Kainos Software Limited
Annual Report and Financial Statements
for the year ended 31 March 2014
Contents

3 Officers and Professional Advisors
4 Note from the Chairman
5 Note from the Managing Director
6 Strategic Report
13 Directors’ Report
15 Directors’ Responsibilities Statement
16 Independent Auditor’s Report
18 Group Profit and Loss Account
19 Group Balance Sheet
20 Parent Company Balance Sheet
21 Group Cash Flow Statement
22 Group Reconciliation of Net Cash Flow to Movement in Net Funds
23 Notes to the Financial Statements
Officers And Professional Advisors

**Directors**
Dr. JG Lillywhite (Chairman)
Dr. B Mooney (Managing Director)
R McCann
P Gannon
Dr. FS Graham
JR Wright (resigned 24 October 2013)
AJM Taylor
JPJ O’Kane

**Secretary**
JE Hiles

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**Independent Auditor**
Deloitte LLP
Chartered Accountants and Registered Auditor
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United Kingdom

**Principal Bankers**
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**Solicitors**
Tughan & Co
Marlborough House
30 Victoria Street
Belfast
BT1 3GS
Note From The Chairman

In my introductory comments to last year’s Annual Report, I noted how Kainos had come of age, and expressed some optimism for the coming year. I am delighted to report that my optimism was well-founded: the company has completed another year of record growth. If 2012-13 was the year that Kainos finally came of age, it is fair to say that it is now delivering handsomely on its youthful promise!

In fact, Kainos has outperformed its own expectations: in the financial year ending 31 March 2014, revenue, profit before tax and headcount were once again at record levels. The company has acquired prestigious new customers in the public and private sector, and retained the loyalty of long-standing clients. The company’s employees – now numbering more than 550 – again nominated Kainos as one of the best companies to work for in the UK, improving on last year’s rating.

Looking ahead, Kainos is well positioned to deliver further profitable growth in its chosen markets. The pipeline of opportunity for the coming year is particularly strong in the UK public sector, and the company’s ambition to expand its geographic reach has been bolstered by the success of its Kainos Smart™ product in the US. Recruitment activity remains a priority, and there are plans for extending the company’s links with schools and universities to secure access to the most talented individuals.

Once again, I’m delighted with the company’s performance and I am pleased to repeat my strong gratitude to the management and staff for their efforts during 2013-14 and wish them every success for the coming year.

Sincerely,

Dr. John Lillywhite
Chairman
At the start of this financial year, I was well aware of the challenge of delivering a performance to match the outstanding results Kainos delivered in 2012-13. Looking back, I can only say: “what a year it’s been!”. Once again – this time by an even greater margin than last year – we have expanded our staff numbers significantly; raised our profile as a supplier and employer; and exceeded our targets on sales, revenue and profit. These results are due solely to the exceptional people in our company and their commitment to our firm and to our customers.

Encouraging as they are, the numbers are almost secondary to other achievements. Kainos is now recognised as a powerful, disruptive force in our industry, winning business against large global organisations. Through our products and solutions, we are now positively impacting the lives of millions of citizens. We are introducing radical improvements in NHS hospitals, for example by allowing clinicians to carry patient records on iPads using our Kainos Evolve® product. Our software will allow UK voters to register online for the first time, saving money for the taxpayer and streamlining the UK democratic process. Our engineers helped deploy and now support the databases and systems that allow drivers in the UK to view their driving records online.

Nor is Kainos activity limited to the UK: our solutions are used by organisations and individuals around the world. With our partner Cirdan Ultra, we share responsibility for rapid, secure and reliable provision of medical test results to 120 million patients globally. Our automated testing product Kainos Smart™ has rapidly gained acceptance from blue-chip firms in Europe and the US, with nine sales in less than a year. In 2013-14, Kainos extended the reach and scope of its activities to the extent that they are now visible to millions of people.

