kainos®

Annual Report 2016

About Kainos Kainos is a digital services company, offering information technology products and services to clients in a range of markets, including government, healthcare and financial services. Kainos provides software design and development services and a complementary suite of software products in healthcare and automated testing.

Kainos is now a global business with increasing scale, resilience, ambition and expertise. We've delivered over 35% compound growth in the past three years and we're recognised as a continuing disruptive force in our core markets of government, healthcare and commercial industries.

We're increasingly trusted by our clients, including global organisations such as Diageo and Aviva, and by large UK government departments such as the Ministry of Justice. We provide them with digital technology solutions that help them conduct their business more efficiently. In healthcare, we're working with Apple Inc. to develop genuinely new mobile applications that have the potential to change forever the way in which clinicians can help patients. In all of our services and products we strive to ensure that Kainos continues to serve the changing needs of customers.

Just as we have gained the trust and respect of our clients, we are once again judged by our staff to be one of the best companies to work for. Our people remain our top priority, and we continue to invest in recruiting the best, and providing rewarding and enjoyable careers for them.

Our business model is simple: we recruit the best people and encourage them to deliver exceptional services and products to customers. Everything we do is centred on this core principle, and it has served us well over time.

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

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Highlights for the year ended 31 March 2016

Strong financial performance, with record levels of revenue, profit and sales orders

Completed successful IPO on the London Stock Exchange on 10 July 2015

Growing international presence, including new offices in Boston and Amsterdam

Acquired 35 new clients for the innovative Kainos Smart™ automated testing tool for Workday clients, including Netflix and Shire Pharmaceuticals

Selected by Apple as a healthcare partner on its global Mobility Partner Program (MPP)

Customer approval of Group services rated as 'Good or Above' by over 95% of customers

Extended footprint in central and regional government in the UK, with flagship new customers including the UK's Office for National Statistics and the National Assembly for Wales

Recruited 207 new staff, bringing total employee headcount to 777 at year end

37th

Improved position to 37th in the Sunday Times 'Best Companies to Work For' rankings (from 50th in 2015)

Financial highlights

	2016	2015	Change
Total sales orders [1]	**£87.2m**	£78.3m	+11%
SaaS sales orders	**£8.6m**	£2.3m	+274%
Revenue	**£76.6m**	£60.8m	+26%
Gross profit	**£37.1m**	£32.4m	+14%
Adjusted pre-tax profit [2]	**£14.1m**	£11.8m	+19%
Statutory profit before tax	**£14.3m**	£11.8m	+20%
Adjusted diluted earnings per share [2]	**10.5p**	8.5p	+24%
Diluted earnings per share	**10.6p**	8.5p	+25%
Proposed final dividend	**4.2p**		

1 Orders (including third party sales orders) refers to the value of contracts signed with customers (excluding VAT or other taxes).

2 Adjusted to remove the effect of exceptional items £0.7 million (gain) (2015: nil) and share-based payments £0.5 million (2015: nil).

Chief Executive Officer's statement

➜ This year also included a highly significant event in the history of Kainos: the successful completion of an initial public offering (IPO) of the Company's shares.

I am delighted to report another year of strong performance, with increasing levels of client demand across each of our operating divisions. In Digital Services, we experienced strong growth despite election headwinds; in Evolve we have made considerable progress with our global ambitions by signing our first international contracts; and in WorkSmart we are seeing rapid growth of our Smart software platform. In the year ended 31 March 2016, we have grown revenue by 26% and adjusted pre-tax profit by 19%. Our sales orders this year increased to a record £87.2 million and included a multi-year development framework in UK government, accelerating rate of orders for Smart, a market-leading Software as a Service (SaaS) product for automated testing of the Workday suite, and two significant contract wins in the last quarter of the financial year for our new Evolve SaaS solution. The high quality of our services and products is increasingly valued by our customers, 95% of whom have given us an overall feedback rating of 'Good or Above'. This year also included a highly significant event in the history of Kainos: the successful completion of an initial public offering (IPO) of the Company's shares.

Our people remain our top priority, and we continue to provide rewarding and enjoyable careers for our excellent staff. Our pace of growth remains high: at 31 March 2016 we had increased our net employee headcount by 120 to 777 people, up 18% from 31 March 2015. An increasing proportion of new staff are from outside the UK – we have extended our geographic footprint with new offices in the US and mainland Europe. This year we launched an ambitious career development programme (Master, Accomplish, Progress) for our staff in all locations, which builds on previous investment in infrastructure to support growth. To find and recruit top talent, we have strengthened our links with universities in Northern Ireland, Great Britain and Poland. In tandem, we continue to develop options outside mainstream recruitment channels through our popular Earn as You Learn® and apprenticeship schemes, and have created a formal 'Tech Outreach' programme to promote digital careers to young people who might otherwise not have access to technical career opportunities. We were particularly pleased to achieve a top 50 position in the prestigious Sunday Times 'Best Companies to Work For' rankings, improving to 37th place in February 2016 and gaining a three star status for the first time.

I believe that the Group is well-placed to deliver growth in the coming years. Our Digital Services division has established a trusted reputation in central and regional government, and continues to benefit from the UK government's policy of wholesale digitisation of public services. For the first time, this policy extends into the NHS, where our Evolve solution is a market leader, so we are uniquely placed to reap the benefits of our strong credentials in both healthcare and central government sectors. Our WorkSmart division has established itself as the leading boutique implementation services provider in Europe, and is in a commanding position with Smart, the only automated testing product for Workday globally. The SaaS version of Evolve, the Evolve Integrated Care platform, has also achieved early success, winning a flagship deal in the US. We expect to see a gradual increase in recurring revenue in the coming years as our customers transition to SaaS offerings.

In summary, we see continued stability and improvement in our core markets and we are encouraged by the emerging opportunities in the US and by the strengthening sales pipeline across all the divisions. Going forward, we will remain focused on providing exceptional careers for staff and exceptional digital products and services for customers.

Dr Brendan Mooney
Chief Executive Officer

Strategic Report

Overview

The key event of this period was the successful IPO of Kainos on the main market of the London Stock Exchange, which attracted strong interest from the UK institutional investor community. The IPO provided an opportunity to widen share ownership amongst employees through a variety of equity participation schemes, as a result of which 670 staff members became shareholders or gained an equity interest at the time of listing. The IPO also marked a change in governance, with the addition of three new experienced Non-Executive Directors (NEDs) to the Board.

Revenue for the year ended 31 March 2016 grew by 26% to £76.6 million, up from £60.8 million in 2015. Adjusted pre-tax profit increased by 19% to £14.1 million (2015: £11.8 million). Orders for this period amounted to £87.2 million (2015: £78.3 million), a total that included £5.2 million (2015: £2.3 million) for sales orders of the Smart SaaS product.

In the UK public sector, Kainos continues to see an improvement in market conditions as large central government departments and agencies initiate and progress digitisation programmes. The Group continues to win contracts with existing clients such as the Home Office, and is assisting on a number of large-scale digitisation programmes aligned with the government's Digital-by-Default service standard. The Group has laid the groundwork for extending new engagements in other departments, for example at the Ministry of Justice (MoJ), where Kainos consultants are working alongside civil servants on the Criminal Justice System Efficiency programme. In parallel, Kainos is consolidating its existing relationships with further projects for the Welsh and Northern Irish regional governments. The Group believes that the drive for digitisation in the NHS and local government will gather pace in 2017, and that it is well-placed to benefit from future digital initiatives in the public sector.

Outside government, the Group is experiencing good growth in its Evolve and WorkSmart divisions, particularly in the US and mainland Europe, where it has established offices in Boston and Amsterdam. The number of customers contracted to use the Kainos Smart SaaS automated testing product now stands at 55 and includes well-known names such as Cornell University and Netflix. The WorkSmart services implementation practice continues to extend its roster of clients in the UK and mainland Europe, and now employs more than 75 accredited Workday consultants, making it one of the largest boutique partners in Workday's European ecosystem.

In Evolve, customers are showing a significantly greater interest in a SaaS delivery model rather than the previously dominant perpetual licence model, and this will provide Kainos with greater revenue visibility and more durable, longer term client relationships in coming years. Evolve's ambitions outside the UK received a significant boost with the recently announced signing of a major contract with a US telehealth provider, which provides a basis on which to build a footprint in the US healthcare market.

For the year ending 31 March 2017, the Group expects to see continued stability and improvement in the Digital and WorkSmart divisions, and a period of transition in the Evolve division as it expands its presence in the US and builds a recurring revenue base with the move to a SaaS model.

Finance review

In 2016 Kainos achieved revenue of £76.6 million, 26% ahead of that delivered in the prior year (2015: £60.8 million). This was underpinned by continued favourable conditions in the public sector, supported by healthy growth for both Evolve and WorkSmart divisions. The recurring revenue generated from SaaS orders has more than doubled and this trend is expected to continue in 2017.

Services revenue in the year ended 31 March 2016 amounted to £60.2 million (2015: £53.4 million). Third party revenue (derived from sales of third party goods and services) increased by 138% to £9.1 million (2015: £3.8 million), and licence revenue (predominantly for the Group's Evolve product and related modules) increased by 86% to £5.5 million (2015: £3.0 million). Growth in SaaS revenue (predominantly from the Group's Smart automated test solution) increased by 169% to £1.7 million (2015: £0.6 million), with Smart Annual Recurring Revenue (ARR) of £2.5 million at 31 March 2016 (2015: £0.9 million).

On a regional basis, 15% of revenue is now accounted for outside the UK. Revenue in the US grew by 8% to £4.0 million, and in the Republic of Ireland revenue increased by 23% to £5.4 million. The UK remains the most dominant region, with revenue growing by 24% in 2016.

→ The key event of this period was the successful IPO of Kainos on the main market of the London Stock Exchange.

Adjusted pre-tax profit (£m)

2016

14.1m

2015

11.8m

Adjusted pre-tax profit has increased by 19% to £14.1 million (2015: £11.8 million). In December 2015, the Group completed the disposal of its investment in SpeechStorm for £2.0 million, which was recognised as an exceptional gain during the period.[1] The adjusted pre-tax profit has been measured before exceptional items of £0.7 million (gain) (2015: nil) and excludes share-based payments of £0.5 million (2015: nil). The statutory pre-tax profit was £14.3 million (2015: £11.8 million), an increase of 20%. Investment in product development increased by 103% to £2.3 million (2015: £1.1 million), all of which was expensed in the period.

The headline effective tax rate for 2016 was 13% (2015: 18%). The headline rate includes the exceptional gain on the SpeechStorm sale and higher level of research and development tax credits than in 2015.

Adjusted diluted earnings per share (adjusted to exclude exceptional items and share-based payments) increased by 24% to 10.5p (2015: 8.5p). Kainos believes this measure of earnings per share provides a better long term indication of underlying performance. The diluted earnings per share increased by 25% to 10.6p (2015: 8.5p).

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

The Group has a robust statement of financial position with £15.0 million of cash, no debt and net assets of £25.9 million. Trade debtors and accrued income at 31 March 2016 were £14.5 million (2015: £11.6 million) and £5.2 million (2015: £4.1 million) respectively, which in total increased in line with revenue in 2016. Capital expenditure amounted to £1.0 million (2015: £0.9 million).

During the year £13.3 million of dividends were paid (2015: £1.3 million), comprising pre-IPO dividends of £11.2 million and an interim dividend of £2.1 million. The proposed final dividend of 4.2p per share, if approved by shareholders, will be payable on 21 October 2016 to shareholders on the register on 30 September 2016 (ex-dividend date 29 September 2016).

Business model and strategy

The Kainos vision is to enable outstanding people to create digital solutions that have a positive impact on people's lives. It achieves this by providing innovative technology to its customers across several industry sectors in the public and private domains.

Kainos charges for its bespoke software development solutions primarily on a time and materials basis, and infrequently charges a fixed price for development (7% of service revenue is derived from fixed price work). The Group's software products are licensed to customers, either as a fixed one-off lifetime usage licence (for some Evolve customers) and increasingly as a recurring annual licence fee (following a SaaS business model). This is reflected in the growing level of recurring revenue reported each period, which provides increasing stability to the business and allows Kainos to commit to the long term development of its products.

Kainos has strong cash generation due to being consistently profitable and non-acquisitive in nature.

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

- growing and maintaining the Group's reputation;
- capitalising on its established market position and significant growth opportunities;
- nurturing and expanding its experienced and highly skilled employee pool;
- building strong, long term relationships with its customer base;
- exploiting favourable market dynamics and drivers; and
- recruiting high-calibre entry-level and experienced staff.

1 Greeneden UK Acquisition Company Limited acquired the entire share capital of SpeechStorm, in which Kainos had a minority stake.

Divisional review

Digital Services

Digital Services delivers customised online digital solutions, principally for central government, regional government and local government departments and agencies ("UK government"), along with private sector organisations. The solutions provided by Digital Services significantly increase cost-efficiency for its UK government customers and make public services more accessible and easier to use for the UK citizen. The Digital Services division provides similar online digital solutions to private sector organisations, as well as multi-year IT support and managed services.

Digital Services revenue for the year ended 31 March 2016 grew by 11% to £48.5 million (2015: £43.6 million). Gross profit for the division showed a decrease to £21.9 million (2015: £23.1 million), largely reflecting a readjustment of staffing profiles across a single large government programme during the year.

The UK government's programme of digitisation of public sector services is now firmly established. Involved from the early stages of public sector digitisation, Kainos has completed over 50 projects to date for a variety of departments and agencies. In the period ended 31 March 2016, the Group brought a number of high-profile projects to a successful conclusion, including the modernisation of the national MoT system for the Driver and Vehicle Standards Agency (DVSA), an agency sponsored by the Department for Transport (DfT), and the deployment of an online procurement framework for the Defence Science and Technology Laboratory (DSTL), an agency sponsored by the Ministry of Defence (MoD). Early successes, such as the Register to Vote application, which allows citizens to register to vote online, continue to receive high levels of user satisfaction and are changing the ways citizens interact with government.

The Group's priorities in central government include building senior level relationships to consolidate and extend its position in core accounts. This is bearing fruit, with expanding programmes at the MoJ, where Digital Services is involved in a central role in the department's flagship Reform Programme, and at the Office for National Statistics (ONS), where a specialist Kainos delivery team is participating in the early stages of the Census 2021 programme. The Group continues to develop innovative services for clients such as the DfT, where it deployed its Elastic Cloud offering to migrate services quickly and securely to Amazon Web Services (a first in UK government), and where it is using data analytics techniques to enhance the efficiency and performance of the new MoT system. The Group's role as a leading digital supplier to the UK government was recognised by an award for the Best Digital Company at the Digital Leaders IT Awards 2015.

→ The Kainos vision is to enable outstanding people to create digital solutions that have a positive impact on people's lives.

