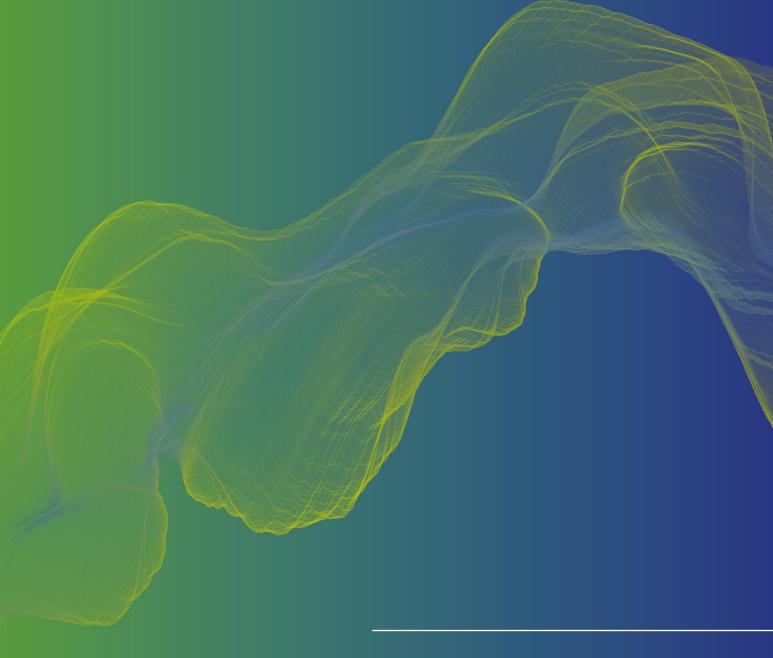
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2022

Annual Report

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

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

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

Our people are central to our success. We employ more than 2,600 people across 22 countries in Europe and the Americas.

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

For further information, please visit www.kainos.com

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"WE HAVE RECORDED OUR 12TH CONSECUTIVE YEAR OF GROWTH ACROSS A WIDE RANGE OF KEY METRICS. OUR VERY STRONG BUSINESS PERFORMANCE REFLECTS ROBUST UNDERLYING MARKET DEMAND, HIGH LEVELS OF CUSTOMER ENGAGEMENT AND THE ONGOING COMMITMENT OF OUR COLLEAGUES."

2022 Financial highlights

Revenue (m)

£302.6

2021 **£234.7** +29%

Product Annual Recurring Revenue (ARR) (m)

£34.3

2021 **£23.6** +45%

Statutory profit before tax (m)

£46.0

2021 **£50.3** -9%

Contracted backlog (m)

£259.7

2021 **£206.2** +26%

Adjusted pre-tax profit (m)

£58.8

2021 **£57.1** +3%

Diluted earnings per share

28.5p

2021 **32.1p** -**11**%

Cash (m)¹

£76.6

2021 **£80.9** -5%

Adjusted diluted earnings per share

38.1p

2021 **36.8p** +4%

Bookings (m)

£349.8

2021 **£258.8** +35%

Total dividend per share²

22.2p

2021 **28.2p** +**21**%

¹ FY21 includes treasury deposits of £18.0 million.

² Total dividend for FY21 includes a special dividend of 6.7p per share (paid September 2020), interim dividend of 6.4p per share (paid December 2020) and final dividend of 15.1p per share. Total dividend for FY22 includes interim dividend of 7.1p per share and proposed final dividend of 15.1p per share.

Operational highlights

12th consecutive year of growth across a wide range of key metrics.

- Revenue growth of 29% (26% organic) to £302.6 million (2021: £234.7 million)
- Adjusted pre-tax profit increased 3% to £58.8 million (2021: £57.1 million) as margins moderated following increased investment and the further normalisation of costs.
- Bookings up 35% to £349.8 million (2021: £258.8 million).
- Contracted backlog growth of 26% to £259.7 million (2021: £206.2 million).
- Following dividend payments and acquisition expenses, period-end cash amounted to £76.6 million (2021: £80.9 million); with cash conversion at 83% (2021: 112%).

+35% increase in bookings

Excellent customer service drives customer satisfaction and retention, underpinning revenue growth.

- Customer approval rating³ remains high at 98% (2021: 98%).
- Existing customer revenue increased by 34% to £267.7 million (2021: £199.7 million).
- Customer numbers increased to 731 (2021: 546), an increase of 34%.

+340/0 increase in customer numbers

We continue to add to the talents of our global team.

- across 22 countries. This reflects strong recruitment in our core markets which has been enhanced through the year with the expertise of 153 new colleagues who joined via the acquisitions of Cloudator, Une Consulting, Blackline Group and Planalyse.
- Against the backdrop of a global shortage in digital skills, our employee retention has reduced to 86% (2021: 92%). Our focus remains on being a great employer and we have retained our Sunday Times, 'Top 100 Best Companies to Work For' accreditation and were awarded '50 Best Places To Work in the UK' by Glassdoor.

+153 new colleagues

We continue with our ambition to be a responsible organisation.

- We retained our carbon neutral status for 2022 and remain on track to achieve carbon net zero by 2025.
- Our gender balance improved, with the proportion of women in Kainos increasing to 33% (2021: 30%), ahead of the industry average of 19%4; we remain committed to further improvement.
- We delivered over 1,100 work placements including targeted programmes aimed at improving gender diversity, supporting social mobility and for those students with special educational needs.

On track to achieve carbon net zero by

4 BCS diversity report 2021: Women in IT.

Data from all completed customer surveys in the year. There are five possible designations: 'Poor', 'Satisfactory', 'Good', 'Very Good' or 'Excellent'; the rating reflects the percentage of customers that rate our performance 'Good' or better.

In Digital Services, we continue to deliver significant digital transformation programmes across the public sector, healthcare and commercial sector.

- This extensive project portfolio has driven very strong revenue growth of 24%, with revenues growing to £199.8 million (2021: £161.6 million).
- Customer demand remains very high across all sectors as digital transformation continues to be a business priority.

+240/0 increase in revenue growth

We continue to be the leading pan-European Workday specialist and we have established a significant presence in the North American market.

- Our Workday Services recorded very strong revenue growth of 45% (29% organic) to £70.9 million (2021: £49.0 million).
- · Focused on the opportunity in North America, we have doubled our presence and now have 323 colleagues. (2021: 142) based across USA, Canada and Argentina.

323 colleagues in in the USA, Canada and Argentina

Our Workday-related products, Smart Test and Smart Audit, achieved very strong growth, particularly in North America.

- Smart product revenues grew 32% to £31.9 million (2021: £24.2 million); at the same time the Annual Recurring Revenue (ARR) increased 45% to £34.3 million (2021: £23.6 million).
- We continued to invest in our Smart products, increasing our R&D expenditure by 67%, to £6.0 million (2021: £3.6 million), all of which was expensed during the year.

+670/0 increase in R&D expenditure

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

- Overall, our revenues: 41% Commercial, 37% Public Sector and 22% Healthcare.
- Commercial revenues are up 53% to £123.8 million (2021: £81.1 million).
- Public sector revenues are up 5% to £111.0 million (2021: £105.5 million).
- Healthcare revenues are up 41% to £67.9 million (2021: £48.1 million).
- International revenues are up 48% to £87.0 million (2021: £59.0 million).

Commercial revenues increased +53%

OUR PURPOSE IS TO HELP OUR CUSTOMERS WITH THEIR MOST CHALLENGING PROJECTS AND, TOGETHER WITH OUR PARTNERS, HELP THEM BUILD THE CAPABILITY TO SUCCEED IN THE DIGITAL AGE.

Our operating divisions

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

Digital Services

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

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

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

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

In healthcare, we help providers deliver a service that is faster, more costeffective and patient-centric. We deliver services to over 130 clients, including the Foreign, Commonwealth and Development Office (UK), the Defence and Science Laboratory (UK), NHS England (UK), Concardis (Germany) and Hello Fresh (Germany).

Workday Practice

Our Workday Practice is closely linked to Workday, Inc.'s software suite, which includes cloud-based software for Human Capital Management (HCM), Financial Management and Planning, enabling enterprises to organise their staff efficiently and support their financial reporting requirements.

Workday Services

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

With over 100 international clients, we are proud to work with Kion Group (Germany), Shopify (Canada), Kone (Finland), TransferWise (UK), ASOS plc (UK), Takeaway.com (Netherlands) and Match.com (USA).

Smart product suite

We have developed two proprietary software tools, Smart Test and Smart Audit.

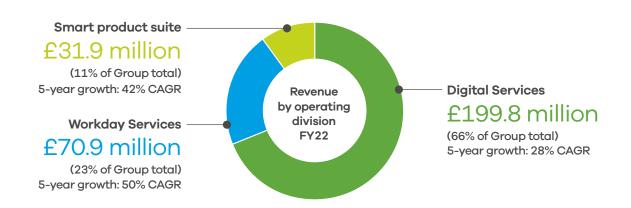
Smart Test allows Workday customers to automatically test and verify that their unique Workday configuration is operating effectively, both during implementation and in live operation. Smart Test is the leading automated testing platform specifically designed for Workday.

Smart Audit is our compliance monitoring tool that allows Workday customers to maintain operational controls over their Workday HCM and Financials environments, particularly in the areas of Segregation of Duties, Privileged Access Controls and Personal and Sensitive employee data protection.

Both tools are implemented as cloud-based Software as a Service (SaaS) solutions and customers utilise them on a subscription basis.

Smart Test was launched in 2013 and is now used by over 300 clients, including Salesforce (USA), Whole Foods (USA), Xero (New Zealand), Netflix (USA), CapitalOne (USA), Servicenow (USA), Aegon (Netherlands) and Condé Nast (USA).

Smart Audit was launched in 2021 and is now used by over 40 clients, including SpencerStuart (USA), Chanel (UK), Rand Corporation (USA), BlueCross BlueShield (USA) and QBE (Australia).





Number of staff and contractors:

(2021: 2,024)



Employee retention:

86%

(2021: 92%)



Amsterdam, Antwerp, Atlanta, Belfast, Birmingham, Buenos Aires, Copenhagen, Denver, Derry, Dublin, Gdańsk, Hamburg, Helsinki, Indianapolis, London, Oslo, Paris, San Francisco,



People by region:

UK & Ireland

72%

Central Europe

15%

Americas

13%



Active customers:

(2021:546)



Stockholm and Toronto.

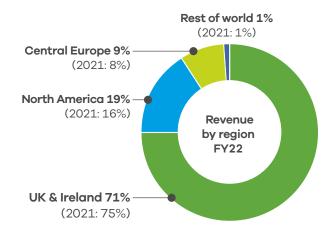
Customers rating our service as good or better:

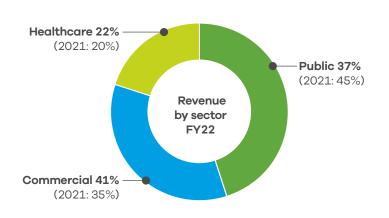
(2021: 98%)



Revenue from existing customers:

(2021: 85%)







"A REVIEW OF THE PAST YEAR CANNOT BE COMPLETE WITHOUT RECOGNISING THE SUPPORT, CONFIDENCE AND TRUST THAT EVERYONE HAS PLACED IN KAINOS."

Resilience and gratitude

Our performance during 2021 must be viewed through the lens of a prolonged pandemic – lockdowns, working from home and, eventually, the controlled and gradual easing of restrictions.

To look backwards creates the opportunity, once again, to express our thanks and admiration for all of those involved in the front-line response to the health and economic crisis that the pandemic caused. Our sense of gratitude is amplified for our customers in the NHS as they prioritised the health of the nation above all else.

Our appreciation is also directed towards our colleagues who, throughout the year, continued to support all our customers, ensuring that they could continue to deliver critical services to their citizens, patients, customers or employees. That appreciation was mirrored from our customers, as we once again recorded a 98% customer approval rating.

Alongside the resilience of our colleagues and customers, we are also grateful for the strength and resilience of our business. We recorded another excellent performance, a reflection of the trust our customers place in Kainos and the expertise, experience and energy of our colleagues, who have been the driving force behind all that we have achieved.

An excellent business performance

The digital transformation market has been growing quickly for the past decade and the pandemic has further demonstrated how important it is for organisations to invest in their digital capabilities, both internally and externally. Our customers have responded and continue to prioritise their critical digital programmes and we continue to help them deliver these ambitious projects.

This strong demand has resulted in our revenues growing to £302.6 million, a 29% increase, and our adjusted pre-tax profit growing 3% to £58.8 million. As expected, our profit growth moderated as recruitment, training and marketing costs returned to normal levels and as we experienced increased salary costs and the increased use of contract staff. During the year we also accelerated our investment in our Smart products, both in research and development and in sales and marketing, all of which was expensed in the year.

We continued to add to the talents of our global team, as numbers increased by 33% to 2,692 colleagues. This increase was the result of very strong recruitment as well as welcoming the expertise of 153 new colleagues who joined us through the acquisitions of Cloudator (Nordics), Une Consulting (Argentina), the Blackline Group (USA) and Planalyse (Netherlands). Our teams are now based in 22 countries.

Our Digital Services division recorded growth of 24% to £199.8 million. We continued to deliver significant programmes in partnership with the UK Government and with leading healthcare and commercial clients. As always, our growth is a result of demand from existing clients, such as New Ireland and Genomics England, and new clients including Hello Fresh and National Highways.

We are keen to open up new opportunities for Digital Services and our investments continue to make progress. Our engagements in Central Europe and Canada have continued to grow, with our revenues now £5.5 million, from £2.6 million a year ago. Our Data and AI practice grew 95% to £15.8 million, with our Intelligent Automation practice delivering revenues of £1.0 million, having been launched in mid-2020.

Our Workday Services team continues to help forward-thinking organisations such as Kone, Kion Group and Takeaway.com deploy Workday, Inc.'s innovative Software-as-a-Service (SaaS) platform to support their people and finance requirements. We remain the leading European partner within the Workday ecosystem and continue to make significant progress addressing the opportunity in North America, where our teams in Canada, Argentina and the US have more than doubled, growing from 142 to 323 colleagues in the past year.

Over the course of the year our Smart product revenues grew 32% to £31.9 million. Our products, Smart Test (automated testing) and Smart Audit (compliance monitoring) are used by organisations like Netflix, Salesforce and Match.com. We believe that there is the opportunity to grow our Smart product revenues to £100 million and as a result we invested further in product development (increased by £2.4 million to £6.0 million) and in our sales and marketing capacity during the year.

A responsible business

We have maintained our focus on positive climate action. We have been carbon-neutral for the past two years and remain firmly on track to achieve carbon net zero by 2025. Over 60% of our workforce are now in offices that use renewable energy sources, with work underway to make further progress in the year ahead.

Gender diversity remains a challenge within the wider industry, where just 19% of roles are undertaken by women. During the year, the proportion of women in Kainos increased from 30% to 33% reflecting focused recruitment campaigns. It is good progress, but sustained effort is required to achieve our gender parity target.

We seek to inspire the next generation of digital talent and to improve the diversity of the sector. Last year over 1,100 school students participated in our work placement programmes, where we had targeted programmes aimed at improving gender diversity, social mobility and for those students with special educational needs. At university, our digital bursaries will support 60 young people from backgrounds that are traditionally under-represented at university.

A confident outlook

The digital transformation market has been growing strongly for over a decade, with the pandemic accelerating the need for organisations to invest in their digital capabilities. Our leading position within our core markets allows us to look confidently to the future.

Our confidence is strengthened with the success of our additional growth initiatives. Within Digital Services, international expansion, our Data and Al practice, and our Intelligent Automation practice provide a platform for further growth. Workday, Inc.'s focus on international expansion creates a strong backdrop for our European growth plans; at the same time our growing scale in the North American market provides an excellent foundation in the largest Workday market globally. With our Smart products, we have the opportunity to accelerate the adoption of our software across the Workday ecosystem, creating a significant software business.

The pandemic has demonstrated that our sector is resilient, but it has also demonstrated that the future can be unpredictable. Notwithstanding our confidence, challenges remain: the Russia-Ukraine war, the possible resurgence of Covid-19, inflation and the global shortage of digital talent dominate the short-term landscape. Without minimising the significance of any of these factors it feels that, collectively, they represent a lower risk than a global pandemic.

A sense of gratitude

Our performance as a business is influenced by many factors, but it is our relationships with our customers and the talents of our colleagues that truly shape our future. The strength and depth of both have continued to grow this year and add to our sense of excitement about the future.

That sense of anticipation is combined with a sense of gratitude.

We continue to be grateful for all the support, confidence and trust that everyone has placed in Kainos. Thank you.

Dr Brendan Mooney

Chief Executive Officer

THERE ARE SEVERAL COMPELLING
LONG-TERM TRENDS DRIVING
DEMAND FOR OUR SERVICES. WE
HAVE DESIGNED OUR STRATEGY TO
TAKE ADVANTAGE OF THESE TRENDS,
GIVING US CONFIDENCE IN OUR
GROWTH PROSPECTS. WE HAVE
DETAILED THESE FURTHER IN THE
SECTION, OUR STRATEGY.

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

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

TREND

DEMAND FOR DIGITAL TRANSFORMATION, BUILDING BESPOKE SYSTEMS

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

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

Creating effective digital services significantly reduces cost. For many government services, the average cost of a telephone transaction is 20 times higher than a digital transaction; this rises to 30 times for a postal transaction and 50 times for a face-to-face interaction⁵. Digitisation is also likely to reduce the risk of failed transactions, and therefore the business cost of having to repeat the same process multiple times.

The government's thinking about IT outsourcing has changed substantially since the financial crisis. While outsourcing a service can still be the correct approach, the government now prefers to procure individual components of the service and integrate those components itself, which gives it direct control over the scope, quality and cost of the service. Government departments rely on specialist agile partners like Kainos to help in the building and ongoing operation of the technical elements of the service. This trend has resulted in public sector spending on digital transformation projects increasing from £456 million in 2015 to £1.9 billion in 2022.

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

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

How we are responding

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

5 Government Digital Strategy: December 2013.



DEMAND FOR DIGITAL TRANSFORMATION, IMPLEMENTING WORKDAY

Workday, Inc.'s success in attracting new customers is a key driver for our Workday Practice. Workday, Inc. is growing rapidly, with its most recent results to 31 January 2022 showing revenue growth of 19%. This compares with growth in the ERP market which is estimated at 8.2% per annum.

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

Workday, Inc. has also taken a different approach when building its implementation partner ecosystem. While SAP and Oracle both have several thousand implementation partners, Workday, Inc. has appointed just 39 partners to deploy its software across its customer base, which now numbers over 9,500 customers, including more than 4,100 core HR and finance customers. Kainos first engaged with Workday, Inc. in 2011 and is now one of the most experienced participants in Workday, Inc.'s partner ecosystem. Kainos remains the only specialist Workday partner headquartered in the UK.

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

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

How we are responding

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



NEW TECHNOLOGIES CREATING NEW OPPORTUNITIES

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

How we are responding

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

We also invest in understanding early-stage technology developments through our research team. Current areas of foresight and investigation include ambient computing, smart environments and places and the ethical use of data and Al. Ideas from this research will likely form the next cohort of candidates for our innovation process.

The competitive environment

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

Digital Services

- Addressable market⁶: £1,919 million (2021: £1,768 million).
- Example competitors: Deloitte, Capgemini, BJSS, Atos, Equal Experts, NTT Data.

Workday Services

- Addressable market⁷: £884 million (2021: £751 million).
- Example competitors: Alight,
 One Source Virtual, Collaborative Solutions.

Smart for Workday

- Addressable market⁸: £410 million (2021: £384 million).
- Example competitors: Worksoft, Turnkey, CloudBera.

- 6 The amount of UK Public Sector FY22 spend that relates to central government and that we classify as 'digital spend', primarily through the frameworks of G-Cloud (£1,323 million) and Digital Outcomes (£596 million).
- 7 This is an estimate of the services market where Kainos is a Phase 1 partner, plus the post-deployment opportunity in the USA.
- B Estimated global Workday automated testing market.

What we do

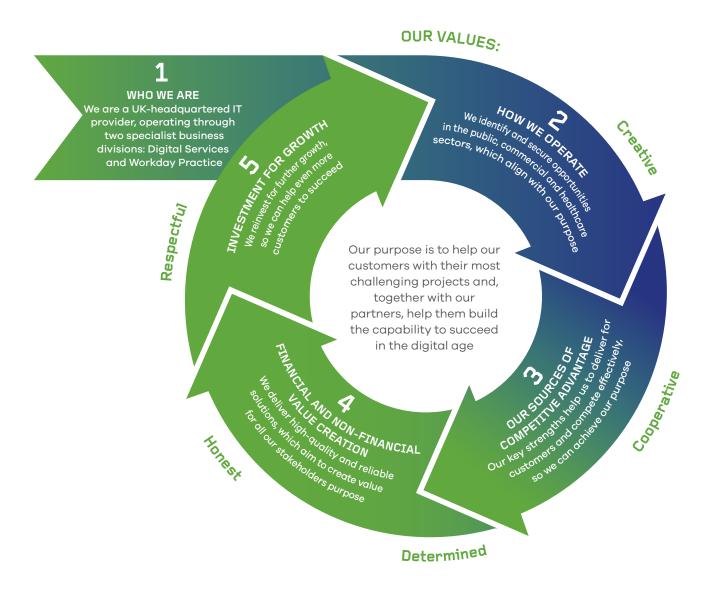
We provide sophisticated IT services to major public sector, commercial and healthcare customers.

Our Digital Services engagements are often large and complex and represent critical projects for our customers. Projects in the Driver and Vehicle Standards Agency, Companies House and the Food Standards Agency are excellent examples of projects that are viewed as part of the UK's national IT infrastructure.

In our Workday Practice, we help forward-thinking organisations deploy Workday to organise their staff efficiently and support their financial reporting requirements. These customers are often large and operate internationally, which is why we have our teams based in 22 countries.

How we create value

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



How we operate

Digital Services

We win new public sector and healthcare projects primarily through our position on major frameworks, for example, the Digital Outcomes and Specialisms (DOS) framework. We are the most successful supplier on DOS, having won more than twice the amount of business of the number two supplier over the last three years⁹.

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

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

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

Workday Practice

Workday, Inc. always contracts directly with its end customer following a sales campaign. During that sales campaign, Workday, Inc. will typically recommend a shortlist of possible consulting partners to the client who will then undertake the project directly with the client. Globally, there are 39 Workday implementation partners.

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

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

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

Our commercial model

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

In addition to our services, we derive revenue from charging for our own proprietary software. These revenue streams relate primarily to our cloudbased SaaS solutions, Smart Test (automated testing) and Smart Audit (compliance monitoring), although we anticipate there will be additional products in the future. Both products have contracts that are typically three years in duration, with a subscription fee charged annually in advance.

Our sources of competitive advantage Our people

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

Our reputation

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

Our customer relationships

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

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

⁹ Cumulative spend on DOS, three years, 2019-2022. 1. Kainos £330 million; 2. Capgemini £150 million, 3. BJSS £143 million, 4. Deloitte £138 million, 5. Accenture £88 million.

Every six months we survey our customers for feedback on our performance. This feedback tells us that we achieve best-in-class customer service, with 98% of our customers rating our service as good or better. This underpins our repeat revenue, with over 88% of our revenue each year coming from existing customers.

Our partner relationships

We have an excellent relationship with Workday, Inc., having been a partner since 2011 and we have supported Workday, Inc. global expansion, implementing their software platform for clients across the world. At the same time, we have built a high-growth international business with revenues of more than £100 million.

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

Our intellectual property

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

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

The value we create

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

For our people

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

For our customers

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

For our partners

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

For our shareholders

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

For society

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

From an environmental perspective, we are delighted to have achieved carbon neutrality in 2021 and are on schedule to achieve our ambition of being carbon net zero by 2025. We commit to neutralising our 2022 emissions through a mixture of offsetting and removal projects.

Beyond our climate-related commitments, we are proud of our track record in being a responsible organisation. This includes the above activities as well as our work in supporting our communities, with strong graduate and school-leaver recruitment, and our outreach programmes which have benefited over 7,400 young people.

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

WE ARE A GROWTH-ORIENTATED BUSINESS AND WHILE WE ARE ALWAYS CONFIDENT OF GROWING OUR MARKET SHARE IN SUBDUED MARKETS, WE NATURALLY ORIENTATE TOWARDS HIGHER GROWTH, DYNAMIC MARKETS. IT IS IN THESE MARKETS WHERE THE TALENTS OF OUR PEOPLE SHINE THE BRIGHTEST AND OPPORTUNITIES FOR GROWTH ARE THE STRONGEST.

The three key pillars of our strategy



People



Customers



Markets

Our ambition is to be a global, independent company operating towards the disruptive end of technology, that will thrive not just today, but for generations. In building for the long-term, we aspire to provide our people with rewarding and fulfilling careers.

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

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

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

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



People

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

We will add to our existing talented workforce by recruiting high calibre people from school, college and industry; and we will continue to invest in developing their skills and careers and we will continue to strive to be a great employer.

Progress in FY22

- Headcount increased by 668, to a total of 2,692 colleagues.
- 😭 This included 159 people who joined from school or college.
 - Maintained our Sunday Times 'Best Companies to Work For' Top 100 ranking.
- We were ranked in the '50 Best Places to Work in the UK', by Glassdoor.

Priorities for FY23

- (A) Maintain high standards when recruiting new applicants.
- (x) Invest in skills and career development of all colleagues
- (A) Maintain or improve our employee engagement scores as measured independently.
- (x) Ensure that employee retention remains high.



Non-financial KPI



Customers

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

These relationships are built on our reputation for delivery and exemplary customer service. By being responsive to and supportive of our customers' complex and changing business needs, we reinforce the strength of our relationships.

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

Progress in FY22

Customer satisfaction levels recorded as 98%.



Net revenue retention recorded as 134%.



Priorities for FY23

(E) Maintain high levels of customer satisfaction, resulting in high levels of net revenue retention.



Markets

Digital Services

Our focus is to:

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

Progress in FY22



(£) Public sector revenues increased by 6% to £108.4 million (2021: £102.2 million).



(E) Healthcare revenues increased by 52% to £66.3 million (2021: £43.7 million).



Priorities for FY23

(£) Maintain growth trajectory in both sectors, supporting existing clients and projects, and adding new long-term clients in line with our delivery capacity.

Commercial sector revenues increased by 60% to £25.1 million (2021: £15.7 million).

Continue to build reputation and references in the sector to maintain our accelerated growth.

(£) Central Europe revenues increased by 101% to £5.2 million (2021: £2.6 million).

Continue to build reputation and references within both regions.

Refine sales and marketing approach as market penetration

North American activity started during the year, generating £0.3 million in revenues.

Build in-region delivery capability in line with success.

Workday Practice

Our focus is to:

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



Non-financial KPI (E) Financial KPI



Priorities for FY23 Progress in FY22 (E) Workday Services revenues increased by 45% to £70.9 million (E) Maintain growth trajectory in all regions, supporting existing (2021: £49.0 million). clients and projects, and adding new long-term clients in line with capacity. (E) Smart product revenues increased by 32% to £31.9 million (2021: £24.2 million). (E) We were appointed to 30+ customers where earlier phases of Continue to excel in customer service. the project were undertaken by a different partner. International revenues increased 46% to £81.5 million (E) Maintain growth trajectory in all regions. (2021: £55.7 million). Continue to welcome our new colleagues to Kainos, combining (E) Four international acquisitions completed in Argentina, their capabilities with existing Kainos teams. Netherlands, USA and the Nordics, adding 153 new colleagues. Ensure consistent, high-quality service to new clients originated by the acquisitions. • Smart R&D investment increased 67% to £6.0 million Accelerate growth trajectory of Smart products. (2021: £3.6 million). Launch our third Smart product, gaining significant early Annual Recurring Revenue for Smart products increased 45% to £34.3 million (2021: £23.6 million).

New opportunities

Our focus is to:

- continue to invest in our Data and Artificial Intelligence and Cloud practices, building capability and creating international, high growth businesses;
- support the early progress of our Intelligent
 Automation practice, ensuring the foundations are in
 place to create a significant long-term business;

• Intelligent Automation was approved for further investment.

- establish our Digital Advisory practice; and
- through our innovation process, identify and promote ideas that have the potential to become sizeable revenue streams in the future.

Progress in FY22	Priorities for FY23
£ Launched in 2019, our Data and Artificial Intelligence practice	Maintain growth trajectory.
is now 120 people, and has grown revenues by 95% to £15.8 million (2021: £8.1 million).	(E) Manage investment levels in line with total 'new opportunities' investments.
£ Launched in 2020, our Intelligent Automation practice is	Maintain growth trajectory.
now 25 people and has grown revenues to £1.0 million (2021: <£0.1 million).	(E) Refine sales and marketing approach as we build increased scale in customers.
E Launched in 2017, our Cloud practice now encompasses 160 people, with revenues of £11.7 million (2021: £6.8 million), a growth of 73%.	(£) Maintain growth trajectory.
	Extend offerings internationally, focused on Canada and Germany in the first instance.
😭 In 2021, we launched our Digital Advisory practice, it now	Establish early adopter clients.
includes 10 people on the team.	Increase the number of submissions to the innovation process
• Within the innovation process, there were 10 ideas evaluated:	•
 Seven ideas stopped at investigation stage. 	
 Three ideas moved to investment stage. 	
 One was approved (Digital Advisory). 	
 One is undergoing further investigation. 	
- One was stopped.	
Data and AI was approved for further investment.	

"EXISTING CUSTOMERS CONTINUE TO TRUST US TO DELIVER THEIR MOST CHALLENGING PROJECTS, AND THIS IS REFLECTED IN OUR REVENUES, WITH 88% OF REVENUES COMING FROM OUR EXISTING CLIENTS (2021: 85%)."

Our overall performance

Our established track record in helping ambitious organisations deliver large-scale digital transformation programmes is particularly relevant in a post-pandemic world. The underlying digitisation trend has been accelerated by the pandemic and we have continued to support new and existing customers as they respond to changing demands in their organisations.

Our high level of activity with our customers has translated into an excellent set of results for our financial year.

Revenue grew by 29% to £302.6 million (2021: £234.7 million) with adjusted pre-tax profit increasing by 3% to £58.8 million (2021: £57.1 million). As expected, our profit growth moderated as recruitment, training and marketing costs returned to normal levels; as we experienced increased salary costs and the increased use of contract staff; and as we increased investment in our software products.

Our sales performance underlines our success in winning business while continuing to operate on a remote basis – extensions to existing contracts, additional projects placed by existing customers and winning new customers. Bookings increased 35% to £349.8 million (2021: £258.8 million), which resulted in a 26% increase in the contracted backlog to £259.7 million (2021: £206.2 million).

On 31 March 2022, following dividend payments and acquisition expenses, we had a strong cash balance of £76.6 million (2021: £80.9 million including treasury deposits), representing 83% cash conversion (2021: 112%).

Our people

We are clear that our success is driven by the ability, energy and expertise of the people in Kainos.

Our employee engagement levels remain high.

Once again, our people have voted us into the Top 100 in the Sunday Times 'Best Companies to Work For' survey and in early 2022 we were awarded '50 Best Places to Work For in the UK' by Glassdoor, the online career community.

During the year, 86% of our colleagues made the choice to stay and develop their career within Kainos (2021: 92%). While we remain focused on improving as an employer, we also recognise that these reduced levels of retention are also reflective of a global shortage of digital skills.

Since last year, our headcount has grown by 668 to 2,692 people (2021: 2,024), including 153 new colleagues who joined through our acquisitions. Of our colleagues, 12% are contractors (2021: 15%). By region, UK & Ireland increased to 1,940 people (+399), Central Europe increased to 415 people (+74) and the Americas increased to 337 people (+195).

Our customers

We believe that by delivering consistently to our customers we build long-term relationships. This is a perspective shared by our customers, who continue to have a very positive view of our performance – 98% of respondents to our customer surveys rated our service as 'good' or above (2021: 98%).

Existing customers continue to trust us to deliver their most challenging projects, and this is reflected in our revenues, with 88% of revenues coming from our existing clients (2021: 85%). We have also gained new customers during the year, and we now work with 731 customers (2021: 546).

From a sector perspective we have a well-diversified business, with 41% of our revenues from commercial clients (2021: 35%), 37% from public sector organisations (2021: 45%), and 22% from healthcare customers (2021: 20%).

Our international client base has also expanded and as a result our international revenues have grown by 48% to £87.0 million (2021: £59.0 million). Regionally, UK & Ireland accounts for 71% of our business (2021: 75%), North America for 19% (2021: 16%), Central Europe for 9% (2021: 8%), with the rest of the world representing 1% (2021: 1%).

Digital Services performance

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

Revenues grew by 24% to £199.8 million (2021: £161.6 million), while our bookings increased by 36% to £215.0 million (2021: £157.7 million); correspondingly the backlog increased by 11% to £132.7 million (2021: £119.4 million).

With more opportunities in our addressable markets than we have people to deliver them, we have been prioritising which work we undertake. At the top of that list is our existing project and customer commitments, followed by prioritising new engagements in the commercial and healthcare sectors as we work towards a more balanced sector coverage within the division. All sectors grew during the year, with public sector now representing 54% of divisional revenues (2021: 63%), healthcare 33% (2021: 27%) and commercial sector 13% (2021: 10%).

Public sector

Our public sector customers have remained committed to their digital transformation programmes and they remain ambitious in the scope of services that they wish to digitise. As a result, revenues increased by 6% to £108.4 million (2021: £102.2 million).

