



Kainos Software Limited

Annual Report

for the year ended 31 March 2013



Note from the Chairman



Over its 26-year history Kainos has built and nurtured a reputation for reliable and competent delivery of technical solutions for businesses. It has thrived in good times and bad, quietly attracting the best software engineering and design talent in Ireland. Almost unnoticed, Kainos has extended its reach considerably and over the years has established a wide-ranging blue-chip customer base in the UK, Europe and the USA. Equally important, it has retained and bolstered its reputation for excellence.

Last year, the management team articulated an ambition to accelerate the pace and scale of growth and underpinned this with investment in people, infrastructure and product development.

This has paid off handsomely: in the financial year ending 31st March 2013, revenue, profit before tax and headcount were all at record levels. Kainos has continued to delight its customers, who now range across three continents, and its staff, who

have nominated Kainos as one of the best companies to work for in the UK. Across the board, 2013 has proven to be a remarkable year - a year in which Kainos has finally come of age.

Kainos not only delivered extraordinary performance in 2012-13, but has set the scene for continued profitable growth. The Company has built an unprecedented pipeline of opportunity for the coming year and has set out its plans for sustained growth in its target sectors.

Recruitment activity is being stepped up to attract more staff and plans for further innovative product development are already in train.

In short, I'm delighted with the Company's performance this year and greatly optimistic for its future.

Dr. John Lillywhite
Chairman

Note from the Managing Director



2013 was a great year for Kainos, across the board. We exceeded targets on sales, revenue and profit, and expanded our staff numbers and footprint in the UK, Republic of Ireland and Poland. Yet in many respects, 2013 was merely a scene setter: in the coming years we expect further significant growth across all our target sectors, driven by a very strong portfolio of products and services.

It is also driven by what I believe to be exceptional in our Company: its people and their commitment to our firm and to our customers.

We have embodied this in our newly-minted vision statement:

“Kainos is a committed group of innovative people who deliver digital solutions that transform our customers’ ability to work smarter, faster and better.

Our vision is to focus our talent on deploying advances in technology to accelerate this transformation to our customers’ advantage.”

This statement has strong resonance with us, and we see it as a foundation for sharing our ambition, our talent and our story with others.

Realising this vision is not without its challenges. In a competitive market, it will become increasingly difficult to find and motivate the best people; and as we expand geographically, this will be complicated by cultural and time-zone hurdles. But we see these as entirely manageable - and indeed exciting - challenges. Kainos has come of age, and we are eagerly looking forward to our next stage of growth.

I am grateful to all staff for their hard work during 2012-13 and wish them every success for the coming year.

Brendan Mooney
Managing Director

Kainos Software Limited

Directors' Report

For the year ended 31 March 2013

The directors present their report and the audited group financial statements for the year ended 31 March 2013.

Principal activities

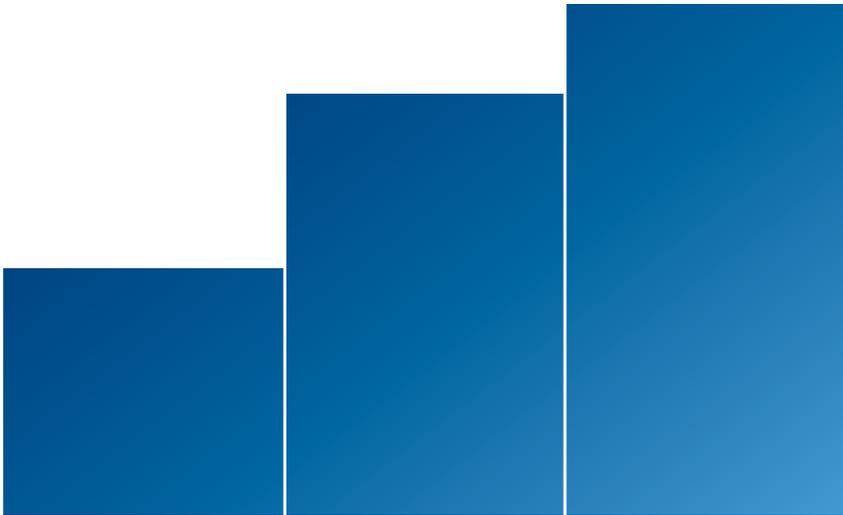
Kainos is a digital services Company, offering information technology expertise to clients in a range of markets, including government, financial services and healthcare.

Kainos provides software design and development services, third party software implementation services, and technology support services, together with all 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 is developing a new automated testing SaaS product to complement the Workday offering.

Kainos Revenue and Profit Growth



| | FY 2011 | FY 2012 | FY 2013 |
|-------------------|---------|---------|---------|
| Revenue | £17.0m | £25.4m | £29.7m |
| Growth % | 6% | 49% | 17% |
| Profit before tax | £0.1m | £2.0m | £3.5m |
| Profit % | 0.6% | 7.9% | 11.8% |

Highlights



Revenue growth of 17% to £29.7m, from £25.4m in 2012, and profit before tax increase of 75% to £3.5m (from £2.0m in 2012).