Digital Services continues to expand its presence in regional government, showing revenue growth of 111% to £7.8 million largely through significant ongoing engagements for the Northern Ireland Civil Service (NICS) and the National Assembly for Wales. Outside the public sector, and increasingly outside the UK, the Group has completed successful engagements with a variety of companies including Aviva and Allied Irish Bank. A successful relationship with Capgemini provided a channel to sell a managed cloud operational service to the Metropolitan Police, and opens the possibility of future cross-industry selling.

The Group is optimistic about the future of digitisation in the UK public sector. Although both major parties strongly endorsed the digitisation programme, the return of a Conservative majority government in the general election in May 2015 eliminated uncertainty around government intentions. Subsequent policy statements on digitisation have emphasised the government's intent to accelerate civil service reform and to continue to drive efficiency by modernising public services through digital innovation.

Evolve

Evolve is Kainos' proprietary software platform, developed in conjunction with medical practitioners and hospital managers. Evolve provides two offerings to healthcare markets comprising Evolve EMR, which is used for digitisation, storage and workflow of patient records and is the UK market leader in the digitisation of patient notes in the Acute sector of the NHS; and Evolve Integrated Care, a cloud-based integrated care solution that is licensed on a subscription basis to clients.

Evolve's revenue for the year ended 31 March 2016 grew by 112% to £19.1 million (2015: £9.0 million). Gross profit for the division increased 115% to £10.1 million (2015: £4.7 million). SaaS sales orders in 2016 amounted to £3.4 million (2015: nil), which comprised primarily orders for the division's new Evolve Integrated Care solution.

As well as delivering a strong financial performance, 2016 is notable for the advances the Evolve division has made in realising its strategy. It has consolidated its position as the leading electronic medical records (EMR) supplier to the NHS, with wins at four new Acute Trusts (Western Sussex, Eastern Sussex, Queen Victoria Hospital and West Middlesex University Hospital). Equally significant is Evolve's continuing relationship with Apple Inc. as a mobility partner, one of a handful in the healthcare sector. This involves close co-operation with Apple Inc. to develop apps, partnerships and customer opportunities and provides a major boost for the Evolve for iPad™ offering, which allows clinicians to access electronic patient records on the move, and which is now in live operation at the South East Coast Ambulance Service.

→ Looking forward, the Group is optimistic about the future of digitisation in the UK public sector.

In tandem, the launch of Evolve Integrated Care, a new SaaS-based solution for domestic and international markets, resulted in a contract win with InTouch Health (ITH), a California-based telehealth provider. Evolve Integrated Care greatly extends the addressable market for the Evolve platform, and opens the door to ITH's established customer base of over 1,500 hospital locations across the USA and globally. Evolve's international ambitions have also been strengthened by the Group's engagement with Cirdan Imaging, a supplier of medical diagnostic hardware and software with a worldwide customer base. Cirdan may seek to resell Evolve offerings in Australia.

Looking forward, Evolve plans to build its presence in traditional and new markets. Funding for new technology is expected to remain scarce in the NHS, despite an announcement from the Secretary of State for Health in February 2016 pledging over £4 billion to accelerate the adoption of digital solutions in the NHS. However, early indications are that the demand for an integrated care platform to streamline digital records across primary and secondary healthcare organisations will grow, and Evolve is in a strong position to capitalise on this opportunity.

Customers' increasing interest in a SaaS delivery model rather than in the previously dominant perpetual licence model extends outside the NHS. Evolve will deploy its SaaS

Integrated Care platform at InTouch and Cirdan, both contracts extending over a five-year period. Such SaaS contracts provide Kainos with greater revenue visibility and more durable, longer term client relationships. To capitalise on these and similar opportunities, the Group plans to invest further in both product development and sales and marketing. These two initiatives, particularly the transition to SaaS, while improving the quality of Evolve's future earnings, are likely to have a short term impact on Evolve's revenue, profit and cash generation in the financial year ending 31 March 2017. The directors believe this change to the Evolve delivery model is in the best interests of the Group to maximise Evolve's market penetration and strengthen the commercial position over the coming years.

WorkSmart

The Group's WorkSmart division (previously known as Workday Implementation Services) provides consulting, project management, integration, support and testing services for Workday Inc.'s software suite. Workday Inc. provides cloud-based software for Human Capital Management (HCM) and Financial Management, which enables enterprises to organise their staff efficiently and support financial reporting requirements. Kainos is the only boutique Workday partner headquartered in the UK, responsible for implementing Workday's innovative SaaS platform for enterprise customers. WorkSmart has also developed Kainos Smart ("Smart"), a proprietary software tool that automates the testing of Workday deployments and regular updates.

WorkSmart revenue for the year ended 31 March 2016 grew by 10% to £9.0 million (2015: £8.2 million). Gross profit for the division showed a 9% increase to £5.1 million (2015: £4.7 million), largely reflecting increased consulting activity and the cumulative effect of recurring Smart revenue. Sales orders for the division's Smart product more than doubled to £5.2 million (2015: £2.3 million).

The WorkSmart division's performance over the course of 2016 has been underpinned by very strong growth in Workday Inc., which increased its own revenue by 48% from its previous financial year. Demand for Kainos WorkSmart services from ecosystem partners such as Meteorix in the first half of the year was bolstered by significant prime engagements with United Drug Group (UDG) and Glencore in the second half. The number of Large Enterprise (LE) customers (those with more than 3,000 employees) now stands at 20, up from 15 at 31 March 2015.

In addition to expanding geographically, Workday Inc. has configured its core offering for smaller organisations (those with up to 3,000 staff). This is being actively promoted as the Medium Enterprise (ME) programme, previously the Lifecycle Deployment Program (LDP), and significantly widens the addressable market for WorkSmart's offerings. In January 2016, the division confirmed its participation in the Workday ME initiative as one of only three accredited partners for this programme in Europe, and has subsequently closed two significant ME deals.

Recruitment remains a priority in the face of strong demand, and the division anticipates an increase of up to 50% in the number of accredited Workday consultants over the course of 2017. It made a number of strategic hires in the year ended 31 March 2016, including a Head of Professional Services in the UK and a country manager in Benelux. Based in the Group's new office in Amsterdam, the growing Benelux team gained its first significant prime engagement in March, contracting to deploy a Workday HCM solution for TomTom, a global provider of electronic navigation and mapping products.

Overall, the division added 35 new Smart SaaS clients during the year including Netflix, Palantir and Toyota Financial Services. The total number of Smart customers now stands at 55, extending the Group's lead in this niche in the Workday ecosystem and contributing to a growing recurring revenue stream. The level of activity in the US driven by interest in Smart has justified an investment in Boston, where Kainos opened an office in June 2015.

Looking forward, WorkSmart will seek to consolidate its position as a leading boutique implementation services provider in Europe, and take advantage of its unique capability with Smart, the only automated testing product for Workday globally. Continued strong growth of Workday Inc. provides an opportunity to expand the pace and range of WorkSmart successes in the coming year.

Key Performance Indicators (KPIs)

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

Financial KPIs

Total sales orders (£m)
2016

87.2m

2015

78.3m

Revenue (£m)
2016

76.6m

2015

60.8m

Adjusted pre-tax profit (£m)
2016

14.1m

2015

11.8m

Non-financial KPIs

Overall customer satisfaction rating
2016

97.4%

2015

87.7m

Number of customers
2016

209

2015

165

'Best Companies to Work For' ranking
2016

37th

2015

50th

Staff attrition
2016

9.9%

2015

7.9%

Risk factors and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's operations, its financial results or the value and liquidity of its securities, and could cause actual results to differ materially from forecast and historic results. During the year the Board carried out a robust assessment of the principal risks facing Kainos, including those that threaten its business model, future performance and solvency or liquidity.

The following table identifies the principal risk factors but may not be exhaustive. There may also be risks that are not currently considered to be serious or which are currently unknown, and risks that are outside of the Group's control. Where reasonably possible, Kainos has taken steps to mitigate the risks or potential risks but it cannot entirely safeguard against all of them.

Risk factor	Risk	Risk mitigation
Financial	• Financial or trading risks associated with the UK leaving the European Union ('Brexit').	• The Group has evaluated scenarios associated with Brexit and concluded that there is no substantial risk to operations in the next two to three years. The Group is not overly reliant on UK-EU trade (its most significant customers are UK public sector organisations). Operations in the Group's Polish subsidiary are predominantly focused on product development and are largely independent of UK labour or trade restrictions.
Reputational	• Failure of software products or undetected faults in the Group's software products or software developed for customers.	• Kainos implements a portfolio of quality assurance checks that reduce the likelihood of failure of client projects. Development of Kainos proprietary software is subject to robust quality control at every stage of the development and test life cycle.
	• Third party scanning errors and clinical safety risks.	• Kainos has a rigorous selection and quality process for third party scanning partners. This is regularly monitored and any partner deemed at risk, or that fails to perform to the satisfaction of the Group or the customer, is not reselected for work with Kainos.
	• Negative associations with Kainos and subsidiary brands.	• Kainos actively monitors press, online and social media channels to ensure that it identifies potential reputational or defamatory risk. In conjunction with its advisers, it has developed a proactive approach to addressing any negative associations in the public eye.
	• Loss of reputation due to employee behaviour.	• Kainos publishes and promotes a best practice policy for use of social media and public channels by employees, which is designed to minimise the potential for deliberate or accidental negative publicity for the Group.

Strategic Report continued

Risk factor	Risk	Risk mitigation
Infrastructure	• Loss of key employees, or inability to recruit sufficiently qualified employees in core markets and locations.	• Kainos has worked to become an employer of choice in certain of its key locations, notably Belfast and Gdansk, and has implemented a team, processes and infrastructure dedicated to recruiting the most appropriate candidates in a streamlined hiring process.
	• Inadequate succession planning.	• Kainos has developed a succession plan that addresses succession for senior management (including divisional management teams) in the case of unforeseen events, and also from the point of view of career progression for up and coming leaders.
	• Unauthorised access to and/or sabotage of systems, including unauthorised access resulting in loss or corruption of customer data held or maintained by the Group.	• Kainos has robust information and physical security policies and procedures which provide a reasonable level of protection against sabotage. They also limit access to systems, office and data centre areas to appropriate personnel. Penetration and security testing is undertaken to monitor the effectiveness of security and identify areas for improvement.
Marketplace	• Claims for infringement of a third party's intellectual property or infringement of the Group's intellectual property.	• Kainos enters into non-disclosure agreements with employees, independent contractors and third parties in the ordinary course of its business to provide a degree of protection to its intellectual property, domain knowledge and know-how. Where practical, focused patent searches are undertaken to identify areas that new products or services under development may conflict with third party patents.
	• Removal of access to essential intellectual property or partnership.	• Kainos has entered into contracts with its main partners, Workday and Apple Inc., to secure access to proprietary materials including code, know-how and branding which the Group needs to deliver or enhance its services.
	• Failure to be selected on public procurement frameworks.	• Kainos' divisions that are engaged in public sector procurement actively review all existing and renewed government procurement frameworks. The Group has built specific pre-sales expertise that enables it to compete effectively in public procurement competitions.
	• Contractual failure.	• Kainos maintains a rigorous process for approving contractual terms and deliverables to control the level of risk that is accepted.

Employees and career development

The directors believe that investment in people is key to helping the Group achieve its recruitment and career development ambitions and, further, that it provides a visible commitment to ensuring Kainos staff remain at the forefront of the digital industry. To emphasise this commitment, a senior member of staff has been appointed to the executive team to oversee all aspects of staff recruitment, career development and progression. Reporting directly to the Chief Executive Officer (CEO), the new Head of People will also be responsible for improving staff operational activities, such as streamlining processes for assignment of employees to overseas locations as the organisation expands internationally.

The average number of employees at Kainos during the year was 733, up from 612 last year, and the number of employees (excluding contractors) at 31 March 2016 was 777. Recruitment and on-boarding activities continue to take priority and this year the Group launched MAP (Master, Accomplish, Progress), an ambitious career development programme for Kainos staff in all locations. This complements investment in previous years in infrastructure to support growth, including deployment of Workday's HCM solution, and the Kimble time recording and financial reporting system. Over 100 staff have already benefited from attending the new Apprentice, Trainee, Consultant and Management level programmes that form MAP.

The Group continues to search for talent outside mainstream recruitment channels, building on the success of its long-standing and popular Earn as You Learn® and apprenticeship schemes. Once again, the Group was particularly pleased to achieve a top 50 position in the prestigious Sunday Times 'Best Companies to Work For' programme, improving to 37th place in February 2016 and gaining a three star rating for the first time.

Kainos staff continue to set new standards of quality and achievement. This year, a Kainos employee won the BCS Young Professional of the Year in recognition of his work in developing and growing the Group's operational capability in the UK. In Gdansk, which is now the product development centre for the Group, 90 new jobs were created, and on 1 February 2016 the 200th Polish employee joined as a WebOps trainee. The scale of the Group's operation in Gdansk means that Kainos is now one of the leading digital employers in the region, and in March 2016 moved to a modern office in the centre of the city to accommodate current and future headcount growth.

The pace of recruitment and training is expected to pick up significantly in the year ending 31 March 2017, both in the Group's development centres in Belfast and Gdansk and in increasingly far-flung regional offices. To make this successful will require consistency across all aspects of the Kainos staff development programme, and will require particular attention to manage overall attrition levels, which while remaining well below the industry average rose slightly this year to 9.9% (from 7.9% in 2015) following increased competition for talent in some locations, notably London and Dublin. Attrition in the Group's main development centre in Northern Ireland rose to 5.4% (2015: 4.7%).

Diversity, equal opportunity and human rights

Kainos has an obligation to all staff and the wider community to respect and uphold people's basic human rights. The Group firmly believes that continued success depends on attracting, developing and retaining the best staff, and nurturing their potential to the full. It also recognises that maintaining a competitive edge requires a highly skilled, competent, flexible and motivated workforce. Accordingly, the Group's employment policy encourages a productive working environment which helps all employees to develop their full potential, and allows Kainos to make full use of the talents and resources of its staff. Kainos is committed to being an inclusive and fair employer and to creating equal opportunity for employees regardless of colour, nationality, sex, marital status, sexual orientation, age, religion, disability or any other characteristic protected by law. Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. Wherever possible the employment of staff who become disabled will be continued and appropriate training and career development will be offered.

Gender diversity remains a challenge in an industry that is predominantly male. However, the Group actively seeks to promote Kainos as a premium employer of women. The number of women employed by Kainos on 31 March 2016 was 205, representing approximately 26% of the total workforce, well above the 18% level for the UK ICT industry in the UK as a whole. This year, the Group increased the number of women in leadership roles with the promotion of the Head of People to the executive team, and has female involvement at executive, senior management and other management levels.