Within central government, we continue to consolidate our strong position across key accounts, securing new contracts to deliver digital programmes including Data Products for HM Passport Office (£92 million, five years) and with Defra to deliver their Europe and Trade Delivery Portfolio, and Future Farming and Countryside Programme (£54.5 million, two years).

Commercial sector

In the UK, the commercial sector expenditure on IT is over three times that of the public sector. While this represents significant opportunity, to increase our likelihood of success, we have initially chosen to focus our activity on financial services.

Like all large organisations post-pandemic, those within banking and insurance are increasing their levels of investment in digital transformation. This, coupled with our growing references in the sector, has driven a rapid increase in activity as we have

helped established customers like Concardis and New Ireland and new customers such as IMCO, Danske Bank and Federated Hermes Limited.

Reflecting these higher activity levels, our revenues increased 60% to £25.1 million (2021: £15.7 million).

Healthcare sector

Our healthcare revenues increased by 52% to £66.3 million (2021: £43.7 million).

We have enjoyed strong partnerships with both NHS Digital and NHS X, who have now been merged to form NHS England's new Transformation Directorate. In the past year, our work has been a blend of providing ongoing support to Covid-19 initiatives and, increasingly, to broader healthcare provision and how technology can support the NHS with its ambitious digital plans. In this regard, we are delighted to be named on the £800 million Digital Capability for Health framework.

International expansion outside of UK and Ireland

With the UK as an early adopter of digital transformation, we believe that there is a significant opportunity to replicate our home market success internationally. Our initial focus is primarily on commercial customers in Germany and Switzerland, with organisations such as Hello Fresh and Concardis and in the commercial and public sector in Canada with Investment Management Corporation of Ontario (IMCO) and Government of Canada.

Our international revenues are reported in the figures in the above sectors, but for clarity, international revenues for the division have increased by 112% to £5.5 million (2021: £2.6 million).

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DIGITAL SERVICES REVENUES GREW BY 24% TO £199.8 MILLION (2021: £161.6 MILLION), WHILE OUR BOOKINGS INCREASED BY 36% TO £215.0 MILLION (2021: £157.7 MILLION)

Digital Services outlook

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

The digitisation pressures and opportunities within the commercial sector are similar, and therefore the growth prospects for us are substantial. Our progress in the past year provides confidence that we will deliver significant growth in the years ahead.

We are similarly optimistic about the international opportunity, utilising the skills and expertise gained as a leading digital transformation specialist in the UK and focusing on international regions where we already have established delivery teams, sales expertise and our Workday Practice client base.

Workday Practice performance

Having first engaged with Workday, Inc. in 2011, we are now one of their most experienced partners. We are the only specialist Workday partner headquartered in the UK and one of only 39 partners globally who are accredited to implement Workday's innovative SaaS platform.

Revenue for the period grew by 41% to £102.8 million (2021: £73.1 million) and backlog for the division increased by 46% to £127.0 million (2021: £86.7 million), reflecting an increase in bookings of 33% to £134.8 million (2021: £101.1 million).

The number of accredited Workday consultants at Kainos increased by 53% to 638 (2021: 416).

41%

REVENUE FOR THE PERIOD GREW BY
41% TO £102.8 MILLION (2021: £73.1
MILLION) AND BACKLOG FOR THE
DIVISION INCREASED BY 46% TO £127.0
MILLION (2021: £86.7 MILLION)

Workday Services

Within Europe, we continue to consolidate our position as the leading Workday partner. This leadership position is the result of high satisfaction levels within our customer base, our geographic expansion and, more recently, the acquisition of Cloudator.

Our international growth started in Europe in 2015 when we opened our office in Amsterdam; we now have colleagues based across 17 European countries (2021: 13). Having entered the North American market in 2018, we now have 323 people (2021: 142) focused on clients in the region.

Within the ecosystem there is an established trend of larger partners buying smaller organisations¹⁰, and we anticipate further transactions will occur in the future. The reduction in the number of partners provides further growth opportunities for Kainos.

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

Revenue for the year grew by 45% to £70.9 million (2021: £49.0 million); backlog increased by 46% to £51.1 million (2021: £34.9 million); and bookings increased 31% to £78.2 million (2021: £59.9 million).

Acquisitions

In June 2021, we completed the acquisition of Cloudator (55 people), the largest Workday partner in the Nordic region. In September 2021 Buenos Airesbased Une Consulting (42 people) was also acquired, further strengthening our Workday capability in North and South America. In January 2022 we acquired US-based spend management specialist Blackline Group (50 people) and in February 2022 we acquired Planalyse (six people) a well-regarded Workday Adaptive Planning partner based in the Netherlands.

Through these acquisitions, we are delighted to have added the expertise of 153 new colleagues.

In total, the acquisitions completed during the period contributed revenue of £7.7 million (2021: £nil). The net cash outflow in the period (cash paid less cash acquired) was £16.8 million.

¹⁰ Recent transactions include the Ataraxis acquisition by HR Path (2018). In 2019 Alight acquired the Workday-related business elements of Wipro, for a reported \$110 million (350 consultants). In 2020, Accenture acquired US-focused Sierra-Cedar (275 consultants) and Cognizant completed the acquisition of Collaborative Solutions (c.1,000 consultants).

Smart product suite

Workday is a comprehensive SaaS platform, but we believe that there are opportunities to develop software components that are complementary to the platform and enable customers to further increase the benefit that they can realise from their investment in Workday.

In 2014, Kainos launched Smart Test which is used by organisations to automatically verify their Workday configurations. Smart Test currently consists of six modules: HCM, Security, Financials, Payroll, Recruitment and Advanced Compensation, with a further three modules due to launch during 2022 and 2023. In Workday, Inc. inaugural Innovation Awards, Smart Test came first in the Product Innovation category. Smart Test is used by over 300 global customers, including Netflix, Johnson & Johnson and WWE.

Smart Audit became generally available in August 2021 and has already been deployed to over 40 customers including Match.com, University of Virginia and Viasat. Smart Audit is a compliance monitoring tool that allows Workday customers to maintain operational controls over their Workday environments. Our pre-built controls focus on safeguarding against Segregation of Duties conflicts, providing robust Privileged Access Controls and protecting Personal and Sensitive employee data.

In total, Smart product bookings increased 37% to £56.6 million (2021: £41.2 million). This very strong sales performance resulted in revenue increasing 32% to £31.9 million (2021: £24.2 million), of which £28.9 million relates to SaaS subscriptions (2021: £21.0 million); the Annual Recurring Revenue was £34.3 million (2021: £23.6 million), an increase of 45% and backlog increased 47% to £75.9 million (2021: £51.8 million).

Workday Extend

Workday, Inc. has a Platform-as-a-Service offering known as Workday Extend, (previously Workday Cloud Platform) which became generally available to customers in May 2020. Kainos has been part of the Workday Extend early adopter programme since 2017.

"WE BELIEVE THAT WE CAN OUTPACE
THIS RAPID MARKET GROWTH BY
CONTINUING OUR INTERNATIONAL
EXPANSION AND BY REPLACING OTHER
WORKDAY PARTNERS IN ENGAGEMENTS
WHERE THEY ARE UNDER-SERVING
THEIR CUSTOMERS."

Workday Extend allows customers to build additional, specialised functionality on the Workday platform to further enhance their Workday deployment. As experts in Workday Extend, we have helped organisations such as Hilti and Aggreko build Workday Extend applications.

In addition to these services-based assignments, Workday Extend provides the opportunity to build further products. During 2021 we have built and deployed applications such as Return to Work, Vaccination Management and Rewards and Recognition. While the focus of these initial deployments has been to demonstrate the capability of Workday Extend, we believe that there are opportunities to create paid-for applications.

Workday Practice outlook

Our strong performance provides further evidence of the strength of the Workday market. With Workday, Inc.'s main competitors, Oracle and SAP, soon to mark 50 years in the ERP market, we believe that Workday's more innovative product suite can continue to gain significant market share for many years to come. This is reflected in Workday, Inc.'s bold goal of achieving \$10 billion revenue by 2026.

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

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

Innovation, research and development

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

Including our product investment, our research and development expenditure for the year amounted to £6.2 million (2021: £4.2 million), which was wholly expensed in the year.

Innovation framework

We take the view that our people, who are often deeply engaged with our customers, are best placed to identify interesting problems. To support them, we have developed an innovation framework that spans the Company and comprises a body of knowledge, tools, methods and approaches for innovating, and processes to develop opportunities and ideas.

a) Spark & Scale

We create the conditions for our staff to identify interesting problems (finding the Spark) and support the development of ideas from conception through to launch (supporting the Scale). This can range from applying cutting-edge technologies to existing customer problems, to identifying and testing a potential partnership or a new business offering.

Our dedicated innovation team are on hand to explore the idea, developing an informed judgement of its early commercial potential. The Spark & Scale process is typically an investment of up to 20 days, with some external expenditure.

"TO SUPPORT INNOVATION
ACTIVITIES AND STRATEGIC
DECISION MAKING ACROSS
KAINOS, WE HAVE INVESTED IN A
TEAM DEDICATED TO TECHNICAL
AND MARKET RESEARCH."

b) Practice Incubator

Through our dedicated incubator, we accelerate the creation of new practices, which focus on bringing new technologies to customers through dedicated, highly skilled practitioners. Proposals for new practices are evaluated by a panel composed of experienced Kainos leaders. If successful, new practices are given a formal investment package, typically composed of development time, specialist recruitment and external expenditure.

For example, our Intelligent Automation practice, graduated from this process and was launched in August 2020. Now a team of 25 people, including externally recruited experts, has seen us undertake small, focused engagements for existing and new clients. We have every belief that our Intelligent Automation practice will follow the success of our Data and Artificial Intelligence practice, which is now 120 specialists.

c) Technical and market research

To support innovation activities and strategic decision making across Kainos, we have invested in a team dedicated to technical and market research. The team's activities include providing foresight and research into emerging technologies, interpreting developing trends and identifying market insights.

The team is continuing research into: the advances of machine learning and AI, such as reinforcement learning; sustainability, including green technology and applying sustainable models to our services; fog, edge and distributed systems for the creation of smart environments, devices and places; the ethical use of data and AI; advances and emerging concepts in the development of healthcare technology; and a range of other emerging concepts, including quantum computing and ambient intelligence, with a goal of understanding when they should approach maturity and the impact they will have on our business and clients.

Partnerships

In addition to internally sourced ideas, we nurture relationships with a broad network of partner organisations. We are active in start-up ecosystems, working with entrepreneurial young companies. Our people mentor and support their teams, helping to increase success prospects for their business, and with the aspiration of identifying and developing joint commercial opportunities.

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

Close-to-customer innovation

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

Within Digital Services, our continued investment makes us leaders in cloud native software and data engineering, delivering technology, practices and principles that enable our customers to achieve long-term success with digital and data transformation. Through our Digital Advisory Practice, we work on customer innovation, bringing our leading technical expertise and wide network of partners to bear on real-world problems, quickly delivering value for users.

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

OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) COMMITMENTS

"WE ARE PROUD OF OUR TRACK RECORD OF BEING A RESPONSIBLE BUSINESS. WE ACHIEVED CARBON NEUTRALITY IN 2021 AND COMMIT TO CONTINUING THAT IN 2022, THROUGH OFFSETTING AND REMOVAL PROJECTS."

Introduction

We have used the UN Sustainability Development Goals (SDGs) as a framework to assess and guide our efforts as a responsible Company. Specifically, we have focused on five SDGs











We are proud of our track record of being a responsible business. We achieved carbon neutrality in 2021 and commit to continuing that in 2022, through offsetting and removal projects.

We are delighted that our employees are also shareholders. Every year, we gift shares to all permanent employees, and we also operate a save-asyou-earn shared-based scheme¹¹. In 2022 we allocated 375,288 shares under all our share schemes, bringing the total allocated since 2015 to 9,929,522 shares.

Responsibilities

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

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

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

Environmental: protecting and restoring our planet

We are delighted that we have achieved carbon neutrality¹² in 2021 and are on track to achieve our ambition of being carbon net zero¹² by 2025. We have made our submission to the Science Based Target initiative (SBTi) and expect feedback by mid-2022, which will further inform our existing carbon reduction plans.

Environmental sustainability

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

In our reporting, we adhere to the Streamlined Energy and Carbon Reporting Regulation (SECR), the Task Force on Climate-related Financial Disclosures (TCFD) and the sustainability accounting standard for the Software & IT services sector as defined by the Sustainability Accounting Standards Board (SASB).

We confirm that we continue to comply with all our environmental legal requirements across all our activities. In 2022 there were zero breaches of any environmental regulations (2021: zero).

Implementation of the Task Force on Climate-related Financial Disclosures (TCFD) framework

Our focus during 2022 was securing offsetting projects achieving carbon neutrality and ensuring that we remain on track for achieving carbon net zero by 2025.

Understanding our emissions and setting reduction targets underpins this aim. We continue to account for our emissions in line with the GHG Protocols and this year, we completed our submission to the Science-Based Targets initiative (SBTi). We expect the response by mid-2022.

We completed our climate change disclosure, for the second year via the Carbon Disclosure Project (CDP). This platform aligns with TCFD recommendations, enabling us to begin implementing the framework, to support the reporting requirements for TCFD.

Our disclosures, consistent with the TCFD recommendations, are summarised in the following tables. Further detail is available in our 2022 submission to CDP¹³, alongside our previous detailed disclosures.

In the next Annual Report, following receipt of feedback from our SBTi submissions and internal assessments, we expect to continue to enhance and further develop our reporting in line with TCFD requirements, undertake modelling of climate-related risks and update our Risk Register to enhance the way in which climate risk is integrated.

¹¹ We operate share-gifting schemes in UK, Ireland and Poland and have cash equivalent schemes in all our other locations. At a closing share price on 31 March 2022 of 1,323 pence, our 2022 allocation is valued at £5 million.

¹² Carbon neutral through purchasing avoidance and reduction offsets from the voluntary market. Net zero by reducing emissions in line with targets and investing aradually in market removals, transitioning fully in 2025.

¹³ CDP responses.

Governance

a) Describe the Board's oversight of climaterelated risks and opportunities.

Our Board has overall responsibility and accountability for the implementation of our climate action strategy, its associated reduction of our carbon impact and business opportunities.

In 2022 our Board will determine the most appropriate structure for the Directors to monitor the ongoing performance and delivery of the plan.

b) Describe management's role in assessing and managing climaterelated risks and opportunities.

The responsibility for our climate action plan has been devolved to the CEO, with day-today co-ordination led by our Sustainability Group.

Climate-related risks are brought to the attention of the Audit Committee, who raise matters, as appropriate, to the main Board.

Strategy

a) Describe the climaterelated risks and opportunities that the organisation has identified over the short, medium and long-term.

Potential areas of risk

While we have placed a high priority on reducing our climate impact and we believe that the likelihood of climate-related risks occurring as 'medium-to-high', we have assessed the impact of these events on our business as being 'low-to-moderate'.

Physical. Extreme weather events could result in damage to our office locations, restrict business travel, disrupt cloud and internet connectivity providers, cause regular interruption to power supply, or disruption to supply chains, for instance the supply of laptops.

Transition. We could experience reputational damage if we fail to meet our climate targets; or the increased cost for carbon offsetting programmes may result in additional business cost.

Potential areas of opportunity

During 2021 our Sustainability Group assessed the potential opportunities in responding to the climate crisis. Ideas were shared across our internal climate action community (which has 248 members) for feedback and development. The highest priority ideas will be developed in 2022.

Products and Services. There is the potential to help our customers achieve a lower carbon future by moving their services to the cloud or redesigning their services to be more energy efficient.

Reputation. Enhanced reputation and business opportunity by becoming a sustainability leader in the technology sector.

b) Describe the impact of climate-related risks organisation's businesses, strategy, and financial planning.

As noted above, our initial assessment of the impact of climate-related risks to our business are low-to-moderate. To date, climate-related risks have not been a material consideration and opportunities on the in the financial planning process. Kainos is a service business where the main costs are employee-related.

> Following the receipt of feedback from our SBTi submission, in mid-2022, we will review each of the climate risks for materiality and expand our Risk Register to accommodate the significant risks.

> We have an internal innovation process (see section 'Innovation, research and development'), which is currently evaluating a carbon-reduction solution, that we believe can accelerate cloud adoption within our customers. We will complete the evaluation of this solution during 2022.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2-degree lower scenario. We have not yet completed the scenario planning for different climate-related scenarios. We expect to complete this work in late 2022.

The modelling results will be used to further develop our approach to climate risks and to anticipate any opportunities within those scenarios.

OUR ENVIRONMENTAL, SOCIAL AND

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Risks	
a) Describe the organisation's processes	Our approach to assessing risks is described in more detail in the Risk factors and uncertainties section of this report.
for identifying and assessing climate-related risks.	We added the climate-related risk to our reputation, should we not act or act too slowly, to our register in 2021, as a principal risk. All principal risks are overseen by our Audit Committee, which assesses the material risks to our business and the plans to mitigate and manage their potential impact. The impact of this risk as well as the process for identifying and managing risk is detailed in the Risk factors and uncertainties section of this report.
b) Describe the organisation's processes for managing climaterelated risks.	In line with our overall approach, outlined in the Risk factors and uncertainties section, we review our Risk Register twice each year, with further updates, where required, provided to the Audit Committee. Climate-related risks are reviewed as part of this process.
c) Describe how processes for identifying, assessing,	The responsibility of identifying risks is allocated to the Executive and Leader teams within Kainos, which represents a community of over 70 of our most senior leaders.
and managing climate- related risks are integrated into the	Those risks that are assessed as significant are allocated a dedicated owner to ensure that a mitigation plan is put in place.
organisation's overall risk management.	For example, ensuring that all our internal systems are cloud-hosted will be the responsibility of our Chief Information Officer.
Metrics and targets	
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	We await the feedback on our SBTi submission, which is expected mid-2022, and which will inform our implementation plan and related metrics for our aim to be carbon net zero by 2025.
	At present we use the GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019 to calculate our absolute emissions and relevant intensity ratios.
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3	We calculate and disclose our emissions from Scope 1 and Scope 2, in compliance with SECR regulations. We also disclosed full Scope 3 emissions as well as the specific Scope 3 emissions as they relate to business travel. Our emissions are externally verified.
GHG emissions, and the related risks.	Further information about our emissions is contained in the following sections.
c) Describe the targets used by the organisation	We achieved carbon neutrality in 2021 and remain on track to achieve carbon net zero in 2025 for full Scope 1, 2 and 3 emissions.
to manage climate- related risks and opportunities and performance against targets.	The response to our SBTi submission will provide further input to our detailed implementation plan and targets – our expectation is that we will need to reduce our emissions by 50% from our 2019 baseline.

CDP (previously Carbon Disclosure Project)

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

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

We are currently preparing our next submission and we expect our updated assessment to be available in late-2022.

Carbon footprint

As in previous years, we rely on external environmental experts to assess and advise on our environmental impacts. We are working with Watershed to measure and report on our emissions.

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

- Scope 1 comprises emissions from the direct burning of fossil fuels. We generated 112 tonnes of carbon dioxide equivalent (CO₂e), relating to oil-based central heating in our premises (2021: 112 tonnes).
- Scope 2 describes emissions that result during the generation of purchased energy. These emissions largely relate to our offices. We generated 15 tonnes CO₂e within the UK and a further 69 tonnes worldwide (total: 84 tonnes CO₂e) (2021: 179 tonnes).
- Scope 3 emissions relating to business travel.
 In 2022, our emissions in this category increased to 382 tonnes CO₂e (2021: 8 tonnes).
- Scope 3 (full) emissions generated indirectly from business activities. In 2022, 7,539 tonnes CO₂e were generated (2021: 5,779 tonnes), inclusive of business travel.

Compared against the prior year, our total emissions increased by 30%, largely linked to the 33% increase in staff numbers and their direct costs (laptops, external training) but also impacted by the increased use of our offices, increased commuting and the resumption of some business-related travel.

Compared against our base year (2019), our emissions are significantly reduced. Our Scope 1, 2 and Scope 3 business travel in 2019 was 5,524 tonnes CO₂e; the same emissions for the past year represented 578 tonnes CO₂e, a reduction of 90%. Similarly, our total emissions for last year represent a c.27% reduction from our base year, despite our staff numbers increasing by 57% over the same timeframe. As a result, our carbon intensity figure, tonnes CO₂e per employee has reduced from 3.19 tonnes CO₂e to 0.28 tonnes CO₂e.

During the year we improved the energy efficiency of our offices, recording a 32% reduction despite increased usage. We have also been migrating our office electricity supply to be from renewable sources, with our offices in Belfast, Gdańsk and Birmingham now transferred, covering 63% of our office-based colleagues.

We also focused on sharing information with our colleagues, launching our Company-wide climate action group, which has 249 members across the Company, and a further 300+ who actively engage with the content published – webinars, guides and research. As part of these employee-focused initiatives, in the UK we launched our Electric Car Salary Sacrifice Scheme, with 90 colleagues purchasing an electric vehicle through the scheme.

The majority of our Scope 3 (full) emissions are from our supply chain, and later this year we will appoint a colleague to work with our suppliers to help them reduce their carbon impact.

In 2021 we offset our total emissions to become carbon neutral, at a cost of £45,000. We will continue this practice, again utilising a portfolio of high-quality, certified offsets that blend local and international projects as well as carbon removal projects. We believe this best reflects our global business and gives us the best opportunity to invest in programmes that offer positive social, as well as environmental, impacts.

We have used the GHG Protocol Corporate Accounting and Reporting standard (revised edition) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2019 to calculate the below disclosures. The standard requires a statement of relevant intensity ratios, which are an expression of the quantity of emissions in relation to a quantifiable factor of the business activity. Kainos has identified two such intensity ratios, set out below. These figures were calculated from data available for our main operations and extrapolated to take account of our smaller locations.

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GHG emissions data for period 1 April 2021 to 31 March 2022

Global tonnes of CO_ae

		2022		2021
	UK	Non-UK	UK	Non-UK
Combustion of fuels and operation of facility (Scope 1)	86	26	94	18
Emissions from purchase of electricity, heat, steam and cooling purchased for own	15	69	92	87
use (Scope 2)	19	69	92	0/
Business travel (Scope 3)	275	107	6	2
Total emissions by location	376	202	192	107
Total emissions for year	į	578	2	99

Total emissions from activities for which the Company is responsible (Scope 1 and 2)

	2022	2021
kWh (thousand)	1,095	1,286

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

Intensity ratios

	2022	2021
tCO ₂ e/£ million revenue	1.91	1.27
tCO ₂ e/average number		
of employees	0.28	0.19

Hybrid working

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

This approach was one of the reasons that we were able to respond so quickly at the start of the pandemic, in a matter of days successfully moving our entire workforce to work from home. Our working practices established during the early stages of the pandemic have continued where our colleagues alternate between office-based and home-based work locations. We describe this working pattern as 'hybrid working'.

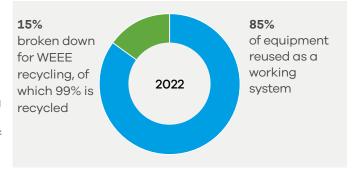
To us, hybrid working is about combining remote and office-based working, giving our people greater flexibility to work in the location that best suits them, taking into consideration the needs of their role, their work, their team members and the customer.

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

Secure equipment recycling

As we operate a cloud-based infrastructure, most of our equipment recycling is focused on our laptops. During the year we recycled over 540 pieces of equipment, partnering with Vyta Secure Limited, who use military grade techniques to remove all data from the system. Typically, 85% of our equipment is reused as a working system, with the remainder broken down for WEEE recycling, of which 99% is recycled.

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



Social: our people and our communities

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

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

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

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

Engagement

Our ambition is to be a great place to work. Our people tell us when we get it right and tell us about the areas where we can improve. We use the annual Sunday Times 'Best Companies to Work For' survey as a confidential way for our colleagues to share their feedback across eight different categories: Leadership, My Company, My Manager, My Team, Wellbeing, Giving Something Back, Fair Deal and Personal Growth.

Having first appeared in the Top 100 in 2012, we are delighted to still be included in 2022, once again retaining the two-star 'outstanding company' accreditation.

Engagement can also be measured through Glassdoor, the online career community with over 54 million users. Glassdoor allows current and former employees to provide feedback on companies. In March 2022, Kainos had an approval rating of 86% and 87% of respondents would recommend working at Kainos to a friend; these are well above the average ratings across 2.1 million companies of 74% and 66% respectively. In early 2022, we were designated as No. 38 in the '50 Best Places to Work in the UK' annual awards from Glassdoor.

We work hard to retain the talented people already in Kainos. We are also very focused on recruiting new talented colleagues. We continue to attract strong interest in key recruitment markets, with tens of thousands of candidates applying each year to join Kainos. During the year, our headcount grew by 668 to 2,692 people (2021: 2,024). This includes 153 new colleagues who joined us via the four acquisitions we completed in the year.

As part of our recruitment activity, we operate a referral scheme. We believe that referrals, where a new employee has joined Kainos because of a recommendation from an existing employee, is a good indicator of existing employee engagement. During the year, 200 people joined via a referral.

We are focused on creating a workplace that people want to join and then stay to develop their careers. With the global shortage in digital skills, we are pleased that 86% of our colleagues made the choice to stay and develop their career at Kainos (2021: 92%).

We take great enjoyment in marking the significant work anniversaries of our colleagues. During the year 100 people celebrated their five-year anniversary, and a further 58 marking their 10-, 15-, 20-, 25- or 30-year anniversary of joining Kainos.

We believe that it is important to celebrate the achievements of our colleagues and our recognition scheme allows any person in Kainos to nominate an inspirational colleague. We centre this scheme around our values – creativity, honesty, cooperation, determination and being respectful. During the year, over 2,250 awards were made to recognise the contribution of colleagues.

We also believe that our colleagues have many ideas about how we can improve as an organisation. Over the past five years, our staff ideas portal has received 436 suggestions. Of these, 126 have been implemented, 116 are being evaluated or undergoing implementation and 194 were not taken forward.

Measures:

Sunday Times 'Best Companies' position:

2022	86th
2021	86th

Glassdoor approval rating:



Staff retention:



Headcount: An increase of 668 (2021: 309 people).



Employee referrals:

200

new people employed

Recognition awards:

2.274

awards received

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Wellbeing

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

We have a dedicated wellbeing intranet site which contains self-care information to help our people manage their own wellbeing and that of their friends, colleagues and team members. This site has over 64,000 visits every year.

a) Emotional

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

Since March 2020 we have operated our online Mindset wellbeing platform supporting self-awareness and reflection. There are 25 modules, such as growth mindset, emotional intelligence, and resilience. Over 1,400 people are actively using the system, posting a satisfaction rating of 95%.

We launched our wellbeing app in March 2021, which covers physical and emotional wellbeing, including fitness, nutrition, mediation techniques and wellbeing insights. To date, over 475 people actively use the app.

In addition to these self-directed activities, we have trained 31 volunteers from across all our office locations as 'wellbeing champions'. These dedicated volunteers are equipped to have supportive conversations with our people and, if required, direct them to further support or professional help.

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

Measures:

Using the mindset platform:



Using the wellbeing app:

2022	475+ people
2021	375+ people

Wellbeing champions:

2022	31 people
2021	32 people

Accessing the employee assistance programme:

2022		190 people
2021	75 people	

b) Physical

Our focus during the pandemic has been on reducing the risks of Covid-19 for our colleagues. On 5 March 2020 we invoked our Covid-19 response plan, which prioritised the physical safety of our people. As part of that response, we asked them to work from home or another safe location, reopening our offices in September 2020 for those who preferred to work from an office environment. We relaxed this guidance in March 2022, encouraging our colleagues to use our office locations for collaboration and social events.

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

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

During the year, sickness absence increased to 6.5 days (2021: 5.1 days), which is slightly above the UK average.

Measures:

Absence levels:

2022	6.5 days per person	
2021	5.1 days per person	

Accessing private medical insurance:

2022	326 claims	
2021		960 claims

Accessing permanent health insurance:

2022	three people	
2021		four people

c) Social events

We enjoy being a social company, providing the opportunity to have meaningful relationships and creating an environment where our people feel engaged, supported and included. We have volunteer led social committees at all our locations and each committee organises inclusive events that appeal to the local teams. These can be unique to individual offices (escape rooms!), but there are also themes across our locations: a staff party and family-friendly events in December, summer BBQ and payday lunch or drinks. In addition to these location-focused events, we also encourage quarterly social meet-ups at a team level. Kainos pays for all expenses linked to these events.

Covid-19 severely disrupted these events and we switched to virtual events, gifts or hampers during the pandemic. Since the start of 2022, we have been encouraging our colleagues to meet and socialise and we expect these events to increase in frequency during 2022 as people feel more comfortable resuming 'in person' events.

Measures:

Staff entertainment expenditure:

2022		£1.2 million
2021	£0.7 million	

d) Career

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

At a planning level, our global capabilities are responsible for developing the skills, qualifications and confidence of our colleagues. There are over 21 global capabilities, including cyber security, experience design, engineering and reporting and analytics. We have approximately 785 people managers of varying levels of seniority, who are responsible for supporting our people's career development day-to-day.

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

People managers are supported in their key role by practical tools such as our online coaching portal comprising 24 self-study modules, with over 530 people managers accessing the portal. People managers also undertake our three-day Effective Manager programme, which covers core management skills, personal leadership skills, everyday coaching and giving and receiving feedback. Over 570 of our people managers have completed this training.

Alongside the career planning and support, we invest heavily in training and certifications for our people. We have a diverse curriculum of internal courses (which we call 'Kainos MAP') and comprehensive self-study materials to support external technical and professional qualifications and certifications. As a response to Covid-19, we have transitioned our learning curriculum and approach to a virtual delivery model. This has increased the global participation on our training programmes but has reduced the opportunity for our colleagues to build their personal networks as they would if they were attending inperson courses. We expect to maintain a high level of virtual training in the future, but also a greater level of in-person courses and conference attendance.

Measures:

Number of promotions:

2022		413 people
2021	265 people	

Annual appraisals completed:



Training expenditure:



OUR ENVIRONMENTAL, SOCIAL AND

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e) Financial

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

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

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

Every year, we gift shares to all permanent employees in the UK, Ireland and Poland, operating cashequivalent schemes in all our other locations. In addition, we operate a save-as-you-earn shared-based scheme. In 2022 we allocated 375,288 shares under all our share schemes, bringing the total allocated to 9,929,522 since we became a public company.

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

Measures

Shares allocated in 2022:

375,288 shares or £5 million at 31 March 2022 closing price¹⁴

Shares allocated since 2015:

9,929,522 shares or £131 million at 31 March 2022 closing price¹⁴

Diversity and inclusion

We have colleagues from 57 different nationalities and, whilst diversity is not only defined by nationality, we appreciate the value of having a diverse, international workforce.

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

Diversity and inclusion is an integral part of our company strategy because we believe that by having more culturally diverse leadership and teams, we are more likely to have increased staff wellbeing and have higher rates of staff engagement and retention.

With a more diverse work environment, we are better able to deliver technology and services that meet the diverse needs of users and citizens and through diversity of thought quickly bring new innovations to market.

With a more diverse and inclusive culture, we believe we can perform better as an employer and for our customers while driving higher growth and profitability and better meet or exceed global equality standards and laws.

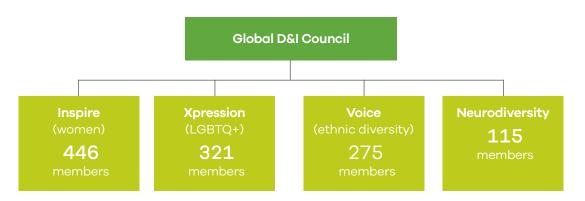
How we are organised

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

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

14 KNOS closing share price on 31 March 1,323 pence.

Our global D&I structure



Our data

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

Over 2,140 of our colleagues have updated their diversity information.

Progress

During the year, our D&I plan has focused on activities and campaigns on raising awareness, connecting our people to talk, learn and unite around our differences – over 1,400 people participated in these events.

We continue to pledge our support to the Office of the United Nations High Commissioner for Human Rights (OHCHR), UN Standards of Conduct for Business Tackling Discrimination against LGBTI People, the Race at Work Charter and the Armed Forces Covenant. We have retained our membership of Inclusive Employers, the leading membership organisation who are experts in workplace inclusion. Our progress has also included achieving Disability Level 2 employer status.

Improving our own understanding and behaviours has continued to be a focus. Our unconscious bias eLearning module, covering behaviours, bias, inclusivity and policy, has been completed by over 2,000 colleagues, with 251 hiring managers completing our newly launched interviewer skills training which focuses on unconscious bias within the hiring process. We continue to supplement this learning with webinars, hosted panel sessions and information packs.

Measures

Employees opting to disclose their diversity data:



Gender balance

Gender diversity remains a challenge within the wider industry, where 19% of roles in technology are undertaken by women¹⁵ and nationally, women hold 5% of executive management roles¹⁶.

In considering Kainos employees, there are 787 women (2021: 518), 1,520 men (2021: 1,156) and 42 colleagues that are non-binary or transgender or have chosen not to disclose that information (2021: 51). Viewed as proportions, 33% of our workforce are women (2021: 30%), 65% are men (2021: 67%), 2% are non-binary, transgender or prefer not to disclose this information (2021: 3%).

¹⁵ BCS diversity report 2021: Women in IT.

¹⁶ PwC research report: Women in Tech.

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There are 171 women at manager level or above (2021: 95) and two women hold executive management roles (2021: two). As proportions, women holding manager level and above, roles represent 27% (2021: 21%) with women holding 12% of executive management roles (2021: 20%).