At the same time, we have continued to encourage hundreds of young people into the digital industry. Direct recruitment this year has created jobs for 35 graduates, five school leavers (through Kainos Earn as you Learn™ programme), eight apprentices and 111 experienced professionals. Indirectly, we continue to promote digital and IT education through our innovative and highly successful Kainos Digital Academy® programme, where we have this year launched a variety of voluntary and funded schemes.

The outlook for 2014-15 and beyond is positive. We expect continued growth across all our target sectors, driven by a very strong portfolio of products and services. Recruitment remains a priority, particularly in South West England and Wales, where we have now established a significant presence, and we will seek to underpin the quality and value of our staff by extending our formal training programmes.

Looking forward, it’s hard not to be excited and motivated by the progress to date and the opportunity ahead. As Kainos matures, we are confident of consolidating our role in industry and in society, and of providing rewarding and enjoyable careers for our excellent staff, to all of whom I express my gratitude.

Sincerely,

Dr. Brendan Mooney
Managing Director
Strategic Report
For the year ended 31 March 2014

The directors present their report and the audited group financial statements for the year ended 31 March 2014.

Principal activities
Kainos is a digital services company offering information technology expertise to clients in a range of markets, including government, financial services and healthcare. Kainos provides software design and development services, third party software implementation services, and technology support services, together with related ancillary services such as project management.

Kainos also offers an electronic medical record (EMR) product called Evolve. Kainos has a partnership agreement with Workday, a global ‘software as a service’ (SaaS) company, and has developed an automated testing product, Smart to complement the Workday offering.

Highlights
Group revenue growth of 45% to £43.0m (from £29.7m in 2012-13) and profit before tax increase of 131% to £8.0m (from £3.5m in 2012-13).

Almost doubled sales in a year to a record £69.3m, recording the largest ever sales deal (£12.3m at the Pennine Acute Hospitals NHS Trust).

Acquired 37 new customers, including DVSA, The Royal Bournemouth and Christchurch Hospitals NHS Foundation Trust, and easyJet, and maintained 100% retention of existing customers.

Recruited 139 new staff bringing total headcount to over 550 at year end. New office in Bristol and expanded offices in Belfast and Gdansk, where we recruited our 100th employee.

Improved position to 50th in the Sunday Times ‘Best Companies to Work For’ rankings (from 55th in 2012-13).

Nine new clients for the innovative Smart automated testing tool for Workday clients, including Autodesk, Diageo, Brown University, Maxim Integrated and Primark.

Deployed Workday as the firm’s system of record for human resources and performance management to support expansion and talent development.

Extended the company’s successful and popular Kainos AppCamp® training course to London, and instituted an inaugural programme for school leavers (Kainos CodeCamp™ 2013).

Hosted visits from prominent clients and public figures, including HRH the Duke of York, to showcase our talented workforce and our innovative culture.
Business Review and Future Developments

Performance
Revenues for the year ending 31 March 2014 grew by 45% to £43.0 million, up from £29.7 million in 2012-13. Pre-tax profits increased by 131% to £8.0 million (2012-13: £3.5 million), the highest ever recorded in the company’s history. Sales for 2013-14 amounted to £69.3 million (2012-13: £38.6 million), a total that included the company’s biggest ever order (£12.3 million) for the Pennine Acute Hospitals NHS Trust. Our services book-to-bill ratio at the end of 2013-14 was 1.27, and the pipeline of prospects continues to grow (sitting at £50.4 million at the end of the financial year).

Customers and Markets

Government Digital
The UK government is now well advanced with its programme of digitisation of public sector services, a task being led by the Government Digital Services (GDS) team in the Cabinet Office. Kainos has been part of the GDS story almost from the start, and has worked on 25 projects for eight departments/agencies. This year, our Government Digital business unit has extended its footprint in the public sector: we are now working with five central government departments on a range of diverse, ground-breaking initiatives, including four of the high-profile ‘Exemplar’ projects. Much of our work is now visible to the wider public: we completed the Individual Electoral Registration (IER) project for the Cabinet Office, which allows citizens to register to vote online, and are currently working with the Driver and Vehicle Services Agency (DVSA) to provide online booking of the practical driving test. We were particularly pleased in March to launch a public trial (beta service) of software that allows drivers to view their driving record – one of the most successful and high profile Exemplars to date, available to more than 40 million users. Essential to our success in government is our skill in using Agile development methodologies and open source technology. These skills have resulted in Kainos being cited by Cabinet Office as an outstanding partner and an example of how government policy can result in business growth for small to medium enterprises (SMEs).

