Focus of meetings.
- Strategic oversight.
- Risk management and internal control.
- Succession planning and people management.
- Priorities for change.

Lintstock's scores placed the Board predominantly in the "excellent" or "good" category.

Lintstock's conclusion was that the Nominations Committee was rated highly overall, receiving 'excellent' or 'good' scores in all areas surveyed.

The results of the evaluation exercise were discussed at the January 2021 Nominations Committee meeting 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 positive and constructive.

Priorities for the Board over the coming year were discussed and identified. Following Lintstock's detailed evaluation, the Board remains confident that it is operating effectively and is the right size, with appropriate skills represented.

Responsibilities

The Nominations 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 Nominations 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 2021, the Committee:

- Considered and reviewed the Board's composition;
- Facilitated the 2020/21 external Board evaluation exercise;
- Led succession planning activities at Board and Executive level and across the Group, with a focus on diversity and good practice, talent retention, training, and development; and
- Led the appointment of a new NED.

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 Rosaleen Blair as a new NED. Rosaleen brings an impressive history of business success and an established track record in fostering a more diverse and inclusive business culture.

For all future Board appointments (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

Through the Diversity and Inclusion Strategy the Board seeks to support the growth strategy of the Company by adding to the existing talented workforce by recruiting high calibre people who will reflect the diversity found within the customer base and the local communities in which Kainos operates. 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 established a three-year D&I strategy. In FY21 the Group appointed a dedicated D&I Manager to lead the delivery of and report quarterly on the D&I Strategy progress. The strategy is 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 – 20% of Executive Team positions (first layer below Board) are filled by females with 22% in Leader level roles (layer below Executive Team) and 21% of females in management 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 ethnic 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 act on behalf of the Group, with the Chief People Officer as 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.

More information on our Diversity & Inclusion strategy progress can be found within the Strategic Report.

Other statutory disclosures

In accordance with Section 414C (11) of the Companies Act 2006, to the extent they are not addressed in the Directors' 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 Operational and 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 2021.

There are no off-balance sheet arrangements. Details of the trusts relating to Kainos' share incentive plans are set out in note 25 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 12,231,995 of ordinary shares in the market. This represented approximately 10% of Kainos' issued share capital as at 19 August 2020, as voted on and approved by shareholders at the 2020 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 the Directors' 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 3% or more of the issued ordinary share capital. At 30 April 2021, the last holding notified to the Company is shown below.

Investor	Ordinary 0.5p shares	% of issued share capital
Brendan Mooney	14,205,941	11.6%
Standard Life Aberdeen plc	12,712,942	10.4%
QUBIS Ltd	12,561,217	10.2%
Liontrust Asset Management PLC	9,212,013	7.5%
Paul Gannon	7,329,008	6.0%
Richard McCann	4,711,582	3.8%
Brian Gannon	4,339,425	3.5%

Going concern and long-term viability

Kainos' business activities and position in its market are described in the Operational Review, Our Markets and Risk 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 2024. 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 Practice business areas. The Board believes that the global structure of Kainos 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 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 and emerging risks facing the business in severe but reasonable scenarios. Based on the results of this assessment, the Directors have a reasonable expectation that should these risks, either all or in part manifest themselves, the resulting adverse outcomes can be managed and mitigated such that, the Group 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 the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS Standards) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Directors have 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.

Each of the Directors, whose names and functions are listed in the Directors' Report and the Corporate Governance Statement Report, 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.

This responsibility statement was approved by the Board of Directors on 21 May 2021 and is signed on its behalf by:

Tom Burnet
Chairman
21 May 2021

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 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006 and 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.

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 Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related Consolidated notes 1 to 29.

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 Companies Act 2006 and International Financial Reporting Standards (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 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

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

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 Income; and • Recognition of Research and Development Credits (RDEC).
Materiality	The materiality that we used for the Group financial statements was £2,500,000, which was determined based on approximately 5% of profit before tax. The materiality that we used for the Company financial statements was £960,000, 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	The key audit matter from prior year in relation to the valuation and completeness of goodwill and other intangible assets recognised on acquisition has been removed as no acquisitions have occurred in the current financial year. The key audit matter presented in the prior year in relation to revenue recognition included deferred revenue, however in the current year, we have further pinpointed this risk to possible misstatement in the recognition of accrued income. Following a review of deferred revenue in the current year, we noted the systematic nature of the underlying revenue would involve minimal management judgement in the recognition of revenue while we have assessed the key judgements around revenue recognition to arise in the recognition of accrued income.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained an understanding of the Group's and Company's business model, objectives, strategies and related business risks, how the Group and Company is structured and financed and the measurement and review of the Group's and Company's financial performance, including the FY22 budget, future cash flows and management's budgeting processes;
- We challenged and assessed the forecasts prepared by management including an assessment of the assumptions used in the forecast, including assumptions around profitability levels, and a challenge to the assumptions based on a review of the historical accuracy of forecasts prepared by management and amount of headroom in the forecasts;
- We evaluated the relevance and reliability of the underlying data management used to make the assessment; and
- We have assessed the adequacy of the going concern disclosure and whether it reflects a true and fair assessment of the work performed by the Group and Company.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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 valuation and completeness of goodwill and other intangible assets recognised on acquisition was a key audit matter. However, this has been removed as no acquisitions have occurred in the current financial year.

The key audit matter presented in the prior year in relation to revenue recognition included deferred revenue, however in the current year, we have further pinpointed this risk to possible misstatement in the recognition of accrued income. Following a review of deferred revenue in the current year, we noted the systematic nature of the underlying revenue would involve minimal management judgement in the recognition of revenue while we have assessed the key judgements around revenue recognition to arise in the recognition of accrued income.

5.1. Revenue Recognition relating to misstatement of Accrued Income (Similar level of risk)	
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 income 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 and the accrued income balances recorded at year-end may not therefore reflect the appropriate level of revenue to be recognised at the statement of financial position date. Revenue recognition has been identified in the Audit Committee Report as a significant financial reporting item. The accounting policies adopted by the Directors 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	To address this 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 and operating effectiveness of the relevant controls relating to accrued income; • 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 substantively to assess the appropriateness of Accrued Income as at the statement of financial position date. For the sample selected we assessed any accounting estimates made by management for any indication of fraud or accounting bias.
Key observations	Based on the evidence obtained, we have no observations in relation to the recognition of Accrued Income at year-end that impact upon our audit.

5.2. Recognition of Research and Development Credits (RDEC) (Similar level of risk)	
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 £3.6 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. The accounting policies adopted by the Directors 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, the procedures we performed included: • 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 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 Group'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.
Key observations	We have no observations that impact on our audit in respect of the recognition of RDECs.

