

Company Registration No. NI 622516

KAINOS WORKSMART LIMITED

Annual Report and Financial Statements

For the year ended 31 March 2023



Kainos Worksmart Limited

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Kainos Worksmart Limited

Officers and Professional Advisors

Directors

Dr Brendan Mooney
Richard McCann
Malachy Smith

Company secretary

Grainne Burns

**Registered Office and
Business Address**

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Belfast, BT7 INT

Independent Auditor

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Principal Bankers

Danske Bank
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Kainos Worksmart Limited

STRATEGIC REPORT

The directors present their strategic report of Kainos Worksmart Limited (“the Company”) for the year ended 31 March 2023.

Review of the business

The Company is a wholly owned subsidiary of Kainos Software Limited, which is a wholly owned subsidiary of Kainos Group plc. Worksmart sits within the Workday Practice division operating within the Kainos Group of companies (“the Group”).

Overview

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.

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.

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

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.

Smart Shield is a data masking tool that can easily and seamlessly mask sensitive data without impacting the Workday user experience. It ensures that sensitive data remains controlled when Workday environments are made available to broader internal or external teams, for instance, during support and maintenance activities, or for ongoing internal Workday training and onboarding programmes.

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

Financial performance

The Company’s revenue for the year ended 31 March 2023 increased by 28% to £67.4 million (2022: £52.2 million) and profit before tax increased by 39% to £17.4 million (2022: £12.5 million). Cash has increased by 312% to £31.3 million (2022: £7.6 million) while net assets have increased by 54% to £17.1 million (2022: £11.1 million).

Workday services

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 49 partners globally who are accredited to implement Workday’s innovative SaaS platform.

Kainos Worksmart Limited

STRATEGIC REPORT (continued)

Within Europe, we continue to consolidate our position as the leading Workday partner. Workday implementation services experienced accelerated growth through increased demand from existing customers, new customer acquisition and geographic expansion.

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.

Workday products

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 is used by over 350 global enterprise customers, including Salesforce, Capital One and Whole Foods.

Our second product, Smart Audit, became generally available in August 2021 and has already been deployed to over 70 customers globally. Smart Audit is a compliance monitoring tool that allows Workday customers to maintain operational security controls across 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 August 2022, we launched our third product, Smart Shield, a data-masking tool that can easily and seamlessly mask sensitive data without impacting the Workday user experience. It ensures that sensitive data remains controlled when Workday environments are made available to broader internal or external teams, for instance, during support and maintenance activities, or for ongoing internal Workday training and onboarding programmes. Although just released, Smart Shield is now used by over 40 customers globally.

The Company's SAAS revenues for the year ended 31 March 2023 increased by 30% to £4.8 million (2022: £3.7 million).

Section 172(1) statement

The Directors have an obligation to act in accordance with a general set of duties which are set out in section 172 of the Companies Act 2006 ("Companies Act").

Section 172 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, 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.

Kainos Worksmart Limited

STRATEGIC REPORT (continued)

Directors are briefed on these duties as part of their induction and through regular ongoing training. They also have access to professional advice about these duties, from the Company Secretary or, if necessary, from an external independent advisor.

The Directors consider, both individually and together, that they have exercised care in their decision making, are cognisant of their s.172 obligations, and take into consideration the needs and interests of the various stakeholder groups as part of all Board decision-making.

Under section 172, we consider our stakeholder groups to be our workforce, 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. The table below sets out the stakeholder groups which the Board has identified and provides examples of the Board’s engagement with each of these groups and the outcomes.

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. This in turns helps us to attract and retain the talent we need to fulfil our growth plans.