Sales increased by over 60% in two years to a record £38m, with robust pipeline for 2014 (in excess of £40m at year end).



Assignments for marquee customers, including Chelsea & Westminster NHS Trust, Travelex and Government Digital Services.



Entered at 55th place in the Sunday Times 'Best Companies' to Work For' rankings, moving to two star status from one star in 2012.



Continued investment in Evolve® electronic medical record (the innovative Evolve for iPad® application) and launched a new prototype automated testing tool for Workday clients.



Won first two Workday prime contracts and extended our relationship as sole European QA partners for Workday future releases.



100 new staff bringing total headcount to 381 at year end. New offices in Derry, and expanded offices in London, Belfast and Gdansk.



Implemented professional services automation software, and expanded and upgraded telecommunications networks and Company IT systems in all locations.



Paul Cranston

Business Review and Future Developments

Performance

Revenues for the year ending 31 March 2013 grew by 17% to £29.7m, up from £25.4m in 2012. Pre-tax profits increased by 75% to £3.5 million (2012-£2.0m), the highest ever recorded in the Company's 26-year history. Sales orders for 2013 amounted to £38 million, driven by several significant contract wins, the largest of which was over £7 million. We have a healthy pipeline of prospects for the coming year (in excess of £40m) and are maturing and extending existing customer relationships in our target markets.

Customers and Markets

Acknowledging that increased focus is necessary to respond to our customers' needs, we have aligned our organisation around our target industry sectors of Financial Services, Public Sector and Healthcare. While many of our customers are long-standing, such as Aon in Financial Services and the Department for Transport in the UK Public Sector, this year we have added a number of marquee clients to our list, including DVLA and the Cabinet Office.

In total we signed 575 new contracts with our customers this year. We are particularly excited by our success in UK central government, where our initial engagement with the Cabinet Office has widened into activities with other government departments and agencies, including DFID, DEFRA and the Home Office. We continue to expand our geographic presence, and this year worked with customers in Sweden (Telenor), USA (Cornell University), and India (Travelex).

People

In 2013 we recruited 100 new staff, bringing headcount at year end to 381. We opened a new office in Derry, and doubled the size of our office in London; in Gdansk we increased our headcount by over 20% in a single year. This year Kainos entered at 55th position in the prestigious Sunday Times Best Companies to Work For programme, with a two star status (compared to one star status in 2012).

Recruitment activities were supplemented by our popular and successful AppCamp® initiative, which provides training to entrepreneurial students in the UK and Poland, and by our widely reported 'Earn as You Learn' scheme designed to attract bright school leavers into a career in IT.

Technology and Infrastructure

From the outset, Kainos has helped its customers work smarter, faster and better by using the best software tools available, either custom-built or off-the-shelf software products.

This year, we've again shown how innovative and flexible IT can transform business: our work with the UK's Government Digital Services, part of the Cabinet Office, has used open-source software and Agile development methodologies to deliver easy to use, high impact digital services to the UK citizen.

Business Review and Future Developments continued

Our deployments of Workday, a fast-growing provider of enterprise HR and Finance applications in the cloud, have allowed our clients to harness the power of cloud computing.

Our award-winning Evolve® product is now operational in 36 hospitals, helping the NHS on its journey to becoming a paperless environment by 2018.

We continue to invest in software product development, both in Evolve (this year we launched Evolve Mobile for the iPad) and more recently in Kainos Smart™, an automated testing tool for Workday users.

In 2013 we also recognised the need to invest in our own infrastructure to support our growth ambitions and to meet the needs of an increasingly mobile and international workforce.

As part of this we expanded our office locations, creating capacity for 602 desks. We also automated core professional services processes such as time management and financial reporting and upgraded internal computer systems and networks.

Research and development

The Group's principal research and development activities are centred on Healthcare and Digital Government, with a focus on Mobile and Open Source technologies. Where possible we align our R&D with emerging market needs.

In Government, for example, Kainos is pioneering the use of Open Source technologies such as Neo4J and we are acknowledged experts in the use of lightweight development frameworks such as Scala.

With our mobile EMR solution, Evolve for iPad, we are leading the evolution of clinician-centred user interfaces. More broadly, our commitment to supporting innovation and the development of the next generation of entrepreneurs through our AppCamp and HealthHack programmes is resulting in new ways of delivering patient care.



Krzysztof Rozestwiński

Corporate Social Responsibility

We believe that Corporate Social Responsibility (CSR) is not just 'nice to have', but that it is increasingly essential for profitable business growth. For Kainos, this is embodied in our passion for education and for linking our information technology expertise to positive social outcomes.

We have always been keenly aware of the value of nurturing the brightest talent, and we have actively fostered links with schools and universities.