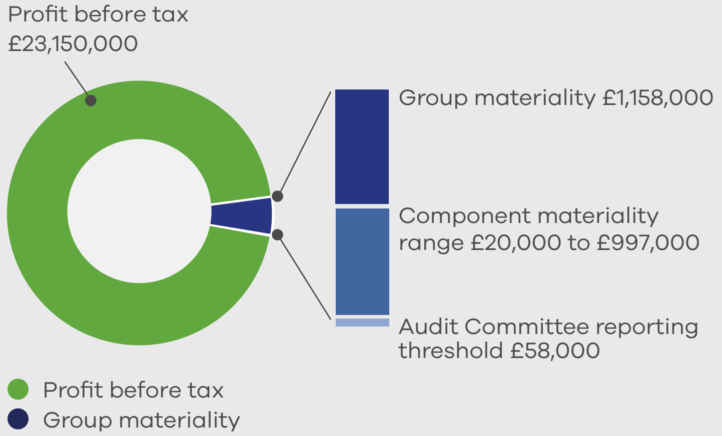
6. Our application of materiality

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	£2,500,000 (PY: £1,158,400)	£960,000 (PY: £600,000)
Basis for determining materiality	Approximately 5% (PY: 5%) of profit before tax	Approximately 1.5% (PY: 1.5%) 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. Profit before tax is a benchmark of importance to users of the financial statements as it is utilised to predict future dividends and assess the valuation of the Group.	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. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% of Group materiality	90% of Company materiality
Basis and rationale for determining performance materiality	We deemed the performance materiality level to be appropriate based on: • Our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls over a number of business processes; • our understanding of the entity and its environment, and the nature of the entity being listed; and • the level of uncorrected misstatements recorded in the prior year audit.	We deemed the performance materiality level to be appropriate based on: • Our risk assessment, including our assessment of the Company's overall control environment; • our understanding of the entity and its environment; and • the level of uncorrected misstatements recorded in the prior year audit.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £125,000 (PY: £57,900) for the Group and £48,000 (PY: £30,000) 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 from Kainos Group plc's Belfast office by one central audit team.

All of the Group entities were subject to full audit scope and specified audit procedures, covering 100% of the Group's revenue and profit for the year (2020: 100%) and 98% of its assets and liabilities (2020: 100%) 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 £70,000 to £1,916,750.

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. The Directors are responsible for the other information contained within the Annual Report. 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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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 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, Listing Rules, and the 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 include the General Data Protection Regulation (GDPR) and possible inadvertent software patent infringements under governing laws including the UK Patent Act 1977 and the European Patent Convention.

11.2. Audit response to risks identified

As a result of performing the above, we identified Revenue Recognition relating to Misstatement of Accrued Income as a key audit matter related to the 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
- 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. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out in the Directors and Corporate Governance Report (Going concern and long-term viability statement);
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out in the Directors and Corporate Governance Report (Going concern and long-term viability statement);
- the Directors' statement on fair, balanced and understandable set out in the Directors and Corporate Governance Report (Audit Committee Report);
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks [set out in the Strategic Report (Risk factors and uncertainties);
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out in the Directors and Corporate Governance Report (Audit Committee Report); and
- the section describing the work of the Audit Committee set out in the Directors and Corporate Governance Report (Audit Committee Report).

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

14.1. 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.

14.2. 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.

15. Other matters

15.1. 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 ten years, covering the years ending 31 March 2012 to 31 March 2021.

15.2. 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).

16. 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
21 May 2021

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2021

	Note	**2021 (£000s)**	2020 (£000s)
CONTINUING OPERATIONS			
REVENUE	3, 5	**234,694**	178,778
Cost of sales	5	**(116,396)**	(94,817)
GROSS PROFIT	5	**118,298**	83,961
Operating expenses	6	**(68,232)**	(59,278)
Impairment gains and losses (including reversals of impairment losses) on trade receivables	16	**269**	(1,840)
OPERATING PROFIT		**50,335**	22,843
Finance income		**84**	368
Finance expense		**(78)**	(61)
PROFIT BEFORE TAX		**50,341**	23,150
Taxation on ordinary activities	8	**(10,740)**	(4,586)
PROFIT FOR THE YEAR		**39,601**	18,564

	Note	**2021**	2020
EARNINGS PER SHARE			
Basic	10	**32.5p**	15.5p
Diluted	10	**32.1p**	15.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2021

	2021 (£000s)	2020 (£000s)
PROFIT FOR THE YEAR	**39,601**	18,564
Items that may be reclassified subsequently to profit or loss:		
Currency translation difference	**(1,132)**	577
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**38,469**	19,141

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

	Note	2021 (£000s)	2020 (£000s)
NON-CURRENT ASSETS			
Goodwill	11	**3,121**	3,220
Other intangible assets	12	**3,288**	3,989
Property, plant and equipment	13	**10,287**	9,854
Right-of-use assets	15	**3,857**	4,468
Investments in financial assets		**1,225**	1,025
Deferred tax asset	18	**4,020**	1,559
		25,798	24,115
CURRENT ASSETS			
Trade and other receivables	16	**36,609**	29,269
Prepayments		**2,777**	2,368
Accrued income	17	**18,354**	16,883
Treasury deposits	19	**18,028**	–
Cash and cash equivalents	19	**62,896**	40,785
		138,664	89,305
TOTAL ASSETS		**164,462**	113,420
CURRENT LIABILITIES			
Trade creditors and accruals	21	**(35,976)**	(23,599)
Deferred income	21	**(21,985)**	(13,752)
Corporation tax	21	**(2,863)**	(2,145)
Lease liabilities	20	**(1,249)**	(1,619)
Other tax and social security	21	**(10,652)**	(8,157)
		(72,725)	(49,272)
NON-CURRENT LIABILITIES			
Other provisions	22	**(1,735)**	(2,528)
Lease liabilities	20	**(2,394)**	(2,466)
		(4,129)	(4,994)
TOTAL LIABILITIES		**(76,854)**	(54,266)
NET ASSETS		**87,608**	59,154
EQUITY			
Share capital	24	**614**	610
Share premium account	24	**5,737**	5,446
Capital reserve	24	**662**	664
Share-based payment reserve		**9,083**	5,610
Translation reserve		**(477)**	655
Retained earnings	24	**71,989**	46,169
TOTAL EQUITY		**87,608**	59,154

These financial statements were approved by the Board of Directors and authorised for issue on 21 May 2021. They were signed on its behalf by:

Richard McCann
Director
21 May 2021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2021