Evolve
2013-14 was a remarkable year for our healthcare business. Continued investment in our Evolve EMR product meant that additional features became available to customers over the course of the year, including Evolve for iPad – which allows clinicians to access an electronic patient record on the move – and Evolve Analytics, which harnesses the power of the HP/Autonomy IDOL tool to provide meaningful insights to hospital and patient data. This helped
extend our footprint significantly: by the end of the year, over 120,000 Evolve licences were in active use in almost 70 hospitals in England and Wales. In Northern Ireland Evolve is being used to deliver care across the entire range of NHS services (acute, community, children, social care and mental health). We have raised our sights for 2014-15 and plan both to extend our footprint in the acute and community sectors in the NHS, and to establish a presence in healthcare outside the UK.

**Worksmart**
Kainos Worksmart, our renamed Workday product and services division, leads the Kainos charge into new sectors and territories. In 2013-14, from a standing start, our Smart automated testing tool is now being actively used by global corporations, including several household names. This remarkable achievement is complemented by the activities of the Worksmart consulting practice, which this year has conducted more than 14 successful engagements for its customers, including four assignments where Kainos acted as prime contractor. The roster of Worksmart clients bears testament to the excellence of the services provided – customers such as Autodesk, Diageo and Primark now rely on Kainos for Workday services and products. We’re also pleased to report that Kainos itself has become a Workday client: we deployed the solution for our own staff in a record 12 weeks. We continue to invest in Smart, releasing regular feature and performance updates, and we intend to consolidate our leadership position in the US by adding more marquee clients to our list.

**Enterprise**
Our new Enterprise business unit, formed by merging our Support and Financial Services divisions earlier this year, reflects our optimism around expanding opportunities we see across all industry sectors, and increasingly outside the UK. While much of the activity in Enterprise is buoyed by long-established, successful relationships with satisfied clients, we are seeing positive opportunities emerging from Kainos success in other areas. We were particularly pleased to win a long-term contract to support the DVLA’s Integrated Enquiry Platform project, one of the first ‘Exemplar’ projects to go live. This helps consolidate our positioning in UK central government, building on successful long-term relationships in the Home Office.
and with several local authorities. New initiatives have allowed us to reach outside the UK: this year we engaged with GE Healthcare in Canada on behalf of our client, Cirdan, to help acquire and support a global Laboratory Information Management System. Plans for the coming year will see further penetration of central government accounts, and firming up of partnerships with infrastructure and hosting suppliers to provide end-to-end support services to our customers.

**People**
The average number of employees at Kainos during 2013-14 was 503, up from 295 last year, and we finished the year with 550 employees. We expanded our offices in Gdansk and Belfast, and opened a new office in Bristol to support our accelerated recruitment programme in South West England and Wales. In November, we reached a significant milestone by recruiting Lisa Smyth as our 500th staff member in Belfast, and in January we welcomed Weronika Bajduszewska to Kainos as the 100th staff member in our Gdansk team. We were particularly pleased to achieve a top 50 position in the prestigious Sunday Times Best Companies to Work For programme, improving on our performance last year. Recruitment activities continue to take centre stage: in 2013-14 we recognised the need to industrialise our capability for finding and bringing new talent on board, and our investments in this area are paying dividends. We have complemented this with significant investment in training: this year we spent over £1 million and in excess of 5,000 days effort in training new and experienced staff. Our efforts to find new and innovative ways of attracting talent have been amply rewarded: we now have 13 apprentices, as well as five employees participating in our ‘Earn as you Learn’ scheme, and our highly praised AppCamp is now in its fourth successful year.