	Male	Female
Directors	7	0
Senior managers (executives)	13	2
All employees	572	205

The Group also looks to encourage a wider range of ethnicities and the increasing diversity of background means that today the Group employs staff with over 15 different nationalities. The Group does not tolerate any slavery or human trafficking in any part of its business operations and takes a risk-based approach regarding its supply chains.

Corporate social responsibility

The Group views it as part of its mission to promote awareness of digital technologies amongst school leavers and young people. This has the benefit not only of growing the pool of talent available to industry where Kainos has a presence, but also of positioning Kainos as a socially-aware and responsible organisation. In this regard, the Group can justly claim a unique position as mentor to generations of information technology specialists. The ability to shape talent prompted Kainos to set up its Digital Academy, a range of initiatives designed to encourage digital talent into the UK workforce.

Under this umbrella, Kainos has run 'hackathons', coding camps, and innovative work placements for young people to get them excited about digital technology, and these activities have proved as rewarding for staff as for the participants. The Digital Academy has also helped Kainos find talent outside mainstream recruitment channels. Since it started in 2013, the Group's popular Earn as You Learn apprenticeship scheme has resulted in recruitment of 21 young people who otherwise would not have featured in recruitment activities.

This year, the Group formalised its approach as a digital evangelist and educator by the appointment of a long-standing staff member to run the Kainos Tech Outreach function. Designed to inspire children, empower teachers and influence policy makers to improve digital literacy, Tech Outreach is working with partners such as The Prince's Trust to identify where technology can have most impact in changing the lives of those who experience financial and social barriers. It has developed a programme of classes, events and activities that are fun and engaging, and that are staffed entirely by Kainos volunteers.

Customer satisfaction and quality

In recent years the Group has created a streamlined mechanism to capture high-level customer feedback on client engagements with the intent of measuring quality and identifying where improvements could be made. This comprises a concise online questionnaire delivered via a professional and modern interface that allows customers to submit feedback at any stage during an engagement. Data gathered in this way is submitted to an in-house Services Management solution and used to track and present key metrics in an easy to digest dashboard format.

Feedback is captured for quality of solution, services and people. In 2016, 78 unique responses relating to all three categories were rated as 'Good or Above' by over 97% of customers ('Solution' – 99%; 'Services' – 96%; 'People' – 97%). An overall feedback rating is also measured, and in 2016 97% of responses gave Kainos an overall rating of 'Good or Above'. (In 2015, the comparable overall rating from a sample of 57 responses was 88%).

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

Research and development

At the start of 2015, the Kainos Chief Technology Officer (CTO) formalised an Innovation Engineering process to accommodate scale and diversity of new offerings across the Group's disparate core markets, and incorporated an introductory Innovation Engineering programme for new graduate recruits to reinforce creative and innovation values in staff. This reinforces the long-standing applied nature of research and development in Kainos, which is designed to support real opportunities across divisions and which in 2015 was delivered through interactive showcase sessions with clients such as the DVSA. Public thought leadership this year included Big Data hackathons with Belfast City Council and workshops on the Offline Web at the South by Southwest conference (SXSW Interactive) in Austin, Texas. In May 2015, Kainos curated the second annual BelTech technology conference, showcasing local and international digital entrepreneurship, and inspiring the next generation of digital leaders.

Looking forward, the research focus will be on Machine Learning and the Internet of Things (IOT), independently and in conjunction with partners and where possible, with clients. This will be supplemented by increased visibility at key industry events and partnership with like-minded innovative organisations to identify opportunities for product and offering synergy. The Group will again promote and encourage digital innovation and creativity in the third annual Beltech conference, to be held in 2016.

Environment

Kainos recognises the importance of meeting globally recognised corporate responsibility standards. It encourages its employees and suppliers to act in an environmentally responsible manner and it has endeavoured to manage the effect that it has on the environment and to support sustainability.

As a software product and services office-based provider, Kainos has no activities that pose major environmental issues. Usage of energy to facilitate the computing requirements of its data servers and its employees, as well as international travel, are considered to be the greatest environmental impacts associated with its daily operations. Other factors include the use of electrical and electronic equipment, the consumption of water, the use of paper and the disposal of waste.

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

In accordance with regulation, Kainos is required to make certain disclosures concerning greenhouse gas emissions relating to the current and preceding financial years. For the year ended 31 March 2016 the quantity of Scope 2 emissions by Kainos was 395.4 tonnes of carbon dioxide equivalent (CO_2e).

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

Intensity ratios (tonnes of CO_2e per unit)

Ratios of carbon emissions to:

	2016	2015
Total revenue	0.01	0.01
Recurring revenue	0.01	0.01
Operating profit	0.03	0.03
Employees	0.65	0.54

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

Brendan Mooney
Chief Executive Officer
27 May 2016

Directors' and Corporate Governance Report

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

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

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

Dr John Lillywhite
Chairman

The directors present their report and the audited financial statements for Kainos Group plc (company number 9579188) for the year ended 31 March 2016. These will be laid before the shareholders at the Annual General Meeting (AGM) to be held on 22 September 2016. The Strategic Report is incorporated by reference into this Directors' Report.

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

Directors

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

Dr John Lillywhite (aged 75) Chairman
John is a Fellow of the Institute of Management Accountants and has been in the Information Technology industry for over 50 years. In 1997 he stepped down as Group Finance Director of ICL (now Fujitsu Services) after a long career with the Group in which he worked in the UK, Europe, USA and the Far East filling roles in divisional management and various aspects of finance, including Group CFO where he was responsible for acquisitions, disposals, start-ups and recovery programmes. John has been Chairman of seven start-up companies and is a trustee director for a large pension fund. John acts as a Non-Independent Non-Executive Chairman and sits on the Audit Committee, Nominations Committee and Remuneration Committee at Kainos.

Dr Brendan Mooney (aged 49) Chief Executive Officer (CEO)
Brendan joined Kainos in 1989 as a graduate software engineer before moving into a number of technical and commercial roles in Dublin, London and the US. He was appointed CEO of Kainos in 2001. In addition to his role at Kainos, Brendan has been a NED at Meridio, Property News, the Probation Service for Northern Ireland and, until recently, was a serving Lay Magistrate. Brendan is the recipient of an Honorary Doctor of Science (DSc) in recognition of his services to business development. As CEO, Brendan is responsible for setting the strategic direction of the Group and for overseeing its profitable growth.

Richard McCann (aged 51) 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 in to 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 53) Senior Vice President (SVP) Sales
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. Paul is the SVP Sales at Kainos, responsible for all product and service sales activities in Kainos.

Andy Malpass (aged 54) Independent Non-Executive Director
Andy graduated with a BA (Hons) in Accounting and Finance from Lancaster University and is a Fellow of the Chartered Institute of Management Accountants. He has over 30 years' experience in the software industry covering both private and public companies. Most recently, Andy served as Group Finance Director of Fidessa Group plc (formerly Royalblue Group plc) which he joined in 1995, and where he has also been Company Secretary. Andy acts as Senior Independent NED and chairs the Audit Committee.

Chris Cowan (aged 57) Independent Non-Executive Director
Chris holds an MA History from St Catharine's College, Cambridge. Chris runs a board advisory business focused on digital transformation and has previously served as Managing Director of Accenture's Telco, Media and Technology business in the UK; Accenture's Telco Industry Managing Director for EMEA; Chairman and CEO of Digiplug (an Accenture Digital business); and Managing Director of Value Partners Group's UK business. Chris acts as an Independent NED and sits on the Audit Committee, Nominations Committee and Remuneration Committee.

Tom Burnet (aged 48) Independent Non-Executive Director
Tom graduated with an MBA from the University of Edinburgh. Tom is CEO of AIM company accesso Technology Group plc, a leading supplier of technology platforms to the global leisure and attractions market, serving over 1,000 clients in 22 countries. Previously he was Managing Director of Serco's Defence Services division and Managing Director of QinetiQ's consultancy business. He started his career as the UK's youngest Army Officer serving in the Black Watch (RHR) and is a member of the Queen's Bodyguard in Scotland. Tom acts as an Independent NED; he sits on the Nominations Committee and chairs the Remuneration Committee.

In accordance with provision B.7.1 of the UK Corporate Governance Code (Code), all the directors offer themselves for election at the forthcoming AGM.

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

The Chairman confirms that 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; accordingly their election is recommended. The Senior Independent Director (SID), Andy Malpass, confirms that the performance of the Chairman continues to be effective and his re-election is accordingly recommended.

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

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

The Board

At 31 March 2016 the Board comprised the Chairman, three Executive Directors and three NEDs whose Board and Committee responsibilities are set out in the table below:

		Board	Audit Committee	Remuneration Committee	Nominations Committee
John Lillywhite	Chairman	Chairman	Member	Member	Chairman
Brendan Mooney	CEO	Member	–	–	–
Richard McCann	CFO	Member	–	–	–
Paul Gannon	SVP Sales	Member	–	–	–
Andy Malpass	Senior Independent NED	Member	Chairman	–	–
Chris Cowan	Independent NED	Member	Member	Member	Member
Tom Burnet	Independent NED	Member	–	Chairman	Member

The Board meets formally on a regular basis to monitor operating issues, risk and trading performance, to review forecasts, strategy and policy, to consider key projects and major investments and to oversee appropriate shareholder reporting. The Board is responsible for corporate governance and delegates operational control to the Executive Directors. Since IPO, the Board met on seven 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 executives.

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

	Board meetings attended	Audit Committee meetings attended	Remuneration Committee meetings attended	Nominations Committee meetings attended
John Lillywhite	6/7	2/2	3/3	1/1
Brendan Mooney	7/7	–	–	–
Richard McCann	7/7	–	–	–
Paul Gannon	7/7	–	–	–
Andy Malpass	7/7	2/2	–	–
Chris Cowan	7/7	2/2	3/3	1/1
Tom Burnet	5/7	–	3/3	1/1

Absences were due to prior commitments or illness.

There is a formal schedule of matters reserved for the decision of the Board that covers key areas of Kainos' affairs. The schedule includes approval of the Annual Report and any other financial statements, the adoption of budgets or business plans, decisions on acquisitions and disposals, material financial commitments and the release of inside information. Certain matters require Board approval and other matters may be approved by senior management, but notification to the Board is required. The schedule of matters reserved for the Board is reviewed annually. A procedure exists to allow the directors to seek independent legal advice in respect of their duties at Kainos' expense where the circumstances are appropriate. No such advice was sought by any director during the year. All directors have access to the Company Secretary for her advice and services.

There was a formal evaluation of the performance of the Board during 2016. This consisted of an internally run review conducted by the Chairman with the Company Secretary. The performance evaluation questionnaire was based on the Code process and it covered the areas of Board structure, effectiveness, Committees, information and communication. Questionnaires were completed by the directors and submitted for discussion. The feedback generated from the questionnaires was discussed by the Board, together with potential improvements that could be made. The conclusion was reached that the Board is operating effectively. 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. In accordance with the requirements of paragraph B.6.2 of the Code, the next independent evaluation of the Board's performance is scheduled to be conducted in 2017.

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

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

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

No conflicts have arisen in the year ended 31 March 2016.

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

G Burns

Grainne Burns
Company Secretary
27 May 2016

Committees of the Board
The constitution and responsibilities of the Board's Committees are set out on the following pages.

Directors' Remuneration Report

Statement from the Chairman of the Remuneration Committee

As Chairman of the Remuneration Committee I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2016.

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

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

The report has been split into two sections: the Directors' Remuneration Policy, which sets out the policy on the remuneration of the Executive Directors and NEDs for the next three years, and an Annual Report on Remuneration, which discloses the directors' remuneration for the year ended 31 March 2016. The Board will be seeking shareholders' support for both sections of the report at the forthcoming AGM. The Directors' Remuneration Policy is intended to become effective from the 2016 AGM and remain in place for three years up to 2019. Up until the AGM, the Group will follow the Directors' Remuneration Policy as set out in this report.

The Chief Executive Officer's statement earlier in this Annual Report provides a summary of the progress the Group has made over the year and since its IPO. To continue building on this performance, the Remuneration Committee is committed to continue structuring executive remuneration to fit the Group's business model and support its strategy. Overall packages are set at attractive levels to retain and motivate executives with a significant portion based on performance. Salaries are kept at below median levels compared to peer companies. Short term performance is incentivised via an annual bonus which is currently based on revenue, adjusted pre-tax profit and sales order value targets and paid in cash. Long term performance is incentivised via a share plan under which executives are awarded performance shares subject to achieving Total Shareholder Return (TSR) and Earnings per Share (EPS) growth over a three year period. The first performance share awards were made at the date of the Group's IPO and are summarised later in this report.

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

For the current financial year, ending 31 March 2017, the Group is not proposing any material change to the remuneration arrangements that were set out in the Prospectus. The policy to be put to a shareholder vote at the AGM is intended to provide encouragement and incentive for Executive Directors to build on the success the Group has achieved to date.

Directors' remuneration policy

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

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

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

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

Key elements of remuneration

Element	Purpose	Operation	Potential remuneration	Performance metrics
Base salary	To attract and retain executives	Reviewed annually in April and fixed for 12 months commencing 1 April each year. The Committee takes into account: • an individual's experience, knowledge and performance in the role • business and individual performance • achievement of objectives • comparative salaries and periodic reviews • the Group's financial position • the salary increases being provided to Kainos employees.	Percentage increases will normally be in line with other employees in the same location. Higher increases may be awarded in certain circumstances if there are commercial reasons for doing so such as to reflect market movements, changes in job responsibilities and to address retention issues. The CEO's salary is currently £220,000. The CFO's salary is currently £195,000. The SVP Sales Director's salary is currently £195,000.	None
Benefits	To attract and retain executives	The Executive Directors are entitled to a car allowance, private medical insurance, life insurance and permanent health insurance.	No maximum is set but the Remuneration Committee will monitor the overall cost of the benefits package. Any changes will normally be in line with other employees in the same location.	None
Pension	To attract and retain executives	The Executive Directors are entitled to participate in the Group's pension scheme or receive a payment in lieu of pension.	The maximum payment by the Group is set at 15% of salary. The CEO and CFO currently receive payments in lieu of pension of 8.5% and 5% of salary, respectively. The SVP Sales participates in the Group's pension scheme and receives a Group contribution of 15% of salary.	None

Key elements of remuneration continued

Element	Purpose	Operation	Potential remuneration	Performance metrics
Annual bonus	To reward and incentivise performance within a financial year with adequate reward for good performance and excellent reward for exceptional performance, to focus executives on key objectives and support positive team behaviour	Performance is measured on an annual basis for each financial year. Criteria are established and weighted at the beginning of each year based on Group financial targets. Threshold and target levels of performance are determined for each criterion. At the end of the year, the 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 Committee has discretion to apply 'corporate override' in the event core targets are not achieved or in the event of a material negative event.	The maximum annual bonus opportunity under the policy as a percentage of the Executive's salary is 150% for the CEO, 150% for the CFO and 225% for the SVP Sales. The current normal on target and maximum annual bonus levels are 82% and 123% of salary for the CEO, 79% and 119% of salary for the CFO and 136% and 204% for the SVP Sales.	Annual bonus is discretionary. Criteria are chosen, weighted and targets set each year by the Remuneration Committee in accordance with business priorities. Criteria may be different for each Executive Director. For the year to March 2016, the targets included measures for revenue, adjusted pre-tax profit and sales order value. An element of the bonus may also be based on personal performance.