Our long-standing relationship with Queen's University and our status as one of Ireland's largest technology firms means that we are particularly influential in job creation. In providing regular employment to young graduates through an active programme of placement and subsequent hire, we deliver direct benefit to the local economy, and help promote the value of continued education for young people.

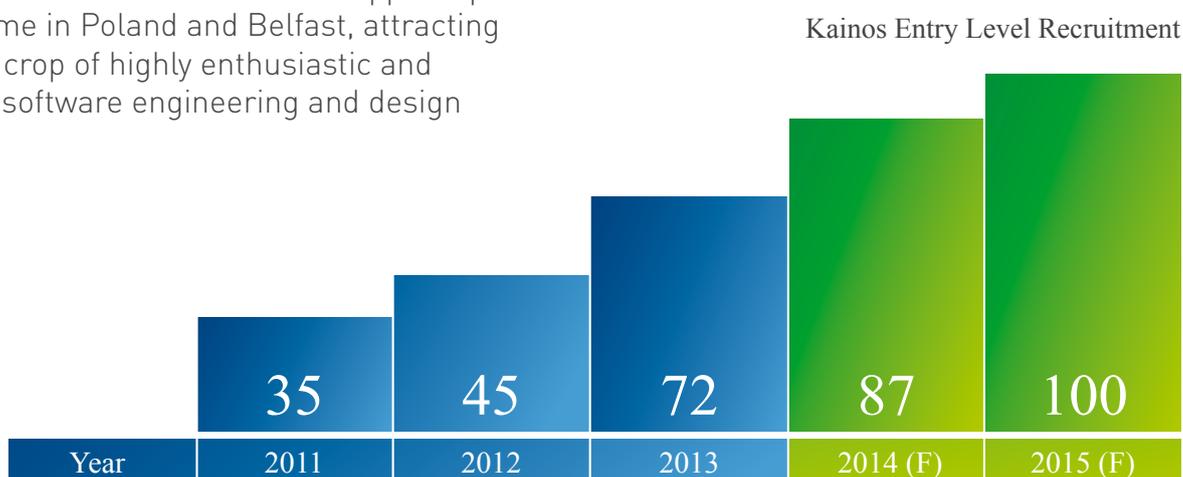
Our emphasis on high-quality skills, education and employment is underpinned with innovative thinking and investment. In 2013, we re-ran our successful AppCamp programme in Poland and Belfast, attracting a further crop of highly enthusiastic and inventive software engineering and design students.

Our IT apprentice programme extended our reach beyond third level institutions for the first time, and its success prompted the Kainos Earn as you Learn scheme, targeting school leavers for careers in IT.

In Gdansk we are prototyping an Automated Test Academy to train software engineers in software testing tools and methodologies.

Finally, we believe that IT can be used to drive positive social outcomes and as a high-profile Digital Services firm, we take this social responsibility seriously.

We sponsor and run projects that benefit the community, such as the popular 'hackathon' weekends, where our staff volunteer their time and skills to develop healthcare apps for hospitals in England and Ireland. This is mirrored in our ground-breaking work with UK government clients which is helping re-design public services to make them more efficient and easier to use.



Outlook: the Year Ahead

While 2013 has been a landmark year for Kainos by every measure, our expectations for the coming financial year are even greater. We have a full pipeline of prospects and have made a strong start to the year with wins at Aon and Buckinghamshire Healthcare NHS Trust.

Market reaction to Kainos Smart™ has been positive with a number of high-profile early adopters signed up for a release in July this year.

In the Public Sector, we continue to gain the confidence and support of key clients and sponsors, which positions us to expand our presence in central and local government.

The growing importance of new procurement frameworks in the UK means that competition in this market will increase, but our track record in delivering innovative solutions to government clients this year means that we can differentiate our offerings.

We aim to consolidate our lead in digitisation of paper patient records in the NHS acute sector and as the effects of the Health and Social Care Bill take effect, to capitalise on the opportunities to provide digital solutions to healthcare providers and caregivers in the community and in local government.

After several years of subdued activity, we are experiencing renewed growth in the Financial Services sector. Our background in delivering complex business solutions to banks and insurance companies means that we have the expertise and credentials to support our clients as they develop their businesses in the UK and Ireland.

A corporate objective in the coming year is to increase awareness of Kainos across all target sectors and markets, and to engage more frequently with customers, prospects and stakeholders through a variety of channels. This will be underpinned by research that strengthens our reputation as opinion formers, and initiatives that promote our brand as reliable and forward-thinking providers of digital services.

Finally, we will keep our focus on attracting and retaining talented people in all parts of our business. Successful and motivated staff are at the heart of what we do, and we will seek imaginative ways to motivate and reward them. Where we can we will dovetail employee enthusiasm with our corporate social responsibility, as we have done successfully with our 'hackathon' events for the NHS.



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