**Research and development**
Our R&D activities this year covered a range of new and emerging technologies, including mobile, cloud and open source platforms and applications. Our focus for investment continues to be in the area of Big Data/Analytics, where we are seeing our clients take more confident steps in the use of tools and platforms to exploit the corporate data asset more effectively, and our
intention is to conduct a small number of proof-of-concept exercises to quantify the value of this technology for our customers. Our reputation as an innovator in this area has been strengthened by our alliance with Cloudera, a fast-growing and successful Big Data vendor, and we will develop similar partnerships with others, particularly to boost our Analytics capabilities. We will also seek opportunities to deploy consumer technology innovations such as Vision Processing and Sensors where we believe they can differentiate and add value to our products and solutions.

**Corporate social responsibility**

Kainos can justly claim a unique position as mentor to generations of information technology specialists. Our ability to shape talent prompted the creation of our Digital Academy, a set of initiatives designed to encourage digital talent into the UK workforce. Under this umbrella, Kainos has run ‘hackathons’, coding camps, and innovative work placements for young people to get them excited about digital technology, and these activities have proved as rewarding for our staff as for the participants. This broad commitment to harnessing home-grown innovation continued this year through our AppCamp programmes in Belfast, London and Gdansk, along with HealthHacks in Belfast and Dublin. In June, in collaboration with the Belfast Metropolitan College, we launched our CodeCamp initiative for high-school students, designed to bridge the gap between school-taught ICT and real-life software development. CodeCamp participants learnt how software is designed, built and tested, and got an inside view of what it’s like to work as a software engineer. In total, over 200 students participated in these programmes, proving by their quality, energy and enthusiasm that there is a deep reservoir of talent in our schools. Partly as a result of the interest generated by CodeCamp, we have developed a programme to lead the re-introduction of Computer Science teaching in schools by running CodeShows – a day-long introduction to the world of software development – for 12 partner high schools in the UK.
Our direct economic impact on the local community now extends to Bristol and Swansea, where this year we created a total of 13 new jobs. We are working with local councillors and community groups to identify ways in which we can help promote digital education in the area, and have scheduled AppCamp and CodeShow activities in Bristol in the coming year. We see this as the start of a mutually beneficial relationship, and we’re looking forward to becoming a flagship employer in the South West and Wales.

Outlook: the year ahead
Our expectations for 2014-15 are positive: we are experiencing strong demand for our offerings across all markets, and have a full pipeline of prospects. However, while new opportunities are undoubtedly exciting, our priority remains on exceeding expectations for our existing clients and staff.

Our relationships in the UK public sector are being strengthened by the successful delivery of beta and live releases in major programmes. We continue to lead in an increasingly competitive field, and will seek to exploit this position to extend our footprint into other large government departments. In healthcare, we aim to grow our presence outside the acute sector (building on experience gained in the integrated healthcare environments in Northern Ireland) and outside the UK, possibly in the US or Australia. Our Enterprise business has identified cross-sell opportunities for support and maintenance engagements with our central government clients, and this offers the potential to embed the company firmly in the public sector for the long term.

There is a clear opportunity for Smart to extend its leading position in the Workday ecosystem, particularly in the US.

Across all business units we see the need for clearer differentiation and focus, something that has borne fruit in our product divisions. We will support this by increasing our investment in our brands, and by hosting and curating targeted technology conferences designed to promote Kainos expertise and reach. The growth of Big Data and Analytics across industry plays to our historic expertise in information and data management, and we plan to strengthen our capability in this area, both through direct investment in skills and by partnering with specialist organisations. We will continue to grow our skills in Agile and open source technologies to meet the demands of public and – increasingly – private sector clients.