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| <p>Their interests</p> | <ul style="list-style-type: none"> • Their reward and benefits. • Their career progression. • The training and development opportunities we create. • Our culture and strategy. • Teamwork and peer and manager support. • Their health and wellbeing. • Diversity and inclusion. • Our ethical stance as a Company. |
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| <p>How we engage</p> | <ul style="list-style-type: none"> • We use the Workday Peakon employee engagement platform to measure engagement and capture anonymous feedback on a monthly basis about our strengths and areas for improvement. • The Group Culture and Development Group (chaired jointly by the CEO and Chief People Officer) is the Company’s formal workforce advisory panel. It meets monthly and reports regularly to the Group Board on people-related 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 Group Board meetings. • Our Group 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. • Our Group Executive Team hosts strategy review sessions with staff groups twice yearly to discuss culture, engagement and performance. • 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. |
| <p>Outcomes</p> | <ul style="list-style-type: none"> • A high employee engagement score, the Group score is currently recorded as 81% in Peakon. • The outputs from the Peakon survey are shared with the Group Board on a six-monthly basis and the same information is available to all staff through the Peakon online dashboards. Progress against the continuous improvement plans created to address feedback is reported each month to the Group Executive Team, quarterly to the entire workforce and twice yearly to the Board. • During the past year, colleagues on a Group wide basis have contributed 11,023 posts to Yammer. |

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.

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| <p>Their interests</p> | <ul style="list-style-type: none"> • Quality and cost of service. • Our ability to meet agreed deadlines. • Our ability to innovate. • Our ethical stance as a Company. |
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| <p>How we engage</p> | <ul style="list-style-type: none"> • On a Group basis we work with over 800 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 Group Board and is reported in our investor presentations every six months. • The Group Executive Directors, primarily the CEO, will meet with customers during the year, typically our largest customers. • At a Group 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 and receiving Board input and feedback. |
| <p>Outcomes</p> | <ul style="list-style-type: none"> • On a Group basis we received 553 customer engagement surveys, with 99% 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 presented to the Group Board. |

c) Our investors and shareholders

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

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| <p>Their interests</p> | <ul style="list-style-type: none"> • 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. |
| <p>How we engage</p> | <ul style="list-style-type: none"> • Our Group CEO and CFO meet analysts and institutional shareholders throughout the year, with detailed updates following our interim and full year results. • Our Group 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. |
| <p>Outcomes</p> | <ul style="list-style-type: none"> • We increased our understanding of shareholder views on dividend policy, environmental considerations, and tax transparency. • We published our Group tax policy on our website. • Our Group CEO and CFO provide regular feedback from these meetings to the Group Board. Formal feedback is also obtained by our PR and financial advisors and reported to the Board. |

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STRATEGIC REPORT (continued)

d) Our communities

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

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| <p>Their interests</p> | <ul style="list-style-type: none"> • 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. |
| <p>How we engage</p> | <ul style="list-style-type: none"> • 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. |
| <p>Outcomes</p> | <ul style="list-style-type: none"> • We extended our Group outreach programmes to operate globally, with participants from 22 countries. • We increased our graduate and school-leaver recruitment programmes. • We increased our level of charitable donations. • We published our Group tax policy on our website. • The Group achieved carbon neutral in 2021 and remain on schedule to achieve net zero by 2025. • Community initiatives are managed within the relevant Board committees and discussed with the full Group Board. |

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STRATEGIC REPORT (continued)

Key performance indicators (KPIs)

The Company's Directors set and monitor business targets. Given the nature of the business, the Company's Directors are of the opinion that additional analysis using KPIs is not necessary for an understanding of the development, performance or position of the Company on a standalone basis.

A number of KPIs are tracked at a group level to identify trends in trading performance and to benchmark progress of key objectives, such as staff well-being and satisfaction. Further information is contained in the consolidated financial statements which can be obtained as set out in note 23.

Principal risks and uncertainties

We recognise the importance of effective risk management and the need to be proactive to mitigate potential threats which could adversely impact our operations, reputation and financial results.

While we can never eliminate all risk, we continue to monitor and manage the effectiveness of our internal controls through our risk management framework and associated governance structures, developed to help us safeguard our people, our customers and our business.

Risk governance

The Board has responsibility to ensure that risk is managed across our Company and understand that effective risk management is essential to meeting our strategic objectives.