	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 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 respect of 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
Profit for the year	–	–	–	–	–	39,601	39,601
Other comprehensive income	–	–	–	–	(1,132)	–	(1,132)
Total comprehensive income for the year	–	–	–	–	(1,132)	39,601	38,469
Share-based payment expense	–	–	–	3,473	–	–	3,473
Current tax for equity-settled share-based payments	–	–	–	–	–	441	441
Deferred tax for equity-settled share-based payments	–	–	–	–	–	1,804	1,804
Issue of share capital	4	291	(2)	–	–	–	293
Dividends	–	–	–	–	–	(16,026)	(16,026)
BALANCE AT 31 MARCH 2021	**614**	**5,737**	**662**	**9,083**	**(477)**	**71,989**	**87,608**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 (£000s)	2020 (£000s)
NET CASH FROM OPERATING ACTIVITIES		**59,941**	**24,231**
Investing activities			
Interest received		**84**	368
Purchases of property, plant and equipment	13	**(1,468)**	(8,186)
Investment in financial assets		**(200)**	–
Amounts placed on treasury deposit	19	**(18,028)**	(5,000)
Acquisition of subsidiaries		**–**	(4,464)
NET CASH USED IN INVESTING ACTIVITIES		**(19,612)**	**(12,282)**
Financing activities			
Dividends paid	9	**(16,026)**	(12,147)
Interest paid		**(78)**	(61)
Repayment of lease liabilities		**(1,763)**	(1,716)
Proceeds on issue of shares		**293**	253
NET CASH USED IN FINANCING ACTIVITIES		**(17,574)**	**(13,671)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**22,755**	**(1,722)**
Cash and cash equivalents at beginning of year	19	**40,785**	42,488
Effects of foreign exchange rate changes		**(644)**	19
CASH AND CASH EQUIVALENTS AT END OF YEAR		**62,896**	**40,785**

	Note	2021 (£000s)	2020 (£000s)
PROFIT FOR THE YEAR		**39,601**	**18,564**
Adjustments for:			
Finance income		**(84)**	(368)
Finance expense		**78**	61
Income tax expense	8	**10,740**	4,586
Share-based payment expense		**4,513**	2,100
Depreciation of property, plant and equipment	13	**921**	1,310
Depreciation of right-of-use assets	15	**1,786**	1,884
Amortisation of intangible assets	12	**383**	56
Loss on disposal of property, plant and equipment	13	**114**	–
Deferred consideration settled by shares		**760**	–
(Decrease)/increase in provisions	22	**(793)**	243
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		**58,019**	28,436
Increase in trade and other receivables		**(9,262)**	(3,612)
Increase in trade and other payables	21	**18,397**	2,749
CASH GENERATED BY OPERATIONS		**67,154**	27,573
Income taxes paid		**(7,213)**	(3,342)
NET CASH FROM OPERATING ACTIVITIES		**59,941**	24,231

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

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

The financial statements were authorised for issue by the Directors on 21 May 2021.

2. Adoption of new and revised standards

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
IFRS3 (Amendment) Definition of a Business	1 January 2020
Amendments to IFRS9, IAS39 and IFRS7 Interest Rate Benchmark Reform	1 January 2020
Amendments to IAS1 and IAS8 Definition of Material	1 January 2020

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases have not yet been adopted by the EU.

Available for early adoption:

Amendments to IFRS16: Covid-19-Related Rent Concessions	1 June 2020
Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16: Interest Rate Benchmark Reform — Phase 2	1 January 2021
Amendments to IFRS4: Extension of the Temporary Exemption from Applying IFRS9	1 January 2021

Not available for early adoption:

Amendments to IFRS3: Reference to the Conceptual Framework	1 January 2022
IFRS17 Insurance Contracts including amendments to IFRS17	1 January 2023
IFRS10 and IAS28 (amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	No effective date set
Amendments to IAS37: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to IAS16: Property, Plant & Equipment: Proceeds before intended use	1 January 2022
Annual improvements to IFRS Standards 2018-2020 Cycle: IFRS1, IFRS9, IFRS16 and IAS41	1 January 2022
Amendments to IAS1: Disclosure of Accounting Policies	1 January 2023
Amendments to IAS8: Definition of Accounting Estimates	1 January 2023
Amendments to IFRS16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to IAS12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IAS1: Classification of Liabilities as Current or Non-current – Deferral of Effective Date	1 January 2023

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.

3. Significant accounting policies

Basis of accounting

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRS Standards) adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The consolidated financial statements have been prepared on the historical cost basis modified for 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
Acquisitions of businesses 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 17) 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 control of the goods has transferred to the customer, usually on delivery of the goods.

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.

Right-of-use asset

The right-of-use asset comprises 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. It is 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.

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 and accordingly this income is accounted for under IAS20 'Accounting for Government Grants'. 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 is 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 property 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	25%-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 and short-term bank deposits with an original maturity of three months or less. All of the cash and cash equivalents balance is available for use by the Group.

Treasury deposits represent bank deposits with an original maturity of over three months and are held with a fixed rate of interest.

Investments in financial assets
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 25.

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 (2020: nil). The total product development expenditure in the period is £4.2 million (2020: £3.9 million). Product development expenditure is partially offset against RDEC grants received from HMRC.

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

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.

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. The estimation of stage of completion is sensitive to future uncertainties such as technical challenges, timescale changes and commercial issues. During the year revenue relating to fixed price project income was £15.6 million (2020: £11.8 million). The associated carrying values of accrued and deferred income at 31 March 2021 were £2.9 million (2020: £2.0 million) and £0.7 million (2020: £0.2 million) respectively.

RDEC income

Estimates are made in determining the product development expenditure eligible for RDEC. The Group's assessment of eligible expenditure must align with the definition of R&D for RDEC purposes. This assessment is more difficult in some industries such as software development resulting in uncertainty in amounts claimed. The unrecognised component of RDEC as at 31 March 2021 of £4.6 million represents the Group's determination of the value subject to this uncertainty. This portion is recognised when this uncertainty has been removed either via formal acceptance of the claim value submitted or the expiry of the enquiry window. The net value of RDEC income recognised in the statement of financial position as at 31 March 2021 is £2.9 million.

5. Segment reporting

All of the Group's revenue during the year to 31 March 2021 was derived from continuing operations. Kainos is structured into two operating divisions: Digital Services and the Workday Practice.

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

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, enabling enterprises to organise their staff efficiently and support their financial reporting requirements. Within this practice, Kainos provides 'Workday Services' (consulting, project management, integration and post-deployment services for Workday's software suite and 'Smart' (Kainos' proprietary software tool which allows Workday customers to automatically test and verify that their unique Workday configuration is operating effectively, both during implementation and in live operation).