Key elements of remuneration continued

Element	Purpose	Operation	Potential remuneration	Performance metrics
Long term incentive plan (LTIP)	To motivate executives, incentivise performance over the long term and to facilitate share ownership	Performance share awards are made under the Group's 2015 Performance Share Plan (PSP). Awards, made in the form of nil or nominal cost options, normally vest at least three years following the date of award subject to continued employment and the meeting of appropriately challenging performance conditions specified at the outset. The Remuneration Committee determines the extent to which performance conditions have been met. Awards may be increased for dividends paid during the period. The Committee determines the performance conditions, weighting and target performance levels at the point of award. Initial awards were made at the time of the IPO and will vest during the financial year ending 31 March 2019. Clawback may be applied at the discretion of the Committee in the event of material misstatement of the financial results or if other exceptional circumstances exist such as gross misconduct.	The normal maximum level of annual award is 200% of salary. In exceptional circumstances, awards may be made up to a maximum of 300% of salary. The Committee currently expects to make annual awards to the CEO, CFO and SVP Sales of 40%, 50% and 40% of salary, respectively. In the event of a new appointment the Committee would expect to make a higher award, closer to the normal maximum. 30% of awards vest at threshold levels of performance.	For the award at the time of IPO, 50% was linked to growth in adjusted EPS and 50% linked to total shareholder return. For future awards, the Committee will assess what measures and targets best support the long term focus of the Group and so measures and targets may be different from year to year.
Policy for other employee incentive arrangements				
Share options	To motivate and facilitate share ownership	Market value options may be granted to employees at the discretion of the Committee under the 2015 Performance Share Plan. UK employees may receive tax advantaged awards under the CSOP Sub-Plan. Options have a market value exercise price and have a normal minimum vesting period of three years. At the time of the IPO, options were granted to certain managers and employees, not Executive Directors.	It is not intended to grant CSOP options to Executive Directors.	Performance conditions may be applied but it is intended that CSOP options will not normally have performance conditions attached.

Key elements of remuneration continued

Policy for other employee incentive arrangements continued

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

Key elements of remuneration continued

Policy for other employee incentive arrangements continued

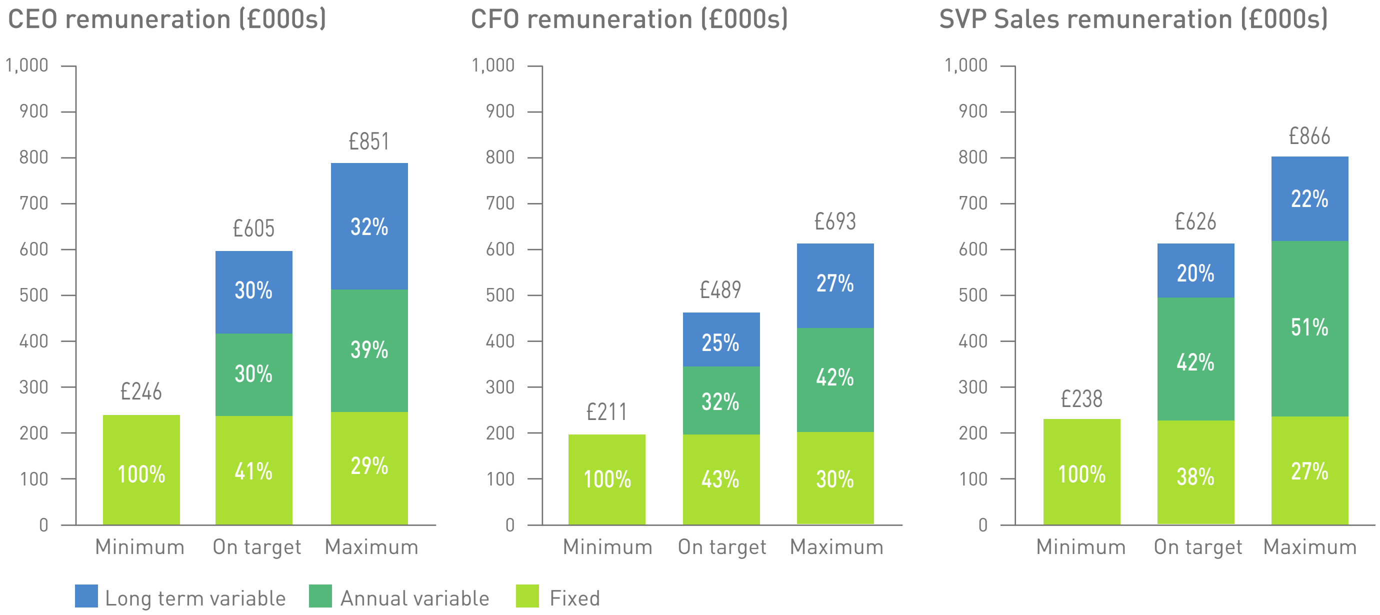
Element	Purpose	Operation	Potential remuneration	Performance metrics
Poland and Ireland Share Schemes	To motivate and facilitate share ownership and align employees with shareholders	The Group has implemented share schemes for employees in Poland and the Republic of Ireland with the intention of making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

Illustration of the application of remuneration policy for the Executive Directors

The chart below illustrates the levels of remuneration that would be received by each Executive Director at different levels of performance for the first year to which the remuneration policy applies.

The figures in the chart are calculated using the maximum bonus as a percentage of salary for each of the Executive Directors, under the remuneration policy (150% of salary for the CEO, 150% of salary for the CFO and 225% of salary for the SVP Sales).

The current maximum annual bonus levels are lower than those permitted by the policy, at 123% of salary for the CEO, 119% of salary for the CFO and 204% for the SVP Sales.



Service contracts – Executive Directors

Brendan Mooney, Richard McCann and Paul Gannon entered into new contracts with the Company effective on Admission. Key terms are shown in the table below:

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

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

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

The new director's total remuneration would be consistent with comparative packages as advised by the 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 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 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 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 Committee determines to allow vesting to a greater extent.

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

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

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

Shareholders
The 2016 AGM will be the Group's first as a listed company and as such there is no history of shareholder voting on remuneration issues. Kainos is keen to ensure that its shareholders are supportive of the Group's remuneration philosophy and policy. The Committee is keen to hear shareholder feedback, with the Chairman of the Committee as the initial point of contact, and will consider any feedback provided in advance of the forthcoming AGM and throughout the year.

Flexibility, discretion and judgement
The 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 Committee retains flexibility to determine the objectives, weightings and target levels of performance under its annual bonus at the start of each year. The 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 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 Committee may amend the performance condition so as to be more appropriate. The alternative performance condition will be equally challenging.

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

Annual Report on Remuneration

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

All members of the Committee, with the exception of John Lillywhite, are Independent NEDs. None of the members of the 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 Committee meetings by invitation. The Company Secretary acts as secretary to the Committee.

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

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

Remuneration consultants
During the year, the Committee took independent advice from h2glenfern Remuneration Advisory (a division of h2glenfern Limited). h2glenfern operates in accordance with the principles of the Code of Conduct for the Remuneration Consultants' Group in relation to executive remuneration consulting in the United Kingdom. h2glenfern does not provide other services to Kainos. For the year under review, h2glenfern received fees of £55,700, of which £44,700 related to its work on IPO-related matters and £11,000 related to its work for the Committee on operational matters.

Remuneration details

In accordance with the Regulations, the tables below set out the remuneration for each director for the year ending 31 March 2016.

Directors' remuneration

Name	Financial year	Salary/fees[1] (000s)	Benefits (000s)	Bonus (000s)	Total (excluding pension) (000s)	Pension[2] (000s)	Incentives vested	Total (including pension) (000s)
Executive Directors								
Brendan Mooney	2015	£200	£7	£227	£434	£18	N/A	£452
	2016	£216	£7	£186	£409	£19	N/A	£423
Richard McCann	2015	£155	£6	£171	£332	£67	N/A	£399
	2016	£181	£6	£155	£342	£9	N/A	£351
Paul Gannon	2015	£137		£256	£393		N/A	£393
	2015[3]	€55	€19	€104	€178	€33	N/A	€211
	2016	£176	£10	£269	£455	£21	N/A	£476
	2016[3]	€15	€5		€20	€9	N/A	€29
NEDs								
John Lillywhite	2016	£74	N/A	N/A	N/A	N/A		£74
Andy Malpass	2016	£45	N/A	N/A	N/A	N/A		£45
Chris Cowan	2016	£33	N/A	N/A	N/A	N/A		£33
Tom Burnet	2016	£37	N/A	N/A	N/A	N/A		£37

1 Amounts noted are the total actual salary/fee payments made during financial year 2015-16, not base salary.
2 Pension amounts for Brendan Mooney and Richard McCann are payments in lieu of pension.
3 Paul Gannon is remunerated in Euros for Republic of Ireland company services and Pounds Sterling for UK company services. He converted to a UK-only contract from 1 June 2015.

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

Annual bonus

The Executive Directors' bonuses for the year ended 31 March 2016 were based on the revenue, adjusted pre-tax profit and sales order value targets. The structure of the bonus and targets is set out in the table below:

Objective	Weighting	Target performance (£000s)	Threshold performance (£000s)	Outcome (£000s)	Bonus payout (£000s)	Bonus payout (£000s)	Bonus payout (£000s)
					B Mooney	R McCann	P Gannon
Revenue	30%	72,000	61,200	76,594	61	51	88
Adjusted pre-tax profit	40%	14,329	11,463	14,100	70	58	101
Sales order value	30%	75,000	45,000	77,271	55	46	80
Totals	100%				186	155	269

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

- Revenue:
  - Achievement below threshold pays zero;
  - Bonus payout on achievement between threshold and target is in 'steps', progressing to 100% bonus payout on achievement of target;
  - Achievement in excess of target pays out 100% bonus, plus 2% bonus for every 1% of achievement over the target.
- Adjusted pre-tax profit:
  - Achievement below threshold pays zero;
  - Bonus payout on achievement between threshold and target is in 'steps', progressing to 100% bonus payout on achievement of target;
  - Achievement in excess of target pays out 100% bonus, plus 1.5% bonus for every 1% of achievement over the target.
- Sales order value:
  - Achievement below threshold pays zero;
  - Bonus payout on achievement between threshold and target is in 'steps', progressing to 100% bonus payout on achievement of target;
  - Bonus payout on achievement between target and 120% pays out bonus on a straight line basis;
  - Achievement in excess of 120% of target pays out 120% of bonus, plus 1.4% bonus for every 1% of achievement over 120%.

Directors' shareholdings

The interests of the directors and their connected persons in Kainos ordinary shares immediately following the IPO on 10 July 2015 and at 31 March 2016 were as follows:

Name	Admission date	Shares purchased since admission	Current shareholding
Brendan Mooney	14,107,020	0	14,107,020
Richard McCann	6,140,000	0	6,140,000
Paul Gannon	9,131,240	0	9,131,240
John Lillywhite	434,000	66,000	500,000
Andy Malpass	0	38,590	38,590
Chris Cowan	21,582	10,000	31,582
Tom Burnet	14,388	0	14,388

Share ownership guideline

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

LTIP

At the time of the IPO, the Remuneration Committee granted performance and service related share awards to the Executive Directors under the 2015 PSP as outlined below:

Name	Date of grant	No. of ordinary shares under option	Value of award at IPO price	Exercise price per ordinary share	First exercise date	Lapsing date
Brendan Mooney	10 July 2015	197,842	£270,000	Nominal	10 July 2018	9 July 2025
Richard McCann	10 July 2015	136,691	£190,000	Nominal	10 July 2018	9 July 2025
Paul Gannon	10 July 2015	136,691	£190,000	Nominal	10 July 2018	9 July 2025

The 2015 PSP awards are subject to the following performance conditions. The vesting of 50% of the award is subject to a condition that measures growth in earnings per share over a three year performance period up to the year ending 31 March 2018 using the financial year ended 31 March 2015 as the base year. The vesting of 50% of the award is subject to a condition that measures the Group's total shareholder return over a three year period from the date of IPO and using the IPO price of 139p as the base value per share. Between threshold and maximum vesting, awards vest on a straight line basis.

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

SIP and SAYE schemes

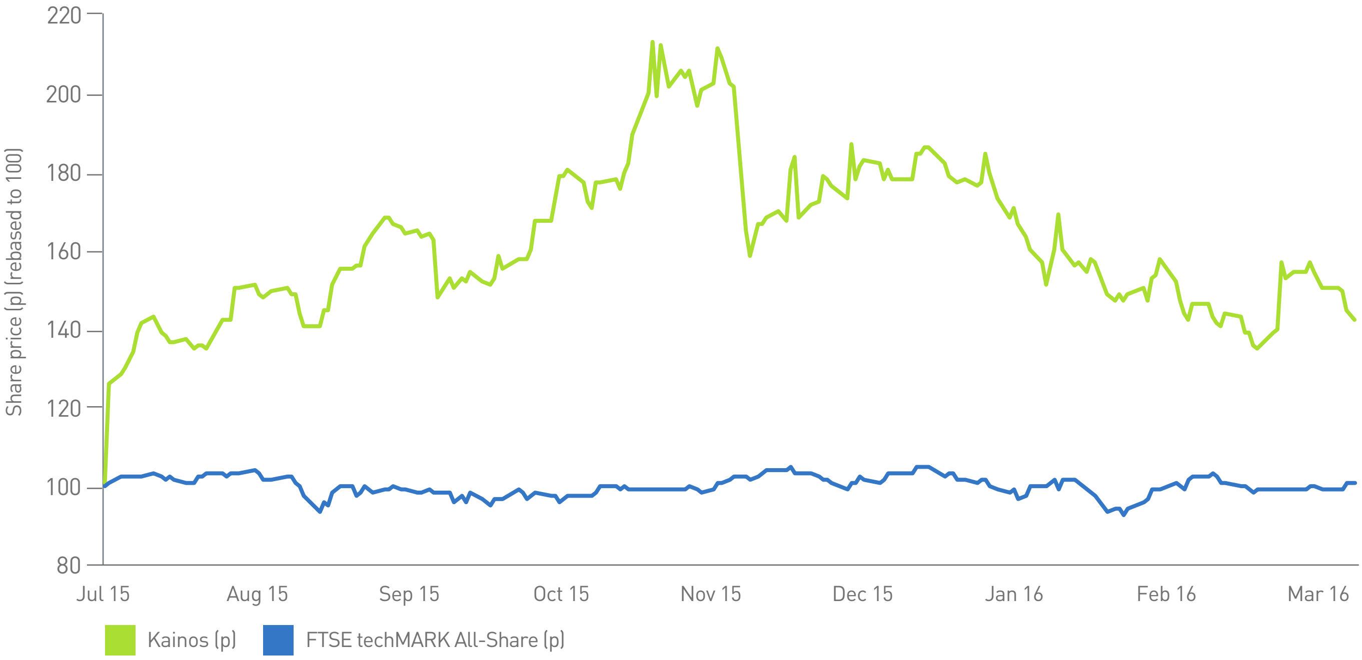
At the time of IPO, the Executive Directors were entitled to participate in the SIP and SAYE schemes on no more favourable terms than other employees with similar length of service. The SIP shares and SAYE options for the Executive Directors are shown below.