The Board considers our risk assessment framework and governance structures to be robust and provide assurance that risk is being identified, monitored and managed effectively.

Risk management process

The Group Risk Register is our principal tool for monitoring and reporting risk. The Risk Register describes each principal risk, its potential impact, the likelihood of it materialising and any appropriate mitigating controls to reduce the risk to an accepted level. Senior management co-ordinates the register's preparation, using input from all areas of the business. An appropriate senior manager is assigned ownership of each risk and is responsible for ensuring that appropriate controls and mitigating actions are developed to reduce the likelihood and potential impact of the risk being realised. The Group Audit Committee formally reviews the Risk Register twice each year, with flexibility to meet if there is emerging risk or substantial changes to principal risks which require attention.

When risks change significantly, they are reported to the Group Board by the Audit Committee who also update the Board after each formal review of the Risk Register.

While individual risks have changed over the last year, our underlying risk profile is not significantly different from the previous report; however, we have continued to strengthen and embed cyber and data privacy controls into our business, as well as a continued focus on addressing climate-related risk.

Cyber and information security: Cybersecurity and data privacy continue to be principal risks for our business as the threat landscape evolves and becomes increasingly complex. We have made significant investments over the past year to improve our cybersecurity capabilities and enhance our data privacy practices and we will continue to prioritise cybersecurity and data privacy as key risk areas going forward.

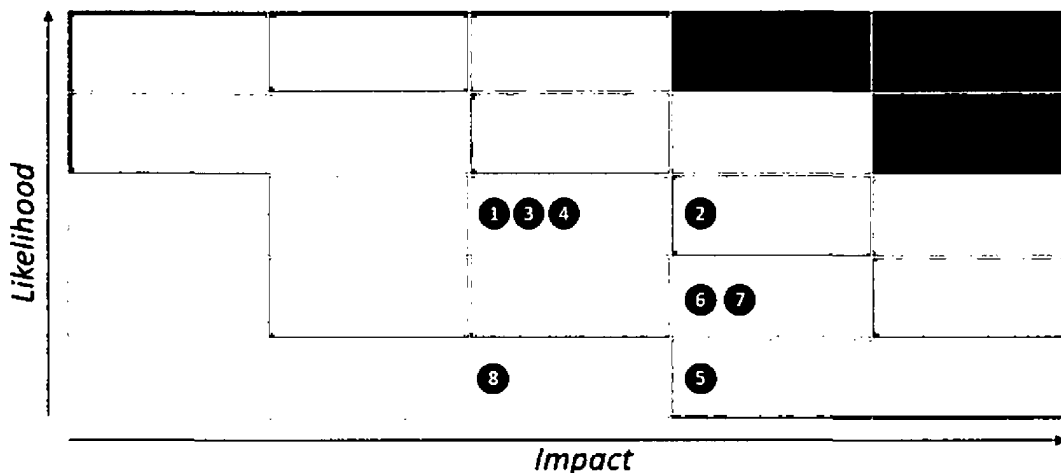
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Climate-related risk: From a Group perspective we are committed to reducing our carbon impact and achieving carbon net zero by 2025 and aim to reduce absolute Scope 1 and 2 GHG emissions 70% by FY26 from a FY20 base year and to reduce Scope 3 GHG emissions 45% per unit of value added within the same timeframe. In assessing the direct climate risk to our business, for instance from extreme weather events, we assess this as being a moderate risk. A greater risk is one of reputational damage.

Detailed risk assessment

The following tables provide a summary of the Group’s principal and emerging risks, informed by our Group Risk Register. The risks are not listed in order of severity 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 are willing to accept to support strategic objectives.

Where possible, we have taken steps to manage or mitigate risk using a combination of technical, operational and legal controls, but we cannot entirely safeguard against all of them.