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

2021 12 months to 31 March	**Digital Services (£000s)**	**Workday Practice (£000s)**	**Consolidated (£000s)**
Revenue	**161,572**	**73,122**	**234,694**
Cost of sales	**(89,578)**	**(26,818)**	**(116,396)**
GROSS PROFIT	**71,994**	**46,304**	**118,298**
Direct expenses[21]	**(16,419)**	**(27,366)**	**(43,785)**
CONTRIBUTION	**55,575**	**18,938**	**74,513**
Central overheads[21]	**–**	**–**	**(17,446)**
Finance income/expense	**–**	**–**	**6**
ADJUSTED PRE-TAX PROFIT	**–**	**–**	**57,073**

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[21]	(15,158)	(23,053)	(38,211)
CONTRIBUTION	33,762	11,988	45,750
Central overheads[21]	–	–	(20,541)
Finance income/expense	–	–	307
ADJUSTED PRE-TAX PROFIT	–	–	25,516

21 Direct expenses plus central overheads less share-based payments and acquisition-related expenses equals the sum of operating expenses plus impairment gains and losses.

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

	2021 (£000s)	2020 (£000s)
ADJUSTED PRE-TAX PROFIT	**57,073**	25,516
Share-based payments	**(4,513)**	(2,100)
Acquisition-related expenses including amortisation of acquired intangible assets and deferred consideration	**(2,219)**	(266)
PROFIT BEFORE TAX	**50,341**	23,150

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

	2021 (£000s)	2020 (£000s)
United Kingdom & Ireland	**175,710**	138,906
North America	**38,099**	21,530
Central Europe	**19,631**	17,490
Rest of world	**1,254**	852
	234,694	178,778

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

	Digital Services 2021 (£000s)	Digital Services 2020 (£000s)	Workday Practice 2021 (£000s)	Workday Practice 2020 (£000s)	Total 2021 (£000s)	Total 2020 (£000s)
Type of revenue						
Services	**151,163**	114,114	**46,920**	36,973	**198,083**	151,087
SaaS and related	**5,385**	5,689	**26,159**	19,282	**31,544**	24,971
Third party and other	**5,024**	2,697	**43**	23	**5,067**	2,720
	161,572	122,500	**73,122**	56,278	**234,694**	178,778
Revenue recognition						
At a point in time	**5,024**	2,697	**43**	23	**5,067**	2,720
Over time	**156,548**	119,803	**73,079**	56,255	**229,627**	176,058
	161,572	122,500	**73,122**	56,278	**234,694**	178,778

Digital Services	2021 (£000s)	2020 (£000s)
Public	**102,180**	86,430
Commercial	**15,653**	15,341
Healthcare	**43,739**	20,729
	161,572	122,500
Workday Practice		
Public	**3,314**	5,925
Commercial	**65,428**	47,746
Healthcare	**4,380**	2,607
	73,122	56,278
Total	**234,694**	178,788

Revenue for the Workday Practice can also be analysed as follows:

	2021 (£000s)	2020 (£000s)
Workday Practice		
Workday Services	**48,972**	37,213
Smart	**24,150**	19,065
	73,122	56,278

The aggregate transaction price allocated to unsatisfied or partially satisfied performance obligations at the end of the reporting period is £206.2 million (2020: £180.0 million). The majority of this balance will be recognised within 12 months of the reporting date.

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 following table provides information about receivables, accrued income and deferred income from contracts with customers.

	Note	2021 (£000s)	2020 (£000s)
RECEIVABLES, ACCRUED AND DEFERRED INCOME			
Net trade receivables	16	**33,739**	26,454
Accrued income	17	**18,354**	16,883
Deferred income	21	**(21,985)**	**(13,752)**

Accrued income relates to the Group's right to consideration for work completed and delivered but not invoiced as at year end and is transferred to trade receivables when an invoice is issued to the customer. Customers are typically invoiced on a monthly basis and consideration is payable when invoiced. During the year £16.9 million (2020: £11.3 million) of accrued income recognised at 31 March 2020 year was invoiced.

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.

Deferred income relates to advance consideration received from customers, where revenue is recognised over time as the services are provided/delivered to customers. During the year, all of the opening deferred revenue balance (2020: £10.8 million) has been recognised as revenue.

The Group's non-current assets (excluding deferred tax assets) are located as follows:

	2021 (£000s)	2020 (£000s)
Northern Ireland	**13,091**	12,195
Rest of UK	**3,585**	4,030
Republic of Ireland	**1**	96
USA	**3,654**	4,405
Other	**1,447**	1,830

Significant customer
A Digital Services client ("Customer A") accounted for £22.5 million (or 10%) of total Group revenue during 2021 (2020: £22.0 million or 12%). A Digital Services client ("Customer B") accounted for £19.7 million (or 8%) of total 2021 Group revenue (2020: £15.5 million or 9%). No other single customer contributed 7% or more to the Group's consolidated revenue during the period to 31 March 2021.

6. Profit for the year

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

	Note	**2021 (£000s)**	2020 (£000s)
Total staff costs	7	**125,962**	94,456
Government grants		**(2,193)**	26
Research and development costs		**4,162**	3,863
Research and Development Expenditure Credit		**(3,643)**	(1,866)
Depreciation of property, plant and equipment	13	**921**	1,310
Depreciation of right-of-use assets	15	**1,786**	1,884
Net foreign exchange (gain)/loss		**(128)**	509
Amortisation of acquired intangibles	12	**383**	56

The analysis of auditor's remuneration is as follows:

	2021 (£000s)	2020 (£000s)
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**72**	65
Fees payable to the Group's auditor for the audit of subsidiaries	**38**	42
Total audit fees	**110**	107
Fees payable to the Group's auditor for other services to the Group:		
Review of interim report	**17**	20
Other audit related services	**–**	–
Total audit-related fees	**127**	127
Non-audit fees	**–**	–
Total audit and non-audit fees	**127**	127
Total % of non-audit fees	**0%**	0%

7. Staff numbers and costs

The average number of employees during the year was:

	2021 Number	2020 Number
Technical	1,283	1,189
Administration	190	163
Sales	111	72
	1,584	1,424

Their aggregate remuneration comprised:

	2021 (£000s)	2020 (£000s)
Wages and salaries	105,972	80,995
Social security costs	10,946	8,466
Other pension costs	4,531	2,895
Share-based payments	4,513	2,100
	125,962	94,456

The number of employees at 31 March 2021 was:

	2021 Number	2020 Number
Technical	1,399	1,311
Administration	206	179
Sales	120	79
	1,725	1,569

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

	2021 (£000s)	2020 (£000s)
Cost of sales	72,164	57,987
Operating expenses	53,798	36,469
	125,962	94,456

8. Taxation on ordinary activities

	Note	2021 (£000s)	2020 (£000s)
CORPORATION TAX:			
Current year (UK)		**9,233**	3,917
Current year (overseas)		**2,433**	1,238
Adjustments in respect of prior years		**(47)**	(45)
		11,619	5,110
Deferred tax	18	**(879)**	(524)
		10,740	4,586

UK corporation tax has been calculated at 19% (2020: 19%) of the estimated taxable profit for the year, the prevailing rate at the balance sheet date. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The effective tax rate for 2021 was 21% (2020: 20%).