Name	SIP shares	SAYE options
Brendan Mooney	2,589	0
Richard McCann	1,438	3,237
Paul Gannon	2,589	3,237

Performance graphs and comparator tables

The regulations require the presentation of a number of graphs and tables setting out a comparison of company performance and CEO remuneration over a five year period. The Board believes that the techMARK All-Share Index, of which the Group is a constituent, provides the best benchmark for comparison. The Group's share price performance against FTSE techMARK All-Share Index performance for the period since listing is shown below. The Group's share price and the techMARK All-Share Index are both set to 100 at the start of the period.

Kainos share price performance against FTSE techMARK All-Share Index



CEO remuneration

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

	Salary and benefits (£000s)	Annual bonus (£000s)	Total remuneration (£000s)	Bonus as % of maximum	Vesting of long term incentives as % of maximum
2015	£224	£228	£452	76%	100%[1]
2016	£242	£186	£428	57%	100%[1]

1 The CEO held options in Kainos Software Limited which were not subject to performance conditions. These were satisfied in full, or lapsed, on or prior to listing of Kainos Group plc.

Change in CEO remuneration and remuneration of all UK employees

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

Annual change	CEO's salary	UK employees' salary	CEO's annual bonus	UK employees' annual bonus	CEO's benefits	UK employees' benefits	CEO's total	UK employees' total
2015	0.0%	8.4%	(27.5%)	(14.8%)	0.0%	0.0%	(16.6%)	(1.7%)
2016	7.8%	6.7%	(18.2%)	(21.7%)	0.0%	0.0%	(5.4%)	5.6%

Comparison of staff remuneration to Group KPIs

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

	Staff remuneration (£000s)	Profit before tax (£000s)	Corporation tax (£000s)	Effective tax rate	Dividends (£000s)
2012	15,059	2,033	(499)	25%	–
2013	17,402	3,480	(203)	6%	–
2014	22,954	7,056	(1,600)	23%	(651)
2015	30,954	11,837	(2,072)	18%	(1,325)
2016	35,373	14,261	(1,834)	13%	(13,309)

Annual General Meeting (AGM)
The 2016 AGM will be the Group's first since its IPO and as such the first time that either a Remuneration Policy or Report will be put to a shareholder vote.

Directors' remuneration for the year commencing 1 April 2016

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. In line with the directors' remuneration policy, the annual salaries of the Executive Directors for the year commencing 1 April 2016 are as follows: CEO: £220,000 CFO: £195,000 SVP Sales: £195,000
Benefits	There will be no change to the benefits of the Executive Directors in the year commencing 1 April 2016.
Pension	There will be no change to the pension arrangements of the Executive Directors in the year commencing 1 April 2016.
Annual bonus	Annual bonus for the year commencing 1 April 2016 will be operated within the policy disclosed in this report. The principles of bonus criteria which will be applied to each Executive Director during the year ending 31 March 2017 will be similar to those applied during the year ended 31 March 2016. The targets for the annual bonus for 2016-17 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 2017 Annual Report.
Long term incentives	The Committee intends to make further performance share awards following the AGM. These will be made in line with the Remuneration Policy. The Committee will determine the performance conditions, weighting and growth targets to be applied at the time of award and disclose them in the 2017 Annual Report.
NED remuneration	For the year commencing 1 April 2016, it is proposed that NED fees remain the same as in 2015.

On behalf of the Board

Tom Burnet
Chairman of the Remuneration Committee
27 May 2016

Audit Committee Report

As Chairman of the Audit Committee, I am pleased to introduce the Audit Committee Report for the year ended 31 March 2016. The present Audit Committee was established on 18 June 2015 in connection with the IPO on 10 July 2015 and has met three times since, in November 2015, March 2016 and May 2016. The Audit Committee plays a central role in the review of Kainos Group's financial reporting, risk review and internal control processes. The Committee has focused on the integrity, completeness and clarity of financial reporting, the areas where judgements and estimates are required in the financial statements and the quality and effectiveness of audit processes to complement the other risk management activities.

Andy Malpass
Chairman of the Audit Committee

Composition

In accordance with the provisions of the Code, the Audit Committee is made up of three NEDs, of whom two are independent. The Audit Committee is chaired by Andy Malpass and the other members are Chris Cowan and John Lillywhite. The Board considers that Andy Malpass, who is a fellow of the Chartered Institute of Management Accountants with significant financial experience including serving as Finance Director of Fidessa group plc until October 2015, has the recent and relevant experience required to act as Chairman of the Committee. Details of relevant experience of all members of the Committee are detailed in the Directors' and Corporate Governance Report.

Audit Committee terms of reference

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

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

External audit

The Audit Committee advises the Board on the appointment, reappointment or removal of the Group's external auditor. Deloitte LLP is the Group's current auditor and was originally appointed in 2011. In line with EU legislation, all EU public interest entities must tender their audit every ten years. The Committee is satisfied with the effectiveness of the audit. During the year the Audit Committee reviewed and approved the scope and timetable for the interim review and final audit.

Appointment, independence and objectivity

The Audit Committee monitors the fees paid to the external auditor for audit and non-audit work. During the year the external auditor provided some non-audit services mainly in connection with the IPO. An analysis of non-audit fees is provided in note 6 to the financial statements. Any significant non-audit work will, in future years, require prior approval from the Audit Committee. 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 Group receives a formal statement of independence and objectivity from the external auditor each year.

Audit partners for listed companies are ordinarily rotated every five years. However, where the audit engagement partner has already served for four or more years when a company becomes listed, that individual may continue to serve as the audit engagement partner for not more than two years after the listing of the company. The current partner, David Crawford, has been the audit partner since Deloitte LLP's appointment in 2011 and as such can continue as audit partner for the next financial year.

Assessment of effectiveness of external audit

The Committee assessed the effectiveness of the external audit process at its meeting in May 2016. The audit was substantive in approach and included significant testing in areas identified as key risks such as revenue. This gave the Committee confidence as to the overall quality of the audit. The Committee also asked Deloitte LLP to report on control findings arising from the audit as part of the year end process. In addition, feedback on the audit was obtained from management and the finance team.

Following its review of the effectiveness of the external audit and independence of the external auditor, the Committee is satisfied that independence has been maintained and that it is appropriate to reappoint Deloitte LLP as the external auditor. The Committee therefore recommended to the Board that Deloitte LLP be reappointed as the external auditor for 2017 and a resolution for its appointment will be submitted to the AGM.

Internal control and risk management

The Board is responsible for the overall system of internal control and risk management for the Group and for reviewing their effectiveness. The system of internal controls is designed to manage, rather than eliminate, the risks to which the Group is exposed, including the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. Operating policies and controls are in place, and cover a wide range of issues including financial reporting, information technology, business continuity and management of employees. The key elements of the Group's ongoing processes for the provision of effective internal control and risk management systems include:

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

Significant financial reporting items

During the year ended March 2016 the Committee reviewed the external auditor's half year review, the half year results and the audit plan for 2016. In May 2016, the Committee received the external auditor's update and report on its audit activity related to the 2016 Annual Report, the financial statements contained in it and the Preliminary Results Announcement for the year ended March 2016. The Committee's prime areas of focus were:

- the integrity, completeness and consistency of financial reporting, including the adequacy, clarity and appropriateness of disclosures. This included reviewing the 2016 Annual Report and concluding that it was fair, balanced and understandable;
- the areas where significant judgements and estimates are required in the financial statements;
- the scope and programme of external audit, along with the quality and effectiveness of external audit processes;
- the materiality level to apply to the audit;
- 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 appropriateness of transactions separately identified as exceptional in order to highlight the underlying performance for the periods presented in the financial statements;
- the appropriateness of the controls to reduce the risk of fraud and exposure to bribery and corruption; and
- the appropriateness of the 'whistleblowing' procedures in place whereby staff may confidentially raise concerns about possible improprieties.

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

- revenue recognition in relation to significant contracts and implementations. The Group has a clear revenue recognition policy, described in note 3, and performs regular contract reviews with relevant staff. The Committee is satisfied that the internal processes and controls are appropriate;
- the tax complexity and risk related to the multinational operations of the Group and the areas of uncertainty that arise. The Committee considered the appropriateness of tax provisions and deferred tax assets in relation to the updates and reports it had received and concluded that the treatment adopted was fair and reasonable; and
- the level of contract provisioning for rectification and irrecoverable accrued income to obtain comfort over completeness and valuation. Relevant management are consulted with on a project by project basis to assess the level of provisioning required. The Committee is satisfied that the internal processes and controls are appropriate.

Internal audit

The Group does not maintain a separate internal audit function. This is in part due to the close control of operations exercised by the Executive Directors as well as the centralisation of the majority of accounting and financial activities in Belfast. However, the Group operates an audit programme which forms part of its ISO9001 (Quality Management System), ISO20000 (Information Technology Service Management System) and ISO27001 (Information Security Management System) certifications. As part of the certification process Kainos undergoes a bi-annual assessment to ensure that all of the controls are robust and any Kainos assets are appropriately protected. Information Security risks are assessed and reviewed regularly in IT steering meetings with the Group's senior management. Kainos participates in additional third party assessments for public and private sector clients to ensure that associated security controls are effective and address any related risks. The key elements of the Group's internal control framework and procedures are noted above, while the principal risks faced by the Group are set out in the Risk Factors and Uncertainties section of the Strategic Report.

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

Nominations Committee Report

Membership, meetings and evaluation

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

Responsibilities

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

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

Matters considered during the year

During the year ended 31 March 2016, a formal Board evaluation was undertaken in line with the recommendation of the Code, this being coordinated by the Chairman and Company Secretary. The outcome of the review, completed in January 2016, was largely positive and constructive. The Committee also recommended that the Board should conduct a comprehensive review of succession plans in place for senior staff. This was initiated in March 2016 and is scheduled for completion at the end of 2016.

Other statutory disclosures

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

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

No political donations were made during the year ended 31 March 2016.

There are no off-balance sheet arrangements. Details of the trusts relating to Kainos' share incentive plans are set out in note 22 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	Not applicable
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 19 to the consolidated financial statements. The rights and obligations attaching to the shares and the powers of the directors are set out in the Articles of Association, copies of which can be obtained from Companies House. There are no restrictions on the voting rights attached to the shares and no person holds securities carrying special rights with regard to control.

As set out in the Prospectus issued at the time as the IPO, Kainos holds a general authority to purchase up to £58,599.88 of ordinary shares in the market. This represented approximately 10% of the issued ordinary share immediately following Admission. No purchase of shares has been made pursuant to this authority. There is no present intention to use such authority, but the Board considers it desirable that the possibility of making such purchases under appropriate circumstances remains available. A similar authority will be requested at the forthcoming AGM, again limited to a maximum of 10% of the issued share capital. The Board intends only to exercise this authority if it believes that it will lead to an increase in earnings per share for the remaining shareholders.

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

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

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

Compliance with the UK Corporate Governance Code
Kainos is committed to high standards of corporate governance and is subject to the principles of the UK Corporate Governance Code. In respect of the year ended 31 March 2016 Kainos has complied with all of the provisions of the Code with the exception of two areas mentioned above (relating to the absence of an internal audit function and the non-independence of the NED/Chairman, John Lillywhite).

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

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

Principal shareholders
The following have disclosed that they have an interest in 5% or more of the issued ordinary share capital. At 27 May 2016, the holding notified to the Company is shown below.

	Ordinary 0.5p shares	% of issued share capital
Qubis	18,947,257	16.08%
Brendan Mooney	14,107,020	11.96%
Standard Life Investments	9,538,780	8.08%
Paul Gannon	9,131,240	7.74%
Brian Gannon	6,217,440	5.27%
Richard McCann	6,140,000	5.20%

Going concern and long term viability

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

Having reviewed the future plans and projections for the business and its current financial position, the Board believes that Kainos is well-placed to manage its business risks successfully. Kainos has adequate financial resources, no borrowings, a good level of recurring revenue, and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Board has a good 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 the three year period, ending March 2019. A period of three years was selected for the following reasons:

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

In performing the assessment, the Group's long term strategy and focus, the growing demand for its products and services, the increasing level of recurring revenue and low customer attrition, the track record of strong cash generation and a healthy cash balance with no debt from financial institutions were all taken into consideration. The review included sensitivity analysis on the future performance and solvency over three years and also for the principal risks facing the business in severe but reasonable scenarios. Based on the results of this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment. In doing so it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

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

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

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

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

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

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

Directors' and Corporate Governance Report continued

In preparing the Group financial statements, the directors are required to:

- 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
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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 Directors' and Corporate Governance Report includes a fair review of the development and performance of the business and the position of the Company and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy.