On the Kainos Board, two of the four (50%) Non-Executive Directors are women (2021: 40%). Including the Executive Directors, 33% of our Board are women (2021: 25%). All Board members identify 'White/ European' as their ethnic group.

We recognise that the under-representation of women in Kainos and in the wider sector, means that our journey towards gender parity will take several years. Our gender parity plan identifies three key themes and associated actions plans, outlined in the following sections.

a) Develop the talents and careers of women already in Kainos

Our initial focus is on our senior women colleagues. Working with industry leadership experts, our six-month programme, Women in Leadership, is designed to support the continued development of the participants. There are 15 women on the first iteration of this programme. In addition to the personal development goals of those in the programme, it is also our aim to create role models, ambassadors and advocates that are inspirational for women in, or considering a career in, the digital sector.

We have also partnered with Everywoman, a leader in the advancement of women in business, to provide specialist learning and development programmes for women across Kainos.

b) Become the destination employer for talented women We believe that the most effective way to encourage people to join Kainos is to showcase our existing talented women. With a degree of encouragement, five of our colleagues agreed to be nominated for a series of industry-related awards. All five were shortlisted, with two of our colleagues winning their award categories – 'Excellence in IT' and 'Advocate of the Year'.

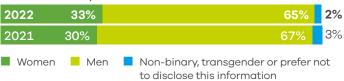
c) Encourage more women to consider and adopt digital careers

The Outreach section in this report provides more detail of our activities including the gifting of digital bursaries to undergraduate women studying at university, and women-only events for young women considering a digital career. We were delighted to engage 333 young women in our virtual work placement programmes, where over 1,100 students participated.

To support the continued development of our women colleagues, this year Kainos commissioned a professional leadership development specialist to design and deliver a highly engaging, bespoke Woman in Leadership Programme 'Empowering Leadership'; 15 talented women are currently attending the sixmonth programme.

Measures:

Gender identity:



Women at manager level and above:



Women at executive level:



Communities

a) Outreach

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

Over the past seven years, our outreach programmes have directly benefited over 7,400 young people in the UK, Ireland and Poland. These programmes have catered for students from a range of socioeconomic backgrounds and 30% of the attendees were young women.

In the past year we switched our activity to a virtual events format which has increased accessibility of our programmes. With over 1,100 virtual work placements completed, we offered students aged 14-19 an enjoyable and engaging insight into the career opportunities in digital technology. Our virtual work placements were inclusive to all, with over 40 students with special educational needs engaged. We introduced women-only events, including women-only work experience programmes, building peer networks among over 333 young women aiming to pursue a career in digital technology. We launched our Digital Insight events in Cyber Security and Intelligent Automation, with over 100 young people participating.

We also switched our popular CodeCamp to being a virtual event, launching it as a global programme, engaging with over 230 students in 17 different countries. In a similar manner, our education-based conference also switched to a virtual app design competition, with over 20 young people showcasing their app design skills.

We launched our Digital Bursaries, aimed at widening the participation of young people who are traditionally under-represented at university. Our initial university partners are Queen's University Belfast (QUB) and Birmingham City University (BCU). At QUB, these are bursaries for all degrees, at BCU our bursaries will support women attending digital courses. Our commitment over the next three years is to support 60 young people attending university.

We partnered with the Now Group (a Social Enterprise and Autism Charity) and their Digital Skills Academy, providing paid work placements for two participants who are seeking to gain entry level employment. We also partnered with Leonard Cheshire (a disability charity) to provide a paid work placement for a graduate from their Graduate Employ scheme.

b) Graduate employment and our Earn as You Learn® apprentice scheme

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

In the year, we recruited 142 graduates and 17 placements (a placement is typically a 12-month engagement and is fully remunerated). These roles were based across our Belfast, Derry, Birmingham, Gdańsk, London, Hamburg and Indianapolis locations.

We continue to operate our popular Earn as You Learn® apprenticeship scheme, which has proven particularly successful since its inception in 2013. Designed to encourage young people into the digital industry, Earn as You Learn® has allowed us to identify talented young people outside our traditional graduate recruitment activity. Since the launch, 74 young people have joined us through this programme.

c) Charities

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

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

As with all in-person events during the pandemic, we experienced a reduction in fund-raising activities. However charitable donations increased to £45,000 (2021: £22,000).

Everybody in Kainos can avail themselves of two, paid-for days every year to get involved in social and charitable activities. In the past this has covered activities like volunteering on emergency transport or nature reserve maintenance; more recently this has been linked with supporting Ukrainian refugees, especially in Gdańsk.

Measures:

Virtual placements on offer:



Graduates and students employed:



Charity donations:



OUR ENVIRONMENTAL, SOCIAL AND

GOVERNANCE (ESG) COMMITMENTS CONTINUED

Governance: Our stakeholders

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

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

Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would support the long-term success of the Company and its various stakeholders.

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

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

Stakeholder engagement

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

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

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

a) Our employees

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

We engage to understand how they view Kainos as an employer and where we can improve. We place immense value on ensuring that our colleagues are engaged, rewarded and that we are focused on their wellbeing. This in turns helps us to attract and retain the talent we need to fulfil our growth plans.

Their interests • Their reward and benefits. • Their career progression. • The training and development opportunities we create. · Our culture and teamwork. · Their health and wellbeing. Our ethical stance as a company. • We use the annual Sunday Times 'Best Companies to Work For' survey as a confidential way for How we engage our colleagues to share their feedback. • The Culture and Development Group (chaired jointly by the CEO and Chief People Officer) is the Company's formal workforce advisory panel and reports regularly to the Board on employee matters. • The Directors have regular opportunities to engage with the wider company through office visits, attending our all-staff annual conference and presentations from staff as part of our monthly Board meetings. · Our CEO holds monthly 'Kainos in Brief' sessions with staff groups, to share news and progress against objectives and strategic ambitions, and to receive direct input from staff. · We operate an internal social network platform (Microsoft Yammer) which creates the opportunity for every person to publish, share and comment about all aspects of working in Kainos. • Our continued placement in the Top 100 of the Sunday Times Best Companies to Work For. **Outcomes** • The output from the survey was shared with the Board and staff and a continuous improvement plan created to address feedback. Progress against the plan was reported each month to the Executive Team, quarterly to the entire workforce and twice yearly to the Board. During the past year, colleagues have contributed 9,310 posts to Yammer, including a vibrant response to the introduction of a UK Electric Vehicle scheme.

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

OUR ENVIRONMENTAL, SOCIAL AND

GOVERNANCE (ESG) COMMITMENTS CONTINUED

b) Our customers

We engage with our customers so that we can understand their evolving needs and their attitudes towards our service, so we can continue to support them effectively and deliver high levels of customer satisfaction. This enables us to generate repeat business with customers and to win work with new customers.

Their interests	Quality and cost of service.
	Our ability to meet agreed deadlines.
	Our ability to innovate.
	Our ethical stance as a company.
How we engage	We work with over 700 customers and our project teams will typically interact with them daily. Feedback or escalations will be shared within the project team and, where appropriate, with the Executive Team and the Board.
	We use online surveys to obtain feedback about our performance and customer satisfaction across all our customers. Surveys happen on a rolling basis, with customers asked for feedback twice a year. The output is shared monthly with the Board and is reported in our investor presentations every six months.
	The Executive Directors, primarily the CEO, will meet with customers during the year, typically our largest customers.
	At a Board level, project success stories and retrospectives are included as part of the regular Board agenda, with the teams directly involved in the project presenting to the Board.
Outcomes	We received 394 customer engagement surveys, with 98% rating us 'Good', 'Very good' or 'Excellent' overall. Responses are used to inform our continuous improvement programme, which aims to meet or exceed customer expectations on every project.
	 During the year, a total of nine team success stories, two external speakers and two retrospectives were provided to the Board.

c) Our investors and shareholders

We value the support of our shareholders and recognise their interest in our strategy and our progress on key strategic programmes.

Their interests	Our strategic direction and successful implementation of the strategy.
	Our operational and financial performance.
	Our dividends and total shareholder return.
	Our ethical stance as a company, including our approach to ESG matters.
	Our remuneration practices.
	Any developments in our markets.
How we engage	Our CEO and CFO meet analysts and institutional shareholders throughout the year, with detailed updates following our interim and full year results.
	Our CEO and CFO provide regular feedback from these meetings to the Board. Formal feedback is also obtained by our PR and financial advisors and reported to the Board.
	 Our Chair engages with shareholders on various topics raised, addressing enquiries, setting out our position and offering to discuss further, where required, in person or virtually.
	We communicate with private investors through the RNS Service, the Annual Report and the Annual General Meeting.
	We make financial and other information available on our website.
Outcomes	We increased our understanding of shareholder views on dividend policy, environmental considerations, and tax transparency.
	We published our tax policy on our website.

d) Our communities

We believe that as a responsible business, we need to contribute to the communities within which we operate.

Their interests	Our engagement with community-based programmes.
	Our carbon footprint and our commitment to reducing our environmental impact.
	Our employment options for their communities.
	Our tax strategy and tax transparency.
	Our ethical stance as a company.
How we engage	Our outreach programmes engage with our local communities to ensure that our programmes support the needs of our stakeholders.
	Our volunteer-led charity committees support and amplify the fund-raising efforts of our colleagues and oversee the selection of our global and local charities.
Outcomes	We extended our outreach programmes to operate globally, with participants from 17 countries.
	We increased our graduate and school-leaver recruitment programmes.
	We increased our level of charitable donations.
	We published our tax policy on our website.
	• We achieved carbon neutral in 2021 and remain on schedule to achieve net zero by 2025.

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

e) Case study: our engagement in action

In July 2021, England moved to Step 4 of the Covid-19 exit plan, which relaxed most social distancing restrictions and included the ability to return to office-based work. In parallel, there was general encouragement from government ministers and commentary in the press and from high-profile business personalities for us to return to offices.

While it was clear that the global health situation was improving, our assessment about a return to the office differed from this guidance. Our assessment, informed by our work supporting the NHS in its Covid-19 response programmes, was that there was a high likelihood of a resurgence later in 2021, what was termed at the time as 'the winter surge'.

With this assessment in mind, we considered the various needs of our stakeholders and retained our guidance that our colleagues should continue to work from home, where it was possible and safe for them to do so.

Our employees. Since the start of the pandemic our colleagues experienced low infection rates from Covid-19, and we believed that our work-from-home guidance, coupled with our colleagues' caution and diligence, contributed to these low rates. We also recognised that the pandemic had brought additional care responsibilities for many people, which would need to remain in place until the risks of infection had further reduced. In considering our decision in July 2021, we consulted with our leadership community across Kainos (c.300 of our most senior colleagues based in several countries), and then engaged with everyone in the Company. For those people who wished to work in an office-based environment, we issued guidance for safe working at our offices, which had remained open since September 2020.

Our customers. We had been successfully supporting our customers remotely since March 2020, drawing very favourable feedback for the quality of work that we had delivered. This feedback, coupled with the opinions of our customer-facing staff, helped shape our customer engagement in July 2021, where we explained our preference for working remotely. The customer feedback was overwhelmingly positive, and in the small number of cases where onsite working was required, we were able to facilitate arrangements that were supportive of the needs of our customers and our colleagues.

OUR ENVIRONMENTAL, SOCIAL AND

GOVERNANCE (ESG) COMMITMENTS CONTINUED

60m

PEOPLE WHO HAVE USED A SYSTEM OR SERVICE THAT WE HAVE DELIVERED IN THE PAST YEAR

Our shareholders. A remote working model, and its associated lack of travel, was an important consideration for our shareholders. The reduced expense and reduced environmental impact are notable factors for an investor in assessing whether to become or remain a shareholder in Kainos. We shared our remote working guidelines formally in our Trading Updates and Interim Results communications, although our continued policy was also very visible on our website and in our external communication.

Our communities. In opting for our cautious approach, we contributed to reducing the load on healthcare systems in over 20 countries; at the same time, we supported those colleagues who had additional care responsibilities for vulnerable people. We moved our outreach programmes to a virtual format, engaging with over 1,100 young people. We extended our recruitment from school and college, building a virtual programme to support our new recruits as they started their digital careers. Finally, asking our people to limit travel, we continued to minimise the impact that business travel had on the environment.

Code of ethics: our ethical principles and commitments

We are committed to conducting our business ethically – this is a commitment which resonates with all our stakeholder groups – and our code of ethics directly responds to the concerns and interests of the public and our customers.

Our six ethical principles are: wellbeing, equality, the environment, transparency, integrity and taking the initiative to make a positive difference. These principles could not be more important to our people, our customers and the communities we serve.

Our code of ethics outlines our commitments to our ethical principles in clear and active terms. This is deliberate. Everyone in the Company is working proactively to deliver against our ethical commitments wherever they are relevant.

Our ethical stance isn't new, but our code of ethics is the newly formalised way in which we have consolidated and codified our long-standing ethical principles and commitments so that these are clear and visible to our stakeholders now and in the future.

As detailed above, ethics is core to our approach to business and we are already delivering considerable social value and ethical outcomes through the work that we do and the way that we work.

We have worked collaboratively across the Company to ensure our code of ethics reflects the needs of the whole Company.

We have agreed our six ethical principles together and outlined how to apply these in our everyday business dealings through our 36 ethical commitments.

In the next few weeks, we will be launching our guidance to ensure our activity is maximising opportunities to align to the code of ethics and we will start to report against our ethical ambitions on an annual basis to celebrate our progress.

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

That is why our code of ethics is so important, and why we will strive to make sure everything we do is aligned to it, so that we can create the best outcomes for our people, our customers and our communities.

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

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

These principles are reflected in our global anticorruption and anti-bribery policy and our whistleblowing policy and there is mandatory training for all staff on these issues.

We do not tolerate slavery or human trafficking and we take a risk-based approach to our supply chains.
We strongly support the enactment and enforcement

of human trafficking laws that recognise and protect victims, while seeking to bring traffickers to justice. Our whistleblowing policy encourages staff to report any wrongdoing, and this extends to human rights violations, such as modern slavery.

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

- Global anti-corruption and anti-bribery policy.
 Updated every two years, current version is April 2022, with the previous version dated April 2020.
- Whistleblowing policy. Updated every five years, current version is March 2021, with the previous version dated April 2016.
- Modern slavery statement. Updated every year, current version is March 2022, with versions updated every year since 2016.

In this reporting period, there were zero incidents of breaches of our anti-corruption and anti-bribery policies (2021: zero); and there were zero breaches of our modern slavery statement (2021: zero). There were zero incidents referred through our whistleblowing process (2021: zero).

Quality standards, data privacy and security

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

This system is based upon the following quality certifications:

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

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

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

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

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

During FY22 there were no incidents of data security or privacy breaches that required reporting to the Information Commissioner (2021: zero).

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

Our people complete security awareness and data handling training annually.

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

"WE RECOGNISE THE SENSITIVITY
OF THE INFORMATION WHICH WE
PROCESS DAILY AND HAVE
PRIORITISED SECURE DATA HANDLING
PROCESSES, PRODUCT DESIGN,
HOSTING AND OPERATIONAL
MANAGEMENT."

Revenue 2022

£302.6m

2021

£234.7m

FY22 was another year of excellent financial performance as is detailed further in the Operational Review.

In summary, we achieved revenue of £302.6 million (2021: £234.7 million), representing an increase of 29%. Digital Services revenue grew 24% to £199.8 million (2021: £161.6 million), reflecting increased demand for digital transformation across all sectors. Our Workday Practice grew in all its regional markets and as a result revenue grew by 41% (30% organic) to £102.8 million (2021: £73.1 million). This was driven by 45% growth (29% organic) in Workday Services to £70.9 million (2021: £49.0 million) and 32% growth in Smart products to £31.9 million (2021: £24.2 million).

Overall gross margin was 46.3% (2021: 50.4%). Digital Services margins decreased to 38.7% (2021: 44.6%) mainly due to the normalisation of utilisation levels, increased salary and contractor costs and the decrease of Covid-19 related cost savings previously highlighted as non-recurring in nature. Workday Practice margins decreased to 61.1% (2021: 63.3%), also driven mainly by reduced utilisation and increased salary and contractor costs.

Operating expenses

Operating expenses for the year increased by 37% to £93.6 million (2021: £68.2 million). The growth in operating expenses is higher than the revenue growth due to the reduction of non-recurring cost savings in training, recruitment, facilities and travel during the pandemic lockdown, increased investment in our Smart products in both sales and product development, and increased acquisition-related expenses.

Investment in product development increased to £6.2 million (2021: £4.2 million) with all product development costs expensed. Research and Development Expenditure Credit (RDEC) grants recognised during the year totalled £3.2 million (2021: £3.6 million).

Alternative performance measures

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

To arrive at adjusted results, adjustments are made to exclude the effect of share-based payment expense, acquisition-related expenses including amortisation of acquired intangible assets and compensation for post-combination services.

The adjusted profit measures are not defined performance measures in UK-adopted IFRS standards. The Group's definition may not be comparable with similarly titled performance measures and disclosures in other entities. Adjusted profit measures can be reconciled to the reported numbers as follows:

Adjusted profit measures

	2022	2021
	(£000s)	(£000s)
Profit before tax	45,993	50,341
Share-based payment expense and related costs	3,727	4,513
Amortisation of acquired intangible assets	1,890	383
Compensation for post-combination services	5,520	1,836
Acquisition-related expenses	1,641	_
Adjusted profit before tax	58,771	57,073

2022

	2022 (£000s)	2021 (£000s)
Profit after tax	35,768	39,601
Share-based payment expense and related costs	2,907	3,656
Amortisation of acquired intangible assets	1,890	383
Compensation for post-combination services	5,520	1,760
Acquisition-related expenses	1,641	_
Adjusted profit after tax	47,726	45,400

Adjusted EBITDA

	2022 (£000s)	2021 (£000s)
Adjusted profit before tax	58,771	57,073
Depreciation of property, plant and equipment	1,538	921
Depreciation of right-of-use assets	1,654	1,786
Finance expense	74	78
Finance income	(52)	(84)
Adjusted EBITDA	61,985	59,774

Adjusted pre-tax profit increased by 3% to £58.8 million (2021: £57.1 million). Profit before tax decreased by 9% to £46.0 million (2021: £50.3 million) driven by acquisition-related expenses.

Corporation tax charge

The effective tax rate for the year was 22% (2021: 21%), which is higher than the UK tax rate of 19% due to acquisition expenses which are not deductible for tax and our geographic mix of profits.

Financial position

We continue to have a strong financial position, with £76.6 million of cash and treasury deposits (2021: £80.9 million), no debt and net assets of £107.7 million (2021: £87.6 million). The combined underlying trade receivables and accrued income totalled £74.7 million (2021: £52.1 million), which increased due to the revenue growth in FY22 and due to the fact FY21 had exceptionally high cash conversion.

Adjusted pre-tax profit 2022

£58.8m

2021

£57.1m

Property, plant and equipment increased to £14.9 million at year end (2021: £10.3 million). Spending during the year related mainly to premises refurbishment costs and office equipment purchases.

The acquisitions of Cloudator, Une Consulting and Blackline completed during the year, increased the carrying value of goodwill to £18.8 million at 31 March 2022 (2021: £3.1 million) and intangibles to £6.0 million (2021: £3.3 million). Further information relating to these acquisitions is detailed in note 26.

Cash flow and cash conversion

Cash conversion, calculated by taking cash generated by operating activities as a percentage of EBITDA, continued to be strong at 83% (2021: 112%).

Dividend

We continue to adopt a progressive dividend policy, maximising shareholder return alongside retaining sufficient funds to invest in long-term growth. We have consistently been profitable and have generated a strong cash balance. The proposed final dividend, if approved by shareholders, is 15.1p and would be payable on 28 October 2022 to all shareholders on the Register of Members on 7 October 2022, and with an ex-dividend date of 6 October 2022. This will make the total dividend for the year 22.2p (2021: 28.2p) which will represent a distribution of 58% of the adjusted profit after taxation for the year (2021: 76%). The total dividend for FY21 of 28.2p includes a special dividend paid in September 2020 of 6.7p per share. Excluding this special dividend the total interim and final dividend for FY21 of 21.5p represents a distribution of 58% of the adjusted profit after taxation for this year.

WE AIM TO INCREASE PROFITABILITY WHILE MAINTAINING A HEALTHY FINANCIAL POSITION AND INVESTING IN THE PEOPLE AND OPPORTUNITIES WHICH UNDERPIN OUR GROWTH.

WE TRACK SEVERAL KPIS TO IDENTIFY TRENDS IN OUR OPERATING PERFORMANCE AND TO ASSESS PROGRESS OF OUR KEY OBJECTIVES, SUCH AS STAFF WELLBEING AND ENGAGEMENT.

FINANCIAL KPI TARGETS ARE USED AS A BASIS FOR REMUNERATION AWARDS AND ARE IDENTIFIED IN THE DIRECTORS' REMUNERATION REPORT.



Bookings

2022

£349.8m

2021

£258.8m

Revenue

2022

£302.6m

2021

£234.7m

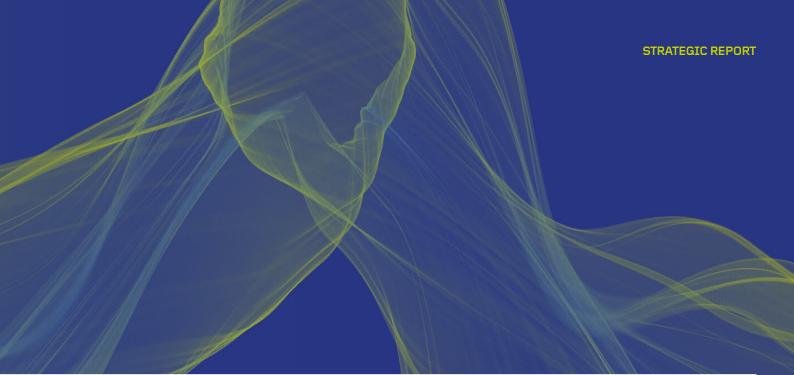
Adjusted pre-tax profit

2022

£58.8m

2021

£57.1m



Non-financial KPIs

Overall customer satisfaction rating¹⁷

98%

2021

98%

Number of customers

731

2021

546

Staff retention

2022

86%

2021

92%

Number of staff

2022

2,692

2021

2,024

RISK FACTORS AND UNCERTAINTIES

There are a number of current risks and uncertainties which could have a material impact on our operations, financial results, reputation or the value and liquidity of our securities and could cause our actual results to differ materially from historical and forecast results.

Risk management process

The Board uses our Risk Register as its principal tool for monitoring and reporting risk.

The Risk Register describes each risk, the potential impact of each risk, the likelihood of that risk occurring and the mitigating controls. The preparation of the register is co-ordinated at senior management level, and input is obtained from all areas of the business in the preparation process. An appropriate senior person is assigned as the owner of each risk to ensure the correct level of focus is applied to managing the risk and its potential impact. The Audit Committee formally reviews the Risk Register twice a year when we issue our interim and full year results.

When significant changes to risks occur, they are reported to the Board at the Board meeting, and the Board receives an update from the Audit Committee after each formal review of the Risk Register. The Board considers our risk assessment processes to be robust and comprehensive.

While there has been some movement over the year against individual risks, there is no significant change from previous years to our underlying risk profile.

The areas of particular focus for us during the year included:

Russia invasion of Ukraine: The war in Ukraine has been identified as an emerging potential risk.

Cyber security: We continue to focus on cyber security, including the potential heightened threat because of the Russia-Ukraine war. The risk in this area has increased over the course of the last year. We have further strengthened our controls in this area and will continue to do so in the year and years ahead.

Climate-related risk: We are committed to reducing our carbon impact and achieving carbon net zero by 2025. In assessing the direct climate risk to our business, for instance from extreme weather events, we assess this as being a low-to-moderate risk. A greater risk is one of reputational damage. Further detail on this can be found in the section 'Our Environmental, Social and Governance (ESG) Commitments'.

Coronavirus pandemic. We have moved to a monitoring position on the Coronavirus pandemic. It should also be noted that this risk has resulted in an opportunity for Kainos through the acceleration of digital transformation trends – further detailed in the description of our Digital Services business earlier in this report.

Detailed risk assessment

Informed by our Group Risk Register, the following tables describe the known principal and emerging risks – the risks are not listed in order of seriousness or potential impact. The table is not intended to be exhaustive and there may also be risks that we do not currently consider to be serious or which we do not currently know, as well as risks that are outside our control.

Where reasonably possible, we have taken steps to manage or mitigate the risks, or potential risks using a combination of technical, operational and legal controls, but we cannot entirely safeguard against all of them. Where feasible, we also operate reasonable levels of insurance, including cyber liability cover, to mitigate the financial exposure arising from known or potential risks.

Change in a) Major global disruption events risk level Coronavirus pandemic Description In addition to economic disruption and uncertainty, the pandemic has affected all areas of business for both Kainos and our customers, including changes to perceptions and practices of remote working and the increased reliance on digital technology. **Potential impact** The pandemic has not had an adverse impact on Kainos in terms of the ability of our people to continue to work and the delivery of solutions to our customers. However, there is continued uncertainty as regards the longer-term economic impact across our markets. More generally, the pandemic has presented opportunity to us, as it has accelerated existing digital transformation trends and therefore increased spending. It has also established a remote working model, which has cost, efficiency and environmental benefits. **Mitigation** We have moved to a monitoring position in terms of the impact of the pandemic. This includes potential economic implications in our market and customer bases. Should the Coronavirus threat re-emerge, or another similar pandemic arise we will be able to use our experience from the last two years to guide us through that event.

b) Climate-related	l risks	Link to strategy	Change in risk level
Sustainability			\rightarrow
Description	With the increasing focus on sustainability and climate, there is reparted decide not to act, or act too slowly.	outational risk for us	s if we
Potential impact	A slow response to our climate responsibilities could give rise to fi increasing costs for carbon offsetting and the potential of reputa reputational damage, this may encourage colleagues to leave Ka joining Kainos; it may also deter customers from appointing us to our shares.	tional damage. In th inos or deter applic	ne case of ants from
Mitigation	We achieved carbon neutrality in 2021 and remain on track to be a Further details are outlined in this report in the section Our Environ (ESG) Commitments. We believe that achieving this ambitious targ	mental, Social and	Governance

Strategy components





Change in risk level









c) Operational risks

Link to strateay



Cyber security threat risk









Description

Cyber threats are constantly adapting and increasing in number, frequency and sophistication. The cyber threat landscape needs to be continually monitored to ensure the effective defence of confidentiality, integrity, and availability of internal systems and data, and those we provide for our customers

The threat of cyber incidents has increased due to the growth of remote working during the pandemic and with our global expansion.

Geopolitical events such as the war in Ukraine may increase the potential for cyber attacks against our systems, or those we develop for customers.

We rely on the confidentiality, integrity and availability of our IT systems, both internally and as part of our service offerings to customers.

Potential impact

In providing services to our customers, and in our internal systems, we manage and process sensitive data.

By failing to protect that data from cyber attacks, through intentional or unintentional actions, we face legal, financial, and reputational risk which could reduce short-term profits, expose us to regulatory fines and impact our market credibility. Such an incident could also lead us to incur significant remediation costs.

A major cyber security event causing loss of customer data or service could expose us to fines (for example under GDPR), contractual liability, reduce short-term profit and cash flow, cause reputational damage, and damage customer relationships and credibility in the market.

Mitigation

We monitor the cyber threat landscape to allow a risk-based approach to strengthen our defences against the likelihood of a successful cyber security attack. Our security controls are reviewed and assessed for effectiveness and are measured against industry best practice. Regular updates are shared through our cyber security governance structures with representation from our Chief Information Officer (CIO), cyber security and information security teams and from our legal and business teams. The output of these reviews allows us to improve and adapt our internal controls, processes and working practices at both a Company infrastructure and a customer project level.

Mitigations include technical, operational, and contractual measures to address risk coupled with regular staff training on information security and data privacy and management. Our CIO has reviewed operations and practices specifically to address the risk from this perspective.

As we expand into new regions, markets and sectors, local or market specific cyber security frameworks and data privacy regulations are identified and mapped to facilitate compliance or relevant certification.

We have cyber liability insurance in place to mitigate the impact of any cyber event, although it may not cover the total costs of the incident.

We have cyber liability insurance in place to mitigate the impact of any cyber event, although it may not cover the total costs of the incident.

Strategy components

Customers



Change in risk level









c) Operational risks continued

Link to strategy



Non-compliance with data protection laws









Description

We need to comply with legal, regulatory and contractual information security and data privacy requirements. It is essential that we adhere to regional regulations regarding data privacy and data protection.

GDPR for Europe mandates a suite of data privacy controls aimed at mitigating the risk of unauthorised disclosure of personal information. Other jurisdictions have similar measures that must be adhered to and as we expand into new regions, it is imperative that we understand and are in adherence with applicable controls.

Potential impact

Non-compliance could expose us to liability and fines (for example under GDPR), reduce profit and cash flow in the short-term, cause reputational damage and damage customer relationships and credibility in the market.

Mitigation

We review the impact that new and existing information security and data privacy regulations and legislation will affect us and our customers. The output of these reviews influences our internal controls and processes and the design of products, solutions and working practices.

We make staff aware of the potential impact of changing regulations and provide targeted training within business divisions. Detail on activities to ensure the provision of GDPR controls includes, but is not limited to:

- Staff education regarding data privacy.
- Data Privacy Impact Assessment (qualification screening at minimum) for all projects.
- Data mapping (Record of Processing).
- · Customer consent through legitimate interest terms & conditions.
- Retention controls.
- Personal rights in place, such as right to be forgotten, right to amend, right to view/disclosure.

As we enter new regions, ensure:

- · The relevant privacy laws are reviewed.
- Effective initial controls are put in place as needed at the project level.
- As additional projects commence, standardise the controls for that region and manage centrally through the Data Protection Officer function.

Employee action including financial fraud or theft







Description We may be subject to fraud, theft or other disruptive actions by employees including unauthorised

Potential impact	Employee action could affect our operations, exposing us to liability and fines, and negatively
	impact profit and cash flow in the short-term, cause reputational damage and damage
	customer relationships and credibility in the market.

access or misuse of our bank accounts or other resources leading to the loss of funds.

Mitigation

All staff are required to complete regular training programmes.

Regarding access to funds, we have system, review and approval controls in place restricting access to accounts and these controls are regularly monitored.

We have systems and processes in place to protect against data loss. Incidents are managed in accordance with our incident management processes.

RISK FACTORS AND UNCERTAINTIES CONTINUED

Change in c) Operational risks continued risk level Data loss Description We need to guard against the loss of sensitive customer or employee data. **Potential impact** Loss of customer or our data whether through a cyber security incident, employee action or otherwise could expose us to liability and fines (for example under GDPR), and/or contractual liability, and reduce profit and cash flow in the short-term, cause reputational damage and damage customer relationships and credibility in the market. Mitigation We have systems and processes to protect against data loss, including data loss prevention technology. Measures are in place that are designed to ensure logical segregation to protect applicable data. Solution or software product errors or lack of service availability Software bugs or lack of availability of hosted or supported services could affect our Description customer service. **Potential impact** This could expose us to liability and negatively impact profit and cash flow in the short-term, cause reputational damage and harm our customer relationships and credibility in the market. **Mitigation** We design our systems, customer solutions and infrastructure to provide both resilience and service availability. Our software development lifecycle includes following coding practices, quality assurance and testing and is audited as part of our ISO9001 accreditation. Critical incident and problem management processes are in place and are audited as part of our ISO9001 accreditation. Professional indemnity insurance is in place. Service deployment delays or non-compliance with requirements Description Inability to build and deploy services that fulfil the contractual customer requirements within the agreed contractual timeframe. **Potential impact** Project delay or failure could expose us to liability, reduce profit and cash flow in the short-term, cause reputational damage and damage customer relationships and credibility in the market. We have a track record of delivering successful projects and we apply the staff and expertise to Mitigation

Strategy components









meet contractual requirements in a timely manner.

Change in risk level









c) Operational risks continued



Loss of key employees









Description	There is the risk of losing key employees who carry out critical activities across the business.
Potential impact	The loss of key employees, along with their knowledge, expertise and customer relationships could negatively impact our business efficiency. This could reduce revenue, profit and cash flow in the short-term, and damage customer relationships and credibility in the market.
	The current global shortage of digital skills means the likelihood and impact of this risk has increased.
Mitigation	Staff engagement is a key focus for us. Initiatives and activities mitigating this risk include:
	Ensuring we have compelling financial rewards and benefits for staff.
	Having clear career progression opportunities, supported by regular 1-2-1s, personal development plans and career coaching.
	Having key staff succession planning in place for key roles.
	Focusing on effective internal communications.
	Using feedback from staff through surveys to help improve our performance as an employer.

Inability to recruit employees









hability to reduce on ployees	
Description	We may be unable to recruit employees with suitable qualifications at all required levels in core locations, or in other locations where our employer brand is less well known.
Potential impact	This could impact our ability to provide contracted solutions and services exposing us to liability, negatively impacting profit and cash flow in the short-term and causing damage to our reputation, customer relationships and staff morale.
	The current global shortage of digital skills means the likelihood and impact of this this risk has increased.
Mitigation	We have worked to become an employer of choice in some of our key locations, notably Belfast, Birmingham and Gdańsk, and have implemented a team, processes and infrastructure dedicated to recruiting the most appropriate candidates in a streamlined hiring process.
	We have invested in our recruitment team, reviewed our reward ranges and taken steps to define and promote our employer brand in key growth locations.