In the 2021 budget, the UK Government announced that the main rate of corporation tax will increase to 25% from April 2023. As this increased rate was not substantially enacted at the balance sheet date it has not had an impact on deferred tax assets and liabilities. We do not consider that the future rate change will have a material impact on deferred tax balances.

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:

	2021 (£000s)	2020 (£000s)
Profit before tax on continuing operations	**50,341**	23,150
Tax at the UK corporation tax rate of 19% (2020: 19%)	**9,565**	4,399
Non-deductible expenses	**544**	67
Non-taxable income	**(60)**	(9)
Effect of foreign exchange on consolidation	**(65)**	61
Effect of non-UK tax rates	**803**	64
Adjustments to tax charge in respect of prior years	**(47)**	14
Change in UK tax rates	**–**	(10)
Tax expense for the year	10,740	4,586

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

	2021 (£000s)	2020 (£000s)
CURRENT TAX		
Permanent element of stock option deduction	**441**	541
DEFERRED TAX		
Adjustments in respect of previous periods	**–**	10
Deferred tax on stock option	**1,804**	(127)
Total tax recognised directly in equity	**2,245**	424

9. Dividends

	2021 (£000s)	2020 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2021 of 6.4p per share	7,831	–
Special dividend paid September 2020 of 6.7p per share	8,195	–
Interim dividend for 2020 of 3.5p per share	–	4,252
Final dividend for 2019 of 6.5p per share	–	7,895
	16,026	12,147

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed final dividend, if approved by shareholders, will be 15.1p and payable on 29 October 2021 to all shareholders on the Register of Members on 1 October 2021, and with an ex-dividend date of 30 September 2021.

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 year.

	2021 (£000s)	2020 (£000s)
Profit for the year	39,601	18,564
	(£000s)	(£000s)
Weighted average number of ordinary shares for the purposes of basic earnings per share	121,898	120,112
Effect of dilutive potential ordinary shares from share options	1,528	2,957
Weighted average number of ordinary shares for the purposes of diluted earnings per share	123,426	123,069
Basic earnings per share	32.5p	15.5p
Diluted earnings per share	32.1p	15.1p

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 (including associated taxes) by the weighted average number of ordinary shares in issue during the period.

	2021 (£000s)	2020 (£000s)
Profit for the year	**39,601**	18,564
Share-based payments (including associated taxes)	**3,656**	1,701
Acquisition-related expenses (including associated taxes)	**2,143**	219
Adjusted profit for the year	**45,400**	20,484

	(£000s)	(£000s)
Weighted average number of ordinary shares for the purposes of basic earnings per share	**121,898**	120,112
Effect of dilutive potential ordinary shares from share options	**1,528**	2,957
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**123,426**	123,069
Adjusted basic earnings per share	**37.2p**	17.1p
Adjusted diluted earnings per share	**36.8p**	16.6p

11. Goodwill

Cost	Total (£000s)
At 1 April 2019	–
Recognised on acquisition of subsidiary	3,220
At 31 March 2020	3,220
Exchange differences	(99)
At 31 March 2021	**3,121**

Accumulated impairment losses	
At 1 April 2020 and 31 March 2021	**–**

Carrying amount	
At 31 March 2021	**3,121**
At 31 March 2020	3,220

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

	2021 (£000s)	2020 (£000s)
Kainos Workday Adaptive Practice	**3,121**	3,220
Total	**3,121**	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 and operating margins are based on past experience adjusted for expected economic and market conditions and strategic direction of the CGU.
- 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 acquisition of subsidiary	4,045	4,045
At 31 March 2020	4,045	4,045
Exchange adjustments	(328)	(328)
At 31 March 2021	**3,717**	**3,717**
Amortisation and impairment		
At 1 April 2019	–	–
Charge for the year	56	56
At 31 March 2020	56	56
Charge for the year	383	383
Exchange adjustments	(10)	(10)
At 31 March 2021	**429**	**429**
Carrying amount		
At 31 March 2021	**3,288**	**3,288**
At 31 March 2020	3,989	3,989

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 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
Additions	599	–	725	144	1,468
Disposals	–	(1,192)	(1,058)	(880)	(3,130)
At 31 March 2021	**8,030**	**1,591**	**5,079**	**604**	**15,304**
Accumulated					
At 1 April 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
Charge for the year	–	73	710	138	921
Eliminated on disposals	–	(1,105)	(1,031)	(880)	(3,016)
At 31 March 2021	**–**	**1,170**	**3,336**	**511**	**5,017**
Carrying amount					
At 31 March 2021	**8,030**	**421**	**1,743**	**93**	**10,287**
At 31 March 2020	7,431	581	1,755	87	9,854

14. Subsidiaries

The subsidiary undertakings at 31 March 2021 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 Terminus, 3280 Peachtree Road NE, Atlanta, Georgia, 30305,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	355 S. Teller Street, Suite 200, Lakewood, Colorado 80226 USA	Software services	100%

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

15. Right-of-use assets

Cost	Property (£000s)	Other (£000s)	Total (£000s)
1 April 2019 (initial application of IFRS16)	6,071	54	6,125
Additions	168	59	227
At 31 March 2020	6,239	113	6,352
Additions	1,446	–	1,446
Disposals	(195)	–	(195)
Exchange adjustments	(232)	–	(232)
At 31 March 2021	**7,258**	**113**	**7,371**

Accumulated depreciation			
1 April 2019 (initial application of IFRS16)	–	–	–
Charge for the year	1,845	39	1,884
At 31 March 2020	1,845	39	1,884
Charge for the year	1,758	28	1,786
Elimination on disposal	(114)	–	(114)
Exchange adjustments	(42)	–	(42)
At 31 March 2021	**3,447**	**67**	**3,514**

Carrying amount			
At 31 March 2021	**3,811**	**46**	**3,857**
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 2.6 years. The Group is not committed to any leases that have not already commenced as at 31 March 2021. The maturity analysis of lease liabilities is presented in note 20.