On behalf of the Board

John Lillywhite
Chairman
27 May 2016

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

Opinion on financial statements of Kainos Group plc	In our opinion: • the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2016 and of the Group's profit for the year then ended; • the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; • the parent company financial statements have been properly prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework; and • the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated Cash Flow Statement and the related Consolidated notes 1 to 25 and the parent company notes 1 to 8. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and Financial Reporting Standard 101 Reduced Disclosure Framework.
Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group	As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained in note 3 to the financial statements and the directors' statement on the longer term viability of the Group in the Directors' and Corporate Governance Report. We have nothing material to add or draw attention to in relation to: • the directors' confirmation in the Audit Committee Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Strategic Report that describe those risks and explain how they are being managed or mitigated; • the directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; • the directors' explanation in the Directors' and Corporate Governance Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

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

Independence	We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.
Our assessment of risks of material misstatement	The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Revenue recognition Revenue consists of revenues arising from consulting services, licence revenue, and support and maintenance contracts. We have identified that there was a risk that the correct revenue recognition policy may not have been applied to contracts primarily due to the following factors: • multi-element contracts may not have been correctly unbundled where they contain licence, time and materials and support elements; • inaccurate cost to complete estimates may have been used for fixed price contracts accounted for under a percentage of completion basis; and • incorrect cut-off may have occurred for public sector contracts who wished to spend available budgets before 31 March public sector year end. Management's accounting policies for revenue are detailed within note 3 to the financial statements, with the critical judgements applied in revenue recognition set out in note 4 to the financial statements.	In order to address the risk, we: • carried out a review of the appropriateness of revenue recognition policies adopted under IFRS including disclosures in the financial statements; • reviewed the revenue recognition policies against the rest of the industry peer group; • assessed the design and implementation of the controls relating to revenue recognition; • selected a sample of contracts, including public sector contracts signed towards the end of the year. Our sample selection involved identifying contracts with certain characteristics which were determined to be of audit interest. We performed detailed testing on these including performing a recalculation of revenue to be recognised based on the contract terms and comparing this to actual revenue, with each contractual element reviewed to assess whether the contract had been correctly unbundled by the Group for recognition purposes; • performed detailed testing of work in progress and advance billing including assessing whether the figure is appropriate based on the contracts, revenue recognised and invoices issued in the year; and • performed testing on the Group estimates of cost to complete for fixed price contracts selected for testing to assess whether the revenues recognised to date were appropriate; this work included reviewing the post year end progress which had been achieved, and meeting directly with the project managers.

Risk	How the scope of our audit responded to the risk
Contract provisioning Kainos is engaged in contracts with customers where the fees are fixed and also where the technical complexity of the project is high. A risk exists that provisions have not been identified for either irrecoverable accrued income or for rectification costs associated with specific contracts given both the value of accrued income and the scale of individual projects. The total provisions identified relating to contracts amounted to £342,000 (2015: £1.4 million) at the year-end date, which have been included in the overall accrued income balance of £5.2 million (2015: £4.1 million). Management's associated accounting policies are detailed in note 3 to the financial statements.	We have completed the following procedures in respect of this significant risk: • we have assessed the design and implementation of controls in place around the recording and review of accrued income and the process for identification of provisions; • we reviewed the composition of the accrued income balance at year end, and challenged the ageing of accrued income balances at this date to identify any trends which could indicate a recoverability issue; • any provisions identified by management were assessed both for completeness and valuation with the rationale for each provision challenged with management and supporting documentation obtained; and • we considered the history of provisioning within the entity and examined the settlement of prior year provisions to assess the accuracy of management's prior year estimates.
De-consolidation adjustments The Group accounts for all legal entities within one trial balance with separate country code identifiers. In order to prepare the consolidated Group financial statements, the trial balance is de-consolidated, sterling balances are retranslated back to domestic currency, intercompany balances are created and intercompany mark ups applied. There is a risk that given the manual nature of the de-consolidation adjustments they may not be complete and the incorrect foreign exchange rates could be used in calculating adjustments.	• We have tested management's deconsolidation of the trial balance; • we have audited the exchange rates that were used and compared to the actual monthly and year end exchange rates; and • we have audited the consolidation journals including the intercompany recharges, with the adjustments agreed to supporting documentation and transfer pricing agreements where applicable.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed in the Audit Committee Report.

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.

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

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We determined materiality for the Group to be £677,000, which is 5% of operating profit before exceptional items. We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £13,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at the Belfast location, where all of the UK and Republic of Ireland entities' finance functions are managed. All of these were subject to a full audit, whilst the remaining entities, Kainos Evolve Inc., Kainos WorkSmart Inc. and Kainos Software Poland Spólka z.o.o, were subject to an audit of specified account balances. 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 locations. Our audit work was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £36,800 to £433,000 (2015: £84,800 to £320,000). At the parent entity level we also tested the consolidation process.
Opinion on other matters prescribed by the Companies Act 2006	In our opinion: • the part of the Directors' Remuneration Report to be audited, from the section titled 'Remuneration details' to 'SIP and SAYE schemes' inclusive, has been properly prepared in accordance with the Companies Act 2006; and • the information given in the Strategic Report and the Directors' and Corporate Governance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
Matters on which we are required to report by exception	
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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns. We have nothing to report in respect of these matters.
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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Crawford.

David Crawford CA
(Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Belfast, United Kingdom
27 May 2016

Consolidated statement of comprehensive income

	Note	**2016 (£000s)**	2015 (£000s)
CONTINUING OPERATIONS	3, 5	**76,594**	60,778
Revenue			
Cost of sales	5	**(39,485)**	(28,329)
GROSS PROFIT	5	**37,109**	32,449
Operating expenses excluding share-based payments	5	**(23,050)**	(20,646)
Share-based payments	22	**(524)**	–
Operating expenses		**(23,574)**	(20,646)
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS		**13,535**	11,803
Exceptional gain on disposal of investment	8	**1,981**	–
Exceptional expenses in relation to IPO	8	**(1,297)**	–
Exceptional items	8	**684**	–
OPERATING PROFIT	5	**14,219**	11,803
Finance income		**42**	46
Finance expense		**–**	(12)
PROFIT BEFORE TAX		**14,261**	11,837
Taxation on ordinary activities	9	**(1,834)**	(2,072)
Profit and total comprehensive income for the year		**12,427**	9,765
EARNINGS PER SHARE			
Basic	11	**10.7p**	8.9p
Diluted	11	**10.6p**	8.5p

Consolidated statement of financial position

	Note	**2016 (£000s)**	2015 (£000s)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**2,086**	1,751
Investments	14	**900**	–
Other non-current assets	16	**379**	3,466
		3,365	5,217
CURRENT ASSETS			
Trade and other receivables	15	**15,048**	12,062
Prepayments		**1,970**	1,519
Corporation tax		**1,355**	–
Accrued income		**5,222**	4,051
Cash and bank balances		**15,045**	16,793
		38,640	34,425
TOTAL ASSETS		**42,005**	39,642
CURRENT LIABILITIES			
Trade creditors and accruals	18	**(7,901)**	(7,761)
Deferred income	18	**(4,218)**	(4,347)
Corporation tax	18	**–**	(226)
Other tax and social security	18	**(3,637)**	(2,975)
Derivative financial instruments	24	**–**	(98)
Other provisions	18	**–**	(158)
		(15,756)	(15,565)
NON-CURRENT LIABILITIES			
Other provisions	18	**(297)**	(347)
Deferred tax liability	17	**(29)**	–
		(326)	(347)
TOTAL LIABILITIES		**(16,082)**	(15,912)
NET ASSETS		**25,923**	23,730
EQUITY			
Share capital	19	**590**	549
Share premium account	19	**1,607**	–
Capital reserve	19	**668**	575
Share-based payment reserve		**524**	–
Retained earnings	19	**22,534**	22,606
TOTAL EQUITY		**25,923**	23,730

Richard McCann
Director
27 May 2016

Consolidated statement of changes in equity

for the year ended 31 March 2016

	Share capital (£000s)	Share premium (£000s)	Capital reserve (£000s)	Share-based payments (£000s)	Retained earnings (£000s)	Total equity (£000s)
BALANCE AT 31 MARCH 2014 (AUDITED)	525	396	54	–	14,155	15,130
BALANCE AT 31 MARCH 2014 (RESTATED)[1]	525	–	450	–	14,155	15,130
Profit and total comprehensive income	–	–	–	–	9,765	9,765
Current tax for equity-settled share-based payments	–	–	–	–	185	185
Deferred tax for equity-settled share-based payments	–	–	–	–	(174)	(174)
Issue of share capital	24	–	125	–	–	149
Dividends	–	–	–	–	(1,325)	(1,325)
BALANCE AT 31 MARCH 2015 (AUDITED)	549	521	54	–	22,606	23,730
BALANCE AT 31 MARCH 2015 (RESTATED)[1]	549	–	575	–	22,606	23,730
Profit and total comprehensive income	–	–	–	–	12,427	12,427
Premium on shares issued prior to reorganisation (note 19)	–	–	100	–	–	100
Share-based payment expense (note 22)	–	–	–	524	–	524
Current tax for equity-settled share-based payments	–	–	–	–	917	917
Deferred tax for equity-settled share-based payments	–	–	–	–	(107)	(107)
Issue of share capital	41	1,607	(7)	–	–	1,641
Dividends	–	–	–	–	(13,309)	(13,309)
BALANCE AT 31 MARCH 2016	**590**	**1,607**	**668**	**524**	**22,534**	**25,923**

1 In connection with the admission to the London Stock Exchange, the Group undertook a reorganisation of its corporate structure which resulted in Kainos Group plc becoming the ultimate holding company of the Group. The transaction is accounted for as a capital reorganisation with the consolidated financial statements (including comparative information) of the Group reflecting the predecessor carrying amounts of Kainos Software Limited.

Consolidated cash flow statement

at 31 March 2016

	Note	2016 (£000s)	2015 (£000s)
NET CASH FROM OPERATING ACTIVITIES	20	**9,761**	13,114
INVESTING ACTIVITIES			
Purchases of trading investments		**(900)**	–
Proceeds on disposal of investment		**1,981**	–
Purchases of property, plant and equipment		**(1,022)**	(917)
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		**59**	(917)
FINANCING ACTIVITIES			
Dividends paid		**(13,309)**	(1,325)
Proceeds on issue of shares		**1,741**	149
NET CASH USED IN FINANCING ACTIVITIES		**(11,568)**	(1,176)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,748)**	11,021
Cash and cash equivalents at beginning of year		**16,793**	5,772
CASH AND CASH EQUIVALENTS AT END OF YEAR		**15,045**	16,793

Notes to the consolidated financial statements

1. General information and basis of preparation

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

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

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

2. Adoption of new and revised standards

At the date of authorisation of these consolidated financial statements, the following standards and interpretations which have not been applied in these consolidated financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

Amendments to IFRS10, IFRS12 and IAS28 (Dec 2015)	Investment Entities: Applying the Consolidation Exception
Amendments to IAS1 (Dec 2015)	Disclosure Initiative
Annual Improvements to IFRSs: 2012-2014 Cycle (Sept 2014)	Annual Improvements to IFRSs: 2012-2014 Cycle
Amendments to IAS27 (Aug 2014)	Equity Method in Separate Financial Statements
IFRS9	Financial Instruments
IFRS15	Revenue from Contracts with Customers
IFRS16	Leases
Amendments to IAS16 and IAS38 (May 2014)	Clarification of Acceptable Methods of Depreciation and Amortisation

With the exception of IFRS15 and IFRS16, the directors do not expect that the adoption of the standards and interpretations listed above will have a material impact on the consolidated financial statements of the Group in future periods. IFRS15 will become effective from January 2018. An evaluation of its potential impact has commenced but it is too early to determine whether adoption of the standard will have a significant effect on reported results and financial position.

It should be noted that the IASB has indicated that there may be some limited clarifying amendments made to the standard before it becomes fully applicable in the future. The directors will continue to monitor the extent of proposed changes from the IASB and, subject to a detailed review, will update the relevant policy in conjunction with guidance from the Audit Committee and following discussions with the Group's auditor.

3. Significant accounting policies

Basis of accounting

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

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of foreign currency forward contracts that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The consolidated financial statements have been prepared on the going concern basis as detailed in the Directors' Report. The principal accounting policies adopted are set out below.

Basis of consolidation

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

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

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

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

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

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

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

Group reorganisation and IPO
During the year the Group was subject to restructuring prior to IPO. Kainos Group plc was inserted at the top of the Group as the new parent company, with the former parent, Kainos Software Limited, becoming a wholly owned direct subsidiary of Kainos Group plc through a share-for-share exchange. Such group reorganisations are outside the scope of IFRS3 as the Company does not meet the definition of a business and as such has been accounted for as a capital reorganisation rather than a reverse acquisition.

In a capital reorganisation, the consolidated financial statements of the Group reflect the predecessor carrying amounts of Kainos Software Limited with comparative information of Kainos Software Limited presented for all periods, since no substantive economic changes have occurred. The difference between the net assets of Kainos Software Limited recognised as an investment by Kainos Group plc at the date of restructuring and the value of the shares issued within share capital has been recognised within equity as a capital reserve.

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

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

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

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

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

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

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

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

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

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

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

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in the statement of comprehensive income 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 other 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 other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

Government grants

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

Government grants are recognised in the statement of comprehensive income 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 statement of comprehensive income on a systematic and rational basis over the useful lives of the related assets. Other grants are credited to the statement of comprehensive income as the related expenditure is incurred.

Retirement benefit costs

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

Taxation

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

Current tax

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

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profit 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 profit will be available to allow all or part of the asset to be recovered.

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

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

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

Property, plant and equipment

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

The principal annual rates are as follows:

Long term leasehold property	2.5%
Short term leasehold property	Over the term of the lease
Fixtures and fittings	20.0%
Office equipment	33.0%

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

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

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

All financial assets are initially measured at fair value. Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss (FVTPL)' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL
Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit and loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line in the income statement. Fair value is determined in the manner described in note 24.

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

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

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

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

Financial liabilities
Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL
Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement. Fair value is described in the manner described in note 24.

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

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

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

Forward foreign exchange contracts

The Group enters into forward foreign exchange contracts to manage its exposure to material foreign exchange rate risk. The fair values of these contracts are measured at each statement of financial position date, based on "Level 2" (as defined by IFRS13) inputs provided by the Group's bankers. The resulting gain or loss is recognised in profit or loss immediately. If the contract has a positive fair value, it is shown in the statement of financial position as a financial asset, but if a negative fair value is measured, it is recognised as a financial liability. The financial asset or liability will be presented as non-current if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Amounts due to be settled within 12 months are presented as current assets or current liabilities.

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 22.

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

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

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

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.
An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if all of the following conditions have been demonstrated:

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

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

To date all research and development expenditure has been expensed as incurred.

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.

Exceptional items
Exceptional items are disclosed separately in note 8. Due to the materiality, nature and infrequency of the events giving rise to these exceptional items, they merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess more accurately trends in financial performance.

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

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

Material judgements and estimates in applying the Group's accounting policies
The following are the critical judgements 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 the consolidated financial statements.

Revenue recognition
Service revenue
There are no critical judgements applied in the recognition of revenue from 'time and materials' contracts. Where there are fixed price contracts revenue is recognised based on the stage of completion. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs. The Group estimates costs to complete its contractual obligations by reference to the current run-rate of these costs, increased by inflationary factors to cover the estimate cost of providing the required resources until contractual completion.

Perpetual licence income
Licences charged to customers for the use of proprietary software are assessed on a contract by contract basis depending on the implementation terms specified in the underlying contract. The implementation period may change due to customer requirements, but any such changes have not required any critical judgements or estimates to be made in respect of licence revenue recognition.