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| Description | With investors and other stakeholders increasingly focusing on sustainability and climate, there is reputational risk for us if we decide not to act, or act too slowly. |
| Potential impact | A slow response to our climate responsibilities could lead to fines for non-compliance, increasing costs for carbon offsetting and potential reputational damage. Reputational damage may encourage colleagues to leave Kainos or deter applicants from joining us; it may also deter customers from appointing us to projects and investors owning our shares. |
| Mitigation | We achieved carbon neutrality in 2021 and remain on track to be carbon net zero by 2025. We believe that achieving this ambitious target mitigates this risk. |
| Description | Cyber threats are constantly adapting and increasing in number, frequency and sophistication. We must develop appropriate controls and protective measures to ensure the confidentiality, integrity, and availability of our IT systems, both internally and as part of our service offerings to customers. |

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| Potential impact | By failing to protect sensitive data and information systems from cyber-attacks, we face legal, financial and reputational risk which could reduce short-term profits, expose us to regulatory fines (for example under GDPR), lead to significant remediation costs and contractual liability, and damage our customer relationships and market credibility. |
| Mitigation | <p>We continue to monitor the cyber threat landscape and invest in developing and strengthening our defences against cyber-attack. We review and test the effectiveness of our ISMS controls against industry best practice, assisted by independent external certification (ISO27001).</p> <p>Regular updates on our security programme are provided to our senior management team through the Cyber Steering and Audit and Risk committee with representation from our Group Chief Information Security Officer (CISO), Group Chief Information Officer (CIO), cyber security and information security teams and from our legal and business management.</p> <p>We continue to improve and develop our technical, operational, and contractual measures to address risk, coupled with regular, mandatory training for all staff on information security and data privacy.</p> |

| 3. Increasing complexity of global data protection laws | | No Change | People, Customers, Markets |
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| Description | <p>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.</p> <p>In Europe, GDPR mandates a suite of data privacy controls to mitigate the risk of unauthorised disclosure of personal information. Other jurisdictions have similar measures and as we expand into new regions, it is imperative that we understand and adhere to the applicable controls.</p> | | |
| Potential impact | Non-compliance could expose us to liability and financial penalties (for example under GDPR), reduce profit and cash flow in the short-term, and damage our customer relationships and credibility in the market. | | |

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| <p>Mitigation</p> | <p>We review the impact of information security and data privacy regulations and legislation on us and our customers. These reviews influence our internal controls and processes and the design of products, solutions and working practices. Specific data privacy controls or conditions are included, where relevant, to our customer or supplier contracts.</p> <p>We make staff aware of the potential impact of changing regulations and provide targeted training within business divisions. Our activities to ensure the provision of GDPR controls includes, but is not limited to:</p> <ul style="list-style-type: none"> • 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 and 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, we ensure that: <ul style="list-style-type: none"> - We review the relevant privacy laws. - We put in place effective initial controls at the project level. - As additional projects start, we standardise the controls for that region and manage them centrally through the Data Protection Officer function. <p>A Data Protection Steering body is in place, meeting monthly to ensure that the data privacy mandate is prioritised, planned and governed accordingly.</p> |
| <p>4 Increasing customer demands for a wider range of skills Data privacy People, Customers, Markets and ESG</p> | |
| <p>Description</p> | <p>Increased market demand for skills in areas such as data and AI, cybersecurity and application development may introduce challenges when recruiting new people and retaining our current skilled employees.</p> |
| <p>Potential impact</p> | <p>This could impact our ability to provide solutions and services to our customers, exposing us to liability, reducing profit and cash flow in the short-term and causing damage to our reputation, customer relationships and staff morale.</p> <p>The continued global shortage of digital skills means the likelihood and impact of this risk has remained constant from the previous year.</p> |
| <p>Mitigation</p> | <p>We have worked to become an employer of choice and have a team, processes and infrastructure dedicated to recruiting the most appropriate candidates through a streamlined hiring process.</p> <p>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.</p> <p>Staff engagement is a key area where we continue to focus on ensuring compelling financial rewards and benefits for our people, having clear developmental and career progression opportunities and leveraging feedback from regular surveys to create action plans to improve our performance as employers.</p> |