Amounts recognised in profit or loss:

	2021 (£000s)	2020 (£000s)
Depreciation expense on right-of use assets	**1,786**	1,884
Interest expense on lease liabilities	**77**	61
Expense relating to short-term and low value leases	**775**	1,113

At 31 March 2021, the Group is committed to £0.2 million (2020: £0.7 million) for short-term leases.

16. Trade and other receivables

	2021 (£000s)	2020 (£000s)
Trade receivables	**35,290**	28,294
Loss allowance	**(1,551)**	(1,840)
	33,739	26,454
Other receivables	**2,870**	2,815
	36,609	29,269

Trade receivables

Included in trade receivables are the following amounts from significant customers listed in note 5 (Segment Reporting): Customer A – 2021: £2.4 million (2020: £3.1 million) and Customer B – 2021: £1.5 million (2020: £1.8 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 2021. (Three customers represented greater than 5% of the total balance at 31 March 2020).

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:

	2021 (£000s)	2020 (£000s)
31-60 days	**5,820**	5,763
61-90 days	**1,973**	929
91-179 days	**4,375**	4,134
Sub-total	**12,168**	10,826

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.

	2021 (£000s)	2020 (£000s)
Balance at the beginning of the period	**1,840**	53
Remeasurement of loss allowance	**269**	1,840
Amounts recovered during the year	**(558)**	(53)
Balance at the end of the period	**1,551**	1,840

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 expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group has recognised a loss allowance of 100% against all receivables older than six months at the reporting date.

Historically Kainos has had a minimal credit loss history with regards to its customers. The declaration of a global pandemic in March 2020 required the Group to review its credit risk at 31 March 2020 and conclude that it had significantly increased, resulting in a significant impairment loss recorded for the first time. In addition to recognising a 100% loss allowance for debt older than six months at the reporting date, the Group analysed the customer base by sector to model expected operational disruption caused by Covid-19. A similar sector-based approach was adopted at the current reporting date given the ongoing economic uncertainty created by the pandemic. The movement in expected loss rates by ageing category from prior year reflects economic conditions and changes in the underlying carrying value by sector at the reporting date.

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

31 March 2021	**Expected loss rate (%)**	**Carrying amount (£000s)**	**Loss allowance (£000s)**
Not past due	**2**	**7,528**	**160**
Past due 0-30 days	**3**	**16,284**	**423**
Past due 31-60 days	**6**	**5,654**	**315**
Past due 61-90 days	**2**	**1,935**	**34**
Past due 90 days -179 days	**5**	**3,438**	**168**
Past due 179 days +	**100**	**451**	**451**
Loss allowance at 31 March 2021	**4**	**35,290**	**1,551**

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 -179 days	12	4,261	505
Past due 179 days +	100	114	114
Loss allowance at 31 March 2020	7	28,294	1,840

17. Accrued income

	2021 (£000s)	2020 (£000s)
Accrued income	**18,354**	16,883
	18,354	16,883

Accrued income relates to contractual revenue recognised in the income statement. Accrued revenue is stated net of provisions against gross accrued revenue at year end of £2.5 million (2020: £1.5 million).

18. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated capital allowances (£000s)	Share-based payment (£000s)	Tax losses (£000s)	Other (£000s)	Total (£000s)
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 1 April 2020	(56)	667	303	645	1,559
Foreign exchange differences	–	–	–	(152)	(152)
Adjustment for prior years	(14)	–	(289)	234	(69)
Debit to retained earnings	–	1,803	–	–	1,803
(Debit)/credit to profit	(77)	(256)	–	1,212	879
At 31 March 2021	**(147)**	**2,214**	**14**	**1,939**	**4,020**

The 'Other' category consists mainly of short-term timing differences.

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:

	2021 (£000s)	2020 (£000s)
Deferred tax asset	**4,020**	1,559
	4,020	1,559

19. Cash and cash equivalents and treasury deposits

	2021 (£000s)	2020 (£000s)
Cash at bank and in hand	**54,843**	30,744
Short-term deposits	**8,053**	10,041
Cash and cash equivalents	**62,896**	40,785
Treasury deposits	**18,028**	–
Total cash and cash equivalents and treasury deposits	**80,924**	40,785

Treasury deposits represent bank deposits with an original maturity of over three months and are held with a fixed rate of interest.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective fixed short-term deposit rates.

20. Lease liabilities

	2021 (£000s)	2020 (£000s)
Less than one year	**1,344**	1,676
One to five years	**2,412**	2,534
	3,756	4,210
Less: unearned interest	**(113)**	(125)
	3,643	4,085
Analysed as:		
Non-current	**2,394**	2,466
Current	**1,249**	1,619

The Group does not face a significant liquidity risk with regard to its lease liabilities.

21. Trade and other payables

	2021 (£000s)	2020 (£000s)
Trade creditors and accruals	**35,976**	23,599
Lease liabilities	**1,249**	1,619
Deferred income	**21,985**	13,752
Corporation tax	**2,863**	2,145
Other tax and social security	**10,652**	8,157
	72,725	49,272

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:

	2021 (£000s)	2020 (£000s)
Property-related provision	**1,299**	1,287
Onerous contract provision	**436**	1,241
	1,735	2,528

	2021 (£000s)	2020 (£000s)
Current	**436**	819
Non-current	**1,299**	1,709
	1,735	2,528

	Property-related (£000s)	Onerous contract (£000s)	Total (£000s)
At 1 April 2020	1,287	1,241	2,528
Additional provision in the year	82	–	82
Utilisation of provision	(70)	(805)	(875)
At 31 March 2021	**1,299**	**436**	**1,735**

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. The relevant property has lease end dates ranging from August 2022 to January 2026.

Onerous contract provision

Regular review of all customer contracts identified one loss-making contract. Management has determined that the remaining cost of completing this contract exceeds expected revenue resulting in an expected total loss of £0.4 million. The total loss has been provided for in 'other provisions' in accordance with IAS37. £0.3 million of this loss is expected to be incurred in the period to 31 March 2022. The Directors are satisfied with this approach and have assessed that the total provision is reasonable.

23. Contingent liability

At 31 March 2020, the Group disclosed a contingent liability regarding the conclusion of the commercial arrangement on 31 March 2018 between Kainos Evolve Inc. and Telehealth provider InTouch Health. This dispute was resolved during the period by mutual agreement between the parties and the action was dismissed by the court.