Income taxes
The Group operates internationally and therefore spans several tax jurisdictions. In recognising income tax assets and liabilities estimates have to be made of the likely outcome of decisions by tax authorities on transactions and events, including research and development tax credits, whose treatment for tax purposes is uncertain and on the expected manner of realisation or settlement of deferred tax assets or liabilities. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events.

5. Segment reporting
All of the Group's revenue during the period 31 March 2016 was derived from continuing operations. Kainos is structured into three divisions: Digital Services, Evolve and WorkSmart (previously Workday Implementation Services).

Digital Services delivers full system developments of customised online digital solutions, principally for UK government and private sector organisations. Digital Services is helping to change the way UK citizens engage with UK government departments and agencies by migrating paper-based systems and transactions to online platforms that are capable of handling high volumes of data and transactions and are also more accessible, easier to use and less costly.

Evolve is Kainos' proprietary software platform, developed in conjunction with medical practitioners and hospital managers. Evolve provides two offerings to healthcare markets comprising Evolve EMR, which is used for digitisation, storage and workflow of patient records and is the UK market leader in the digitisation of patient notes in the Acute sector of the NHS; and Evolve Integrated Care, a cloud-based integrated care solution that is licensed on a subscription basis to clients.

The WorkSmart division provides consulting, project management, integration, support and testing services for Workday Inc. SaaS products. WorkSmart has also developed Smart, a proprietary tool that automates the testing of Workday software deployments and subsequent software updates. Workday Inc.'s software suite includes HCM and Financial software products. Kainos is the only boutique Workday partner headquartered in the UK.

Notes to the consolidated financial statements continued

Segment revenue and results

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

2016 **12 months to 31 March**	Digital Services (£000s)	Evolve (£000s)	WorkSmart (£000s)	Consolidated (£000s)
Revenue	**48,504**	**19,070**	**9,020**	**76,594**
Cost of sales	**(26,631)**	**(8,950)**	**(3,904)**	**(39,485)**
GROSS PROFIT	**21,873**	**10,120**	**5,116**	**37,109**
Operating expenses excluding share-based payments				**(23,050)**
Share-based payments				**(524)**
OPERATING EXPENSES				**(23,574)**
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS				**13,535**
Exceptional gain on disposal of investment (note 8)				**1,981**
Exceptional expenses in relation to IPO (note 8)				**(1,297)**
Exceptional items				**684**
OPERATING PROFIT				**14,219**

2015 **12 months to 31 March**	Digital Services (£000s)	Evolve (£000s)	WorkSmart (£000s)	Consolidated (£000s)
Revenue	43,580	9,018	8,180	60,778
Cost of sales	(20,510)	(4,314)	(3,505)	(28,329)
GROSS PROFIT	23,070	4,704	4,675	32,449
OPERATING EXPENSES				(20,646)
OPERATING PROFIT				11,803

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

	2016 (£000s)	2015 (£000s)
United Kingdom	**65,314**	52,553
Republic of Ireland	**5,371**	4,425
USA	**4,005**	3,724
Other	**1,904**	76
	76,594	60,778

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

Significant customer

A Digital Services client ("Customer A") accounted for £4.9 million (or 6.4%) of total Group revenue during 2016 (2015: £12.4 million or 19.6%). Another Digital Services client ("Customer B") accounted for £10.3 million (or 13.5%) of total 2016 Group revenue (2015: £6.4 million or 10.2%). No other single customer contributed 10% or more to the Group's consolidated revenue during the period to 31 March 2016.

6. Profit for the year

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

	2016 (£000s)	2015 (£000s)
Net foreign exchange gains	**(412)**	(133)
Operating lease rentals (see note 21)	**1,026**	1,014
Research and development costs	**2,332**	1,146
Government grants	**(426)**	(912)
Depreciation of property, plant and equipment (note 12)	**687**	521
Staff costs (see note 7)	**35,373**	30,954
Fair value measurement of foreign currency forward contracts (note 24)	**(98)**	161

The analysis of auditor's remuneration is as follows:

	2016 (£000s)	2015 (£000s)
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**68**	30
Fees payable to the Group's auditor for the audit of subsidiaries	**20**	15
Total audit fees	**88**	45
Fees payable to the Group's auditor for other services to the Group:		
Review of Interim Report	**20**	–
Other audit related services	**5**	–
Grants assurance services	**14**	8
IPO related	**336**	–
Taxation compliance services	**12**	–
Other taxation advisory services	**13**	13
Total non-audit fees	**400**	21
Total audit and non-audit fees	**488**	66

Notes to the consolidated financial statements continued

7. Staff numbers and costs

The average number of employees during the year was:

	2016 Number	2015 Number
Technical	**643**	539
Administration	**58**	49
Sales	**32**	24
	733	612

Their aggregate remuneration comprised:

	2016 (£000s)	2015 (£000s)
Wages and salaries	**30,238**	26,796
Social security costs	**3,763**	3,121
Other pension costs	**1,372**	1,037
	35,373	30,954

8. Exceptional items

Gain on disposal on investment

In December 2015, the Group completed the disposal of its investment in SpeechStorm for a consideration of £2.0 million, all of which was recognised as an exceptional gain during the period. The Group held 19.9976% of the share capital in SpeechStorm and the gain relates to the disposal of the Group's entire shareholding. The disposal was triggered as a result of the acquisition by Greeneden UK Acquisition Company Limited of the entire share capital of SpeechStorm.

Exceptional expenses

Exceptional expenses relate to costs associated with the IPO of Kainos Group plc shares on the LSE on 10 July 2015.

A total of £1.3 million costs were incurred as a result of the IPO in the period (2015: nil). All of the costs incurred in connection with the IPO were expensed in the period as they did not relate to the issue of new shares.

9. Tax on ordinary activities

	2016 (£000s)	2015 (£000s)
Corporation Tax:		
Current year (UK)	**1,723**	1,957
Current year (overseas)	**496**	–
Adjustments in respect of prior years	**(439)**	(365)
	1,780	1,592
Deferred tax (see note 17)	**54**	480
	1,834	2,072

UK corporation tax is calculated at 20% (2015: 21%) of the estimated taxable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The headline effective tax rate for 2016 was 13% (2015: 18%). The 2016 rate was lower mostly due to an increase in the estimated research and development tax credits in respect of prior years. From 1 April 2016 there will be a requirement for the Group to move from submitting research and development expenditure related tax claims under the previous large company super deduction scheme (which resulted in additional tax deductions accounted for within the tax charge) to the Research and Development Expenditure Credit ("RDEC") scheme (which results in credits accounted for within operating profit). Whilst there is expected to be a reduction in future UK corporation tax rates we expect this to be offset by the treatment of the new RDEC scheme as well as growth in overseas profit and therefore consider that the sustainable tax rate is likely to be similar to the rate for 2015.

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

	2016 (£000s)	2015 (£000s)
Profit before tax on continuing operations	**14,261**	11,837
Tax at the UK corporation tax rate of 20% (2015: 21%)	**2,852**	2,486
Non-deductible expenses/(non-taxable income)	**13**	(9)
Research and development super deduction	**(472)**	–
Consolidation adjustment	**–**	126
Effect of change in UK corporation tax rate	**(7)**	(24)
Effect of losses utilised/not utilised in period	**9**	–
Effect of non-UK tax rates	**(114)**	(142)
Effect of change in rate from deferred tax to current tax	**(8)**	–
Adjustments to tax charge in respect of prior years	**(439)**	(365)
Tax expense for the year	**1,834**	2,072

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

	2016 (£000s)	2015 (£000s)
CURRENT TAX		
Excess tax deductions for share-based payments on exercised options	**(917)**	(185)
DEFERRED TAX		
Change in estimated tax deductions related to share-based payments	**107**	174
Total tax recognised directly in equity	**(810)**	(11)

Notes to the consolidated financial statements continued

10. Dividends

	2016 (£000s)	2015 (£000s)
Amounts recognised as distributions to equity holders in the period:		
Interim dividend for 2016 of 1.8p per share	**2,133**	
Dividend for 2015 of 2.3p per share	**2,548**	
Dividend for 2015 of 7.5p per share	**8,628**	
Dividend for 2014 of 1.2 p per share		1,325
	13,309	1,325

The proposed final dividend is subject to approval by shareholders at the AGM and has not been included as a liability in these financial statements. The proposed dividend is payable on 21 October 2016 to all shareholders on the Register of Members on 30 September 2016. The total estimated dividend to be paid is 4.2p per share.

11. Earnings per share

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

	2016 (£000s)	2015 (£000s)
Profit for the period	**12,427**	9,765
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**115,775**	109,565
Effect of dilutive potential ordinary shares from share options	**1,233**	5,861
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**117,008**	115,426
Basic earnings per share	**10.7p**	8.9p
Diluted earnings per share	**10.6p**	8.5p

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

	2016 (£000s)	2015 (£000s)
Profit for the period	**12,427**	9,765
Exceptional items (net of tax)	**1,297**	–
Gain on disposal of investment	**(1,981)**	–
Share-based payments (including associated taxes)	**524**	–
Adjusted profit for the period	**12,267**	9,765

	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of basic earnings per share	**115,775**	109,565
Effect of dilutive potential ordinary shares from share options	**1,233**	5,861
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**117,008**	115,426
Basic earnings per share	**10.6p**	8.9p
Diluted earnings per share	**10.5p**	8.5p

12. Property, plant and equipment

	Leasehold property (£000s)	Office equipment (£000s)	Fixtures and fittings (£000s)	Total (£000s)
At 1 April 2014	2,545	1,327	895	4,767
Additions	–	760	157	917
Disposals	–	(11)	–	(11)
At 31 March 2015	2,545	2,076	1,052	5,673
Additions	–	791	231	1,022
Disposals	–	(271)	–	(271)
At 31 March 2016	**2,545**	**2,596**	**1,283**	**6,424**
Accumulated depreciation				
At 1 April 2014	1,922	823	658	3,403
Charge for the year	35	380	106	521
Eliminated on disposals	–	(2)	–	(2)
At 31 March 2015	1,957	1,201	764	3,922
Charge for the year	35	535	117	687
Eliminated on disposals	–	(271)	–	(271)
At 31 March 2016	**1,992**	**1,465**	**881**	**4,338**
Carrying amount				
At 31 March 2016	**553**	**1,131**	**402**	**2,086**
At 31 March 2015	588	875	288	1,751
At 31 March 2014	623	504	237	1,364

The net book value of long leasehold property at 31 March 2016 was £0.6 million (2015: £0.6 million).

13. Subsidiaries

The Group consists of Kainos Group plc (incorporated in England), one directly held subsidiary (Kainos Software Limited) and eight indirectly held subsidiaries, which operate and are incorporated as follows:

Subsidiary undertakings	Incorporated	Principal activity	Holding	%
Kainos Software Limited	Northern Ireland	Software development	Ordinary shares	100
Kainos Software Ireland Limited	Republic of Ireland	Software development	Ordinary shares	100
Kainos Software Poland Spólka z.o.o	Poland	Software development	Ordinary shares	100
Kainos Trustees Limited	Northern Ireland	Dormant	Ordinary shares	100
Kainos Managers Limited	Northern Ireland	Dormant	Ordinary shares	100
Kainos Evolve Limited	Northern Ireland	Software development	Ordinary shares	100
Kainos WorkSmart Limited	Northern Ireland	Software development	Ordinary shares	100
Kainos WorkSmart Inc.	USA	Software development	Ordinary shares	100
Kainos Evolve Inc.	USA	Software development	Ordinary shares	100

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

14. Investments

The Group has unlisted investments as follows:

	(£000s)
Cost	
At 1 April 2015	–
Additions during the year	900
At 31 March 2016	**900**
Provision for impairment	
At 31 March 2015 and 2016	–
Carrying amount	
At 31 March 2016	**900**
At 31 March 2015	–

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

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

15. Trade and other receivables

	2016 (£000s)	2015 (£000s)
Trade receivables	14,541	11,584
Allowance for doubtful debts	(66)	–
	14,475	11,584
Other debtors	573	478
	15,048	12,062

Included in trade receivables are the following amounts from significant customers listed in section 5 (Segment reporting): Customer A – 2016: £0.7 million (2015: £2.5 million) and Customer B – 2016: £2.1 million (2015: nil). In addition to Customer A and Customer B, there are two further customers who each represent between 5% and 10% of the total balance of trade receivables as at 31 March 2016.

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

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

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

	2016 (£000s)	2015 (£000s)
31-60 days	4,029	3,117
61-90 days	971	533
91+ days	127	18
Sub-total	5,127	3,668

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

	2016 (£000s)	2015 (£000s)
91+ days	66	–

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

	2016 (£000s)	2015 (£000s)
Balance at the beginning of the period	–	87
Impairment losses recognised	66	–
Amounts recovered during the year	–	(87)
Balance at the end of the period	66	–

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

16. Other non-current assets

	2016 (£000s)	2015 (£000s)
Deferred tax (note 17)	–	132
Employee loans	–	962
Director loans (note 25)	–	1,404
Prepayments	**379**	968
	379	3,466

17. Deferred tax

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

	Accelerated capital allowances (£000s)	Forward contract fair value (£000s)	Share-based payment (£000s)	Tax losses (£000s)	Other (£000s)	Total (£000s)
At 1 April 2014	(62)	(13)	393	–	468	786
Charge to retained earnings	–	–	(174)	–	–	(174)
(Charge)/credit to profit	(54)	34	–	–	(484)	(504)
Effect of change in tax rate	3	(2)	-	–	23	24
At 1 April 2015	(113)	19	219	–	7	132
Credit to retained earnings	–	–	(86)	–	–	(86)
(Charge)/credit to profit	(13)	(17)	(49)	–	17	(62)
Effect of change in tax rate in retained earnings	–	–	(20)	–	–	(20)
Effect of change in tax rate in income statement	11	(2)	(2)	–	–	7
At 31 March 2016	**(115)**	**–**	**62**	**–**	**24**	**(29)**

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:

	2016 (£000s)	2015 (£000s)
Deferred tax liabilities	**(115)**	(113)
Deferred tax assets	**86**	245
	(29)	132

18. Trade and other payables

	2016 (£000s)	2015 (£000s)
Trade creditors and accruals	**7,901**	7,761
Deferred income	**4,218**	4,347
Corporation tax	**–**	226
Other tax and social security	**3,637**	2,975
Other provisions	**–**	158
Derivative financial instruments	**–**	98
	15,756	15,565

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs, including payroll. For most suppliers no interest is charged on payables. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

Deferred income is analysed as follows:

By type	2016 (£000s)	2015 (£000s)
Arising from advance payments	**4,194**	4,312
Arising from government grant	**24**	35
Total deferred income	**4,218**	4,347

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

Other provisions are analysed as follows:

	2016 (£000s)	2015 (£000s)
Property-related provision	**297**	505
Current	**–**	158
Non-current	**297**	347
	297	505

	Property-related provision (£000s)	Total (£000s)
At 1 April 2015	505	505
Additional provision in the year	–	–
Release of provision in the year	(208)	(208)
At 31 March 2016	**297**	297

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 in October 2017.