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| Description | Losing access to essential intellectual property, or services which could impact partner-influenced sales due to a deterioration in strategic partner relationships. |
| Potential impact | Failure of partner relationships could reduce revenue, profit and cash flow in the short-term and damage our reputation, customer relationships and market confidence in us. |
| Mitigation | <p>We have contracts to detail the relationship with our main partners, including Workday, Microsoft and AWS. Our partner arrangements may include access to proprietary materials such as training, know-how or branding, which we require to deliver or enhance our services.</p> <p>Kainos operates a Strategic Alliances Team to establish and manage relationships with all key partners.</p> <p>Our partner managers have regular contact with key partners.</p> |
| Description | <p>We may be affected by:</p> <ul style="list-style-type: none"> • <i>The instability of the financial system, market disruptions or suspensions.</i> • <i>A material downturn in the financial markets or an economic recession.</i> • <i>The insolvency, closure, consolidation or rationalisation of parts of our customer base.</i> • <i>Increased geopolitical instability caused by the Russian invasion of Ukraine.</i> |
| 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 source and a number of sections and regions. We also have a considerable contracted backlog that provides short-term protection. |
| 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 treasury policy to mitigate currency risk, which we review and approve annually. |
| Description | We must comply with laws and regulations applicable to us and design our products and services to meet laws and regulations applicable to our 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. |

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| Mitigation | <p>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.</p> <p>Kainos' internal processes and systems are monitored with a view to ensuring compliance with applicable laws and regulations.</p> <p>We have processes in place designed to ensure awareness of regulatory requirements and that the relevant information is appropriately disseminated. There are well established training and awareness activities.</p> <p>In relation to bribery and corruption, we have established policies in place, with associated training. More details on these policies can be found in the 'Business Ethics' section of this report.</p> |
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Environment

As a Group we achieved carbon neutrality in 2021 and remain committed to being carbon net zero by 2025. Our progress is also reflected in our improved rating with the Carbon Disclosure Project (CDP), with our rating now 'B'.

In May 2022 we had our net zero Science Based Targets initiative (SBTi) targets confirmed (certificate KAIN-UNI-001-OFF), where we have committed, to reduce our Scope 1 and 2 emissions by 70% on an absolute basis and Scope 3 emissions by 45% on an intensity basis by 2026, using 2020 as our base year. We have invested in a market-leading tool, Watershed, to easily report progress towards these targets.

Building on our work this year, our priorities for FY24 include carbon reduction initiatives through engagement with our suppliers, green travel, education and awareness activities and increased understanding of the positive carbon-reduction impact our delivery work has on customers.

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. This year there were zero breaches of any environmental regulations (2022: zero).

The Company is included in the consolidated financial statements of Kainos Group plc which includes the equivalent disclosures in respect of greenhouse gas emissions and energy consumption. The Company has taken the available exemption not to separately disclose this information.

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Future developments

Workday services

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.

Workday extend

Alongside these typical consulting activities, there is a growing opportunity linked to Workday Extend, Workday's Platform-as-a-Service offering which became generally available to customers in May 2020. Kainos has been part of the Workday Extend early adopter programme since 2017.

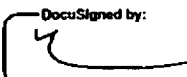
Workday Extend allows organisations to build additional, specialised functionality on the Workday platform to further enhance customers' Workday deployment. As experts in Workday Extend, we have helped many organisations build Workday Extend applications specific to their requirements.

Workday products

For our existing Workday products, our growth will be powered by the increase in Workday clients and by higher penetration of our products into the Workday client base.

We believe that we are well positioned to identify and develop additional products for the Workday ecosystem. Our growth will initially be determined by the product-market fit of our new products, followed by the penetration into the Workday client base.

In addition to the consulting services opportunity linked to Workday Extend, and described in the previous section, the platform provides us further opportunity to build products that are embedded inside Workday. During 2023 we have developed a new product, Employee Document Management, to help customers manage and simplify the full lifecycle of employee documents. Although not yet generally available, it is gaining traction with Workday customers.