RISK FACTORS AND UNCERTAINTIES CONTINUED

Change in d) Strategic risk risk level Intellectual property infringement and/or litigation Description Our intellectual property (IP) is centred around the solutions we develop or deploy for customers. We have to manage the risk of infringing a third party's intellectual property rights when building these solutions. **Potential impact** If we infringe a third party's intellectual property rights it could expose us to liability, negatively impact profit and cash flow in the short-term and cause reputational damage. If a third party infringes our intellectual property rights, it can expose us to competitive or security risk. **Mitigation** We enter into non-disclosure agreements with employees, independent contractors and third parties in the ordinary course of our business to provide a degree of protection. Staff are made aware of client confidentiality requirements. Where practical, focused patent searches are undertaken to identify areas in which new products or services under development may conflict with third-party IP. We monitor the use of third-party software in our product offerings. The choice of third-party components is subject to technical review and assessment at design stage. Our employment and consultancy contracts have clauses to protect intellectual property.

Partner relationships







Description	We need to maintain our partner relationships, or we risk losing access to essential intellectual property, or a deterioration in strategic partner relationships and a decline in partner influenced sales.
Potential impact	Failure of partner relationships could negatively impact revenue, profit and cash flow in the short-term and cause reputational damage and impact market confidence and customer relationships.
Mitigation	We have contracts with our main partners including Workday, Inc., Microsoft and AWS to detail the relationship. Our partner arrangements may include access to proprietary materials such as training, know-how or branding which we require in order to deliver or enhance our services. Kainos operates a Strategic Alliances Team to establish and manage relationships with all key partners.
	Our partner managers have regular contact with key partners.

Investment decisions







Description	Our investment decisions may not be satisfactory.
Potential impact	Failure to manage investment decisions could negatively impact profit and cash flow in the short-term and cause reputational damage.
Mitigation	We use our regular strategic review process (3-4 meetings per year) to review all investment decisions that are linked to normal business operations – for instance, increasing the sales team, entering a new market segment.
	For investments that are outside of this process, or require significantly more investment levels, we have a dedicated new business investment process, which is detailed in the section, New business ideas, innovation and research.

Strategy components





Change in risk level









e) Macro-economic risks



Events occurring that are outside of our control









Description	We may be affected by:
	The instability of the financial system, market disruptions or suspensions.
	A material downturn in the financial markets or an economic recession.
	The insolvency, closure, consolidation or rationalisation of parts of our customer base.
Potential impact	If these events occur, they could harm our revenue, profit, growth and cash flow over a sustained period, result in higher costs and disruption to our business, damage our reputation or cause financial loss if customers do not renew their contracts.
Mitigation	We strive to build a balanced business, where our revenues are generated from many different sources; they are:
	from different service lines: Digital Services (66%) and Workday Practice (34%);
	• derived from separate sectors: commercial (41%), public sector (37%) and healthcare (22%);
	• spread over different regions: UK & Ireland (71%), North America (19%), Central Europe (9%) and the rest of the world (1%); and
	• from different business models: services (83%), SaaS and related (15%), third party (2%).
	In addition to this resilience in our revenue streams, we also have a considerable contracted backlog (typically 85% of prior year revenues) that provides short-term protection.

Russia invasion of Ukraine









Description	The Russian invasion of Ukraine has caused political and economic disruption across the world.
Potential impact	Kainos has no direct business relationships or operations in Russia or Ukraine.
	We consider the risk of direct operational difficulties to be low, based on our current knowledge and the status of the conflict at the time of writing. We understand this has the potential to change rapidly, particularly should the location of the conflict expand into territories where Kainos has people or customers.
	Further, it seems possible that these events are likely to have significant geopolitical and macro-economic impacts in regions where we operate including the UK, the EU, and North America. The extent of these is currently unknown.
Mitigation	We are monitoring the potential risks to our business arising from the conflict in Ukraine including assessing sanction regulations. The situation has the potential to change rapidly, and the implications are currently unpredictable.
	Our cyber security team is actively monitoring, communicating and adjusting practices and processes to address that aspect of this risk.

RISK FACTORS AND UNCERTAINTIES CONTINUED

approved annually.

f) Financial risks	Link to strategy Change in risk level		
EU Exit	₽ Parkers Par		
Description	We may face financial, or trading risks associated with the UK leaving the European Union.		
Potential impact	Market uncertainty associated with the impact of EU Exit has the potential to limit or harm our trading activities. There is also a potential increase to overheads and an impact on staff mobility.		
Mitigation	We continue to monitor the impact of EU Exit and we do not envisage substantial short-term risk to operations, given that:		
	our supply chain requirements are not reliant on the EU;		
	we have not identified any significant issues with staff mobility, although the pandemic did significantly reduce our travel levels; and		
	 we are not overly reliant on UK-EU trade, with less than 10% of our revenues being sourced from EU countries. 		
	However, given the uncertainty surrounding the impact of EU Exit in the medium to long-term, we are maintaining a watching brief to monitor changes and facilitate the early identification and implementation of any required mitigations.		
Exchange rate fluct	tuations		
Description	There is a risk of material detrimental movement in foreign exchange rates.		
Potential impact	This could harm our revenue, profit, growth and cash flow over a sustained period.		
Mitigation	We have a documented treasury policy, to mitigate currency risk, which is reviewed and		

g) Legal and comp	liance risks	Link to strategy	Change in risk level
Non-compliance w	ith laws and regulations		\rightarrow
Description	We have to comply with laws and regulations applicable to us and design our products and services to meet laws and regulations applicable to its customers.		
Potential impact	Non-compliance could expose us to liability and/or fines, negatively impact profit and cash flow in the short-term and cause reputational damage.		cash flow in
Mitigation	Our finance and legal teams review draft and current regulatory and legislative requirements, including, for example, the Network and Information Systems Regulations and GDPR and provide an impact assessment for the products and services that we deliver to customers.		
	Kainos' internal processes and systems are monitored with a view to ensuring compliance with applicable laws and regulations.		ance with
	We have processes in place designed to ensure awareness of the relevant information is appropriately disseminated. There awareness activities.		
	In relation to bribery and corruption, we have established policitraining. More details on these policies can be found in the Bus		

Change in risk level

ightharpoonup Increasing ightharpoonup No change ightharpoonup Emerging

People Customers Markets

Strategy components

Non-financial information statement

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

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

Dr Brendan Mooney

Chief Executive Officer 20 May 2022

Brown Hooning

DIRECTORS' REPORT AND CORPORATE GOVERNANCE STATEMENT

The Directors present their report and the audited financial statements for Kainos Group plc (company number 09579188) for the year ended 31 March 2022. These will be laid before the shareholders at the Annual General Meeting (AGM) to be held on 28 September 2022. The Strategic Report is incorporated by reference into this Directors' Report.

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

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

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

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

For the year ended 31 March 2022, the Board considers that it has complied fully with all provisions of the Code, except for Code Provision 36.

Code Provision 36: share award vesting and holding periods

Under the Code, there is a recommended five-year holding period for shares awarded to Executive Directors.

Historically, our schemes have had a three-year share vesting and holding period, which was set in consideration of the long tenure of the Executive Directors and their demonstrated commitment to Kainos.

The Board has reviewed this and our new Remuneration Policy which is subject to shareholder approval at the 2022 AGM will have a three-year vesting period for Executive Directors and an additional two-year holding period prior to exercise.

Board leadership and Company purpose

The Board recognises that its role is to deliver the long-term success of Kainos and its various stakeholders. Our purpose, value and strategy are set out in the Strategic Report.

Stakeholder engagement

The Board recognises that long-term success is dependent on how Kainos interacts with its stakeholders. Full details of our stakeholder engagement are set out in our Section 172 Statement contained in the section 'Governance: our stakeholders' within the Strategic Report.

The Board continues to welcome interaction with all stakeholders and is always available to all employees, customers, shareholders and communities, as an alternative to meetings with the Executive Directors.

Board and workforce engagement

The Board believes in the importance of dialogue between the Board and the broader workforce and has created a number of ways for this to happen, in addition to those that happen regularly between the Executive Directors and the wider organisation.

More details on employee engagement can be found in the section, 'Governance: our stakeholders' in the Strategic Report.

Direct engagement

Established in the Board schedule are regular presentations from colleagues who have been leading key projects, involved in winning a significant new contract or responsible for an important area of our business. During the year, there were 11 presentations to the Board in this category.

Also, within the schedule, the Board will meet with senior leaders in Kainos, typically in a social setting, for instance over dinner. Our response to the pandemic paused these events, but they will resume during 2022.

Review of internal and external surveys

In addition to the detailed interaction with a small number of people, the Board also reviews any company-wide survey results. During the year this included detailed results from the independently provided 'Best Companies to Work For' survey results, and the detailed results from the internal survey about employee views on hybrid working.

Our culture and development group

Within Kainos, the Culture and Development Group, consisting of representatives from different business areas and Kainos locations, are responsible for overseeing all matters relating to the workforce in Kainos. During the year the group discussed changes to policies and people processes, the introduction of hybrid working, wellbeing aids and seminars, increased communication and the creation of a strategy to achieve gender parity.

In 2020, the Board expanded the remit of the Culture and Development Group to act as a formal workforce advisory panel, to further enrich the engagement between staff and the Board. A staff member from the group regularly presents to the Nominations Committee, and during the year presented on the various survey results and provided an update on several improvement initiatives underway.

Our global diversity and inclusion group

This group, composed of colleagues from across Kainos, provide the Company guidance on all matters relating to diversity and inclusion. This group is also supported by our four employee network groups, representing LGBTQ+, women, ethnic diversity and neurodiverse colleagues.

Our global diversity group reports quarterly to the leadership teams and every six months to the Nominations Committee of the Board. In the year, the presentations covered the improvement in our data recording, a key enabler of improved diversity, and our plan to achieve gender parity.

Further information regarding our policy, objectives and progress made during the year is contained within the 'Social: our people and our communities' section of the Strategic Report.

Board composition, balance and diversity

Crucial to strong governance is a stable Board that contains the right balance of skills and experience; therefore, Board appointments are taken very seriously. The Board's policy is to appoint and retain Non-Executive Directors who bring relevant expertise to Kainos.

Our Board comprises an independent Chairman, three Independent Non-Executive Directors (NEDs) and two Executive Directors. The biographies of all Directors are contained in the following section.

On the Kainos Board, two of the four (50%) Non-Executive Directors are women (2021: 40%). Including the Executive Directors, 33% of our Board are women (2021: 25%). All Board members identify 'White/European' as their ethnic group. While noting the improvement in gender composition over the course of the year, further improvement is anticipated during the next rotation of Non-Executive Directors.

Board independence

The Board considers its overall size and composition to be appropriate, considering the combined experience and skills of the Directors. In making this assessment, the Board considered the independence criteria set out in Provision 10 of the Code.

Prior to joining the Kainos Board, due diligence was carried out on each of the Non-Executive Director's independence on appointment and when the incumbent Non-Executive Directors were invited to continue to serve for an additional term. The Board can confirm that Andy Malpass, Katie Davis, Rosaleen Blair and Tom Burnet are independent in character and judgement.

DIRECTORS' REPORT AND CORPORATE GOVERNANCE STATEMENT

CONTINUED

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

Board changes during the year

Executive Director, Paul Gannon and Non-Executive Director, Chris Cowan, both completed their term as Directors on 23 September 2021.

Rosaleen Blair was appointed as a member of the Audit Committee on 23 September 2021.

There were no new appointments during the year.

Board appointment process

Board appointments are overseen by the Nominations Committee. Prior to appointment, prospective Non-Executive Directors are required to confirm that they can allocate sufficient time to carry out their duties and responsibilities effectively.

When joining the Board, Non-Executive Directors undergo a thorough, formal and tailored induction process. This is followed by regular reviews by the Chairman of training and development requirements. As appropriate, and tailored to their needs, Directors will receive ongoing updates to improve their skills and knowledge.

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

The Non-Executive Directors' letters of appointment confirm the amount of time that each Non-Executive Director is expected to commit to each year, which is a minimum of 20 days. The service agreements and letters of appointment for all Directors can be requested from the Company Secretary and will be available to shareholders to view at the 2022 Annual General Meeting.

Board succession

The succession planning process for Board members is actively considered by the Nominations Committee, as the skills and experience required by Kainos changes, and in recognition of further diversity within the Board. The Nominations Committee also recognises the need to plan for rotation of Non-Executive Directors to ensure that the Board retains the experience of those who are familiar with Kainos whilst maintaining the necessary independence and adding new skills and experience to the Board.

All the executive team roles and roles that are deemed critical within the Company have a formal defined succession plan. To ensure business continuity, these plans contain an immediate plan, in the event of an emergency, as well as longer-term potential succession options for the role. Those identified as potential successors have individual development plans in place to address any identified developmental gaps and to ensure readiness for role. Progress against the development plans is reported on at each Nominations Committee meeting.

Director election and re-election

At the 2022 AGM, all current Directors will retire and stand for re-election.

Other statutory disclosures

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

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

No political donations were made during the year ended 31 March 2022 (£nil for year ended 31 March 2021).

There are no off-balance sheet arrangements. Details of the trusts relating to Kainos' share incentive plans are set out in note 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	Directors' Remuneration Report
5	Waiver of emoluments by a Director	Not applicable
6	Waiver of future emoluments by a Director	Not applicable
7	Non pre-emptive issues of equity for cash	Not applicable
8	Section (7) in relation to major subsidiary undertakings	Not applicable
9	Parent participation in a placing by a listed subsidiary	Not applicable
10	Contracts of significance	Directors' Report
11	Provision of services by a controlling shareholder	Not applicable
12	Shareholder waivers of dividends	Not applicable
13	Shareholder waivers of future dividends	Not applicable
14	Agreements with controlling shareholders	Not applicable

Share capital and articles of association

Details of the called-up and fully paid share capital are set out in note 21 to the consolidated financial statements. The rights and obligations attaching to the shares and the powers of the Directors are set out in the Articles of Association, copies of which can be obtained from Companies House. There are no restrictions on the voting rights attached to the shares and no person holds securities carrying special rights regarding control.

Authority to purchase own shares

Kainos holds a general authority to purchase up to 12,322,093 ordinary shares in the market. This represented approximately 10% of Kainos' issued share capital as at 18 August 2021, as voted on and approved by shareholders at the 2021 AGM. No purchase of shares has been made pursuant to this authority. There is no present intention to use such authority, but the Board considers it desirable that the possibility of making such purchases under appropriate circumstances remains available. A similar authority will be requested at the forthcoming AGM, again limited to a maximum of 10% of the issued share capital. The Board intends only to exercise this authority if it believes that it will lead to an increase in earnings per share for the remaining shareholders.

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

Disclosure of information to auditor

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

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

DIRECTORS' REPORT AND CORPORATE GOVERNANCE STATEMENT

CONTINUED

Auditor re-appointment

During the year, Deloitte (NI) Limited resigned as auditors and KPMG were appointed auditors on 23 September 2021. In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Significant agreements - change of control

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

Principal shareholders

The following have disclosed that they (including persons closely connected) have an interest in 3% or more of the issued ordinary share capital. At 30 April 2022, the last holding notified to the Company is shown below.

	% of
Ordinary	issued share
0.5p shares	capital
14,205,987	11.4%
12,561,217	10.1%
11,440,826	9.2%
7,270,730	5.9%
7,164,044	5.8%
4,630,352	3.7%
4,446,116	3.6%
4,285,675	3.5%
3,703,704	3.0%
	0.5p shares 14,205,987 12,561,217 11,440,826 7,270,730 7,164,044 4,630,352 4,446,116 4,285,675

Going concern and long-term viability

Our business activities and position in its market are described in the 'Operational Review', 'Our Markets' and 'Risk factors and uncertainties' sections of the Strategic Report. The financial position, cash flows and liquidity position are described in the 'Financial Review' and the notes to the consolidated financial statements. In addition, the notes to the consolidated financial statements include our objectives, policies and processes for managing our capital, our financial risk management objectives and our exposures to credit and liquidity risk.

Having reviewed the future plans and projections for our business and our current financial position, the Board believes that we are well placed to manage our business risks successfully. We have adequate financial resources, no borrowings, a good level of recurring revenue, and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Board has a reasonable expectation that we have 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, we continue 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 our viability over a longer period than 12 months. The assessment was conducted over a three-year period, ending March 2025. A period of three years is considered an adequate period to assess the rate of change in each of the key divisions.

In performing the assessment, our long-term strategy and focus, the growing demand for our products and services, the increasing level of recurring revenue and low customer attrition, the track record of strong cash generation and a healthy cash balance with no debt from financial institutions were all taken into consideration. Consideration has also been given to the risks of regional and political changes in our main markets and the estimated continued impact of Covid-19 on both the Digital Services and Workday Practice business areas. The Board believes that our global structure means that we are less susceptible to the effects of regional changes, as the vast majority of our costs are incurred in Sterling with most revenue also being earned in Sterling and revenues earned in foreign currency including Euro and US Dollar have most of their costs in foreign currency. We remain optimistic that we are well positioned to help public and private sector organisations in their digital transformation initiatives. We have a proportionally low fixed cost base which enables swift responses to adverse economic conditions when required, further supported by our strong cash position, low capital commitments and no borrowings.

The review included sensitivity analysis on the future performance and solvency over three years and for the principal and emerging risks facing the business in severe but reasonable scenarios. Based on the results of this assessment, the Directors have a reasonable expectation that should these risks, either all or in part manifest themselves, the resulting adverse outcomes can be managed and mitigated such that, we will be able to continue in operation and meet our liabilities as they fall due over the three-year period of their assessment. In doing so, we recognise 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.

Based on their assessments of prospects and viability above, the Directors confirm that 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 three-year period ending March 2025.

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 UK-adopted international accounting standards and applicable law and have elected to prepare the Company financial statements in accordance with UK accounting standards and applicable law, including FRS101 Reduced Disclosure Framework.

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

In preparing the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- · make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Company financial statements;
- assess the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Company or to cease operations or have no realistic alternative but to do so.

DIRECTORS' REPORT AND CORPORATE GOVERNANCE STATEMENT

CONTINUED

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group 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 complies with that law and those regulations.

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

In accordance with Disclosure Guidance and Transparency Rule 4.1.14R, the financial statements will form part of the annual financial report prepared using the single electronic reporting format under the TD ESEF Regulation. The auditor's report on these financial statements provides no assurance over the ESEF format.

Responsibility statement of the Directors in respect of the annual financial report.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, 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; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the issuer, and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

This Directors' Report was approved by the Board of Directors on 20 May 2022 and is signed on its behalf by:

Tom Burnet

Chairman

20 May 2022

Directors' biographies

Tom Burnet (aged 54) Chairman

Tom graduated with an MBA from the University of Edinburgh. In addition to his responsibilities at Kainos, Tom is, Non-Executive Chairman of The Baillie Gifford US Growth Trust plc and Non-Executive Chairman at Aker Systems. He is also a Non-Executive Director for the BMO Private Equity Trust. He started his career as the UK's youngest Army Officer serving in the Black Watch (R.H.R.) and is a member of the Queen's Bodyguard in Scotland.

Tom was appointed Company Chair on 26 September 2019. Tom acts as an Independent Non-Executive Chairman and Chair of the Nominations Committee. He is also a member of the Remuneration Committee.

Dr Brendan Mooney (aged 55) Chief Executive Officer (CEO)

Brendan joined Kainos in 1989 as a trainee software engineer before moving into several technical and commercial roles in Dublin, London and the US. He was appointed CEO of Kainos in 2001. In addition to his role at Kainos, Brendan has served as a Non-Executive Director on several private technology companies, at the Probation Service for Northern Ireland and was a serving Lay Magistrate. Brendan has received both an Honorary Doctor of Science (DSc) and an Honorary Doctor of Economics (DSc Econ) in recognition of the contribution that Kainos has made to the economy. Brendan was appointed to the Board on the Company's admission to the market, on 10 July 2015. Brendan acts as an Executive Director and is the CEO.

Richard McCann (aged 57) Chief Financial Officer (CFO)

Richard is a Fellow of the Institute of Chartered Accountants in Ireland and trained with Coopers & Lybrand, before moving into industry with Galen Holdings plc. Richard joined Galen as financial controller of a start-up subsidiary in the US and subsequently became Senior Vice President in charge of Corporate Finance with responsibility for the organisation's acquisitions and investor relations. He served as the Managing Director of two subsidiaries in the Almac Group, including a US subsidiary that provides software development services for pharmaceutical companies. Richard joined Kainos in 2011, with over 20 years' experience in accounting. Richard was appointed to the Board on the Company's admission to the market on 10 July 2015. Richard acts as an Executive Director and is the Chief Financial Officer and Chief Operating Officer.

Andy Malpass (aged 60) Independent Non-Executive Director

Andy graduated with a BA (Hons) in Accounting and Finance from Lancaster University and is a Fellow of the Chartered Institute of Management Accountants. He has over 30 years' experience in the software industry covering both private and public companies. Most recently, Andy served as Group Finance Director of Fidessa Group plc (formerly Royalblue Group plc) which he joined in 1995, and where he has also been Company Secretary. In June 2018, Andy was appointed as a Non-Executive Director and chair of the Audit Committee of accesso Technology Group plc. Andy was appointed to the Board on the Company's admission to the market on 10 July 2015. Andy acts as an Independent Non-Executive Director and is Chair of the Audit Committee.

Katie Davis (aged 57) Independent Non-Executive Director

Katie holds a BS in Electrical Engineering from the University of Illinois at Champaign/Urbana. Katie is an experienced leader with a strong track record for delivery in both the public and private sectors. She joined Accenture's Chicago office in 1987, moving to London in 1988 and becoming a partner in Accenture's Customer Relationship Management practice in 2000.

In 2005, Katie joined the Cabinet Office with responsibility for increasing the capacity and capability of UK central government and the wider public sector, to deliver large-scale IT-enabled business change. Katie subsequently held several senior positions in the Cabinet Office, Home Office, Department of Health and NHS. In 2012, Katie was named one of the 25 most influential women in IT by Computer Weekly.

Katie was appointed to the Board on 28 November 2019. Katie acts as an Independent Non-Executive Director and is a member of the Audit Committee, the Nominations Committee and the Remuneration Committee. Katie assumed the role of chair of the Remuneration Committee, with effect from 1 September 2020.

DIRECTORS' REPORT AND CORPORATE GOVERNANCE STATEMENT

CONTINUED

Rosaleen Blair (aged 56) Independent Non-Executive Director

Rosaleen is the Founder and Chair of Alexander Mann Solutions (AMS), a pioneer in the global workforce solutions industry. She served as CEO of AMS for 23 years, leading the business from a start-up to a global business working in partnership with clients such as Deloitte, HSBC, Novo Nordisk, Rolls Royce and Santander. AMS has 8,000 employees operating in 90 countries.

A serial entrepreneur and adviser to numerous companies, Rosaleen is also the Chair of Everywoman, an organisation dedicated to the advancement of women in business. Rosaleen is involved in several not-for-profit initiatives, notably serving as Chair of the London Irish Centre and as an Enterprise Fellow of the Prince's Trust. She is the returning Chair of EY's World Entrepreneur of the Year Awards in 2022.

Rosaleen is recognised as an industry leader and entrepreneur, winning numerous awards including Veuve Clicquot Businesswoman of the Year (2007) and EY London Entrepreneur of the Year (2006). She was awarded a CBE for services to business and recruitment in the New Year's Honours in 2017.

Rosaleen was appointed to the Board on 01 January 2021. Rosaleen acts as an Independent Non-Executive Director and is a member of the Nominations Committee, the Remuneration Committee and with effect from 23 September 2021, the Audit Committee.

Board and Committee membership

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

		Board	Audit	Remuneration	Nominations
Tom Burnet	Chair	Chair	_	Member	Chair
Dr Brendan Mooney	CEO	Member	_	_	_
Richard McCann	CFO	Member	_	_	_
Andy Malpass	Senior Independent Director & Independent NED	Member	Chair	_	-
Katie Davis	Independent NED	Member	Member	Chair	Member
Rosaleen Blair	Independent NED	Member	Member	Member	Member

The Board meets formally on a regular basis to discharge its key areas of responsibility: to monitor operating issues, risk and trading performance, to review forecasts, strategy and policy, to consider key projects, major investments, critical operating issues and to oversee appropriate shareholder reporting. If required, additional impromptu Board meetings occur to consider specific issues. During the year, our Board met on 12 scheduled occasions.

The Board is responsible for corporate governance and delegates operational control to the Executive Directors. The Chairman met with the Non-Executive Directors, without the Executive Directors present, to discuss the performance of the Executive Directors.

The Board also approves all circulars, listing particulars, resolutions and correspondence to the shareholders including the Full Year Results Announcement, Annual Report and our Interim Results Announcement.

The principal committees of the Board are the Audit Committee, the Nominations Committee and the Remuneration Committee. The composition of the committees and their terms of reference outlining the main areas of the committees and the division of responsibilities can be found in the Investor Relations area of our website.

Board and Committee meeting attendance

The attendance of individual Directors at Board meetings and Committee meetings is summarised:

	Board	Audit	Remuneration	Nominations
	meetings	Committee	Committee	Committee
	attended	meetings attended	meetings attended	meetings attended
Tom Burnet	12/12	_	6/6	4/4
Dr Brendan Mooney	12/12	_	_	_
Richard McCann	12/12	_	_	_
Andy Malpass	12/12	3/3	_	_
Katie Davis	12/12	3/3	6/6	4/4
Rosaleen Blair	11/12	2/3	6/6	4/4

Rosaleen Blair was appointed to the Audit Committee on 23 September 2021 and has attended all scheduled Audit Committee meetings since her appointment.

There is a written formal 'Schedule of Matters Reserved for 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.

A procedure exists to allow the Directors to seek independent legal advice in respect of their duties at Kainos' expense where the circumstances are appropriate. All Directors have access to the Company Secretary for her advice and services.

At the date of this Directors' Report, indemnities are in force under which Kainos has agreed to indemnify the Directors and the Company Secretary to the extent permitted by law and by Kainos Group plc's Articles of Association in respect of losses arising in their capacity as Director or officer of any member of the Kainos Group.

In addition, Kainos has purchased and maintained throughout the year Directors' and Officers' liability insurance in respect of itself and its Directors and officers.

Board evaluation

During the year there was an internal evaluation of the performance of the Board, with all Directors and the Company Secretary completing an in-depth questionnaire covering the following areas:

- Board effectiveness.
- · Focus of meetings.
- Board composition.
- Strategic oversight.
- Stakeholder oversight.
- Risk management and internal control.
- Board dynamics.
- · Succession planning and people management.
- Board support.
- Priorities for change.
- Board Committee reporting.

The survey scores were predominantly in the "excellent" or "good" category.

The results of the survey were discussed at the January 2022 Nominations Committee meeting and presented to the Board, where the Directors were given the opportunity to discuss the results and identify priorities for 2022 which included improved Board diversity.

On review of the findings of the survey, the Board remains confident that it is operating effectively, is currently the right size, with appropriate skills represented. No specific actions were identified. The Board proactively reviews its composition and will recruit to address any perceived gaps in experience and skills represented. Similarly, the performance of each of the Directors continues to be effective and they continue to demonstrate commitment to their roles, sharing their considerable commercial experience with Kainos.

DIRECTORS' REPORT AND CORPORATE GOVERNANCE STATEMENT

CONTINUED

An evaluation of the Chairman by the Non-Executive Directors was also carried out and it was concluded that he was performing his role effectively. The Senior Independent Director (SID), Andy Malpass, confirms that, as supported by the results of the evaluation survey, the performance of the Chairman continues to be effective.

The next formal evaluation of the Board's performance is scheduled to be conducted in 2022 and will be internally facilitated. The next externally facilitated evaluation will be conducted in December 2023.

Division of responsibilities

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

Tom Burnet as Chairman is principally responsible for leading the Board, promoting constructive debate amongst the Board and facilitating communication with shareholders as well as overseeing strategy.

Dr Brendan Mooney as CEO is responsible for all aspects of Kainos' operations; he leads and develops the strategic plans for the business and identifies risk factors.

Andy Malpass as SID provides a sounding board for the Chairman and acts as an intermediary for the other Directors and shareholders.

Conflicts of interest

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 2022.

Gráinne Burns

Company Secretary 20 May 2022

Statement from the Chair of the Remuneration Committee

As chair of the Remuneration Committee, I am pleased to introduce our Directors' Remuneration Report for the year ended 31 March 2022.

Remuneration Committee

The Remuneration Committee is comprised entirely of independent Non-Executive Directors whose biographies are set out within the Directors' Report and Corporate Governance Statement.

In addition to myself as chair, the Remuneration Committee is composed of Tom Burnett, a member of the Committee since July 2015, and Rosaleen Blair, who has been a member since January 2021.

There were six meetings during the year, with all Remuneration Committee members attending all meetings.

Key activities undertaken

- The Remuneration Committee performed a detailed review of our current policy and recommended changes to ensure that our policy continues to provide the strongest possible support for our business strategy and culture.
- We continued to oversee implementation of our current policy and discussed improvements to our approach to ensure consistent pay across the organisation and related topics such as gender attrition.
- We continued to oversee remuneration practice across Kainos, including focused discussions on global benefits and mobility, lessons learned from recent acquisitions and work to review salary ranges.

Strategic context

We continue to retain and attract high-quality talent, with our workforce totalling 2,692 across 22 countries in Europe and the Americas. Our people are critical to our business.

As the demand for the services that we provide increases, so too has the demand for skilled people – in our Digital Services and Workday divisions and in our central teams. This global digital skills shortage was a feature of 2021 and will persist for at least another 18 months. Alongside this, we recognise that, post-pandemic, people are exploring new careers, new employment models and new employers.

Kainos is also affected by these trends and as a result we have seen staff retention reduce from 90% prepandemic to 86% in the past year.

As a Committee we recognise that we cannot afford to be complacent; we need to continue to retain and motivate our current colleagues and attract further talented individuals as we continue to grow. Financial reward, in tandem with strong engagement activities, is key to our success.

Executive outcomes and reward

The Strategic Report outlines another strong performance by Kainos during the year.

Executive Director annual bonuses are based on revenue, adjusted pre-tax profit and bookings targets. Given the weightings in our scheme, our strong performance for the year translates to 110% pay-out against these targets, with the key measures outlined below.

	2022	2021
	£	£
Revenue	£302.6m	£234.7m
Adjusted pre-tax profit	£58.8m	£57.1m
Bookings	£349.8m	£258.8m
Total dividend per share	22.2p	28.2p

In June 2021, the Group made performance share awards to the CEO and CFO of 5,974 and 6,628 share options respectively.

DIRECTORS' REMUNERATION REPORT CONTINUED

In July 2018, long-term incentive awards were granted to the CEO, CFO and SVP Business Development. These awards vested in full during the year with the CEO receiving 17,621 share options, the CFO receiving 19,552 share options and the SVP Business Development receiving 15,690 share options.

Further detail of these awards is provided in the Annual Report on Remuneration.

The Remuneration Committee believes that these rewards remain appropriate in the context of the Company's outstanding performance and continued growth in challenging circumstances.

Review of Remuneration Policy for Executive Directors

Our current policy was approved by shareholders at the 2019 Annual General Meeting (AGM), and we will, in line with the three-year cycle in regulations, be submitting a new policy for shareholder approval at our next AGM in September 2022.

In preparation for our new policy, the Remuneration Committee undertook a detailed review of our current remuneration framework, recommending the following changes, to adopt best practice as described in the UK Corporate Governance Code 2018. The proposed changes are:

- the shareholding period will be revised from the current thee-year Long-Term Incentive Plan (LTIP) vesting period, to a three-year vesting and two-year holding period;
- a minimum shareholding requirement of 200% of annual salary, over a four-year period, will be introduced for Executive Directors;
- a post-employment shareholding requirement will be introduced for Executive Directors requiring them to
 retain shares equal to 200% of annual salary (or their actual shareholding on departure if that is lower) for a
 minimum of two years post-employment;
- the maximum annual bonus that can be earned has been capped at 150% of salary;
- one third of each Executive Director's accrued annual bonus will be deferred for a period of three years; and
- Executive Director pension contributions have been aligned to the rest of the workforce at 5%.

As part of the review, the Committee gave significant focus to the performance conditions in our LTIP and discussed how the Environmental, Social and Governance (ESG) component of the LTIP could be strengthened to best support our business strategy and culture. We have agreed the principle of including a 'Responsible Company' performance condition which will contain a 'basket' of measures which reflect our priorities: diversity, workforce engagement, climate action and customer satisfaction.

We are excited to implement this new approach as we believe it will better align executive reward with key areas which are critical for continued business growth and success.

Alignment with UK Corporate Governance Code

Our refreshed Remuneration Policy is aligned with the UK Corporate Governance Code 2018.

Clarity

- This report sets out the arrangements for Executive Directors in a clear and transparent way.
- The workings of the Committee and the Remuneration Policy have been discussed with our culture and development group, who operate as the formal workforce advisory panel.
- Shareholders can ask questions and comment upon remuneration at our AGM.

Simplicity

- The remuneration framework is made up of three key elements: fixed pay (including base salary, pension and benefits), annual bonus scheme and long-term incentive plan.
- The framework is simple to understand for participants, shareholders and the wider workforce. Incentive
 elements are aligned to strategic priorities for the business.

Risk

- Variable remuneration targets are set at levels which reward high performance, but which do not encourage inappropriate business risk.
- Part of any bonus earned is deferred and a holding period applied to any long-term award to ensure variable remuneration is linked to sustainable performance.
- Malus and clawback provisions apply to variable incentives.

Predictability

- Our policy sets out the maximum payments available for the annual bonus and LTIP.
- Target and threshold performance levels are set for the annual bonus, and minimum, mid and maximum performance levels are set for LTIP performance conditions.