24. Share capital and reserves

Share capital

	2021 (£000s)	2020 (£000s)
ISSUED AND FULLY PAID:		
Ordinary shares	–	–
Opening balance	610	605
Issued during the year	4	5
Total share capital	**614**	610

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 2021, the Company has 122,785,147 issued ordinary shares (2020: 122,089,878) with a nominal value of £0.005 each.

Share premium account

	(£000s)
Balance at 31 March 2019	3,596
Issue of share capital at a premium	1,850
Balance at 31 March 2020	5,446
Issue of share capital at a premium	291
Balance at 31 March 2021	**5,737**

Capital reserve account

	(£000s)
Balance at 31 March 2019	665
Issue of share capital	(1)
Balance at 31 March 2020	664
Issue of share capital	(2)
Balance at 31 March 2021	**662**

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

Retained earnings

	(£000s)
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
Deferred tax equity movement	1,804
Current tax equity movement	441
Dividends paid	(16,026)
Profit for the year	39,601
Balance at 31 March 2021	**71,989**

25. Share-based payments

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. 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 (CSA) 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. During the period options were granted on 30 June 2020, 3 July 2020 and 3 December 2020 (2020: 8 July 2019 and 3 December 2019). The aggregate of the estimated fair values of the options granted on those dates is £3.2 million (2020: £1.3 million). 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 an appropriate period to the grant date.

PSP	**Granted during year to 31 March 2021**	Granted during year to 31 March 2020
Weighted-average exercise price	**£0.01**	£0.01
Fair value at grant date	**£4.23-£6.81**	£3.65-£5.80
Share price at grant	**£7.54**	£6.34
Expected volatility	**47%**	48%
Expected life (years)	**3.5**	3.5
Risk-free interest rate	**0.0%**	0.3%
Expected dividends per annum	**2.0%**	2.4%

CSOP	**Granted during year to 31 March 2021**	Granted during year to 31 March 2020
Weighted-average exercise price	**£7.54**	£6.50
Fair value	**£2.26**	£2.06
Share price at grant	**£7.35**	£6.34
Expected volatility	**47%**	48%
Expected life (years)	**4**	5
Risk-free interest rate	**0.0%**	0.3%
Expected dividends per annum	**2.0%**	2.4%

UK SAYE	**Granted during year to 31 March 2021**	Granted during year to 31 March 2020
Weighted-average exercise price	**£6.20**	–
Fair value	**£2.61**	–
Share price at grant	**£7.54**	–
Expected volatility	**47%**	–
Expected life (years)	**3.25**	–
Risk-free interest rate	**0.0%**	–
Expected dividends per annum	**2.0%**	–

ROI share options	**Granted during year to 31 March 2021**	Granted during year to 31 March 2020
Weighted-average exercise price	**£6.20**	–
Fair value	**£2.61**	–
Share price at grant	**£7.54**	–
Expected volatility	**47%**	–
Expected life (years)	**3.25**	–
Risk-free interest rate	**0.0%**	–
Expected dividends per annum	**2.0%**	–

Poland share options	Granted during year to 31 March 2021	Granted during year to 31 March 2020
Weighted-average exercise price	**£6.20**	–
Fair value	**£2.61**	–
Share price at grant	**£7.54**	–
Expected volatility	**47%**	–
Expected life (years)	**3.25**	–
Risk-free interest rate	**0.0%**	–
Expected dividends per annum	**2.0%**	–

Reconciliation of outstanding share options and share awards

Share options	PSP (000s)	CSOP (000s)	UK SAYE (000s)	ROI (000s)	Poland (000s)	Total (000s)
Outstanding at 31 March 2020	627	519	455	18	219	1,838
Granted during period	132	57	403	12	155	759
Exercised during the period	(107)	(150)	(2)	–	(16)	(275)
Forfeited during the period	(7)	(5)	(34)	(2)	(33)	(81)
Outstanding at 31 March 2021	**645**	**421**	**822**	**28**	**325**	**2,241**
Exercisable at the end of the year	**216**	**255**	**0**	**0**	**6**	**477**
Weighted average exercise price	**£0.005**	**£1.79**	**£3.36**	**£0.00**	**£3.36**	**–**
Weighted average remaining contractual life in years	**5.6**	**7.6**	**1.5**	**3.5**	**3.6**	**–**

The weighted average share price at the date of exercise for share options exercised during the period was £9.77 (2020: £6.14) per share.

Restricted shares	UK SIP (000s)	ROI (000s)	Poland CSA (000s)	Total (000s)
Outstanding at 31 March 2020	1,463	62	235	1,760
Granted during period	297	5	73	375
Released during the period	(315)	(33)	(71)	(419)
Forfeited during the period	(47)	(2)	(22)	(71)
Outstanding at 31 March 2021	**1,398**	**32**	**215**	**1,645**

The Group recognised total expenses of £4.5 million related to share-based payment transactions during the year (2020: £2.1 million).

26. 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 £4.5 million (2020: £2.9 million) represents contributions payable to these funds by the Group at rates specified in the rules of the schemes. As at 31 March 2021, contributions of £0.1 million (2020: £0.06 million) were payable to the funds and are included in trade creditors and accruals (note 21).

27. Financial instruments

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.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. This risk is measured through the Group's budgeting and cash flow forecasting processes, which identify net foreign currency exposures in Polish Złoty, 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.

Foreign currency risk management

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

	Liabilities		Assets	
	2021 (£000s)	2020 (£000s)	**2021 (£000s)**	2020 (£000s)
Polish Złoty	**1,933**	1,393	**1,840**	2,118
Euro	**3,176**	1,393	**5,657**	4,948
US Dollar	**5,510**	2,857	**4,728**	4,948
Canadian Dollar	**116**	339	**480**	429
Danish Krone	**38**	123	**517**	53
Swedish Krona	**19**	27	**0**	2

Foreign currency sensitivity analysis

The Group is mainly exposed to Polish Złoty, 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 opposite:

	Euro impact		PLN impact		USD impact	
	2021 (£000s)	2020 (£000s)	**2021 (£000s)**	2020 (£000s)	**2021 (£000s)**	2020 (£000s)
1% increase in strength of Sterling	**25**	23	**(1)**	7	**(8)**	21

Forward foreign exchange contracts

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

There were no forward contracts entered into during the year and subsequently there are no outstanding forward contracts at 31 March 2021 (2020: 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 £0.1 million during the year ended 31 March 2021 (2020: £0.4 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 loss allowance is made for irrecoverable amounts. Note 16 to these financial statements includes further information on the calculation of the loss allowance at 31 March 2021.