19. Share capital and reserves

Share capital

	2016 (£000s)	2015 (£000s)
ISSUED AND FULLY PAID:		
Ordinary shares		
Opening balance	**549**	525
Issued during the year	**41**	24
Total share capital	**590**	549

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 2016, the Company has 117,995,265 ordinary shares with a nominal value of £0.005 each.

Share premium account

	(£000s)
Balance at 1 April 2014	396
Issue of share capital at a premium	125
Balance at 31 March 2015 (audited)	521
Balance at 31 March 2015 (restated as per note 3)	–
Issue of share capital at a premium	1,607
Balance at 31 March 2016	**1,607**

Capital reserve account

	(£000s)
Balance at 1 April 2014 and 31 March 2015 (audited)	54
Balance at 31 March 2015 (restated as per note 3)	575
Premium on shares issued prior to reorganisation	100
Issue of share capital	(7)
Balance at 31 March 2016	668

Retained earnings

	(£000s)
Balance at 31 March 2014	14,155
Deferred tax equity movement	11
Dividends paid	(1,325)
Profit for the year	9,765
Balance at 31 March 2015	22,606
Deferred tax equity movement	(107)
Current tax equity movement	917
Dividends paid	(13,309)
Profit for the year	12,427
Balance at 31 March 2016	**22,534**

20. Notes to the cash flow statement

	2016 (£000s)	2015 (£000s)
PROFIT FOR THE YEAR	**12,427**	9,765
Adjustments for:		
Income tax expense	**1,834**	2,072
Share-based payment expense	**524**	–
Gain on investment disposal	**(1,981)**	–
Government grants released	**(11)**	(11)
Depreciation	**687**	521
Loss on disposal of tangible assets	**–**	9
Increase/(decrease) in provisions	**(208)**	505
Derivative financial instruments	**(98)**	161
Operating cash flows before movements in working capital	**13,174**	13,022
Increase in receivables	**(1,657)**	(2,449)
Increase in payables	**852**	4,959
Cash generated by operations	**12,369**	15,532
Income tax paid	**(2,608)**	(2,418)
Net cash from operating activities	**9,761**	13,114

21. Operating leases

The Group as a lessee

	2016 (£000s)	2015 (£000s)
Lease payments recognised as an expense in the year	**1,026**	1,014

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

	2016 (£000s)	2015 (£000s)
Within one year	**940**	530
In the second to fifth years inclusive	**1,443**	452
Greater than five years	**444**	2
	2,827	984

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

22. Share-based payments

At 31 March 2015, the Group had two equity settled share option schemes, an Enterprise Management Incentive Scheme (EMI) and an Unapproved Option Scheme. Both schemes were closed in June 2015 with all existing options exercised and 272,192 shares issued.

In connection with the IPO in July 2015, the Group implemented the following share schemes:

Kainos Group Performance Share Plan

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

Company Share Option Plan

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

SAYE Scheme

The Group has an all-employee share plan open to UK employees. Under the scheme, employees who choose to 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.

Republic of Ireland Share Option Scheme

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

UK Share Incentive Plan (SIP)

The Group established a Share Incentive Plan for UK employees. Under this scheme all eligible employees were awarded a number of shares determined by length of service of each employee employed as at 30 June 2015. The shares are held in trust for each employee by Yorkshire Building Society, which also administers the scheme. The vesting period for these shares is three years.

Republic of Ireland Restricted Share Scheme

The Group introduced a Restricted Share Scheme for all eligible employees of Kainos Software Ireland Limited. Under this scheme all eligible employees were awarded a number of shares determined by length of service of each employee employed as at 30 June 2015. The vesting period for these shares is five years and one week and the shares are not accessible by the employee until expiry of that period. The shares are held in trust for the employees until they vest.

Restricted shares

	UK SIP (£000s)	ROI (£000s)	Total (£000s)
Granted during period	756	39	795
Forfeited during the period	(59)	(5)	(64)
Outstanding at 31 March 2016	**697**	**34**	**731**

Share options

	PSP (£000s)	CSOP (£000s)	UK SAYE (£000s)	ROI share options (£000s)	Total (£000s)
Granted during period	1,184	891	1,118	71	3,264
Forfeited during the period	–	(42)	(72)	(13)	(127)
Outstanding at 31 March 2016	**1,184**	**849**	**1,046**	**58**	**3,137**

Grant date	PSP 10 Jul 2015	CSOP 9 Jul–30 Nov 2015	UK SAYE 9 Jul 2015	ROI share options 10 Aug 2015
Share price at grant date	£1.39	£1.39-£2.31	£1.39	£2.09
Exercise price	nil	£1.39-£2.31	£1.11	£1.11
Weighted average exercise price	nil	£1.42	£1.11	£1.11
Number of employees	14	41	377	17
Shares under option	1,183,453	848,374	1,045,969	58,266
Expected volatility	30%	30%	30%	30%
Expected life (years)	3.5	3.5	3.25	3.25
Dividend yield	3.69%	3.69%	3.69%	3.69%
Risk free rate	1.04%	1.04%	1.04%	1.04%
Fair value per option	£0.425-£1.22	£0.22-£0.37	£0.33	£0.83

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

The Group recognised total expenses of £0.5 million related to equity-settled share-based payment transactions during the year (2015: nil).

23. Pensions

The Group operates two defined contribution retirement benefit schemes. The assets of the schemes are held separately from those of the Group in independently administered funds under the control of trustees. The total cost charged to the statement of comprehensive income of £1.4 million (2015: £1.0 million) represents contributions payable to these funds by the Group at rates specified in the rules of the schemes. As at 31 March 2016, contributions of £0.16 million (2015: nil) were payable to the funds and are included in creditors.

24. Financial instruments

Capital risk management

The Group manages its capital to ensure that all Group entities will be able to continue as going concerns while maximising the return to shareholders. The Group's overall strategy remained unchanged throughout the period 1 April 2015 to 31 March 2016. The capital structure of the Group consists of Company equity only (comprising issued capital, reserves and retained earnings). The Group is not subject to any externally imposed capital requirements and has no borrowings.

Financial risk management objectives

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

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

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

Foreign currency risk

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

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

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at 31 March 2016 are as follows:

	Liabilities		Assets	
	2016 (£000s)	2015 (£000s)	**2016 (£000s)**	2015 (£000s)
Polish Zloty	**886**	730	**210**	574
Euro	**351**	783	**3,161**	1,361
US Dollar	**88**	12	**2,139**	631

Foreign currency sensitivity analysis

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

	Euro impact		PLN impact		USD impact	
	2016 (£000s)	2015 (£000s)	**2016 (£000s)**	2015 (£000s)	**2016 (£000s)**	2015 (£000s)
1% increase in strength of Sterling	**28**	(6)	**(7)**	2	**21**	(6)

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. The following table details the forward foreign currency (FC) contracts outstanding as at each year end:

Outstanding contracts	Average exchange rate 2015 rate	Foreign currency 2015 PLN '000	Notional value 2015 (£000s)	Fair value 2015 (£000s)
PURCHASE POLISH ZLOTY				
Less than 3 months	5.271	3,000PLN	569	(32)
3 to 6 months	5.282	3,000PLN	568	(33)
6 to 12 months	5.291	3,000PLN	567	(33)
				(98)

There are no outstanding forward contracts at 31 March 2016.

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

Interest rate risk management

The Group's exposures to interest rates on financial assets are detailed in the liquidity risk management section of this note. The Group's exposure to interest rate risk is immaterial to its financial performance and position given that no external borrowings are held and bank deposit interest income amounted to £30,000 during the year ended 31 March 2016.

Credit risk management

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

In addition to Customer A and Customer B (noted as significant customers in note 5 – Segment reporting), there are only two further customers who each represent between 5% and 10% of the total balance of trade receivables as at 31 March 2016.

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

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Notes to the consolidated financial statements continued

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

The Group's bank deposits all mature within three months of placement. The interest rates obtained on these deposits during the year were variable and attracted interest at below 1% per annum. All other cash balances are instantly accessible.

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

Fair value measurements
The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. The Group's forward foreign exchange contracts are measured using "Level 2" (per IFRS13 definition) indicators (i.e. from unquoted pricing provided by the Group's bankers).

Fair value of the Group's forward foreign exchange contracts
The Group's forward foreign exchange contracts are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique and inputs used).

	2016 (£000s)	2015 (£000s)
Fair value of foreign currency forward contracts (liability)/asset	**–**	(98)

The fair value for all foreign currency forward contracts is measured using "Level 2" (per IFRS13 definition) indicators i.e. from unquoted pricing provided by the Group's bankers.

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

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

	Sale of goods and services		Purchase of goods and services	
	2016 (£000s)	2015 (£000s)	**2016 (£000s)**	2015 (£000s)
SpeechStorm Limited	**9**	25	**–**	(25)
Cirdan Imaging Limited	**781**	–	**–**	–
Queen's University Belfast	**–**	–	**312**	(182)
Total	**790**	25	**312**	(207)

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

	Amounts owed by related parties		Amounts owed to related parties	
	2016 (£000s)	2015 (£000s)	**2016 (£000s)**	2015 (£000s)
SpeechStorm Limited	**–**	4	**–**	–
Cirdan Imaging Limited	**283**	–	**–**	–
Queen's University Belfast	**–**	–	**28**	–

SpeechStorm Limited was a related party due to the Group's shareholding of 19.9976% in this company until 18 December 2015.

Cirdan Imaging Limited is a related party due to the Group's purchase of 10% of its share capital in February 2016.

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

Remuneration of key management personnel

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

	2016 (£000s)	2015 (£000s)
Short term employee benefits (emoluments)	**1,448**	1,531
Post-employment benefits (pension contributions)	**27**	33
Share-based payments	**96**	–
	1,571	1,564

One director is a member of the Group's defined contribution pension schemes (2015: one). One director exercised options over shares in the Company (2015: one). Remuneration of the highest paid director was £501,000 (2015: £604,000), including pension contributions of £27,000 (2015: £27,000). The highest paid director did not exercise any share options in the year (2015: none).

Aggregate directors' remuneration

	2016 (£000s)	2015 (£000s)
Salaries, fees, bonuses and benefits in kind	**1,448**	1,531
Gains on exercise of share options	**4,079**	834
Amounts receivable under long term incentives schemes	**96**	–
Money purchase pension contributions	**27**	33
	5,650	2,398

Directors' transactions

Loans to directors totalling £1.4 million were repaid on 19 June 2015.

Company statement of financial position

as at 31 March 2016

	Note	2016 (£000s)
NON-CURRENT ASSETS		
Investments in subsidiaries	3	**6,524**
Deferred tax		**43**
		6,567
CURRENT ASSETS		
Debtors	4	**12,104**
Cash at bank and in hand		**1,690**
		13,794
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	5	**(5,135)**
NET CURRENT ASSETS		**8,659**
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,226**
NET ASSETS		**15,226**
CAPITAL AND RESERVES		
Called up share capital	6	**590**
Share premium account	6	**1,607**
Share-based payments reserve	6	**524**
Capital reserve	7	**5,940**
Profit and loss account	8	**6,565**
SHAREHOLDERS' FUNDS		**15,226**

The financial statements of Kainos Group plc (registered number 09579188) were approved by the Board of Directors and authorised for issue on 27 May 2016. They were signed on its behalf by:

Richard McCann
Director
27 May 2016

Company statement of changes in equity

	Equity attributable to equity holders of the Company					
	Share capital (£000s)	Share premium account (£000s)	Share-based payments (£000s)	Capital reserve (£000s)	Retained earnings (£000s)	Total equity (£000s)
Balance at 7 May 2015[1]	–	–	–	–	–	–
Group reorganisation[2]	575	–	–	5,949	–	6,524
Issue of share capital (note 7)	15	1,607	–	(9)	–	1,613
Share-based payments (note 7)	–	–	524	–	–	524
Current tax for equity-settled share-based payments	–	–	–	–	1	1
Deferred tax for equity-settled share-based payments	–	–	–	–	23	23
Profit and total comprehensive income	–	–	–	–	8,674	8,674
Dividends	–	–	–	–	(2,133)	(2,133)
Balance at 31 March 2016	**590**	**1,607**	**524**	**5,940**	**6,565**	**15,226**

1 The Company was incorporated on 7 May 2015 as Kainos Group Limited and re-registered as Kainos Group plc on 7 July 2015.
2 Refer to note 3 and the accounting policy on the Group reorganisation.

Notes to the Company financial statements

1. Significant accounting policies

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

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

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

The financial statements have been prepared on the historical cost basis except for the re-measurement of certain financial instruments to fair value. The principal accounting policies adopted are the same as those set out in note 3 to the consolidated financial statements.

2. Profit for the year

As permitted by section 408 of the Companies Act 2006, the parent company has elected not to present its own profit and loss account for the year. The parent company reported a profit for the period of incorporation 7 May 2015 to 31 March 2016 of £8.7 million.

The auditor's remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements.

3. Investments in subsidiaries

Cost	(£000s)
At 7 May 2015	–
Additions	6,524
At 31 March 2016	**6,524**
PROVISIONS FOR IMPAIRMENT	
At 7 May 2015 and 31 March 2016	–
At 7 May 2015 and 31 March 2016	–

Details of the Group's subsidiaries at 31 March 2016 are included in note 13.

4. Debtors

	2016 (£000s)
AMOUNTS FALLING DUE WITHIN ONE YEAR:	
Amounts owed from Group undertakings	**12,104**
	12,104

Amounts owed from other Group companies are repayable on demand, unsecured and carry interest of 4% per annum charged on the average outstanding loan balances.

5. Creditors: Amounts falling due within one year

	2016 (£000s)
Amounts owed to Group undertakings	**4,263**
Trade creditors and accruals	**773**
Corporation tax	**60**
Other tax and social security	**39**
	5,135

Amounts owed to other Group companies are repayable on demand, unsecured and carry interest of 4% per annum charged on the average outstanding loan balances.

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

The movements on these items are disclosed in note 19 of the consolidated financial statements.

7. Capital reserve

The movements in the reserve are disclosed in note 19 of the consolidated financial statements.

8. Profit and loss account

	(£000s)
Balance at 7 May 2015	–
Dividends paid	(2,133)
Deferred tax equity movement	1
Current tax equity movement	23
Profit for the period	8,674
Balance at 31 March 2016	**6,565**

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