Proportionality

- A significant proportion of Executive Director reward is linked to performance through the incentive framework, and there is a clear line of sight between performance and the delivery of long-term shareholder value.
- Performance measures and the underlying targets are reviewed regularly by the Remuneration Committee to ensure that they are directly aligned to our strategic priorities.

Alignment to culture

- The new 'Responsible Company' LTIP performance condition reflects areas of importance to the business: diversity, workforce engagement, climate action and customer satisfaction.
- The Committee regularly reviews Executive Director reward to ensure alignment with shareholder and workforce experience.
- Share incentives are used extensively throughout Kainos to align the employee experience with shareholders. All employees are given the opportunity to benefit through the Save as You Earn (SAYE) and Share Incentive Plan (SIP) (or the equivalent in locations where these share schemes are not available).

Looking forward

We believe that the changes we have seen in the post-pandemic recruitment market are likely to be persistent, perhaps even increasing, over the next 18 months. As a result, employee engagement remains a top priority for us, with plans in place across the business to proactively tackle the challenges we face.

Priorities for the Remuneration Committee over the next year include:

- ensuring a smooth implementation of our refreshed policy;
- maintaining an ongoing review of company-wide salaries within the context of our overall Employee Value
 Proposition to ensure that we are able to attract, motivate and retain talent in all parts of the globe where we operate;
- continuing to engage with our workforce on the priorities which matter to them, including reward; and
- continuing to take action to close the gender pay gap and establishing our position with regard to any ethnicity pay gap.

We believe that our refreshed Remuneration Policy will help us to deliver on these priorities and will strongly support the measured growth that we are hoping to achieve as a business in the year ahead.

DIRECTORS' REMUNERATION REPORT CONTINUED

Directors' Remuneration Policy

The policy set out below is a new Directors' Remuneration Policy which will be subject to shareholder approval at the 2022 AGM held on 28 September 2022 and will be effective for a further three years from this date.

In setting this policy, the Committee has taken into account the need for Executive Director remuneration arrangements to reflect the six factors set out in Code Provision 40, namely clarity, simplicity, risk, predictability, proportionality and alignment to culture.

Our Remuneration Policy seeks to ensure that Kainos can motivate its Executive Directors. The Remuneration Committee believes that the Executive Directors should be rewarded fairly and competitively according to their performance and that this should be at a comparable level to directors in similar companies.

The Committee's remuneration philosophy for executive reward is that:

- the objective is to set Executive Director packages at an attractive level to retain and motivate leaders with a significant portion based on performance;
- salaries will continue to be kept at below median levels compared to peer companies;
- short-term performance will be incentivised via an annual bonus which is based on revenue (30%), adjusted pre-tax profit (40%) and bookings targets (30%); and
- long-term performance will continue to be incentivised via a share plan under which Executive Directors are
 awarded performance shares subject to achieving stretch targets over a three-year period. The associated
 measures are earnings per share (45%), share price performance (25%) and being a responsible company
 (30%) reflecting our priorities in the areas of diversity, workforce engagement, climate action and customer
 satisfaction.

The focus on financial performance, shareholder return and being a responsible company encourages consistent performance over multiple years and aligns remuneration with the Kainos strategy, shareholder and stakeholder interests. It aims to deliver value and good growth over the long-term while striking an appropriate balance between caution and risk.

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

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

Executive Director reward components

Base Salary	
Purpose	To attract and retain Executive Directors.
Operation	Reviewed annually and fixed for 12 months, commencing 1 June each year. The Remuneration Committee considers:
	an individual's experience, knowledge and performance in the role.
	business and individual performance.
	achievement of objectives.
	comparative salaries and periodic reviews.
	the Company's financial position.
	the salary increases being provided to Kainos employees.
Potential	Percentage increases will normally be in line with other employees in the same location.
remuneration	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.
Performance metrics	None.
Benefits	
Purpose	To attract and retain Executive Directors.
Operation	The Executive Directors are entitled to private medical insurance, life insurance and permanent health insurance.
Potential remuneration	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.
Performance metrics	None.
Pension	
Purpose	To attract and retain Executive Directors.
Operation	The Executive Directors are entitled to participate in the Kainos pension scheme or receive a payment in lieu of pension.
Potential remuneration	No maximum is set but the Committee will monitor the overall cost of the benefits package. Any changes will be in line with other employees in the same location.
Performance metrics	None

Executive Director reward components continued

Annual Bonus	
Purpose	To reward and incentivise performance within a financial year with adequate reward for good performance and excellent reward for exceptional performance, to focus Executive Directors on key objectives and support positive team behaviour.
Operation	Performance is measured on an annual basis for each financial year. Criteria are established and weighted at the beginning of each year based on Company financial targets. Threshold and target levels of performance are determined for each measure. 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. One third of payments will be deferred for three years and then paid in cash or in shares.
	Clawback may be applied at the discretion of the Remuneration Committee in the event of material misstatement of the financial results or other exceptional circumstances, such as gross misconduct.
	The Remuneration Committee has discretion to apply 'corporate override' in the event core targets are not achieved or in the event of a material negative event.
Potential remuneration	The maximum annual bonus opportunity under the policy as a percentage of the Executive's salar is 150%.
Performance metrics	Annual bonus is discretionary. Criteria are chosen, weighted and targets set each year by the Committee in accordance with business priorities.
	An element of the bonus may also be based on personal performance.
Long-Term Inc	entive Plan (LTIP)
Purpose	To motivate Executive Directors, incentivise performance over the long-term and to facilitate share ownership.
Operation	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, will normally have a three-year vesting period and for Executive Directors there is an additional two-year holding period prior to exercise, following the date of award and will vest and be exercisable 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 vesting period.
	The Remuneration Committee determines the performance conditions, weighting and target performance levels at the point of award.
	Clawback may be applied at the discretion of the Committee in the event of material misstatement of the financial results or other exceptional circumstances, such as gross misconduct.
Potential remuneration	The normal maximum level of annual award is 200% of salary. In exceptional circumstances, awards may be made up to a maximum of 300% of salary.
	In the event of a new appointment the Remuneration Committee would expect to make a higher award, closer to the normal maximum.
Performance metrics	The Remuneration Committee will assess what measures and targets best support the long-term focu of the Group and so measures and targets may be different from year to year.

Non-Executive Director payments

Purpose	To attract and retain Non-Executive Directors with appropriate experience and skills.
Operation	The Chairman and Non-Executive Directors are paid fees, as detailed in this table. The fee levels consider the time commitment and responsibilities of the role and fees paid in other companies of comparable size and complexity.
	The Chairman's fee is approved by the Board on recommendation of the Remuneration Committee Fees for the Non-Executive Directors are approved by the Board on the recommendation of the Chairman and Executive Directors.
	Additional fees are payable for additional responsibilities.
Potential remuneration	The Chairman's fee is currently £100,000 per annum. The base fee for Non-Executive Directors is currently £50,000 per annum.
	Additional fees per annum are awarded:
	Senior Independent Director – £10,000
	Chair of Audit Committee – £8,000
	Chair of Remuneration Committee - £8,000
Performance metrics	None.

Company-wide share plans

The following additional share schemes are offered to eligible employees and Executive Directors are eligible to participate as shown.

Share Incentive Plan (SIP) UK						
Purpose	To motivate, facilitate share ownership and align employees with shareholders.					
Operation	The Share Incentive Plan (SIP) is a tax-advantaged all employee plan, supervised by the Remuneration Committee. Significant tax advantages apply if shares acquired under the plan are held for five years (UK).					
	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 partnership purchase or matching has been implemented to date).					
	The Board shall determine if and when further SIP awards will be made and the terms of those awards.					
Potential remuneration	At the time of IPO and each consecutive year since, free shares with a value up to £3,600 were awarded to UK employees, including Executive Directors, depending on their length of service.					
Performance metrics	None.					

DIRECTORS' REMUNERATION REPORT CONTINUED

Company-wide share plans continued

Save As You Ed	arn Option Plan (SAYE)
Purpose	To motivate, facilitate share ownership and align employees with shareholders.
Operation	An 'all employee' share option plan approved by HMRC, supervised by the Remuneration Committee.
	UK employees, including Executive Directors, may enter into a savings contract under which they agree to save a specified monthly amount for three or five years. At the end of the contract period, participating employees may use the amount saved to exercise options with an exercise price of up to a 20% discount to the market price at the outset.
	The Board shall determine if and when further SAYE awards will be made and the terms of SAYE participation.
Potential remuneration	Under the plan, the maximum monthly savings amount is £500. Executive Directors are eligible to participate in these schemes.
Performance metrics	None.
Poland and Ire	land Share Schemes
Purpose	To motivate, facilitate share ownership and align employees with shareholders.
Operation	The Group has implemented share schemes for employees in Poland and the Republic of Ireland to make share awards to these employees on similar terms and of a similar value to those made under the UK SAYE and SIP schemes.
Potential remuneration	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.
Performance metrics	None.
Share Options	(CSOP)
Purpose	To motivate, facilitate share ownership and align employees with shareholders.
Operation	Market value options may be granted to employees at the discretion of the Remuneration Committee under the 2015 Performance Share Plan. UK employees may receive tax advantaged awards under the CSOP Sub-Plan. Options have a market value exercise price and have a normal minimum vesting period of three years.
Potential remuneration	It is not intended to grant CSOP options to Executive Directors.
Performance metrics	Performance conditions may be applied but it is intended that CSOP options will not normally have performance conditions attached.

Service contracts - Executive Directors

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

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

Letters of appointment – Non-Executive Directors

The Non-Executive Directors have letters of appointment which may be terminated in certain circumstances, including the giving of three months' written notice by either party or failure to be re-elected by shareholders.

Payments for loss of office

In the event of termination, all Directors will receive payments for loss of office in accordance with the termination provisions of their applicable service contract or letter of appointment.

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 Director is deemed a 'good leaver', they will be entitled to receive a bonus pro-rated to the proportion of the year that they 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 specified circumstances 'good leaver' status may be applied, and the awards may vest in full.

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

There were no payments to past Directors for loss of office during the year ended 31 March 2022.

Remuneration Policy for new Directors

The appointment of Non-Executive Directors shall be on terms substantially similar to those of the existing Non-Executive Directors and in accordance with the Remuneration Policy applicable at the time.

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

The new Director's total remuneration would be consistent with comparative packages as advised by the Remuneration Committee's remuneration advisers. In the year of joining, the annual bonus and associated performance measures will be pro-rated.

In addition, when recruiting new Executive Directors externally, the Remuneration Committee may need to offer additional cash and/or share-based elements on a one-time basis when it considers these to be in the best interests of Kainos and its shareholders. Such payments would be limited to the remuneration lost when leaving the former employer to take up a position with Kainos and would broadly reflect the delivery mechanism (e.g., cash, shares, options), time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of such payments at the time of appointment.

DIRECTORS' REMUNERATION REPORT CONTINUED

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, other ongoing remuneration obligations existing prior to appointment would continue as appropriate, provided that they are put to shareholders for approval at the earliest opportunity.

For external and internal appointments, the Remuneration Committee may agree that Kainos will meet reasonable relocation expenses in line with market practice.

Employees

Kainos expects the total remuneration for employees to be at a level appropriate to attract, motivate and retain talented individuals.

Some employees may 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 overall Company 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.

The Remuneration Committee takes into consideration the pay and benefits of employees when reviewing the remuneration of the Executive Directors. In addition, the Committee consults with employees through our Culture and Development Group. Representatives from these groups will attend Remuneration Committee meetings as guests periodically to ensure that the Remuneration Policy is aligned with the Kainos culture and employee experience.

Shareholders and statement of voting at AGM

At the 2021 AGM the Annual Report on Remuneration for the year ended 31 March 2021 was approved as follows:

Number of	Percentage of	Number of	Percentage of	Total	Number of
votes cast	votes cast	votes	votes cast	votes	votes
for	for	against	against	cast	witheld
87,839,386	96.7%	3,033,393	3.3%	90,872,779	0

We are keen to ensure that our shareholders are supportive of the Group's remuneration philosophy and policy. As chair, I welcome shareholder feedback either as part of the AGM process, or at any time through the year. To date, we have not received any significant dissenting shareholder votes on Remuneration Policy and outcomes.

Flexibility, discretion and judgement

The Remuneration Committee has attempted to ensure that this policy has sufficient flexibility to deal with unusual situations and scenarios which may arise. As outlined in the policy tables, the Remuneration Committee retains flexibility to determine the objectives, weightings and target levels of performance for the annual bonus at the start of each year. The Remuneration Committee may also alter the performance criteria during the year, reflecting the overall circumstances and the Company performance to ensure targets remain both challenging and appropriate.

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

No such discretion was applied during the year ended 31 March 2022.

External appointments

Executive Directors may accept appointments as Non-Executive Directors in other companies provided that the appointments do not conflict with their duties or time commitments to Kainos. Any external appointment is subject to receiving prior written approval from the Board. The Executive Director is entitled to receive the fees themselves from such appointments.

No appointments were made during the year ended 31 March 2022.

Responsibilities

The Remuneration Committee operates within its terms of reference, which are reviewed and updated annually and are available from our website.

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 our share incentive plans.

Membership, meetings and evaluation

The members of the Remuneration Committee are Katie Davis (Chair), Tom Burnet and Rosaleen Blair. All are considered independent Non-Executive Directors. None of the members of the Remuneration Committee has any personal financial interest (other than as shareholders, to the extent disclosed in this report), conflicts of interest arising from cross-directorships, or day-to-day involvement in running the business.

The Executive Directors may attend committee meetings by invitation. The Company Secretary acts as secretary to the Committee.

The Remuneration Committee met six times during the year, with all members of the Committee in attendance. Further detail is contained within the section 'Director's Remuneration Report'.

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

Board evaluation

As outlined in the 'Board Evaluation' section of 'The Directors' Report and Corporate Governance Statement', there was an internal evaluation of the performance of the board and all Committees. With regard to the Remuneration Committee, the evaluation focused on:

- Structure and management of meetings.
- Committee support.
- The work of the Committee.
- Priorities for change.

The conclusion was that the Remuneration Committee was rated highly overall and was found to have good measures in place to support the Company's strategy.

Remuneration details

The following tables set out the remuneration for each Director for the years ended 31 March 2022 and 31 March 2021.

Single total figure of remuneration for Executive Directors (audited)

							Incentive		Total	Total
Name	Year	Salary	Benefits ¹	Bonus	Pension ²	Other ³	vested	Total	fixed	variable
All amounts in (£000s)										
Dr Brendan Mooney	2022	225	2	198	20	4	196	645	247	398
	2021	128	5	216	11	4	227	591	144	447
Richard McCann	2022	257	2	198	13	4	233	707	272	435
	2021	139	7	216	12	4	252	630	158	472
Paul Gannon ⁴	2022	83	3	70	12	_	185	353	98	255
	2021	120	19	155	18	3	199	514	157	357

Benefits are the taxable value of benefits received by Executive Directors in the year including travel allowance and private health insurance.
 The Executive Directors did not receive travel allowance from June 2021 to March 2022.

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

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

^{4.} The above table includes remuneration details for Paul Gannon up to the date of resignation as Executive Director on 23 September 2021.

Single total figure of remuneration for Non-Executive Directors (audited)

Name	Year	Fees
All amounts in (£000s)		
Andy Malpass	2022	68
	2021	62
Chris Cowan¹	2022	25
	2021	46
Tom Burnet	2022	100
	2021	99
Katie Davis	2022	58
	2021	46
Rosaleen Blair	2022	50
	2021	13

^{1.} The above table includes remuneration details for Chris Cowan up to the date of resignation as Non-Executive Director on 23 September 2021.

Annual bonus (audited)

The following table details the eligible bonus payment for the Executive Directors.

		Target		Threshold		Eligible Bonus pay-out		
Objective	performance Weighting (£million)	performance (£million)	Outcome (£million)	(£000s)	(£000s)	(£000s)		
					Brendan Mooney	Richard McCann	Paul Gannon ¹	
Revenue	30%	285	243	303	61	61	21	
Adjusted pre-tax profit	40%	57	46	59	75	75	27	
Bookings	30%	305	259	350	62	62	22	
Totals					198	198	70	

^{1.} The above table reflects the bonus payable to Paul Gannon up to the date of resignation as Executive Director on 23 September 2021.

The bonuses payable to Dr Brendan Mooney, Richard McCann and Paul Gannon are 88%, 77% and 84% of salary respectively. Under the Remuneration Policy the maximum annual bonus opportunity as a percentage of the Executive's salary is 150% for the CEO, 150% for the CFO and 225% for the SVP Business Development.

LTIP (audited)

The Committee granted performance-related share awards to the Executive Directors under the PSP on 29 June 2021 as outlined in the table below. The awards are share options with a nominal exercise price of £0.005 per option.

Name	Date of grant	No. of ordinary shares under option	Face value ¹	Exercise price per ordinary share	First exercise date	Lapsing date
Dr Brendan Mooney	June 2021	5,974	£87,597	Nominal	June 2024	June 2031
Richard McCann	June 2021	6,628	£97,186	Nominal	June 2024	June 2031
Paul Gannon	June 2021	5,319	£77,992	Nominal	June 2024	June 2031

^{1.} Face value is calculated using the average middle market closing price for the three days prior to grant date.

The 2021 PSP awards are subject to the following performance conditions:

Performance condition	Weighting	Minimum performance	Mid performance	Maximum performance
TSR performance (FTSE techMARK Index)	50%	30% vesting at median performance	Linear vesting between minimum and maximum performance	100% vesting if in upper quartile
EPS percentage growth	30%	30% vesting for growth of 5%	Linear vesting between minimum and maximum performance	100% vesting if growth is 13% or higher
'Best Companies' survey performance ¹⁸	20%	100% vesting if score at end of the three-year period is at least equal to the score at the start of period	N/A	N/A

SIP and SAYE schemes (audited)

The Executive Directors are entitled to participate in the SIP and SAYE schemes, on the same terms as all other employees with the same length of service.

The SIP shares awarded during the year to Executive Directors are shown below:

	2021	Face	Vesting
Name	SIP shares	value ¹	period
Dr Brendan Mooney	180	£3,255	3 years from the date of grant
Richard McCann	180	£3,255	3 years from the date of grant

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

2018 PSP (audited)

On 4 July 2018, awards were granted under the Kainos PSP to Dr Brendan Mooney, Richard McCann and Paul Gannon. The TSR performance measurement period ended on 3 July 2021 with the following outcome:

Award	Measure	Weighting		Vesting scale			Performance achieved	% of award vesting
2018	TSR	50%		No vesting if TS 30% of awards 9% p.a. and 10 exceeds 16% p basis from 30% exceeds 9% bu	vest if TSR gro 0% vests if TSF o.a. Straight-lin 6 to 100% if TS	54%	100%	
Name			No. of hares	% vested	Number of shares vested	Number of shares lapsed	Share price at end of performance period	Value at end of performance period
Dr Brendan Mooney		8	,811	100%	8,811	_	£15.12	£133,222
Richard McCann		9	,776	100%	9,776	_	£15.12	£147,813
Paul Gannon		7	,845	100%	7,845	_	£15.12	£118,616

¹⁸ Based on the Best Companies Index (BCI) score in the survey undertaken by Best Companies.

ANNUAL REPORT ON REMUNERATION CONTINUED

2019 PSP (audited)

On 8 July 2019, awards were granted under the Kainos PSP to Dr Brendan Mooney, Richard McCann and Paul Gannon. The TSR performance measurement period does not end until 8 July 2022. However, the performance measurement period for the EPS performance condition ended on 31 March 2022, with the following outcome:

Award	Measure	Weighting		Vesting scale			Performance achieved	% of award vesting
2019	EPS	30%		No vesting if EPS growth below 5% p.a., 30% of awards vest if EPS growth equals 5% p.a. and 100% vests if EPS growth exceeds 13% p.a. Straight-line pro-rata basis from 30% to 100% if EPS growth exceeds 5% but is less than 13% p.a.			35%	100%
Name			No. of shares	% vested	Number of shares vested	Number of shares lapsed	Share price at end of performance period	Value at end of performance period
Dr Brendan Mooney			3,942	100%	3,942	_	£13.23	£52,153
Richard McCann			4,374	100%	4,374	_	£13.23	£57,868
Paul Gannon			3,510	100%	3,510	_	£13.23	£46,437

Directors' shareholdings (audited)

The interests of the Directors in office at 31 March 2022 including connected persons in Kainos ordinary shares at 31 March 2022 was:

Name	Current shareholding	SIP shares (available to withdraw)	SIP/RSS shares (not available to withdraw)	Vested but unexercised options	Unvested options
Dr Brendan Mooney	14,205,987	4,081	878	91,156	30,663
Richard McCann	4,630,352	2,930	878	101,094	33,959
Andy Malpass	38,590	N/A	N/A	N/A	N/A
Tom Burnet	28,253	N/A	N/A	N/A	N/A
Rosaleen Blair	N/A	N/A	N/A	N/A	N/A
Katie Davis	N/A	N/A	N/A	N/A	N/A

During the year:

- Tom Burnet acquired an additional 13,865 shares in the Company.
- Kerry McCann, a person closely associated (PCA) with Richard McCann, sold 82,300 shares in the Company.
- Richard McCann exercised his 2018 SAYE, acquiring 1,078 shares in the Company.
- Dr Brendan Mooney's PCA, Ciaran Mooney, acquired 46 shares in the Company.

No other changes took place in the interests of the Directors between 31 March 2022 and 30 April 2022.

Share ownership guideline for Executive Directors

The Remuneration Committee has implemented guidelines in respect of the value of shareholding which Executive Directors should hold. A minimum shareholding requirement of 200% of annual salary, over a four-year period, will be introduced; in addition, a post-employment shareholding requirement will be introduced requiring them to retain shares equal to 200% of annual salary (or their actual shareholding on departure if that is lower) for a minimum of two years post-employment.

There is no shareholding guideline for the Non-Executive Directors.

Performance graphs and comparator tables

The regulations require the presentation of a number of graphs and tables setting out a comparison of Group performance and CEO remuneration for the same period of time.

The Board believes that the FTSE techMARK All-Share Index, provides the best benchmark for comparison. It is also the index used by the Group for the performance criterion for the 2019, 2020 and 2021 PSPs.

Our TSR performance against the FTSE techMARK All-Share Index TSR performance from the date of IPO in July 2015 to the end of 31 March 2022 is shown below. The Kainos share price and the FTSE techMARK All-Share Index are both set to 100 at the start of the period.

Kainos TSR performance against FTSE techMARK All-Share Index



CEO remuneration (seven-year analysis)

The table below sets out the total remuneration delivered to the CEO over the last seven years valued using the methodology applied to the single total figure of remuneration.

			Long-term incentive
		Annual bonus	vesting rates
	CEO single figure of	pay-out against	against maximum
	total remuneration	maximum	opportunity
	(£000s)	(%)	(%)
2022	645	59	100
2021	591	65	100
2020	683	51	100
2019	1,036	65	96
2018	423	53	n/a
2017	399	46	n/a
2016	428	57	100

ANNUAL REPORT ON REMUNERATION CONTINUED

Percentage change in remuneration

The tables below shows the percentage change in remuneration for each Director and all UK employees for both the current period and the prior period. Kainos considers the comparator group of all UK employees to be representative of Kainos as a whole and a global comparator group would not result in a material variance.

a) Executive Directors

Percentage increase in remuneration in 2022 compared with remuneration in 2021¹

2022	Dr Brendan Mooney	Richard McCann	Paul Gannon ²	Employees
2022	Di Brendan Nooney	Kichara McCarin	1 dai Gairioi1	Litipioyees
Salary and fees ³	75.8%	84.9%	(30.8%)	10.0%
All taxable benefits ⁴	(60.0%)	(71.4%)	(84.2%)	0.0%
Annual bonuses	(8.3%)	(8.3%)	(54.8%)	(12.2%)
Total	9.1%	12.2%	(31.3%)	0.6%

- 1. Executive Director's salary calculated using the single total figure of remuneration.
- 2. Paul Gannon resigned from his role as Board Director on 23 September 2021.
- 3. In FY21 the Executive Directors elected to take no salary between April and August 2020.
- 4. Executive Directors did not receive travel allowance between June 2021 and March 2022.

Percentage increase in remuneration in 2021 compared with remuneration in 2020

2021	Dr Brendan Mooney	Richard McCann	Paul Gannon	Employees
Salary and fees ¹	(41.8%)	(33.8%)	(41.7%)	5%
All taxable benefits ²	(28.6%)	0%	0%	0%
Annual bonuses	27.8%	27.8%	27.7%	95.1%
Total	(13.5%)	(9.1%)	(19.8%)	27.9%

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

b) Non-Executive Directors

Percentage increase in remuneration in 2022 compared with remuneration in 2021

2022	Andy Malpass	Chris Cowan	Tom Burnet ¹	Katie Davis²	Rosaleen Blair³	Employees
Salary and fees	9.7%	(45.7%)	1.0%	26.1%	284.6%	10.0%
All taxable benefits	_	_	_	_	_	0.0%
Annual bonuses	_	_	_	_	_	(12.2%)
Total	9.7%	(45.7%)	1.0%	26.1%	284.6%	(0.6%)

- 1. Calculated using the single total figure of remuneration table. The increase represents a return to full salary as the Non-Executive Directors elected to take a reduced salary between April and August 2020.
- 2. Chris Cowan resigned from the Board on 23 September 2021.
- 3. Rosaleen Blair joined the Board on 1 January 2021.

Percentage increase in remuneration in 2021 compared with remuneration in 2020

2021	Andy Malpass	Chris Cowan	Tom Burnet ¹	Katie Davis²	Rosaleen Blair	Employees
Salary and fees	0%	2.2%	30.3%	170.6%	_	5%
All taxable benefits	_	_	_	_	_	0%
Annual bonuses	_	_	_	_	_	95.1%
Total	0%	2.2%	30.3%	170.6%	_	27.9%

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

Pay ratios (audited)

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

		25th		75th
		percentile	Median	percentile
Year	Method	pay ratio	pay ratio	pay ratio
2022	А	18.2:1	11.6:1	8.0:1
2021	Α	18.0:1	12.0:1	8.0 : 1

Kainos has adopted option A as the preferred method for calculating the pay ratio for the year ended 31 March 2022. Option A is considered the most efficient and robust approach in respect of gathering data for the year. The salaries and wages of UK staff were used to calculate an equivalent single figure remuneration.

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

	Y25	Y50	Y75
Wages and salaries	£35,000	£55,000	£80,000

The pay ratio has remained consistent with last year as a result of the net impact of CEO's salary being reinstated but bonus payment at a lower level.

Relative importance of spend on pay

Kainos' employees are vital to the growth and success of the business. As a digital technology business with a growth strategy focused on organic development, our primary costs are related to our employees. The profit, corporation tax and dividend figures have been included to provide greater context to staff remuneration.

	2022 (£000s)	2021 (£000s)	Change (£000s)	Change (%)
Staff remuneration	168,395	125,962	42,433	34%
Profit before tax	45,993	50,341	(4,348)	(9%)
Corporation tax	(10,225)	(10,740)	515	(5%)
Effective tax rate	22%	21%	_	1%
Dividends	(27,419)	(16,026)	(11,393)	71%

Employee engagement

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

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

AGM

The 2022 AGM will be the Group's seventh since its IPO. The Directors' Annual Report on Remuneration will be put to an advisory shareholder vote.

Directors' remuneration for the year commencing 1 April 2022

Salary	The Remuneration Committee will continue to monitor the remuneration of Executive Directors of other companies in the IT sector and other listed companies with similar market capitalisation to ensure that the Executive Directors remain sufficiently rewarded to promote long-term success. The Remuneration Committee will also consider the salary increases across the wider workforce.
Benefits	There will be no change to the benefits of the Executive Directors in the year commencing 1 April 2022.
Pension	There will be a change to CEO pension contributions with effect from 1 April 2022 to align with the workforce.
Annual bonus	Annual bonus for the year commencing 1 April 2022 will be operated within the policy disclosed in this report. Executive Directors will defer one third of the annual bonus payable in June 2023 for three years.
	The targets for the annual bonus for FY23 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 2023 Annual Report.
Long-term incentives	The Remuneration Committee intends to make further performance share awards in mid-2022. These will be made in line with the Remuneration Policy. The Remuneration Committee will determine the levels, performance conditions, weighting and growth targets to be applied at the time of award and disclose them in the 2023 Annual Report.
Non-Executive Director remuneration	For the year commencing 1 April 2022 it is proposed that fees remain in line with the structures in effect from 1 October 2019.

Illustration of application of Remuneration Policy

The charts below provide estimates of the potential future reward opportunities for each Executive Director, and the potential split between the different elements of remuneration under three different scenarios: 'minimum', 'in line with expectation' and 'maximum'.



In developing the scenarios, the following assumptions have been made:

Minimum	The fixed amount consists of base salary, benefits and pension.		
	Base salary is the latest known salary.		
	Benefits are measured using figure in single figure table as set out above.		
	Pensions are measured using single figure table as set out above.		
In line with	Based on what a Director would receive if performance was in line with plan:		
expectation	Annual variable bonus pay-out at 100% for on-target performance.100% vesting of long-term incentive awards.		
Maximum	Maximum pay-out of annual variable bonus is 150% of salary for both CEO and CFO.		
	100% vesting of long-term incentive awards.		

Long-term incentives consist of share awards only, which are measured at face value, i.e., no assumption for increase in share price or dividends.

On behalf of the Board

Katie Davis

Chair of the Remuneration Committee

20 May 2022

AUDIT COMMITTEE REPORT

As Chairman of the Audit Committee, I am pleased to present the Audit Committee Report for the year ended 31 March 2022.

The Audit Committee continues to fulfil a vital role in the Company's governance framework, providing valuable independent challenge and oversight of the accounting, financial reporting and internal control processes, risk management, and the relationship with the external auditor.

During the year we conducted a competitive audit tender process and recommended the selection of KPMG as external auditor for the year ended 31 March 2022.

As a Committee, our responsibilities include providing advice (where requested by the Board) on whether the Annual Report and Accounts, taken as a whole are fair, balanced, and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Audit Committee has focused on the integrity, completeness and clarity of financial reporting, the areas where judgements and estimates are required in the financial statements and the quality and effectiveness of audit processes to complement the other risk management activities.

Andy Malpass

Chair of the Audit Committee 20 May 2022

Composition and evaluation

The Audit Committee is chaired by Andy Malpass who has been in this role since June 2015. Andy's previous experience includes serving as Finance Director of Fidessa Group plc until October 2015, and from June 2018, serving as a Non-Executive Director and chair of the Audit Committee of accesso Technology Group plc. For the purposes of Code Provision 24, the Board considers that Andy has the recent and relevant financial experience required to act as chair of the Audit Committee.

During the year the other Audit Committee members comprised Katie Davis, Chris Cowan, who retired from the Board and as a member of the Audit Committee on 23 September 2021, and Rosaleen Blair who joined the Audit Committee on 23 September 2021.

All Audit Committee members are Independent Non-Executive Directors. The range and depth of their financial and commercial experience enables them to deal effectively with the matters they are required to address and to challenge management when necessary. Further details of the relevant experience of all members of the Audit Committee along with details of attendance at Audit Committee meetings are included in the 'Directors' Report'.

The Company Secretary is secretary to the Audit Committee.

The performance of the Audit Committee this year was internally evaluated. The evaluation process sought views from all Directors and the Company Secretary, through the completion and review of a comprehensive evaluation questionnaire across a wide range of areas, including:

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

The evaluation concluded that the Committee was performing effectively.

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

Responsibilities

The Audit Committee operates within its terms of reference, which are regularly reviewed and updated and are available on our website.

The Audit Committee's main responsibilities include:

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

Audit Committee meetings and key activities during 2021/22

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

May 2021

- Review of the auditor's report to the Audit Committee for the year ended 31 March 2021.
- Review of significant judgements and issues in relation to the financial statements.
- Review of going concern and viability statements.
- Review and recommendation to the Board to approve the Final Results Announcement and the 2021 Annual Report, concluding it was fair, balanced, and understandable.
- Review of the effectiveness of external auditors.
- Information security update.
- Group Risk Register update.

June 2021

Audit tender presentations and recommendation of external auditor for the year ended 31 March 2022.

November 2021

- Review of the Interim Report, including the going concern statement and key disclosures, and recommendation
 of its approval to the Board.
- · Review of KPMG engagement letter and approval of audit fees.
- Review of management representation letter.
- · Review of the Group Risk Register.
- Information security review.
- Group insurance strategy.

February 2022

- KPMG audit plan and strategy for the year ended 31 March 2022.
- Review of internal audit function and requirements.
- Review of tax function and global tax risks.
- · Legal and compliance update.

External audit

The Audit Committee advises the Board on the appointment, reappointment, or removal of the Group's external auditor.

Deloitte (NI) Limited ('Deloitte') was the Company auditor from the year ended 31 March 2012 to the year ended 31 March 2021 inclusive. In accordance with UK legislation, all public interest entities must tender their audit every 10 years. Accordingly, a competitive audit tender process was completed during the year and at the 2021 AGM, KPMG was appointed auditor for the year ended 31 March 2022. The Audit Committee has worked closely with KPMG since their appointment to ensure a smooth transition.

The Company confirms that it was compliant with the provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee responsibilities) Order 2014 during the financial year ended 31 March 2022.

Appointment, independence and objectivity

KPMG has not provided any non-audit services since their appointment as external auditor. We have engaged other independent accounting advisors to perform tax consulting work and other assignments to ensure the independence and objectivity of the auditor is not compromised. The Audit Committee received written confirmation from the external auditor that it considered itself to be independent.