Of the trade receivables balance at the end of the year, £2.4 million is due from Customer A and £1.5 million due from Customer B, the Group's largest customers. 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 2021.

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 2021, all of the Group's funds were held in counterparty banks with ratings of "A" and above (as assessed by Fitch or Moody's).

The Group's exposure and the credit ratings of its counterparties are continuously monitored, and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the CFO in line with Group policies. The expected maturity of the financial assets and liabilities is the same as the reported contractual maturity.

Liquidity risk management
Ultimate responsibility for liquidity risk management rests with the Board 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 and treasury deposit balance of £80.9 million (2020: £40.8 million) and no borrowings. 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 risk management
The Group manages its capital to ensure that all Group entities will be able to continue as going concerns while maximising the return to shareholders. The Group's overall strategy remained unchanged throughout the period 1 April 2020 to 31 March 2021. 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.

28. 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.

Remuneration of key management personnel
The remuneration of the Executive and Non-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.

	2021 (£000s)	2020 (£000s)
Short-term employee benefits (emoluments)	**1,435**	1,634
Post-employment benefits (pension contributions)	**18**	30
Gains on exercise of share options	**–**	291
Share-based payments charge	**162**	147
	1,615	2,102

One Director is a member of the Group's defined contribution pension schemes (2020: one). No Directors exercised options over shares in the Group (2020: one). Remuneration of the highest paid director was £0.4 million (2020: £0.4 million), including pension contributions of £Nil (2020: £Nil). The highest paid director exercised no share options in the year (2020: Nil).

Further information about the remuneration of individual Directors is provided in the Directors' Remuneration Report.

Aggregate Executive Directors' remuneration

	2021 (£000s)	2020 (£000s)
Short-term employee benefits (emoluments)	**1,135**	1,179
Post-employment benefits (pension contributions)	**18**	30
Gains on exercise of share options	**–**	291
Share-based payments charge	**162**	147
	1,315	1,647

29. Acquisitions

Acquisition of Intuitive Technologies LLC (prior year)

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 Workday Adaptive Planning. At the time of acquisition IntuitiveTEK had a workforce of 38 and had completed more than 500 Adaptive Planning projects. This acquisition, in addition to the acquisition of Formulate, makes Kainos one of the largest Workday Adaptive Planning 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	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**

The net assets recognised in the consolidated financial statements at 31 March 2020 were based on a provisional assessment of their fair value. The valuation was completed during the period and there were no changes to provisional fair values recognised.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2021

	Note	2021 (£000s)	2020 (£000s)
NON-CURRENT ASSETS			
Investments in subsidiaries	4	**6,524**	6,524
Debtors	5	**9,108**	–
		15,632	6,524
CURRENT ASSETS			
Debtors	5	**4,672**	15,372
Prepayments		**232**	29
Cash at bank and in hand		**45,219**	19,324
		50,123	34,725
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	6	**(1,233)**	(916)
NET CURRENT ASSETS		**48,890**	33,809
TOTAL ASSETS LESS CURRENT LIABILITIES		**64,522**	40,333
NET ASSETS		**64,522**	40,333
CAPITAL AND RESERVES			
Called up share capital	7	**614**	610
Share premium account	7	**5,737**	5,446
Share-based payments reserve	7	**9,083**	5,610
Capital reserve	8	**5,934**	5,936
Profit and loss account	9	**43,154**	22,731
SHAREHOLDERS' FUNDS		**64,522**	40,333

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 £36.0 million (2020: £8.1 million).

The financial statements of Kainos Group plc (registered number 09579188) were approved by the Board of Directors and authorised for issue on 21 May 2021. They were signed on its behalf by:

Richard McCann
Director
21 May 2021

COMPANY STATEMENT OF CHANGES IN EQUITY

		Equity attributable to equity holders of the Company					
	Note	Share capital (£000s)	Share premium account (£000s)	Share-based payments (£000s)	Capital reserve (£000s)	Retained earnings (£000s)	Total equity (£000s)
Balance at 31 March 2019		605	3,596	3,895	5,938	26,782	40,816
Issue of share capital	7	5	1,850	–	–	–	1,855
Share-based payments	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
Issue of share capital	7	4	291	–	(2)	–	293
Share–based payments	7	–	–	3,473	–	–	3,473
Current tax for equity-settled share-based payments		–	–	–	–	(15)	(15)
Deferred tax for equity-settled share-based payments		–	–	–	–	421	421
Profit and total comprehensive income		–	–	–	–	36,043	36,043
Dividends paid		–	–	–	–	(16,026)	(16,026)
Balance at 31 March 2021		**614**	**5,737**	**9,083**	**5,934**	**43,154**	**64,522**

1. General information

Kainos Group plc ("the Company") is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales (company registration number 09579188), having its registered office at 2nd Floor, 21 Farringdon Road, Clerkenwell, 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 £36.0 million (2020: £8.1 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 (2020: two).

	2021 (£000s)	2020 (£000s)
Wages and salaries	**706**	1,120
Social security costs	**86**	96
Other pension costs	**23**	30
Share-based payments	**115**	104
	930	1,350

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

Further information about share-based payments is provided in note 25 to the consolidated financial statements.

4. Investments in subsidiaries

	(£000s)
Cost and carrying amount	6,524
At 31 March 2020 and 31 March 2021	**6,524**

Details of the Group's subsidiaries at 31 March 2021 are included in note 14 of the consolidated financial statements.

5. Debtors

	2021 (£000s)	2020 (£000s)
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:		
Amounts owed from Group undertakings	**8,415**	–
Deferred tax	**693**	–
	9,108	–
AMOUNTS FALLING DUE WITHIN ONE YEAR:		
Amounts owed from Group undertakings	**4,641**	15,089
Trade receivables	**–**	10
Other debtors	**31**	273
	4,672	15,372

The deferred tax asset relates to share-based payments.

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

	2021 (£000s)	2020 (£000s)
Trade creditors and accruals	**1,141**	881
Amounts owed to Group undertakings	**21**	–
Other tax and social security	**37**	35
Corporation tax	**34**	–
	1,233	916

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 24 of the consolidated financial statements.

9. Profit and loss account

	2021 (£000s)	2020 (£000s)
Opening balance	**22,731**	26,782
Current tax for equity-settled share-based payments	**(15)**	–
Deferred tax for equity-settled share-based payments	**421**	–
Dividends paid	**(16,026)**	(12,147)
Profit for the period	**36,043**	8,096
	43,154	22,731

10. Distributable reserves

The Company's distributable reserves as at 31 March 2021 total £52.2 million (2020: £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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