Finally, we will keep our focus on attracting and retaining talented people in all parts of our business. The scope of our recruitment will widen: in South West England and Wales we plan to grow our graduate and experienced resources significantly over the next two years. We firmly believe that maintaining the quality and loyalty of our staff is the greatest enabler of success.
Risk Management

Financial risk management
The Group’s operations expose it to a variety of financial risks that include credit risk, liquidity risk and interest rate risk. The Group has in place an active risk management programme that seeks to limit the adverse effects on the financial performance of the Group by monitoring levels of debt finance and the related finance costs.

Given the size of the Group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the Group’s finance department. A corporate risk register is maintained which includes financial risk management and regular update reports, which are provided to the board of directors and the Audit and Risk Committee throughout the year.

Price risk
The Group has very limited exposure to commodity price risk as a result of its operations. Given the size of the Group’s operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the Group’s operations change in size or nature. The Group has no exposure to equity securities price risk as it holds no listed investments.

Foreign exchange risk
While the greater part of the Group’s revenues and expenses are denominated in sterling, the Group is exposed to some foreign exchange risk in the normal course of business, principally on sales in euros. The foreign exchange risk is kept under constant review and the Group entered euro forward contracts with expiry dates beyond the year end.

Exchange rates prevailing in these contracts have been factored into the foreign exchange gain in the year ended 31 March 2014. The foreign exchange gain for the year is disclosed in Note 4 to the accounts.

Credit risk
The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to individual customers is subject to a limit, which is reassessed regularly by the board.

Liquidity risk
The Group actively maintains access to debt finance to ensure the Group has sufficient available funds for operations and planned expansion.

Interest rate cash flow risk
The Group has interest bearing assets. Interest bearing assets include cash balances which earn interest at fixed rate and throughout the year the Group has been actively pursuing investment opportunities for surplus cash balances.

Approved by the Board of Directors and signed on behalf of the Board.

JE Hiles
Secretary
25 June 2014
Results and dividends
The profit for the financial year, after taxation, amounted to £6,370k (2012-13: £3,277k). The directors propose the payment of a dividend of 24.2 pence per ordinary share (2012-13: 12.6 pence).

Going concern
The Group’s business activities and financial position, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report.

The Group has considerable financial resources together with secured contracts and excellent customer retention rates. As a consequence, the directors believe that the Group and Parent Company is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the Group and Parent Company have adequate financial resources to continue in operational existence for the foreseeable future. Both revenues and net assets are forecast to increase in the year ahead. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors
The directors who served during the financial year and since year end were:

Dr JG Lillywhite (Chairman)
Dr B Mooney (Managing Director)
R McCann
P Gannon
Dr FS Graham
JR Wright (resigned 24 October 2013)
AJM Taylor
JPJ O’Kane

Political and charitable donations
The Group made charitable donations amounting to £25,194 (2012-13: £19,864) during the financial year, principally for the benefit of local communities in which the company operates. No donations for political purposes were made during the financial year (2012-13: £Nil).

Disabled employees
Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and Parent Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.
Employee consultation
The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and Parent Company. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interest.

Directors indemnity insurance
The Group made qualifying third party indemnity provisions for the benefit of its directors and these remain in force at the date of this report.

Strategic report
Details of financial risk management objectives and policies, events which have occurred since the financial year end, future developments and research and development can be found in the Strategic Report and form part of this report by cross-reference.

Auditor
Each of the persons who is a director at the date of approval of this report confirms that:

• so far as the director is aware, there is no relevant audit information of which the company’s auditor is unaware; and
• the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information and to establish that the company’s 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. Deloitte LLP has expressed willingness to continue in office as auditor and a resolution to reappoint Deloitte will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

JE Hiles
Secretary
25 June 2014
Directors’ Responsibilities Statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.
We have audited the financial statements of Kainos Software Limited for the year ended 31 March 2014 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group reconciliation of net cash flow to movement in net funds and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors’ Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

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

Opinion on financial statements
In our opinion the financial statements:

• give a true and fair view of the state of the Group’s and of the Parent Company’s affairs as at 31 March 2014 and of the Group’s profit for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.