The current audit partner is John Poole who has been in the role since the appointment of KPMG. Audit partners for listed companies are ordinarily rotated every five years.

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

Effectiveness of the external auditor

The Audit Committee reviews the effectiveness and quality of the external auditor on an ongoing basis to ensure a high-quality external audit process. To assess the effectiveness of the external auditor, the Audit Committee reviewed:

- The audit plan including identified significant risks.
- The relevant skills and experience of the audit partner and team.
- Engagement with the Finance team in planning the audit and its execution.
- Formal reports presented to the Audit Committee prior to meetings.

Significant issues related to the financial statements

During the year ended 31 March 2022 the Audit Committee reviewed the results of the external audit for the previous financial year including reviewing the 2021 Annual Report and Full Year Results Announcement, the external auditor's half year review and the half year results as well as the external audit plan for 2022. In May 2022, the Audit Committee received the 2022 Annual Report including the financial statements contained within it, the Full Year Results Announcement for the year ended 31 March 2022 and reports from the external auditor on their audit of the financial statements and Annual Report.

The Audit Committee's prime areas of focus were:

- The integrity, completeness and consistency of financial reporting, including the adequacy, clarity and appropriateness of disclosures and compliance with financial reporting requirements;
- Assisting the Board in an assessment of whether the Annual Report, taken as a whole, is fair, balanced and
 understandable and provides the information necessary for shareholders to assess the Company's position,
 performance, business model and strategy;
- The material areas in which significant judgements and key sources of estimation uncertainty are included in the financial statements;
- The scope and programme of external audit, along with the quality and effectiveness of external audit processes;

- The materiality level used by the external auditor, concluding that its basis should be consistent with the previous year;
- Whether the going concern basis of accounting should continue to apply in the preparation of the annual financial statements and whether the period applied to the viability statement was appropriate;
- Reviewing the processes and systems to identify and mitigate the financial and non-financial risks and to
 consider the appropriateness of the controls to reduce the risk of fraud and exposure to bribery and corruption;
- The appropriateness of the 'whistleblowing' procedures in place whereby staff may confidentially raise concerns about possible improprieties.

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

- Revenue recognition in relation to significant contracts and implementations and the level of contract or fixed
 price provisioning for rectification and irrecoverable accrued income. Kainos has a clear revenue recognition
 policy, described in note 3, and performs regular contract reviews with relevant staff. The Audit Committee has
 also obtained comfort over the completeness and valuation of any contract or fixed price provisions. The Audit
 Committee is satisfied that the internal processes and controls are appropriate and revenue recognition is in
 line with IFRS15;
- Development costs and the approach to their capitalisation. The Audit Committee received updates from management and was satisfied that the methodology and process were appropriate. The Audit Committee concurred with management that development costs should not be capitalised; and
- The tax complexity and risk related to the multinational operations of the Group and the areas of uncertainty that arise. The Audit Committee considered the appropriateness of deferred tax assets and tax provisions held, an analysis of the RDEC rules and their impact on the reported results in relation to the updates and reports it had received, the transfer pricing rates applied between the jurisdictions in which the Group operates and their impact on the reported results and concluded that the treatment adopted was fair and reasonable in all cases.

There were no material changes to significant accounting policies during the year ended 31 March 2022.

Risk management and internal control

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

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

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

AUDIT COMMITTEE REPORT CONTINUED

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

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

Internal audit

Kainos does not operate a separate, dedicated internal audit function. The Group undertakes activities associated with internal audit through subject specialists across the business divisions and central services teams for the collective benefit of Kainos. Together, these people discharge the duties that an internal audit function would typically own.

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

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

To support these activities and outcomes, Kainos has documented (i) the principles of operation of the activities, (ii) the areas with systems of internal controls in place to identify and mitigate the risks and issues impacting the business, and (iii) the specified owner for each area. This is reviewed annually for effectiveness by the Committee.

Areas covered by internal audit activities include:

- Information security governance and controls.
- Corporate governance and legal compliance.
- Financial compliance.
- Commercial review.
- Project delivery assurance.
- Financial planning and analysis.
- Risk reporting.

Some examples of the types of activity are detailed below.

ISO Audit Programme

Kainos operates an audit programme which forms part of its ISO9001 (Quality Management System), ISO20000 (Information Technology Service Management System) and ISO27001 (Information Security Management System) certifications. As part of the certification process Kainos undergoes a bi-annual assessment to ensure that all controls are robust and any Kainos assets are appropriately protected.

Information security risk management

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

The Kainos Information Security Steering Group includes technology and cyber security experts from within our business divisions and central services that:

- · Regularly review information security controls and processes.
- Maintain a detailed risk register for this specific area.
- Oversee our ISO Audit Process.

Kainos continues to identify cyber security and information security as a major risk area for our business – more information is available in the 'Risks factors and uncertainties' section of the Strategic Report. Accordingly, this group reports on a regular basis directly to the executive team and the Audit Committee on the risks, controls and processes in this area.

Our internal audit principles

The principles underlying our internal audit activities are:

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

Committee review of internal audit

In February 2022, the Committee completed a review of the Kainos internal control framework and procedures and considered the merits of establishing a separate internal audit function.

The collective view of the Committee was that while there was an obvious 'independence' benefit from having a separate audit function, this was not currently required given the Audit Committee's confidence that the internal controls were being well managed and the overlap inefficiencies that a separate audit function would introduce to a company of Kainos' size. The Audit Committee also considers that the absence of an internal audit function does not directly affect the work of the external auditors.

The requirement for a separate internal audit function will be kept under review by the Audit Committee.

Membership, meetings, and evaluation

The Nominations Committee, which is chaired by Tom Burnet, also includes Katie Davis and Rosaleen Blair as members and is therefore compliant with the requirements of the Code.

The performance of the Nominations Committee was internally evaluated. The evaluation process sought views from all Directors and the Company Secretary through the completion of a comprehensive questionnaire. Further details are covered in the 'Directors' Report and Corporate Governance' section of this report.

Survey scores were predominantly in the 'excellent' or 'good' category.

The results of the evaluation exercise were discussed at the January 2022 Nominations Committee meeting and presented to the Board, where the Directors were given the opportunity to discuss the results together with potential improvements that could be made. On review of the results of the evaluation exercise, the Board remains confident that it is operating effectively and is the right size, with appropriate skills represented.

Responsibilities

The Nominations Committee operates within its terms of reference, which are regularly reviewed and updated and are available on our website.

The Nominations Committee's main responsibilities are to advise and make recommendations to the Board on the following matters:

- The size, structure, and composition of the Board;
- · Succession planning of Board members; and
- The appointment of new Directors and the re-appointment of existing Directors.

Matters considered during the year

During the year ended 31 March 2022, the Nominations Committee:

- Considered and reviewed the Board's composition, focusing on the planned rotation of Non-Executive Directors
 to ensure that the independence criteria will continue to be met, that there is continuity at a Board level and
 there is improved Board diversity;
- Facilitated the internal Board evaluation exercise; and
- Led succession planning activities at Board and executive level, with a focus on diversity and good practice, talent retention, training, and development.

Diversity - Board and senior management

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

The Board acknowledges that achieving diversity in certain sectors, including the technology sector, presents challenges when considering the profile of the available talent pool in those sectors.

The Board is actively exploring further ways to bolster diversity concentrating on ethnicity, gender and diversity of experience, with a focus on bringing additional skills to the Board to further support the Company's strategic objectives.

For all future Board appointments (and in all succession planning activities undertaken by the Board and the Company), the Board will proactively ensure that recruitment and selection practices are transparent, fair and result in appointments based on merit and objective criteria, promoting diversity of gender, social and ethnic backgrounds, cognitive and personal strengths. In addition, search processes will use a wide range of channels, including advertising, to encourage applications from diverse candidates with relevant skills, experience and knowledge.

Succession planning

The Board recognises the importance of succession planning and the role it plays in maintaining a continuous level of quality in management and reducing the level of instability that may arise following unforeseen events, such as the departure of a key individual.

The Nominations Committee formally discusses and reviews succession planning at each meeting; this is a key area of focus.

As part of succession planning exercises, the Nominations Committee reviews the Kainos executive team and leadership structures, and the output of this exercise is an input to the training and development plans for senior executives.

Tom Burnet

Chairman

20 May 2022



Independent auditor's report

to the members of Kainos Group plc

Report on the audit of the financial statements

1. Opinion

We have audited the financial statements of Kainos Group plc ("the Company") and its consolidated undertakings (collectively "the Group") for the year ended 31 March 2022, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows. Company statement of financial position. Company statement of changes in equity, and the related notes, including the accounting policies in note 3 to the Group financial statements and note 2 to the Company financial statements. The financial reporting framework that has been applied in their preparation is UK Law, UK adopted international accounting standards and, as regards the Company financial statements, UK Law and FRS 101 Reduced Disclosure Framework.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework issued by the UK's Financial Reporting Council; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 23 September 2021. The period of total uninterrupted engagement is for the one financial year ended 31 March 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the Financial Reporting Council (FRC)'s Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Materiality: group financial	£2.71
statements as a whole	5% of Group adjuste profit before ta
Coverage	97% of Group adjuste profit before ta
Key audit matters	
Key audit matters	Revenue recognition relating to misstatement of accrued and deferre income
Key audit matters	misstatement of accrued and deferre

2. Conclusions relating to going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining an understanding of the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.
- Obtaining an understanding of the directors' use of the going concern basis of preparation. This included inspecting their going concern assessment and associated underlying forecasts and assumptions, and performing inquiries of management and those charged with governance.
- Assessing the appropriateness of key assumptions made in the Group's business plan, by comparing them to historical performance and challenging the achievability of budgeted growth.
- Testing the clerical accuracy of the going concern model including the data used in stress testing.
- We also compared past budgets to actual results to assess the directors' track record of budgeting accurately.
- We considered whether the going concern disclosure in note
 3 to the Group financial statements gives an appropriate and sufficient description of the directors' assessment of going concern

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

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

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

3. Detecting irregularities including fraud

We identified the areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements and risks of material misstatement due to fraud, using our understanding of the entity's industry, regulatory environment and other external factors and inquiry with the directors. In addition, our risk assessment procedures included:

- Inquiring with the directors and other management as to the Group's policies and procedures regarding compliance with laws and regulations, identifying, evaluating and accounting for litigation and claims, as well as whether they have knowledge of non-compliance or instances of litigation or
- Inquiring of directors as to the Group's high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud
- Inquiring of directors regarding their assessment of the risk that the financial statements may be materially misstated due to irregularities, including fraud.
- Inspecting the Group's regulatory and legal correspondence.
- Reading Board, audit committee, remuneration committee and nomination committee meeting minutes.
- Performing planning analytical procedures to identify any usual or unexpected relationships.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including companies and financial reporting legislation, taxation legislation and distributable profits legislation. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items, including assessing the financial statement disclosures and agreeing them to supporting documentation when necessary.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, environmental law and certain aspects of company legislation recognising the nature of the Group's activities.

Auditing standards limit the required audit procedures to identify non-compliance with these non-direct laws and regulations to inquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

We assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. As required by auditing standards, we performed procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition. We identified a fraud risk in relation to the Group revenue recognition relating to misstatement of accrued income and deferred income.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KAINOS GROUP PLC CONTINUED

3. Detecting irregularities including fraud (continued)

In response to the fraud risks, we also performed procedures including:

- Identifying journal entries to test for all full scope components based on risk criteria and comparing the identified entries to supporting documentation.
- Evaluating the business purpose of significant unusual transactions.
- Assessing significant accounting estimates for bias.
- Assessing the disclosures in the financial statements.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

4. Key audit matters: our assessment of risks of material misstatement

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

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

The key audit matter

Revenue recognition Rev

Revenue: £302.6 million (2021: £234.7 million)

Refer to Audit Committee Report (Significant issues related to the financial statement section), note 3 Significant Accounting Policies (revenue section), note 4 Material accountina judgements and key sources of estimation uncertainty (Critical iudaements in applying the Group's accounting policies) and note 5 Segment reporting.

Revenue recognition relating to misstatement of accrued and deferred income

The Group had a range of revenue streams across its components, including licensing and services revenue. There is a risk that revenue may be recorded on an inconsistent basis with the contractual terms agreed with the customer or not in accordance with the Group's accounting policy regarding revenue recognition or revenue may not be recognised in the correct year.

The delivery of licensing or services revenue may occur over multiple accounting periods such that the existence and accuracy of accrued and deferred income is misstated at the year end due to incorrect revenue recognition as a consequence of either fraud or error.

How the matter was addressed in our audit

Our procedures included, amongst others:

- Control operation: We obtained and documented our understanding of the process for recording the recognition of revenue and tested the design and implementation of the relevant control.
- Tests of detail: We examined a sample of contracts to assess revenue recognition in accordance with the terms of the contracts and the Group's accounting policy on revenue recognition.
- We performed testing for a sample of revenue items recorded either side of the year end to ensure that revenue was recognised in the correct period.
- We assessed the level of deferred revenue and accrued revenue recognised at the year end and tested a sample of deferred revenue and accrued revenue balances to ensure they were in accordance with the Group's revenue recognition accounting policies.
- We considered the Group's revenue accounting policies in accordance with the requirements of IFRS 15.
- Disclosures: We assessed the disclosures presented in the financial statements to explain revenue recognition, including key sources of estimation uncertainty and judgments being applied.

Our results

 The results of our testing were satisfactory and we found the amount of revenue recognised to be appropriate.



4. Key audit matters: our assessment of risks of material misstatement (continued)

Research and development credits ('RDEC')

RDEC receivable: £3.2 million (2021: £2.9 million)

Refer to Audit Committee Report (Significant issues related to the financial statement section), note 3 Significant **Accounting Policies** (research and develonment expenditure credit section) and note 4 Material accounting iudaements and kev sources of estimation uncertainty (Critical judgements in applying the Group's accounting policies). RDEC receivable is recorded within other receivables in note 15.

The key audit matter Recognition of research and

development credits

The Group claims research and development ('R&D') tax credits under the UK Research and

Development Expenditure Credit scheme. A key audit matter has been identified in relation to the appropriateness of management

judgements regarding eligibility of costs incurred for the RDEC claims, together with the adequacy of disclosure in the financial statements.

How the matter was addressed in our audit

Our procedures included, amongst others:

- Control operation: We obtained and documented our understanding of the process to calculate the qualifying R&D costs and assess the eligibility of the year end receivable balance. We tested the design and implementation of the relevant control.
- Tests of detail: We examined the supporting documentation prepared by the Group to determine qualifying R&D costs.
- We performed testing for a sample of the R&D costs included in RDEC claims to underlying workings and documentation.
- We utilised KPMG tax specialists to assist us in assessing the approach and judgements adopted over the qualifying R&D costs and the eligibility of those costs for RDEC claims, together with the conclusions reached by management on the quantification of amounts to be included in the financial statements.
- Disclosures: We assessed disclosures presented in the financial statements over RDEC receivable, including key judgments being applied.

Our results

The results of our testing were satisfactory and we found management's judgement regarding the assessment of the eligibility of the costs incurred for the RDEC claims receivable to be appropriate and the disclosures to be adequate.

Investments in subsidiaries

£6.5 million (2021: £6.5 million)

Refer to Company note 2 Sianificant Accounting Policies (investment in financial assets section) and Company note 4 Investments in subsidiaries.

Recoverability of investments in subsidiary

The Company holds an investment of £6.5m in subsidiary undertakings and is accounted for at cost less any provision made for impairment.

The recoverability of the investments in subsidiaries is not at high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Company financial statements this is considered to be the area that had the greatest effect on our overall audit of the Company.

Our procedures included, amongst others:

- Tests of detail: We compared the carrying amount of 100% of the amounts included in investments in subsidiaries with the respective subsidiaries' net assets values to identify whether the net assets values, being an approximation of their minimum recoverable amount, were in excess of the carrying amount.
- We consider the Group's market capitalisation to the book value of the investments in subsidiaries which indicated that the market capitalisation exceeded the book value by £1.6 billion as at 31 March 2022.

Our results

The results of our testing were satisfactory and we found the carrying amount of the investments in subsidiaries to be acceptable.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KAINOS GROUP PLC CONTINUED

5. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £2.7m, determined with reference to a benchmark of Group profit before tax, normalised to exclude acquisition related costs and post-combination remuneration expenses of £7.2m, of which it represents 5%. We consider the basis of our materiality to be one of the important considerations for shareholders of the Company in assessing the financial performance of the Group. It is linked to the key earnings measures discussed when the Group presents the financial results. The Group's reported adjusted profit before tax is detailed in note 5. In addition to acquisition related costs and post-combination remuneration expenses, the Group also adjusts for amortisation of purchased intangibles and share based payments expense and related costs to present adjusted profit before tax; these amounts are not excluded from our materiality calculation.

Materiality for the Company financial statements as a whole was set at £1.0m, determined with reference to a benchmark of Company total assets, of which it represents 1.5%. In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

In applying our judgement in determining the percentage to be applied to the benchmark for Group and Company, the following qualitative factors, had the most significant impact, increasing our assessment of materiality and included:

- · the Group has no external debt; and
- · the stability of the business environment in which it operates.

We applied Group materiality to assist us determine the overall audit strategy.

Performance materiality was set at 75% of materiality for the financial statements as a whole, which equates to £2.0m for the Group and £0.7m for the Company. In applying our judgement in determining performance materiality for the Group and Company, the following factors were considered to have the most significant impact, increasing our assessment of performance materiality:

- the low number and value of misstatements detected in the prior year financial statement audit;
- the low number and severity of deficiencies in control activities identified in the prior year financial statement audit; and
- the stability in the senior management and key financial reporting personnel over the last three years.

We applied performance materiality to assist us determine what risks were significant risks and the procedures to be performed.

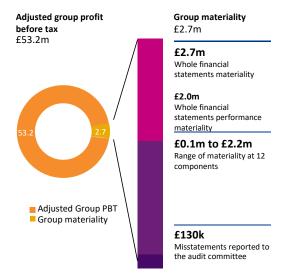
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £130k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

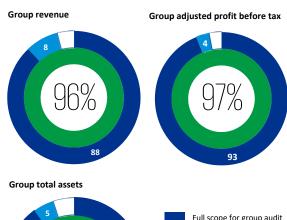
Of the Group's 25 reporting components, we subjected 9 to full scope audits for group purposes and 3 to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

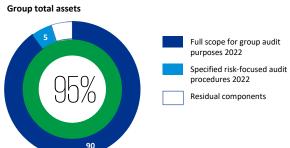
The work on these components, including the audit of the Company, was performed by the Group team. The audit was performed using the materiality levels set out above.

The components within the scope of our work accounted for the percentages illustrated below.

The remaining 4% of total Group revenue, 3% of Group profit before tax and 5% of total Group assets is represented by 13 reporting components, none of which individually represented more than 1% of any of total Group revenue, Group profit before tax or total Group assets. For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.









6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. The other information comprises the information included in the Directors' report and the Strategic report and Corporate Governance sections of the Annual Report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

7. Opinions on other matters prescribed by the Companies Act 2006

Strategic report and directors' report

Based solely on our work on the other information undertaken during the course of the audit:

- we have not identified material misstatements in the strategic report or the directors' report;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion, the strategic report and the directors' report have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

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

Corporate governance statement

We have reviewed the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

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

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out in the Directors' Report and Corporate Governance Statement (Going concern and long-term viability section);
- Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out in the Directors' Report and Corporate Governance Statement (Going concern and longterm viability section):
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out in the Directors' Report and Corporate Governance Statement (Going concern and long-term viability section);

Opinions on other matters prescribed by the Companies Act 2006 (continued)

- Directors' statement on fair, balanced and understandable and the information necessary for shareholders to assess the Group's position and performance, business model and strategy set out in the Directors' Report and Corporate Governance Statement (Responsibility statement of the directors' in respect of the annual financial report section);
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks and the disclosures in the annual report that describe the principal risks and the procedures in place to identify emerging risks and explain how they are being managed or mitigated set out in the Strategic Report (Risk factors and uncertainties section);
- Section of the annual report that describes the review of effectiveness of risk management and internal control systems set out in the Audit Committee Report (Risk management and internal control section); and
- Section describing the work of the audit committee set out in the Audit Committee Report.

8. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are notin agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

9. Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out in the Directors' Report and Corporate Governance Statement (Directors' responsibilities statement in respect of the Annual Report and the financial statements section), the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.



INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF KAINOS GROUP PLC CONTINUED

9. Respective responsibilities and restrictions on use *(continued)*

Auditor's responsibilities for the audit of the financial statements

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The Company is required to include these financial statements in an annual financial report prepared using the single electronic reporting format specified in the TD ESEF Regulation. This auditor's report provides no assurance over whether the annual financial report has been prepared in accordance with that format.

The purpose of our audit work and to whom we owe our responsibilities

Our 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.

John Poole (Senior Statutory Auditor) for and on behalf of KPMG, Statutory Auditor

Chartered Accountants
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

20 May 2022



CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 (£000s)	2021 (£000s)
CONTINUING OPERATIONS	Note	(£0005)	(£0005)
REVENUE	5	302,632	234,694
Cost of sales	5	(162,386)	(116,396)
GROSS PROFIT	5	140,246	118,298
Operating expenses	6	(93,625)	(68,232)
Impairment (loss)/gain (including amounts recovered)			
on trade receivables and accrued income	24	(606)	269
OPERATING PROFIT		46,015	50,335
Finance income		52	84
Finance expense		(74)	(78)
PROFIT BEFORE TAX		45,993	50,341
Income tax expense	8	(10,225)	(10,740)
PROFIT FOR THE YEAR		35,768	39,601
EARNINGS PER SHARE			
Basic	10	29.1p	32.5p
Diluted	10	28.5p	32.1p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2022

	2022 (£000s)	2021 (£000s)
PROFIT FOR THE YEAR	35,768	39,601
Items that may be reclassified subsequently to profit or loss: Foreign operations – foreign currency translation differences	728	(1,132)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	36,496	38,469

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2022

Note	2022 (£000s)	2021 (£000s)
NON-CURRENT ASSETS		
Goodwill 11	18,765	3,121
Other intangible assets 11	5,993	3,288
Property, plant and equipment 12	14,867	10,287
Right-of-use assets 14	3,166	3,857
Investments in equity instruments	1,343	1,225
Deferred tax asset 16	4,282	4,020
	48,416	25,798
CURRENT ASSETS		
Trade and other receivables 15	38,358	36,609
Prepayments 15	4,377	2,777
Accrued income 15	39,462	18,354
Treasury deposits 17	-	18,028
Cash and cash equivalents 17	76,609	62,896
	158,806	138,664
TOTAL ASSETS	207,222	164,462
CURRENT LIABILITIES		
Trade payables and accruals 19	(49,199)	(35,976)
Deferred income 19	(30,966)	(21,985)
Current tax liabilities 19	(1,959)	(2,863)
Lease liabilities 18	(1,093)	(1,249)
Provisions 20	(872)	_
Other tax and social security 19	(11,917)	(10,652)
	(96,006)	(72,725)
NON-CURRENT LIABILITIES		
Provisions 20	(1,258)	(1,735)
Lease liabilities 18	(2,268)	(2,394)
	(3,526)	(4,129)
TOTAL LIABILITIES	(99,532)	(76,854)
NET ASSETS	107,690	87,608
EQUITY		
Share capital 21	619	614
Share premium account	6,433	5,737
Capital reserve	3,548	662
Share-based payment reserve	15,171	9,083
Translation reserve	251	(477)
Retained earnings	81,668	71,989
TOTAL EQUITY	107,690	87,608

These financial statements were approved by the Board of Directors and authorised for issue on 20 May 2022. They were signed on its behalf by:

Richard McCann

Director 20 May 2022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2022

	Share capital (£000s)	Share premium (£000s)	Capital reserve (£000s)	Share- based payment reserve (£000s)	Translation reserve (£000s)	Retained earnings (£000s)	Total equity (£000s)
BALANCE AT 31 MARCH 2020	610	5,446	664	5,610	655	46,169	59,154
Profit for the year	_	_	_	_	_	39,601	39,601
Other comprehensive income	_	_	_	_	(1,132)	_	(1,132)
Total comprehensive income for the year	_	_	_	_	(1,132)	39,601	38,469
Equity-settled share-based payment	_	_	_	3,473	_	_	3,473
Current tax for equity-settled share-based payments	_	_	_	_	_	441	441
Deferred tax for equity-settled share-based payments	_	_	_	_	-	1,804	1,804
Issue of share capital	4	291	(2)	_	_	-	293
Dividends	_	_	_	_	_	(16,026)	(16,026)
BALANCE AT 31 MARCH 2021	614	5,737	662	9,083	(477)	71,989	87,608
Profit for the year	_	-	_	-	_	35,768	35,768
Other comprehensive income	_	_	_	_	728	_	728
Total comprehensive income for the year	_	_	_	_	728	35,768	36,496
Equity-settled share-based payment	_	_	_	6,088	_	_	6,088
Current tax for equity-settled share-based payments	_	-	_	_	-	1,610	1,610
Deferred tax for equity-settled share-based payments	_	-	-	-	-	(280)	(280)
Issue of share capital – share options exercised	5	2,296	-	-	-	-	2,301
Issue of shares as purchase consideration	-	_	1,286	_	_	_	1,286
Transfer between reserves ¹⁹	_	(1,600)	1,600	_	_	_	_
Dividends	_	_	_	_	_	(27,419)	(27,419)
BALANCE AT 31 MARCH 2022	619	6,433	3,548	15,171 ²⁰	251	81,668	107,690

¹⁹ Premium on shares issued as consideration in FY20 reclassified from share premium account to capital reserve, in accordance with the requirements of the Companies Act 2006, S612.

^{20 £10.3} million relates to exercised or lapsed options and is considered distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2022

	Note	2022 (£000s)	2021 (£000s)
CASH FROM OPERATING ACTIVITIES			
PROFIT FOR THE YEAR		35,768	39,601
Adjustments for:			
Finance income		(52)	(84)
Finance expense		74	78
Tax expense	8	10,225	10,740
Share-based payment expense		3,727	4,513
Depreciation of property, plant and equipment	12	1,538	921
Depreciation of right-of-use assets	14	1,654	1,786
Amortisation of intangible assets	11	1,890	383
Loss on disposal of property, plant and equipment		8	114
Post-acquisition remuneration settled by shares		2,950	760
Increase/(decrease) in provisions	20	395	(793)
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL		58,177	58,019
Increase in trade and other receivables		(22,996)	(9,262)
Increase in trade and other payables		16,571	18,397
CASH GENERATED FROM OPERATING ACTIVITIES		51,752	67,154
Income taxes paid		(7,089)	(7,213)
NET CASH FROM OPERATING ACTIVITIES		44,663	59,941
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		52	84
Purchases of property, plant and equipment	12	(5,819)	(1,468)
Acquisition of other investments		(74)	(200)
Amounts withdrawn/(placed) on treasury deposit	17	18,028	(18,028)
Acquisition of subsidiaries net of cash acquired	26	(16,768)	_
NET CASH USED IN INVESTING ACTIVITIES		(4,581)	(19,612)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	9	(27,419)	(16,026)
Interest paid		(74)	(78)
Repayment of lease liabilities		(1,409)	(1,763)
Proceeds on issue of shares		2,301	293
NET CASH USED IN FINANCING ACTIVITIES		(26,601)	(17,574)
NET INCREASE IN CASH AND CASH EQUIVALENTS		13,481	22,755
Cash and cash equivalents at beginning of year	17	62,896	40,785
Effect of exchange rate fluctuations on cash held		232	(644)
CASH AND CASH EQUIVALENTS AT END OF YEAR		76,609	62,896

1. General information and basis of preparation

Kainos Group plc ('the Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales (company registration number 09579188), having its registered office at 21 Farringdon Road, 2nd Floor, London EC1M 3HA. The Company is listed on the London Stock Exchange.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent company financial statements present information about the Company as a separate entity and not about its Group.

The Group financial statements have been prepared and approved by the Directors in accordance with UKadopted International Accounting Standards ('UK-Adopted IFRS'). The Company has elected to prepare its parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS101'). The financial statements are presented in Pounds Sterling, generally rounded to the nearest thousand.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 April 2021. This change constitutes a change in accounting framework however, there is no impact on recognition, measurement or disclosure.

The Group financial statements are prepared on a historical cost basis except for the following items which are measured at fair value or grant date fair value:

- share-based payment arrangements;
- business combinations; and
- equity investments that are in the scope of IFRS9.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by the Group other than those detailed in changes in accounting policies.

The financial statements were authorised for issue by the Directors on 20 May 2022.

2. Adoption of new and revised standards

In the current year, the Group and Company have applied the following standards and amendments that are effective for an annual period that begins on or after 1 January 2021. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS16: Covid-19 Related Rent Concessions

Amendments to IFRS9, IAS39, IFRS7, IFRS4 and IFRS16: Interest Rate Benchmark Reform – Phase 2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

New and revised IFRS standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised UK-adopted IFRS standards that have been issued but are not yet effective.

Amendments to IAS37: Onerous Contracts – Cost of Fulfilling a Contract	1 January 2022
Amendments to References to the Conceptual Framework in IFRS3	1 January 2022
Amendments to IAS16: Property, Plant and Equipment – Proceeds before Intended Use	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IAS8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates	1 January 2023*
Amendments to IAS1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements	1 January 2023*
Amendments to IAS12 Income Taxes - Deferred Tax Related to Assets and Liabilities	
Arising from a Single Transaction	1 January 2023*
IFRS17 Insurance Contracts	1 January 2023*
Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current	On hold

^{*}Not yet endorsed by the UK endorsement board.

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

3. Significant accounting policies

Going concern

The financial statements have been prepared on a going concern basis.

The Directors consider there to be no material uncertainties that may cast significant doubt on the Group and Company's ability to continue to operate as a going concern. The Directors have a reasonable expectation that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future, being at least 12 months from the date when these financial statements are authorised for issue. Accordingly, they continue to adopt the going concern basis in the preparation of these financial statements.

The Group's business activities, together with the factors likely to affect its future development, performance and position are summarised in the Strategic Report. The principal risks, uncertainties and risk management processes are also described in the Strategic Report. The Group's policies and objectives with regards to financial risk management is further described in note 24 of the financial statements.

Functional and presentational currency

These consolidated financial statements are presented in Pounds Sterling, which is the Company's functional currency.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method.

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

Any deferred and contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured, and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss. Deferred and contingent consideration that is assessed as being payment for post-combination services (remuneration) is expensed as incurred in the post-combination period.

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

The Group measures goodwill at the acquisition date as:

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

Goodwill

Goodwill is initially recognised and measured as set out above.

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

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

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

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

Contract assets are represented by accrued income (note 15) and contract liabilities are represented by deferred income (note 19) and onerous contract provisions (note 20).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Service revenue

Time and materials contracts

Contracts for the provision of software-related services generally tend to be 'time and materials' contracts whereby the customer is contractually bound to pay for services for each hour or day spent in delivering a contractually agreed services scope. These contracts typically have no payment milestones, refunds or bundling with other services or products. Such services are recognised as a performance obligation satisfied over time in line with the chargeable 'time and materials' which are allocated to the contracted project.

Fixed price contracts

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

Support

Revenue relating to support services are recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transactions and is released on a straight-line basis over the contracted term in line with the estimated delivery of performance obligations.

Third party goods

Revenue from the sale of goods is recognised when control of the goods has transferred to the customer, usually on delivery of the goods.

Software as a Service (SaaS)

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

Managed service subscription

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

Commission revenue

Commission income is earned when the Group secures orders for end-user access to Workday Adaptive Planning software. Depending on the terms of the underlying agreement with Workday, Inc., performance obligations are either satisfied at the point the order is secured or over the subscription period and revenue is recognised accordingly.

Leases

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

Lease liability

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

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

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

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

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

Right-of-use asset

The right-of-use asset comprises the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and plus any initial direct costs. It is subsequently measured at cost less accumulated depreciation and impairment losses.

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

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group does not have any leases that include purchase options or that transfer ownership of the underlying asset at the end of the lease term.

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

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss and presented within operating expenses.

Foreign operations

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into GBP at the exchange rates at the reporting 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. Foreign currency differences are recognised in the statement of comprehensive income and accumulated in the translation reserve until the foreign operation is disposed of, at which point the relevant proportion of the accumulated amount is recycled to profit or loss.

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 that compensate the Group for expenses incurred are recognised in profit and loss on a systematic basis in the periods in which the related costs for which the grants are intended to compensate are recognised. The Group has elected to present grants related to income as a reduction to the related expense within operating expenses.

Research and Development Expenditure Credit

Research and Development Expenditure Credits are accounted for as having the substance of a government grant and accordingly this income is accounted for under IAS20 Accounting for Government Grants. The grants are recognised on the basis of the fair value of claims made and are recognised within operating expenses in the profit and loss. A corresponding other receivable is recognised at the time the grants are earned.

Retirement benefit costs

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

Taxation

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

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

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

Property, plant and equipment

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

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

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

Long-term leasehold property	2.5%
Leasehold improvements	Over the term of the lease up to five years
Fixtures and fittings	20%
Office equipment	25%-33%

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

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

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

Acquired intangible assets

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

Estimated useful lives typically applied are as follows:

- Customer relationships over 3-7 years
- Order backlog over 10-15 months

Internally generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

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

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

Financial instruments

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

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

Trade receivables

Trade receivables, which typically have 30-day credit terms, are initially recognised and carried at their original invoice amount. Given the short lives of the trade receivables, there are generally no material fair value movements between initial recognition and the derecognition of the receivable and are subsequently stated at cost less expected credit losses. The Group applies the simplified approach which requires expected lifetime losses to be recognised from the initial recognition of the receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. All of the cash and cash equivalents balance is available for use by the Group.

Treasury deposits represent bank deposits with an original maturity of over three months and are held with a fixed rate of interest. Treasury deposits are held to collect and are SPPI (solely payments of principal and interest) compliant.

The Group has not recognised an expected credit loss on cash and cash equivalents as it is deemed not material.

Investments in financial assets

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

Impairment of financial assets

The Group recognises a loss allowance at an amount equal to lifetime expected credit loss (ECL) on trade receivables and accrued income in accordance with the simplified approach as set out in IFRS9. The ECL is updated at each reporting date to reflect changes in credit risk.

The Group measures loss allowances at an amount equal to lifetime ECL, except for bank balances for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers any change in credit quality of the amounts owing from the date the credit was initially granted up to the reporting date. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forwardlooking information.

ECLs are a probability-weighted estimate of credit losses estimated using a provision matrix.

The Group recognises a loss allowance of 100% against all receivables older than six months at the reporting date.

Financial liabilities

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

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or where appropriate, a shorter period, to the amortised cost of a financial liability.

Derecognition of financial assets and financial liabilities

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

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

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

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

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

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

Onerous contracts

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

Share-based payments

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

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

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

The fair value of the amount payable to employees in respect of share options settled in cash is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the options. Any changes in the liability are recognised in profit or loss.

4. Material accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, which are described in note 3, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying the Group's accounting policies

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

Product development expenditure

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

Therefore, judgement is required in determining the practice for capitalising development costs. The accounting policy for research and product development is in note 3 and in the current year there are no development expenses that have been capitalised (2021: £nil). The total product development expenditure in the period is £6.2 million (2021: £4.2 million). R&D expenditure credit ('RDEC') grants received from HMRC and product development expenditure incurred are presented gross in note 6.

Generally, commercial viability of new products is not proven until all high-risk development issues have been resolved through testing pre-launch versions of the product. As a result, technical feasibility is proven only after completion of the detailed design phase and formal approval, which occurs just before the products are ready to go to market. Certain development costs are incurred for specific projects and there is a lack of certainty that the work may have future economic benefit on future projects. Accordingly, development costs have not been capitalised.

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

RDEC income

Judgements are made regarding the assessment of the eligibility of product development expenditure incurred for RDEC claims. The Group's assessment of eligible expenditure must align with the definition of R&D for RDEC purposes. This assessment is more difficult in some industries such as software development resulting in judgement over the qualifying R&D costs and the eligibility of these costs for the RDEC claim. The unrecognised component of RDEC as at 31 March 2022 is £5.0 million (2021: £4.6 million) and represents the Group's determination of the value subject to this judgement. This portion is recognised when this judgement has been removed either via formal acceptance of the claim value submitted or the expiry of the enquiry window. The net value of RDEC receivable as at 31 March 2022 is £3.2 million (2021: £2.9 million) and is included within other receivables in the statement of financial position.

Key sources of estimation uncertainty

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

Revenue recognition

Service revenue

Kainos charges for its digital services on a time and materials or fixed price basis. Where there are fixed price contracts, revenue is recognised based on the stage of completion. Stage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs. The Group estimates costs to complete its contractual obligations by reference to the current run rate of these costs until contractual completion. The estimation of stage of completion is sensitive to future uncertainties such as technical challenges, timescale changes and commercial issues. During the year revenue relating to fixed price project income was £24.4 million (2021: £15.6 million). The associated carrying values of accrued and deferred income at 31 March 2022 were £5.1 million (2021: £2.9 million) and £2.1 million (2021: £0.7 million) respectively.

5. Segment reporting

All of the Group's revenue during the year ended 31 March 2022 and for the year ended 31 March 2021 was derived from continuing operations.

The Group's Executive Directors are considered to be the Chief Operating Decision Maker (CODM) of the Group. They use internal management reports to assess both performance and strategy of the Group and the two specialist business areas: Digital Services and the Workday Practice. Accordingly, management has determined the reportable segments of the Group to be these areas. No aggregation of segments has occurred for reporting purposes.

Our Digital Services include full lifecycle development and support of customised Digital Services for public sector, healthcare and commercial customers.

Our Workday Practice is closely linked to Workday, Inc.'s software suite, which includes cloud-based software for Human Capital Management ('HCM'), Financial Management and Planning, enabling enterprises to organise their staff efficiently and support their financial reporting requirements. We have developed two proprietary software tools, Smart Test and Smart Audit (collectively 'Smart').

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

2022 12 months to 31 March	Digital Services (£000s)	Workday Practice (£000s)	Consolidated (£000s)
REVENUE	199,831	102,801	302,632
Cost of sales	(122,430)	(39,956)	(162,386)
GROSS PROFIT	77,401	62,845	140,246
Direct expenses ²¹	(21,723)	(37,598)	(59,321)
CONTRIBUTION	55,678	25,247	80,925
Central overheads ²¹			(22,132)
Net finance expense			(22)
ADJUSTED PRE-TAX PROFIT			58,771
Share-based payments expense and related costs			(3,727)
Amortisation of acquired intangible assets			(1,890)
Compensation for post-combination remuneration			(5,520)
Acquisition-related expenses			(1,641)
PROFIT BEFORE TAX			45,993

2021 12 months to 31 March	Digital Services (£000s)	Workday Practice (£000s)	Consolidated (£000s)
REVENUE	161,572	73,122	234,694
Cost of sales	(89,578)	(26,818)	(116,396)
GROSS PROFIT	71,994	46,304	118,298
Direct expenses ²¹	(16,419)	(27,366)	(43,785)
CONTRIBUTION	55,575	18,938	74,513
Central overheads ²¹			(17,446)
Net finance income			6
ADJUSTED PRE-TAX PROFIT			57,073
Share-based payments expense and related costs			(4,513)
Amortisation of acquired intangible assets			(383)
Compensation for post-combination remuneration			(1,836)
PROFIT BEFORE TAX			50,341

²¹ Direct expenses plus central overheads plus share-based payment expense and acquisition-related expenses (including amortisation of acquired intangible assets and compensation for post-combination remuneration) equals the sum of operating expenses plus impairment losses and reversals on trade receivables and accrued income. Direct expenses are expenses that are directly attributable to each division.

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

					2022 (£000s)	2021 (£000s)
United Kingdom & Ireland					215,606	175,710
North America					58,712	38,099
Central Europe					27,125	19,631
Rest of world					1,189	1,254
					302,632	234,694
Disaggregation of the Group'	s revenue is pres	sented in the fo	llowing tables			
	Digital Services 2022 (£000s)	Digital Services 2021 (£000s)	Workday Practice 2022 (£000s)	Workday Practice 2021 (£000s)	Total 2022 (£000s)	Total 2021 (£000s)
Type of revenue						
Services	188,630	151,163	64,475	46,920	253,105	198,083
SaaS and related	5,947	5,385	38,295	26,159	44,242	31,544
Third party and other	5,254	5,024	31	43	5,285	5,067
	199,831	161,572	102,801	73,122	302,632	234,694
Revenue recognition						
At a point in time	5,254	5,024	31	43	5,285	5,067
Over time	194,577	156,548	102,770	73,079	297,347	229,627
	199,831	161,572	102,801	73,122	302,632	234,694
Digital Services					2022 (£000s)	2021 (£000s)
Public					108,400	102,180
Commercial					25,120	15,653
Healthcare					66,311	43,739
					199,831	161,572
Workday Practice						
Public					2,582	3,314
Commercial					98,678	65,428
Healthcare					1,541	4,380
					102,801	73,122
Total					302,632	234,694

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

	2022	2021
	(£000s)	(£000s)
Workday Practice		
Workday Services	70,868	48,972
Smart	31,933	24,150
	102,801	73,122

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 CODM on a segmental basis and are therefore not disclosed.

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

		2022	2021
	Note	(£000s)	(£000s)
Trade receivables	15	35,228	33,739
Accrued income	15	39,462	18,354
Deferred income	19	(30,966)	(21,985)

Accrued income relates to the Group's right to consideration for work completed and delivered but not invoiced as at year end and is transferred to trade receivables when an invoice is issued to the customer. Customers are typically invoiced on a monthly basis and consideration is payable when invoiced. During the year £18.4 million (2021: £16.9 million) of accrued income recognised at 31 March 2021 (31 March 2020) was invoiced.

Deferred income relates to advance consideration received from customers, where revenue is recognised over time as the services are provided/delivered to customers. During the year, all of the opening deferred revenue balance (2021: all) has been recognised as revenue.

The aggregate transaction price allocated to unsatisfied or partially satisfied performance obligations at the end of the reporting period is £259.7 million (2021: £206.2 million). The majority of this balance will be recognised within 12 months of the reporting date.

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

	2022	2021
	(£000s)	(£000s)
Northern Ireland	16,318	13,091
Rest of UK	3,815	3,585
Republic of Ireland	_	1
United States of America	12,748	3,654
Finland	8,737	-
Other	2,516	1,447

Significant customer

No single customer contributed 10% or more to the Group's revenue for the year ended 31 March 2022. One customer, a Digital Services client, accounted for £22.5 million or 10% of total Group revenue during the year ended 31 March 2021.

6. Profit for the year

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

	Note	2022 (£000s)	2021 (£000s)
Total staff costs	7	168,395	125,962
Government grants		(479)	(2,193)
Research and development expensed as incurred		6,176	4,162
Research and Development Expenditure Credit		(3,205)	(3,643)
Depreciation of property, plant and equipment	12	1,538	921
Depreciation of right-of-use assets	14	1,654	1,786
Loss on disposal of property, plant and equipment		8	114
Net foreign exchange loss/(gain)		62	(128)
Amortisation of acquired intangibles	11	1,890	383
The analysis of auditor's remuneration is as follows:		2022 (£000s)	2021 (£000s)
Fees payable to the Group's auditor for the audit of the Group's annual acco	ounts	93	72
Fees payable to the Group's auditor for the audit of subsidiaries		57	38
Total audit fees		150	110
Fees payable to the Group's auditor for other services to the Group:			
Review of interim report		23	17
Total audit-related fees		173	127
Non-audit fees		-	_
Total audit and non-audit fees		173	127
Total % of non-audit fees		0%	0%

7. Staff numbers and costs

The average number of persons employed by the Group during the year, analysed by category, is as follows:

	2022	2021
	Number	Number
Technical	1,705	1,283
Administration	234	190
Sales	158	111
	2,097	1,584
The aggregate payroll costs of these persons were as follows:	2022	2021
Note	(£000s)	(£000s)
Wages and salaries	141,588	105,972
Social security costs	14,120	10,946
Contributions to defined contribution plans	6,010	4,531
Share-based payments 22	6,677	4,513
	168,395	125,962

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

	2022	2021
	(£000s)	(£000s)
Cost of sales	99,999	72,164
Operating expenses	68,396	53,798
	168,395	125,962

8. Tax expense

The following tax was recognised in recognised in the income statement:

	2022	2021
Note	(£000s)	(£000s)
CURRENT TAX EXPENSE:		
Current year (UK)	7,882	9,233
Current year (overseas)	4,011	2,433
Adjustments in respect of prior years	(1,043)	(47)
	10,850	11,619
DEFERRED TAX 16		
Origination and reversal of temporary differences	(1,187)	(879)
Adjustment to prior years	637	_
Change in tax rate	(75)	_
	(625)	(879)
	10,225	10,740

In addition to the amount charged to the statement of comprehensive income, the following amounts relating to tax have been recognised directly in relation to share-based payments.

	2022	2021
	(£000s)	(£000s)
CURRENT TAX		
Permanent element of share-based payment deduction	1,610	441
DEFERRED TAX		
Deferred tax on share-based payments	(883)	1,804
Effect of rate change	603	_
Total tax recognised directly in equity	1,330	2,245

UK corporation tax has been calculated at 19% (2021: 19%) of the estimated taxable profit for the year, the prevailing rate at the balance sheet date. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. The effective tax rate for 2022 was 22% (2021: 21%).

On 24 May 2021, the UK Finance Act 2021 was substantively enacted, increasing the corporate tax rate to 25% effective from 1 April 2023. The change to the main rate of corporation tax was substantively enacted by the balance sheet date and therefore included in these financial statements. Temporary differences have been remeasured using these enacted tax rates that are expected to apply when the liability is settled, or the asset realised. The impact of this remeasurement has resulted in an uplift in deferred tax assets of £0.9 million.

We envisage our future effective tax rates to be broadly in line with the main UK corporation tax rate.

The Group's tax charge can be reconciled to the profit in the income statement and effective tax rate as follows:

	2022	2021
	(£000s)	(£000s)
Profit before tax on continuing operations	45,993	50,341
Tax at the UK corporation tax rate of 19% (2021: 19%)	8,739	9,565
Expenses not deductible for tax purposes	1,050	544
Tax exempt income	(35)	(60)
Effect of foreign exchange on consolidation	214	(65)
Effect of tax rates in foreign jurisdictions	671	803
Adjustments to tax charge in respect of prior years	(406)	(47)
Change in UK tax rates	(8)	-
Tax expense for the year	10,225	10,740
Effective tax rate	22%	21%

9. Dividends

	2022 (£000s)	2021 (£000s)
Amounts recognised as distributions to equity holders in the period:	(20003)	(10003)
Interim dividend for 2022 of 7.1p per share	8,774	_
Final dividend for 2021 of 15.1p per share	18,645	_
Interim dividend for 2021 of 6.4p per share	_	7,831
Special dividend paid September 2020 of 6.7p per share	-	8,195
	27,419	16,026

The Board has proposed a final dividend in respect of the year ended 31 March 2022 subject to approval by shareholders at the Annual General Meeting. This dividend has not been recognised as a liability in these financial statements and there are no tax consequences. The proposed final dividend, if approved by shareholders, will be 15.1p per share (£18.7 million in total) and payable on 28 October 2022 to all shareholders on the Register of Members on 7 October 2022, and with an ex-dividend date of 6 October 2022.

10. Earnings per share

Basic

The calculation of basic earnings per share (EPS) has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

	2022	2021
	(£000s)	(£000s)
Profit attributable to ordinary shareholders	35,768	39,601
	Thousands	Thousands
Issued ordinary shares at 1 April	122,785	122,089
Effect of shares held in trust	(863)	(917)
Effect of share options vested and exercised	802	646
Effect of shares issued related to a business combination	31	-
Effect of shares issued related to free share awards	49	80
Weighted average number of ordinary shares at 31 March	122,804	121,898
Basic earnings per share	29.1p	32.5p

Diluted

The calculation of diluted EPS has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

	2022 (£000s)	2021 (£000s)
Profit attributable to ordinary shareholders	35,768	39,601
	Thousands	Thousands
Weighted average number of ordinary shares (basic)	122,804	121,898
Effect of share options in issue	1,256	611
Effect of shares held in trust	863	917
Effect of potential shares to be issued related to a business combination	410	-
Weighted average number of ordinary shares (diluted) at 31 March	125,333	123,426
Diluted earnings per share	28.5p	32.1p

The average market value of the Company's shares for the purpose of calculating the dilutive effect of share options was based on quoted market prices for the year during which the options were outstanding.

At 31 March 2022, 39,451 options (2021: 47,067) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would have been anti-dilutive.

Adjusted

Adjusted basic and adjusted diluted earnings per share is calculated using the adjusted profit for the year measure.

	2022	2021
	(£000s)	(£000s)
Adjusted profit for the year	47,726	45,400
	Thousands	Thousands
Weighted average number of ordinary shares for the purposes of		
basic earnings per share	122,804	121,898
Weighted average number of ordinary shares for the purposes of		
diluted earnings per share	125,333	123,426
Adjusted basic earnings per share	38.9p	37.2p
Adjusted diluted earnings per share	38.1p	36.8p

11. Intangible assets and goodwill

Cost	Goodwill (£000s)	Order backlog (£000s)	Customer relationships (£000s)	Total (£000s)
At 1 April 2020	3,220	(£0005)	4,045	7,265
Exchange adjustments	(99)	_	(328)	(427)
At 31 March 2021	3,121	_	3,717	6,838
Exchange adjustments	11	53	176	240
Acquisitions through business combinations	15,633	1,016	3,378	20,027
At 31 March 2022	18,765	1,069	7,271	27,105
Amortisation and impairment				
At 1 April 2020	_	_	56	56
Charge for the year	_	_	383	383
Exchange adjustments	_	_	(10)	(10)
At 31 March 2021	_	_	429	429
Charge for the year	_	328	1,562	1,890
Exchange adjustments	_	5	23	28
At 31 March 2022	_	333	2,014	2,347
Carrying amount				
At 31 March 2022	18,765	736	5,257	24,758
At 31 March 2021	3,121	_	3,288	6,409

Amortisation of customer relationships is calculated using the straight-line method over a period ranging from 3 to 7 years.

Amortisation of order backlog is calculated using the straight-line method over a period ranging from 10 to 15 months.

Amortisation of acquired intangibles is included within operating expenses in the consolidated income statement.

Impairment testing of goodwill

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

	2022	2021
	(£000s)	(£000s)
Kainos Workday Adaptive Practice	3,162	3,121
Workday Services North America	7,375	_
Workday Services Central Europe	8,228	_
Total	18,765	3,121

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

The recoverable amount of the relevant CGU has been determined based on a value-in-use calculation using cash flows derived from financial projections covering a three-year period, with cash flows thereafter calculated using a terminal value methodology. The Group considers the three-year period to be appropriate as it aligns with the period underpinned by financial budgets and forecasts for the Group.

Key assumptions

The pre-tax discount rates used in the calculations were as follows:

	2022	2021
Workday Adaptive Practice	11-12%	11-12%
Workday Services North America	11-12%	-
Workday Services Central Europe	12-13%	_

Discount rates represent the Group's pre-tax discount rate adjusted for the risk profiles of the individual CGUs.

The terminal value growth rates used in the calculations were as follows:

	2022	2021
Workday Adaptive Practice	2%	2%
Workday Services North America	2%	-
Workday Services Central Europe	2%	_

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

Summary of results

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

Sensitivity analysis

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

12. Property, plant and equipment

	Property	Property and	0.00	F: 1	
	under construction	leasehold improvements	Office equipment	Fixtures and fittings	Total
Cost	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)
At 1 April 2020	7,431	2,783	5,412	1,340	16,966
Additions	599	_	725	144	1,468
Disposals	-	(1,192)	(1,058)	(880)	(3,130)
At 31 March 2021	8,030	1,591	5,079	604	15,304
Acquisition through business combinations	-	223	69	15	307
Additions	177	733	3,939	970	5,819
Disposals	_	_	(1,270)	(14)	(1,284)
At 31 March 2022	8,207	2,547	7,817	1,575	20,146
Accumulated depreciation					
At 1 April 2020	-	2,202	3,657	1,253	7,112
Charge for the year	-	73	710	138	921
Eliminated on disposals	-	(1,105)	(1,031)	(880)	(3,016)
At 31 March 2021	_	1,170	3,336	511	5,017
Charge for the year	_	185	1,266	87	1,538
Eliminated on disposals	-	_	(1,262)	(14)	(1,276)
At 31 March 2022	-	1,355	3,340	584	5,279
Carrying amount					
At 31 March 2022	8,207	1,192	4,477	991	14,867
At 31 March 2021	8,030	421	1,743	93	10,287

Property under construction

During the year ended 31 March 2020, the Group acquired a site for development of Kainos' future Belfast headquarters at a purchase price of £7.4 million. Costs incurred since the purchase of the site of £0.8 million relate to legal and professional fees and demolition works.

No capital commitments relating to this site exist at 31 March 2022.

13. Subsidiaries

The subsidiary undertakings at 31 March 2022 are in the table below. All principally operate in their country of incorporation.

Subsidiary undertakings	Incorporated	Registered office	Principal activity	Proportion of ordinary share capital held
Kainos Software Limited	Northern Ireland	Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT	Software development	100%
Kainos Software Ireland Limited	Republic of Ireland	The Greenway, Ardilaun Court, Block C, Suite 408, 112-114 Saint Stephen's Green, Dublin 2	Software development	100%
Kainos Software Poland Spólka z.o.o	Poland	Tryton Business House, ul. Jana z Kolna 11, 80-864 Gdańsk	Software development	100%
Kainos Trustees Limited	Northern Ireland	Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT	Share Scheme Trustee	100%
Kainos Managers Limited	Northern Ireland	Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT	Property company	100%
Kainos Evolve Limited	Northern Ireland	Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT	Software development	100%
Kainos WorkSmart Limited	Northern Ireland	Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT	Software development	100%
Kainos WorkSmart Inc.	US	WeWork Tower Place, 3280 Peachtree Road, Atlanta, Georgia, 30305, USA	Software development	100%
Kainos Evolve Inc.	US	WeWork Terminus, 3280 Peachtree Road NE, Atlanta, Georgia, 30305, USA	Software development	100%
Kainos WorkSmart GmbH	Germany	The Squaire 12, Am Flughafen Hessen, Frankfurt 60549	Software development	100%
Kainos WorkSmart ApS	Denmark	Office no. 280110080 Harsdorffs Hus Office Club Kongens Nytorv 5 1050 Copenhagen	Software development	100%
Kainos Canada Inc.	Canada	20 Wellington Street East, Suite 500, Toronto, ON, M5E 1C5	Software development	100%
Kainos WorkSmart SAS	France	3-5 Rue Saint Georges TMF Pole 750008, Paris, France	Software development	100%
Kainos WorkSmart Oy	Finland	Salomonkatu 17 A 00100 Helsinki Finland	Software development	100%

Subsidiary undertakings	Incorporated	Registered office	Principal activity	Proportion of ordinary share capital held
Formulate Kainos Limited	England	2nd Floor, 21 Farringdon Road, London, EC1M 3HA	Software services	100%
Kainos Planning, LLC	US	355 S. Teller Street, Suite 200, Lakewood, Colorado, 80226, USA	Software services	100%
KW Software Oy	Finland	c/o TMF Finland Oy, Frottaiankatu 9 B 3, 00130, Helsinki	Software services	100%
Kainos AB	Sweden	Vasagatan 11 111 20 Stockholm, Sweden	Software services	100%
Kainos the Netherlands B.V.	Netherlands	Gustav, Mahlerplein 2, 1082MA, Amsterdam The Netherlands	Software services	100%
Kainos Belgium BV	Belgium	2060 Wommelgem Nijverheidsstraat 70, Belgium	Software services	100%
Kainos OÜ	Estonia	Harju maakond, Tallinn, Lasnamäe linnaosa, Valukoja tn 8/1, 11415 Estonia	Software services	100%
Kainos Worksmart S.R.L.	Romania	București Sectorul 4, Calea Văcărești, Nr. 391, Sun Office, intrarea A, birou 313, Campus Registration 11, Etaj 3, Romania	Software services	100%
Kainos AS	Norway	c/o Azets Insigt AS, Drammensveien, 151, 0277 Oslo	Software services	100%
Blackline Group, Inc.	US		Software services	100%
Kainos Argentina S.A.U.	Argentina	Av. del Libertador 498, 13th floor, 'South', Buenos Aires	Software services	100%
Kainos (Philippines) Inc.	Philippines	24/Floor Philam Life Tower, 8767 Paseo de Roxas Avenue, Brgy. Bel-Air, Makati City, NCR, Philippines 1226	Software services	100%

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

14. Right-of-use assets

1 April 2020 6,239 113 6,352 Additions 1,446 - 1,446 Disposals (195) - (195) Exchange adjustments (232) - (232) At 31 March 2021 7,258 113 7,371 Additions 1,025 - 1,025 Acquisitions through business combinations 358 - 358 Disposals (2,099) (26) (2,125) Exchange adjustments 13 - 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation - 1 - 1 1 April 2020 1,845 39 1,884 - <td< th=""><th>Cost</th><th>Property (£000s)</th><th>Other (£000s)</th><th>Total (£000s)</th></td<>	Cost	Property (£000s)	Other (£000s)	Total (£000s)
Disposals (195) - (195) Exchange adjustments (232) - (232) At 31 March 2021 7,258 113 7,371 Additions 1,025 - 1,025 Acquisitions through business combinations 358 - 358 Disposals (2,099) (26) (2,125) Exchange adjustments 13 - 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation - - 4,845 1 April 2020 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (142) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476	1 April 2020	6,239	113	6,352
Exchange adjustments (232) – (232) At 31 March 2021 7,258 113 7,371 Additions 1,025 – 1,025 Acquisitions through business combinations 358 – 358 Disposals (2,099) (26) (2,125) Exchange adjustments 13 – 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation – 4,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) – (114) Exchange adjustments (42) – (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments – – – – At 31 March 2022 3,420 56 3,476	Additions	1,446	-	1,446
At 31 March 2021 7,258 113 7,371 Additions 1,025 - 1,025 Acquisitions through business combinations 358 - 358 Disposals (2,099) (26) (2,125) Exchange adjustments 13 - 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Disposals	(195)	-	(195)
Additions 1,025 – 1,025 Acquisitions through business combinations 358 – 358 Disposals (2,099) (26) (2,125) Exchange adjustments 13 – 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation 1 April 2020 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) – (114) Exchange adjustments (42) – (42) Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments – – – – At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Exchange adjustments	(232)	_	(232)
Acquisitions through business combinations 358 - 358 Disposals (2,099) (26) (2,125) Exchange adjustments 13 - 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation - - 6,642 Accumulated depreciation - - 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount - - - - At 31 March 2022 3,135 31 3,166	At 31 March 2021	7,258	113	7,371
Disposals (2,099) (26) (2,125) Exchange adjustments 13 - 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation 1 April 2020 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Additions	1,025	_	1,025
Exchange adjustments 13 - 13 At 31 March 2022 6,555 87 6,642 Accumulated depreciation	Acquisitions through business combinations	358	-	358
At 31 March 2022 6,555 87 6,642 Accumulated depreciation 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Disposals	(2,099)	(26)	(2,125)
Accumulated depreciation 1 April 2020	Exchange adjustments	13	-	13
1 April 2020 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	At 31 March 2022	6,555	87	6,642
1 April 2020 1,845 39 1,884 Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166				
Charge for the year 1,758 28 1,786 Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Accumulated depreciation			
Elimination on disposal (114) - (114) Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	1 April 2020	1,845	39	1,884
Exchange adjustments (42) - (42) At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Charge for the year	1,758	28	1,786
At 31 March 2021 3,447 67 3,514 Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Elimination on disposal	(114)	-	(114)
Charge for the year 1,639 15 1,654 Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Exchange adjustments	(42)	-	(42)
Elimination on disposal (1,666) (26) (1,692) Exchange adjustments - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	At 31 March 2021	3,447	67	3,514
Exchange adjustments - - - - At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Charge for the year	1,639	15	1,654
At 31 March 2022 3,420 56 3,476 Carrying amount At 31 March 2022 3,135 31 3,166	Elimination on disposal	(1,666)	(26)	(1,692)
Carrying amount At 31 March 2022 3,135 31 3,166	Exchange adjustments	-	-	_
At 31 March 2022 3,135 31 3,166	At 31 March 2022	3,420	56	3,476
At 31 March 2022 3,135 31 3,166				
	Carrying amount			
At 31 March 2021 3,811 46 3,857	At 31 March 2022	3,135	31	3,166
	At 31 March 2021	3,811	46	3,857

The Group leases several assets including buildings and vehicles. The average lease term is 4.2 years (2021: 2.6 years) with an option to renew the lease after the end of lease term. The Group is not committed to any leases that have not already commenced as at 31 March 2022. The maturity analysis of lease liabilities is presented in note 18.

Amounts recognised in profit or loss:

	2022 (£000s)	2021 (£000s)
Depreciation expense on right-of use assets	1,654	1,786
Interest expense on lease liabilities	66	77
Expense relating to short-term and low value leases	877	775
Amounts recognised in statement of cash flows:	2022 (£000s)	2021 (£000s)
Total cash outflow for leases	2,352	2,615

At 31 March 2022, the Group is committed to £0.5 million (2021: £0.2 million) for short-term leases.

15. Trade and other receivables

	2022 (£000s)	2021 (£000s)
Trade receivables	35,228	33,739
Other receivables	3,130	2,870
	38,358	36,609
Prepayments	4,377	2,777
Accrued income	39,462	18,354
	82,197	57,740

The Group's accrued income (contract asset) balance solely relates to revenue from contracts with customers. Movements in the accrued income balance were driven by transactions entered into by the Group within the normal course of business in the year.

Trade receivables and accrued income are shown net of a loss allowance for impairment. Further information is disclosed in note 24.

16. Deferred tax

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

	Accelerated capital allowances (£000s)	Share-based payment (£000s)	Tax losses (£000s)	Short-term Temporary Differences (£000s)	Deferred tax on acquisitions (£000s)	Total (£000s)
At 1 April 2020	(56)	667	303	722	(77)	1,559
Foreign exchange	-	-	_	(152)	-	(152)
Adjustment for prior years	(14)	-	(289)	300	(66)	(69)
Debit to retained earnings	-	1,803	_	-	-	1,803
(Debit)/credit to profit	(77)	(256)	_	1,345	(133)	879
At 31 March 2021	(147)	2,214	14	2,215	(276)	4,020
Foreign exchange	-	-	_	52	_	52
Arising on acquisition	_	-	_	_	(135)	(135)
Adjustment for prior years	6	-	(9)	(705)	71	(637)
Rate change	(46)	(96)	1	216	_	75
Rate change (OCI)	_	603	_	_	_	603
Debit to retained earnings	_	(883)	_	_	_	(883)
(Debit)/credit to profit	(177)	90	(6)	1,143	137	1,187
At 31 March 2022	(364)	1,928	_	2,921	(203)	4,282

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):

	2022	2021
	(£000s)	(£000s)
Deferred tax asset	4,282	4,020
	4,282	4,020

Deferred tax assets have been recognised in respect of all temporary differences giving rise to deferred tax assets where the Directors believe it is probable that these assets will be recovered.

17. Cash and cash equivalents and treasury deposits

	2022 (£000s)	2021 (£000s)
Cash at bank and in hand	61,385	54,843
Short-term deposits	15,224	8,053
Cash and cash equivalents	76,609	62,896
Treasury deposits	_	18,028
Total cash and cash equivalents and treasury deposits	76,609	80,924

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

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

18. Lease liabilities

	2022 (£000s)	2021 (£000s)
Less than one year	1,141	1,344
One to five years	2,329	2,412
	3,470	3,756
Less: unearned interest	(109)	(113)
	3,361	3,643
Analysed as:		
Non-current	2,268	2,394
Current	1,093	1,249

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

Reconciliation of movement of liabilities to cash flows arising from financing activities

	2022	2021
	(£000s)	(£000s)
1 April	3,643	4,085
New leases	1,025	1,446
Acquisition through business combinations	358	_
Cash flow on principal	(1,409)	(1,763)
Cash flow on interest	(66)	(78)
Non-cash movement	(190)	(47)
31 March	3,361	3,643

19. Trade and other payables

	2022 (£000s)	2021 (£000s)
Trade payables and accruals	49,199	35,976
Deferred income	30,966	21,985
Current tax liabilities	1,959	2,863
Other tax and social security	11,917	10,652
	94,041	71,476

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

The deferred income can arise in respect of support contracts billed quarterly or annually in advance and SaaS agreements which are billed annually in advance, with revenue being recognised for both over the contracted period. The period end deferred income balance will be recognised within 12 months.

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

20. Provisions

Other provisions are analysed as follows:

	2022 (£000s)	2021 (£000s)
Property-related provision	1,391	1,299
Onerous contract provision	739	436
	2,130	1,735
	2022 (£000s)	2021 (£000s)
Current	872	436
Non-current Non-current	1,258	1,299
	2,130	1,735
Property- related (£000s	contract	Total (£000s)
At 1 April 2021 1,299	436	1,735
Additional provision in the year 160	671	831
Utilisation of provision (68) (368)	(436)
At 31 March 2022 1,391	739	2,130

Property-related provision

The property-related provision represents management's best estimate of the Group's liability for future contractual repair works at the end of the lease period recognised at the commencement of the lease. The relevant properties have lease end dates ranging from August 2022 to September 2026.

Onerous contract provision

Regular review of all customer contracts identified three loss-making contracts. Management has determined that the combined remaining cost of completing these contracts exceeds expected revenue resulting in an expected total loss of £0.7 million. The total loss has been provided for in 'other provisions' in accordance with IAS37. £0.7 million of this loss is expected to be incurred in the period to 31 March 2023. The Directors are satisfied with this approach and have assessed that the total provision is reasonable.

21. Share capital and reserves

Share capital

	2022 (£000s)	2021 (£000s)
ISSUED AND FULLY PAID:		
Ordinary shares		
Opening balance	614	610
Issued during the year	5	4
Total share capital	619	614

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. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

At 31 March 2022, the Company has 124,078,432 issued ordinary shares (2021: 122,785,147) with a nominal value of £0.005 each.

During the year the Group issued 1,092,341 shares due to the exercise of vested options and the award of shares under the UK SIP and ROI Restricted share schemes. The exercise price of options exercised during the year ranged from £0.005 per share to £4.03 per share.

The Group issued 64,767 ordinary shares as purchase consideration on the acquisition of Une Consulting SRL which occurred on 1 September 2021 (note 26) and 136,177 ordinary shares in respect of post-acquisition remuneration.

Nature and purpose of reserves

Share-based payment reserve

The share option reserve comprises the charge for share options and equity-settled compensation for postcombination services.

Capital reserve account

The capital reserve arises from the capital reorganisation which occurred in 2015, together with the fair value of consideration given in excess of the nominal value of the ordinary shares issued on the acquisition of subsidiaries (interest of at least 90%) on share for share exchange, in accordance with requirements of Section 612 of the Companies Act 2006.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

22. Share-based payments

Share-based payments

The Group has the following equity-settled share-based payment arrangements:

Kainos Group Performance Share Plan (PSP)

Share options are granted to employees as determined by the Remuneration Committee and will only vest in accordance with the performance conditions established by the Committee. The options cannot generally be exercised within three years and have a maximum life of 10 years. The options will be settled by the issue of new shares and there are no cash settlement alternatives. Options ordinarily are forfeited if the employee leaves the Group before the options vest.

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

Company Share Option Plan (CSOP)

Share options are granted to employees as determined by the Remuneration Committee. The CSOP is a sub-plan of the PSP and permits the Company to grant CSOP options which have tax advantages pursuant to the provisions of Schedule 4 to the Income Tax (Earnings & Pensions) Act 2003 ('Schedule 4'). The options cannot be ordinarily exercised within three years and have a maximum life of 10 years. Exercise of the options will be settled by the issue of shares and there are no cash alternatives. Options ordinarily are forfeited if the employee leaves the Group before the options vest.

Save as you Earn (SAYE) Scheme

The Group has an all-employee share plan open to UK employees. Employees who participate enter into a savings contract under which they agree to save between £5 and £100 per month (or such limit as may be permitted by the tax legislation governing SAYE schemes from time to time) for three years. Options cannot be ordinarily exercised within three years and must be exercised within six months of the end of the three-year period. Options ordinarily are forfeited if the employee leaves the Group before the options vest. There are no cash settlement alternatives.

Republic of Ireland Share Option Scheme

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

UK Share Incentive Plan (SIP)

The Group has established a Share Incentive Plan for UK employees. Under this scheme all eligible employees are awarded a number of shares determined by length of service of each employee at a specified date for each respective grant. The shares are held in trust for each employee by Equiniti Share Plan Trustees Limited, which also administers the scheme. A minimum period of three years is imposed before the employee can withdraw. There are no cash settlement alternatives.

Republic of Ireland Restricted Share Scheme

The Group introduced a Restricted Share Scheme for all eligible employees of Kainos Software Ireland Limited. Under this scheme all eligible employees were awarded a number of shares determined by length of service of each employee. A minimum period of five years and one week is imposed before the employee can withdraw any free shares. The shares are held in trust for the employees until they vest. There are no cash settlement alternatives.

Kainos Group plc Poland Share Plans

In order to replicate the share-based awards available to staff in the UK and Ireland, the Group implemented the Kainos Group plc Poland Share Plan. The Remuneration Committee may grant Share Options or Conditional Share Awards (CSA) to employees of the Group's Polish subsidiary. Share options will not generally be exercisable within three years and have a maximum life of 3.5 years. Conditional Share Awards may be granted for free or at a purchase price determined by the Committee. Conditional Share Awards will generally be subject to a minimum three-year vesting period. All options and awards will be satisfied out of newly issued shares and there are no cash settlement alternatives. Options and awards ordinarily are forfeited if the employee leaves the Group before vesting occurs.

Fair values and awards outstanding

The fair value of shares awarded under the UK SIP scheme and the Republic of Ireland Restricted Share scheme is calculated using the average middle market closing share price for the five days prior to award date. The total charge is adjusted for attrition and recognised on a straight-line basis over the three-year vesting period.

For share awards under the PSP, SAYE, CSOP, Republic of Ireland (ROI) and Poland share option schemes, the fair value has been measured using the Black-Scholes model. During the year options were granted on 29 June 2021 and 10 December 2021 (2021: 30 June 2020, 3 July 2020 and 3 December 2020) under the PSP, CSOP and Poland CSA schemes. The aggregate of the estimated fair values of the options granted on those dates is £5.7 million (2021: £3.2 million). The following table lists the key inputs to the model used in the year of grant. Expected volatility was determined by calculating the historical volatility of the Group's share price over an appropriate period to the period assessed at grant date.

	Granted during year to 31 March	Granted during year to 31 March
PSP	2022	2021
Weighted-average exercise price	£0.01	£0.01
Fair value at grant date	£8.79-£13.96	£4.23-£6.81
Share price at grant	£14.66	£7.54
Expected volatility	47%	47%
Expected life (years)	4.0	3.5
Risk-free interest rate	0.4%	0.0%
Expected dividends per annum	1.1%	2.0%
CSOP	Granted during year to 31 March 2022	Granted during year to 31 March 2021
Weighted-average exercise price	£14.66	£7.54
Fair value	£3.11	£2.26
Share price at grant	£14.66	£7.35
Expected volatility	47%	47%
Expected life (years)	4.0	4
Risk-free interest rate	0.4%	0.0%
Expected dividends per annum	1.1%	2.0%
UK SAYE	Granted during year to 31 March 2022	Granted during year to 31 March 2021
Weighted-average exercise price	-	£6.20
Fair value	-	£2.61
Share price at grant	-	£7.54
Expected volatility	-	47%
Expected life (years)	-	3.25
Risk-free interest rate	-	0.0%
Expected dividends per annum	_	2.0%

ROI share options					Granted during year o 31 March 2022	Granted during year to 31 March 2021
Weighted-average exercise price					_	£6.20
Fair value					-	£2.61
Share price at grant					-	£7.54
Expected volatility					-	47%
Expected life (years)					-	3.25
Risk-free interest rate					-	0.0%
Expected dividends per annum					-	2.0%
Poland share options					Granted during year o 31 March 2022	Granted during year to 31 March 2021
Weighted-average exercise price					_	£6.20
Fair value					_	£2.61
Share price at grant					_	£7.54
Expected volatility					-	47%
Expected life (years)					_	3.25
Risk-free interest rate					_	0.0%
Expected dividends per annum					_	2.0%
Poland CSA					Granted during year o 31 March 2022	Granted during year to 31 March 2021
Weighted-average exercise price					£0.01	£0.01
Fair value					£17.36	£11.79
Share price at grant					£18.09	£12.08
Expected volatility					48%	47%
Expected life (years)					3.5	3.5
Risk-free interest rate					0.5%	0%
Expected dividends per annum					1.1%	1.2%
Reconciliation of outstanding share opti	ons and shar	e awards				
No. of share options 2021/2022	PSP (000s)	CSOP (000s)	UK SAYE (000s)	ROI (000s)	Poland (000s)	Total (000s)
Outstanding at 31 March 2021	645	421	822	28	539	2,455
Granted during period	89	28	_	_	42	159
Exercised during the period	(124)	(135)	(413)	(17)	(237)	(926)
Forfeited during the period	(11)	(30)	(59)	(1)	(37)	(138)
Outstanding at 31 March 2022	599	284	350	10	307	1,550
Exercisable at the end of the year	236	170	_	-	_	406

Weighted average exercise price 2021/2022	PSP £	CSOP £	UK SAYE £	ROI £	Poland £
Outstanding at 31 March 2021	0.005	3.26	4.72	4.40	2.74
Granted during period	0.005	14.66	-	-	0.005
Exercised during the period	0.005	1.87	3.36	3.36	2.52
Forfeited during the period	0.005	6.11	5.59	6.20	2.56
Outstanding at 31 March 2022	0.005	4.76	6.20	6.20	2.56
Exercisable at the end of the year	0.005	2.16	_	_	_

Number of share options 2020/2021	PSP (000s)	CSOP (000s)	UK SAYE (000s)	ROI (000s)	Poland (000s)	Total (000s)
Outstanding at 31 March 2020	627	519	455	18	451	2,070
Granted during period	132	57	403	12	229	833
Exercised during the period	(107)	(150)	(2)	_	(86)	(345)
Forfeited during the period	(7)	(5)	(34)	(2)	(55)	(103)
Outstanding at 31 March 2021	645	421	822	28	539	2,455
Exercisable at the end of the year	216	255	-	-	6	477
Weighted average exercise price	£0.005	£1.79	£3.36	_	£3.36	_

The weighted average share price at the date of exercise of share options exercised during the year was £17.43 (2021: £9.77).

The options outstanding at 31 March had an exercise price in the range of £0.005 to £14.66 (2021: £0.005 to £7.34) and a weighted-average contractual life of 4.48 years (2021: 3.99 years).

Restricted shares	UK SIP (000s)	ROI (000s)	Total (000s)
Outstanding at 31 March 2021	1,398	32	1,430
Granted during period	212	3	215
Released during the period	(62)	(9)	(71)
Forfeited during the period	(131)	(1)	(132)
Outstanding at 31 March 2022	1,417	25	1,442
Restricted shares	UK SIP (000s)	ROI (000s)	Total (000s)
Outstanding at 31 March 2020	1,463	62	1,525
Granted during period	297	5	302
Released during the period	(315)	(33)	(348)
Forfeited during the period	(47)	(2)	(49)
Outstanding at 31 March 2021	1,398	32	1,430

Cash-settled share-based payment arrangements

The fair value of the amount payable to employees in respect of share options, which are settled in cash, is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. Based on share price information the liability is remeasured at each reporting date and at settlement date. At 31 March 2022 the liability recognised was £1.9 million (2021: £2.1 million).

Expense recognised in the profit or loss

The Group recognised a total expense of £6.7 million related to share-based payment transactions during the year (2021: £5.3 million). Of this amount £6.1 million (2021: £3.5 million) has been recognised as an employee benefit expense in the share-based payment reserve. The remaining charge relates to cash-settled share-based payment arrangements and national insurance contributions associated with share-based payment arrangements.

Compensation for post-combination services

Of the total expense recognised above, £3.0 million (2021: £0.8 million) relates to compensation for postcombination remuneration. In connection with the Group's acquisitions there are contingent consideration arrangements in place, which are subject to future service conditions being met and are settled through the allotment of shares. This equity-settled share-based payment expense is recognised over the service periods based on the grant date fair value.

23. Pensions

The Group operates three defined contribution retirement benefit schemes. The assets of the schemes are held separately from those of the Group in independently administered funds under the control of trustees. The total cost charged to the income statement of £6.0 million (2021: £4.5 million) represents contributions payable to these funds by the Group at rates specified in the rules of the schemes. As at 31 March 2022, contributions of £0.1 million (2021: £0.1 million) were payable to the funds and are included in trade creditors and accruals (note 19).

24. Financial instruments

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities. The carrying amount of all financial assets and liabilities not measured at fair value are considered to be a reasonable approximation of fair value.

	FVPL (2000)	Financial assets at amortised cost	Other financial liabilities	Total	Fair value	
31 March 2022 Financial assets measured at fair value:	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	Level
Investments in equity instruments	1,343	_	_	1,343	1,343	3
				_,,,,,		
Financial assets not measured at fair value:						
Trade and other receivables	_	38,358	_	38,358	_	-
Cash and cash equivalents	_	76,609	_	76,609	_	_
Financial liabilities measured at fair value:						
Cash-settled share-based payments	1,947	-	-	1,947	1,947	1
Financial liabilities not measured at fair value:						
Trade payables	_	-	3,803	3,803	-	-
Other tax and social security	_	-	11,917	11,917	-	_
	FVPL	Financial assets at amortised cost	Other financial liabilities	Total	Fair value	
31 March 2021	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	Level
Financial assets measured at fair value:						
Investments in equity instruments	1,225		_	1,225	1,225	3
Financial assets not measured at fair value:						
Trade and other receivables	_	36,609	_	36,609	-	-
Cash and cash equivalents	_	62,896	-	62,896	-	-
Treasury deposits	_	18,028	_	18,028	_	_
Financial liabilities measured at fair value:						
Cash-settled share-based payments	2,086	-	-	2,086	2,086	1
Financial liabilities not measured at fair value:						
Trade payables	_	-	2,375	2,375	-	-
Other tax and social security	_	_	10,652	10,652	-	_

Measurement of level 3 fair values

Investment in equity instruments

The Group continues to hold an investment in equity instruments in an unlisted company. The fair value of the investment is considered to be consistent with initial cost as there has been no material change in the underlying business and its environment since initial investment.

Financial risk management objectives

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

The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, credit risk, the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the CFO and the Finance function on a continuous basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. There are no financial derivatives held at year end (2021: nil).

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

Market risk

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

Foreign currency risk management

The Group considers currency risk to relate to the sales and purchases made by Group subsidiaries in a currency other than their functional currency, resulting in foreign currency trade receivables and trade payables balances. The table below details this exposure:

	Liabilities		Assets	
	2022 (£000s)	2021 (£000s)	2022 (£000s)	2021 (£000s)
Polish Złoty	2,577	1,933	3,126	1,840
Euro	184	3,176	2,210	5,657
US Dollar	706	5,510	3,752	4,728
Canadian Dollar	517	116	_	480
Danish Krone	_	38	170	517
Swedish Krona	204	19	76	_

Foreign currency sensitivity analysis

The following exchanges rates were applied at the reporting date.

	2022	2021
Polish Złoty	5.481	5.461
Euro	1.179	1.172
US Dollar	1.314	1.374
Canadian Dollar	1.642	1.734
Danish Krone	8.773	8.719
Swedish Krona	12.184	12.002

The following table details the Group's sensitivity to a 1% increase in sterling units (GBP) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the year-end for a 1% change in foreign currency rates. A positive number below indicates an increase in profit and other equity where sterling strengthens 1% against the relevant currency. For a 1% weakening of sterling against the relevant currency, there would be a comparable impact on the profit and other equity and the balances below would be opposite:

	Euro ir	mpact	PLN impact		USD impact	
	2022	2021	2022	2021	2022	2021
	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)	(£000s)
1% increase in strength of GBP	(20)	25	(5)	(1)	(30)	(8)

Forward foreign exchange contracts

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

There were no forward contracts entered into during the year and subsequently there are no outstanding forward contracts at 31 March 2022 (2021: nil).

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

Interest rate risk management

The Group has no borrowings and therefore the exposure to interest rate risk is limited to the rates received as interest income on cash deposits. Bank deposit interest income amounted to £0.1 million during the year ended 31 March 2022 (2021: £0.1 million). Due to the limited exposure to interest rate risk no sensitivity analysis has been performed.

Credit risk management

Trade receivables and accrued income

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from default. The concentration of credit risk is limited due to the customer base consisting largely of public sector bodies, state agencies and blue-chip corporates. The Group uses publicly available financial information and its own trading records to rate its major customers.

The typical credit period extended to customers is 30 days. Generally, no interest is charged on outstanding trade receivables. The maximum exposure on trade receivables and accrued income, as at the reporting date, is their carrying value.

Credit approvals and other monitoring procedures are also in place to ensure that follow-up action is taken to recover overdue debts on an ongoing basis. Furthermore, the Group reviews the recoverable amount of each trade debt and accrued income balance on an individual basis at the end of the reporting period to ensure that an adequate loss allowance is made for irrecoverable amounts.

Expected credit losses are measured using a provisioning matrix based on the Group's historical experience and informed credit assessment, and adjusted, when required, to take into account current macro-economic factors. The provision matrix is calculated separately for exposures based on the industry in which the customer operates. For certain significant customers the Group applies credit judgement that is determined to be predictive of the risk of expected credit loss, taking into account external ratings, financial statements and other available information before applying a provision matrix to the residual population.

Accrued income relates to contractual revenue recognised not yet invoiced and is assessed for recoverability at the reporting date. At 31 March 2022, accrued income of £39.5 million (2021: £18.4 million).

The following table provides information about the exposure to credit risk and ECLs.

31 March 2022	Expected loss rate (%)	Gross carrying amount (£000s)	Loss allowance (£000s)
Accrued income	<1	39,614	152
Not past due	2	22,979	562
Past due 0-30 days	4	9,765	368
Past due 31-60 days	11	1,608	169
Past due 61-90 days	5	1,444	76
Past due 90 days -179 days	28	847	240
Past due 179 days +	100	468	468
Balance at 31 March 2022	3	76,725	2,035

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

The movement in the allowance for impairment during the year was as follows:

	2022 (£000s)	2021 (£000s)
Balance at the beginning of the period	1,551	1,840
Remeasurement of loss allowance	1,669	269
Amounts written off	(122)	_
Amounts recovered during the year	(1,063)	(558)
Balance at the end of the period	2,035	1,551

Trade receivable and accrued income concentration risk

The Group has evaluated the concentration of risk with respect to its trade receivables and accrued income balance and considers it to be low. No single customer represents more than 10% of either the trade receivables or accrued income balances at 31 March 2022 (2021: no single customer represented more than 10% of the trade receivables balance, two customers represented 11% of the accrued income balance).

The table below presents the combined trade receivables and accrued income balances by geographic region at 31 March:

	2022	2021
	(£000s)	(£000s)
United Kingdom & Ireland	47,941	39,299
North America	18,064	8,861
Central Europe	8,225	3,812
Rest of world	460	121
	74,690	52,093

Cash and cash equivalents

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies. As at 31 March 2022, all of the Group's funds were held in counterparty banks with ratings of 'A' and above (as assessed by Fitch or Moody's).

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

The ECL in respect of cash and cash equivalents is deemed not to be material.

Liquidity risk management

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

Cash and cash equivalents comprise cash and short-term bank deposits. The interest rates obtained on the Group's bank deposits during the year attracted interest at below 1.0% per annum. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated statement of financial position.

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

The Group has a strong period end cash and treasury deposit balance of £76.6 million (2021: £80.9 million) and no borrowings. The Group does not anticipate requiring additional credit facilities to manage liquidity.

Note 18 details the contractual maturity analysis for lease liabilities. There is no difference between the carrying value of trade creditors and accruals and the contractual cash flows in relation to these amounts. The financial liabilities of the Group, with the exception of lease liabilities (note 18), will be settled within 12 months of the financial year end.

Capital risk management

The Group manages its capital to ensure that all Group entities will be able to continue as going concerns while maximising the return to shareholders. The Group's overall strategy remained unchanged throughout the period 1 April 2021 to 31 March 2022. 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.

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.

Remuneration of key management personnel

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

	2022 (£000s)	2021 (£000s)
Short-term employee benefits (emoluments)	1,432	1,435
Post-employment benefits (pension contributions)	12	18
Gains on exercise of share options	656	_
Share-based payments charge	153	162
	2,253	1,615

Pension

One Director is a member of the Group's defined contribution pension schemes (2021: one). Two directors receive additional salary in lieu of pension contributions.

Share options

Two Directors exercised options over shares in the Group (2021: none).

Highest paid director

Remuneration of the highest paid director was £0.4 million (2021: £0.4 million), including pension contributions of £nil (2021: £nil). The highest paid director exercised no share options in the year (2021: nil).

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

Aggregate Executive Directors' remuneration

	2022 (£000s)	2021 (£000s)
Short-term employee benefits (emoluments)	1,094	1,135
Post-employment benefits (pension contributions)	12	18
Gains on exercise of share options	656	_
Share-based payments charge	153	162
	1,915	1,315

26. Acquisitions

Cloudator

On 1 June 2021, Kainos acquired the entire share capital of Cloudator OY and its five subsidiaries. Founded in 2011 in Helsinki, Finland, Cloudator offers services for the full suite of Workday enterprise cloud applications, including Workday Financial Management, Workday Human Capital Management and Workday Adaptive Planning.

Cloudator is one of the most experienced Workday Services Partners in the Nordics with projects spanning the globe. The acquisition of Cloudator's Workday division further increases Kainos' Workday presence in Europe.

From 1 June 2021, Cloudator has contributed revenue of £3.9 million and a profit of £0.7 million. If the acquisition had incurred on 1 April 2021, management estimates that revenue for the 12 months ended 31 March 2022 would have been £4.6 million and £0.9 million profit would have been recognised for this period.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition date. The purchase price adjustment with respect to the final working capital statement is provisional pending finalisation but is not expected to change significantly. The fair value assessment for other balances is complete.

	Fair value (£000s)
Right-of-use asset	358
Trade and other receivables	778
Accrued income	201
Cash and cash equivalents	1,551
Trade and other payables	(2,572)
Lease liabilities	(358)
Deferred tax liabilities	(135)
Deferred revenue	(191)
Intangible assets	675
Fair value of identifiable net liabilities	307
Goodwill	8,351
Total consideration	8,658
Satisfied by:	(£000s)
Cash	8,782
Purchase price adjustment	(124)
Total consideration	8,658

The purchase price is subject to finalisation of a net working capital adjustment and remains unsettled at year end.

Net cash outflow	7,231
Less cash and equivalents acquired	(1,551)
Cash consideration	8,782
	(£000s)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Goodwill

Goodwill has arisen on the acquisition and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets and is pending finalisation of the fair value of the assets acquired and liabilities assumed at the acquisition date. The goodwill reflects the skilled and assembled workforce of the acquired entity and the anticipated profitability and synergistic benefits arising from the combination. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition-related costs

The Group incurred acquisition-related costs of £0.5 million on legal and due diligence costs. These costs have been included in operating expenses.

Une Consulting

On 1 September 2021, the Group acquired 100% of the share capital of Argentina-based Une Consulting SRL and the trade and assets of Une Consulting LLC ('Une'). Une has an experienced team of consultants who are working across multiple international projects in the Americas, as well as Europe and Asia. The acquisition adds to Kainos' growing presence in North and South America, whilst enhancing the Group's ability to bring value to its customers.

From 1 September 2021, Une has contributed revenue of £1.6 million and £0.8 million profit for the period. If the acquisition had incurred on 1 April 2021, management estimates that revenue for the 12 months ended 31 March 2022 would have been £2.8 million and profit for that period would have been £1.3 million.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition date

	Fair value (£000s)
Property, plant and equipment	275
Cash and cash equivalents	76
Trade and other receivables	159
Trade and other payables	(128)
Fair value of net identifiable assets	382
Goodwill	1,916
Total consideration	2,298
Satisfied by:	(£000s)
Cash	1,012
Shares issued (64,767 ordinary shares)	1,286
Total consideration	2,298
	(£000s)
Cash consideration	1,012
Less cash and equivalents acquired	(76)
Net cash outflow	936

Shares issued

The fair value of ordinary shares issued was based on the listed share price on 1 September 2021, the effective date of control (£19.86 per share).

Goodwill

Goodwill has arisen on the acquisition and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets and is pending finalisation of the fair value of the assets acquired and liabilities assumed at the acquisition date. The goodwill reflects the skilled and assembled workforce of the acquired entity and the anticipated profitability and synergistic benefits arising from the combination. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition-related costs

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

Blackline Group Inc.

On 1 January 2022, the Group acquired 100% of the share capital of United States-based Blackline Group. Established in 2009 and headquartered in Washington state, Blackline Group is a speciality services firm that focuses on procurement and is an experienced advisory partner for Workday Strategic Sourcing (formerly Scout RFP). The acquisition of Blackline Group further strengthens Kainos' capabilities in the Workday, Inc.'s ecosystem and will allow Kainos to offer best-in-class Workday Strategic Sourcing advisory services to its customers, complementing its already deep expertise across Workday Financial Management, Workday Human Capital Management and Workday Adaptive Planning. The acquisition will further enhance Kainos' Workday presence in North America and Europe by adding over 50 spend management and procurement consultants from Blackline Group who will support the expansion of Kainos' Workday capabilities, client base, and expertise.

From 1 January 2022, Blackline Group has contributed revenue of £2.2 million and £0.4 million profit for the period. If the acquisition had incurred on 1 April 2021, management estimates that revenue for the 12 months ended 31 March 2022 would have been £8.7 million and profit for that period would have been £1.7 million.

The following table summarises the recognised amounts of assets and liabilities assumed at the acquisition date. The purchase price adjustment with respect to the final working capital statement is provisional pending finalisation but is not expected to change significantly. The fair value assessment for other balances is complete.

	Fair value (£000s)
Property, plant and equipment	32
Cash and cash equivalents	328
Trade and other receivables	226
Deferred income	(239)
Trade and other payables	(405)
Intangible assets	3,719
Fair value of net identifiable assets	3,661
Goodwill	5,366
Total consideration	9,027
Satisfied by:	(£000£)
Cash	8,929
Purchase price adjustment	98
Total consideration	9,027
The purchase price adjustment remains outstanding at year end.	
	(£000s)
Cash consideration	8,929
Less cash and equivalents acquired	(328)
Net cash outflow	8,601

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Goodwill

Goodwill has arisen on the acquisition and reflects the future economic benefits arising from assets that are not capable of being identified individually and recognised as separate assets and is pending finalisation of the fair value of the assets acquired and liabilities assumed at the acquisition date. The goodwill reflects the skilled and assembled workforce of the acquired entity and the anticipated profitability and synergistic benefits arising from the combination. None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition-related costs

The Group incurred acquisition-related costs of £0.3 million on legal and due diligence costs. These costs have been included in operating expenses.

Compensation for post-combination services

In respect of both current and prior period acquisitions of the Group, additional compensation for postcombination services of up to £8.6 million will be payable in future periods to January 2025, subject to future service conditions being met. Amounts relating to compensation for post-combination services are recognised as an expense over the service period. During the year, a charge of £5.5 million (2021: £1.8 million) has been recognised for compensation for post-combination services in operating expenses. Of this amount £3.0 million (2021: £0.8 million) relates to share-based payment arrangements and has been credited to equity.

Planalyse

On 9 February 2022, Kainos BV entered into a customer referral agreement with Planalyse BV ('Planalyse'), a Netherlands-based Workday Adaptive Planning partner. As part of the agreement, Planalyse referred all existing customers to Kainos BV, and the Group welcomed their six existing employees. Although not a material transaction in the context of these financial statements it is worthy of note given this transaction further strengthens Kainos' Workday Adaptive Planning delivery capabilities across Europe.

27. Subsequent events

There have been no significant events subsequent to year end that would require adjustment or disclosure in these consolidated financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2022

	Note	2022 (£000s)	2021 (£000s)
NON-CURRENT ASSETS			
Investments in subsidiaries	4	6,524	6,524
Receivables	5	10,251	9,108
		16,775	15,632
CURRENT ASSETS			
Receivables	5	8,321	4,672
Prepayments		398	232
Cash at bank and in hand		41,511	45,219
		50,230	50,123
Payables: Amounts falling due within one year	6	(1,319)	(1,233)
NET CURRENT ASSETS		48,911	48,890
TOTAL ASSETS LESS CURRENT LIABILITIES		65,686	64,522
NET ASSETS		65,686	64,522
CAPITAL AND RESERVES			
Share capital	7	619	614
Share premium account		6,433	5,737
Share-based payments reserve		15,171	9,083
Capital reserve		8,820	5,934
Profit and loss account		34,643	43,154
SHAREHOLDERS' FUNDS		65,686	64,522

As permitted by section 408 of the Companies Act 2006, the parent Company has elected not to present its own profit and loss account for the year. The parent Company reported a profit for the year of £18.8 million (2021: £36.0 million).

The financial statements of Kainos Group plc (registered number 09579188) were approved by the Board of Directors and authorised for issue on 20 May 2022. They were signed on its behalf by:

Richard McCann

Director 20 May 2022

COMPANY STATEMENT OF CHANGES IN EQUITY

		Share				
	Share capital (£000s)	premium account (£000s)	Share-based payments (£000s)	Capital reserve (£000s)	Retained earnings (£000s)	Total equity (£000s)
Balance at 31 March 2020	610	5,446	5,610	5,936	22,731	40,333
Profit and total		_	_	_	36,043	36,043
comprehensive income Issue of share capital - share options exercised	4	291	-	(2)	_	293
Equity settled share-based payments	-	-	3,473	-	_	3,473
Current tax for equity-settled share-based payments	-	-	-	-	(15)	(15)
Deferred tax for equity-settled share-based payments	-	-	-	-	421	421
Dividends paid	_	_	-	-	(16,026)	(16,026)
Balance at 31 March 2021	614	5,737	9,083	5,934	43,154	64,522
Profit and total comprehensive income	_	-	-	_	18,758	18,758
Issue of share capital - share options exercised	5	2,296	-	-	-	2,301
Equity settled share-based payments	-	-	6,088	-	-	6,088
Current tax for equity-settled share-based payments	-	-	-	-	34	34
Deferred tax for equity-settled share-based payments	-	-	-	-	116	116
Transfer between reserves ²²	_	(1,600)	_	1,600	_	_
Issue of shares as purchase consideration	-	-	-	1,286	_	1,286
Dividends	_	_	_	_	(27,419)	(27,419)
Balance at 31 March 2022	619	6,433	15,171 ²³	8,820	34,643	65,686

²² Premium on shares issued as consideration in FY20 reclassified from share premium account to capital reserve, in accordance with the requirements of the Companies Act 2006, S612.

²³ \pm 10.3 million relates to exercised or lapsed options and is considered distributable.

1. General information

Kainos Group plc ('the Company') is a public company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales (company registration number 09579188), having its registered office at 21 Farringdon Road, 2nd Floor, London EC1M 3HA.

2. Significant accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS101'). In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards ('Adopted IFRSs') but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS101 disclosure exemptions has been taken. The Company transitioned to UK-adopted international accounting standards for the financial statements on 1 April 2021. This change constitutes a change in accounting framework; however, there is no impact on recognition, measurement or disclosure.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- · Cash flow statement and related notes;
- Certain disclosures regarding revenue;
- Certain disclosures regarding leases;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements include the equivalent disclosures, the Company has also taken the exemptions under FRS101 available in respect of the following disclosures:

- IFRS2 Share-based payments in respect of Group settled share-based payments
- Certain disclosures required by IFRS13 Fair Value Measurement, and the disclosures required by IFRS7 Financial Instrument Disclosures.

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

Investments in financial assets

Investments in subsidiaries are stated at cost and, where appropriate, less allowances for impairment.

Share-based payments

Where the Company has granted rights to its equity instruments to employees of other Group companies, such arrangements are accounted for as equity-settled share-based payment arrangements. The share-based payment expense relating to employees of other Group companies is recharged to these companies.

Accounting judgements and key sources of estimation uncertainty

The Directors have identified no key sources of estimation uncertainty that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Furthermore, no individual judgements have been made that have a significant impact on the Company financial statements.

3. Profit for the year

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. The parent Company reported a profit for the year of £18.8 million (2021: £36.0 million).

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

The average monthly number of employees (including Executive Directors) was two, Dr Brendan Mooney and Richard McCann (2021: two).

	2022 (£000s)	2021 (£000s)
Wages and salaries	884	706
Social security costs	89	86
Other pension costs	33	23
Share-based payments	129	115
	1,135	930

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

Further information about share-based payments is provided in note 22 to the consolidated financial statements.

4. Investments in subsidiaries

	(£000s)
Cost and carrying amount	
At 31 March 2021 and 31 March 2022	6,524

Details of the Group's subsidiaries at 31 March 2022 are included in note 13 of the consolidated financial statements.

5. Receivables

	2022 (£000s)	2021 (£000s)
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR:		
Amounts owed from Group undertakings	9,433	8,415
Deferred tax assets	818	693
	10,251	9,108
AMOUNTS FALLING DUE WITHIN ONE YEAR:		
Amounts owed from Group undertakings	8,123	4,641
Current tax assets	36	-
Other receivables	162	31
	8,321	4,672

The deferred tax asset relates to share-based payments.

Amounts owed from other Group companies are unsecured and carry interest of between 3%-5% per annum charged on the average outstanding loan balances. Management has assessed that the estimated credit loss on such balances is insignificant and, on this basis, have not provided for an expected credit loss on this balance.

6. Payables: Amounts falling due within one year

	2022 (£000s)	2021 (£000s)
Trade creditors and accruals	1,261	1,141
Amounts owed to Group undertakings	21	21
Other tax and social security	37	37
Current tax liabilities	_	34
	1,319	1,233

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

7. Share capital

Information on share capital and movements during the year is included in note 21 of the consolidated financial statements.

8. Distributable reserves

The Company's distributable reserves as at 31 March 2022 total £44.9 million (2021: £52.2 million).

DEFINITION OF TERMS

Definition of terms

We use the following definitions for our key metrics:

Adjusted pre-tax profit: profit before tax excluding the effect of share-based payment expense, acquisition-related expenses including amortisation of acquired intangible assets and post-combination remuneration expense (relating to contingent deferred consideration subject to future service conditions).

Annual Recurring Revenue (ARR): the value at the end of the accounting period of the software and subscription recurring revenue annualised.

Backlog: the value of contracted revenue that has yet to be recognised.

Bookings: the total value of sales contracted during the period.

Carbon net zero: any CO₂ released into the atmosphere from a company's entire value chain is reduced as much as possible and the rest is removed.

Carbon neutral: any CO₂ released into the atmosphere from a company's entire value chain activities is balanced by an equivalent amount being removed.

Cash conversion: cash generated from operating activities as a percentage of adjusted EBITDA.

Adjusted EBITDA: calculated as being adjusted pre-tax profit excluding interest, tax, depreciation of property, plant and equipment and right-of-use assets, and amortisation of intangible assets.

Net revenue retention (NRR): is the percentage of recurring revenue from existing customers we retained over the year. This considers increases or reductions in customer spending and those customers where the engagement has ended; it does not include revenue from new customers. NRR therefore shows how our business could continue to grow solely from our current customer base alone, without acquiring any new ones.

Organic revenue: our revenues excluding revenue from acquisitions completed in the year.

Software as a service (SaaS): is a software distribution model that delivers application programs over the Internet, with users typically accessing the program through a web browser. Users pay an on-going subscription to use the software rather than purchasing it once and installing it.

Science based targets initiative (SBTi): partnership between Carbon Disclosure Project (CDP), the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF) created to encourage companies to design clearly defined emission reduction plans in line with the Paris agreement goals.

COMPANY INFORMATION

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