DocuSigned by:

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Richard McCann
Director

19 September 2023

Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT

Kainos Worksmart Limited

DIRECTORS' REPORT

The Directors present their annual report on the affairs of the Company, together with the financial statements and auditor's report, for the year ended 31 March 2023.

Financial results and business review

The Company's financial results and business review have been included in the Strategic Report on pages 2 to 14.

Dividends

During the year, the Company paid a dividend of £8.0 million (2022: £5.0 million). At the date of signing this report, no further dividends have been declared or proposed for the year ended 31 March 2023.

Going concern

The Company'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.

Having reviewed the future plans and projections for the Company and its current financial position, the Directors believe that the Company is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, as well as good level of recurring revenue and a broad spread of customers. For this reason, it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

Research and development activities

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.

Technology continues to develop at pace and we look to continuously improve our delivery approach for our customers. 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.

During the year, our third product, Smart Shield was launched. We continue to invest significantly in research and development activities through ongoing investment in our existing products alongside developing new products within the Workday ecosystem. Research and development expenditure for the year increased to £5.8 million (2022: £3.6 million).

Financial risk management

The Company's operations expose it to a variety of financial risks that include foreign exchange risk, price risk, liquidity risk and credit risk. The Company has in place a risk management programme that seeks to limit the adverse effects of financial risks on the financial performance of the Company.

Given the size of the Company, 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 Company's finance department.

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DIRECTORS' REPORT (continued)

A corporate risk register for the Group is maintained which includes financial risk management and regular update reports are provided to the Board of Directors and the Group Audit and Risk Committee throughout the year.

Foreign currency risk

The Company is exposed to foreign currency risk on transactions denominated in a currency other than the functional currency and on the translation of the balance sheet and income statement of foreign operations into sterling. The currencies giving rise to this risk are primarily Euro, Polish Zloty and US Dollars. This risk is measured through the budgeting and cash flow forecasting processes which identify net foreign currency exposures. The finance function quantifies and suggests risk mitigation measures to manage the risk in accordance with company policy. In managing currency risks the aim is to reduce the impact of short-term fluctuations on the cash inflows and outflows in a foreign currency. There are both cash inflows and outflows in these currencies that create a high level of natural hedge. Hedging contracts have not been entered into for cash positions denominated in foreign currencies.

Price risk

The Company is exposed to commodity price risk as a result of its operations. However, given the size of the Company'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 Company's operations change in size or nature. The Company has no exposure to equity securities price risk as it holds no listed investments.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial losses to the Company. The Company 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

Treasury activities are controlled at a Group level. Liquidity risk is managed by maintaining adequate cash reserves and banking facilities across each Group company and ensuring the Group has sufficient funds for operations and planned expansion.

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

Directors

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

- Dr Brendan Mooney
- Richard McCann
- Malachy Smith

Kainos Worksmart Limited

DIRECTORS' REPORT (continued)

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 Company continues and that appropriate training is arranged. It is the policy of the Company and the Group 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 Company 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 Company as a whole. This is achieved through direct engagement through formal and informal meetings and annual workforce surveys. At a Group level there is also a Diversity & Inclusion Global Group which created a three-year D&I strategy. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interest.

Stakeholder engagement

The Directors recognise that long-term success is dependent on how it interacts with its stakeholders. Full details of the Company's stakeholder engagement are set out in our Section 172 Statement contained within the Strategic Report.

Directors' indemnity insurance

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors and these remain in force at the date of this report.

Other information

An indication of likely future developments in the business have been included in the Strategic Report on pages 2 to 14.

Disclosure of information to auditors

The Directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant information of which the Company's auditor is unaware; and each director has taken all the steps necessary that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

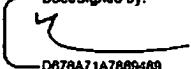
Kainos Worksmart Limited

DIRECTORS' REPORT (continued)

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG will therefore continue in office.

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

DocuSigned by:

D678A71A7889489...

Richard McCann
Director

19 September 2023
Kainos House, 4-6 Upper Crescent, Belfast, BT7 1NT

Kainos Worksmart Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

The Directors are responsible for preparing the Directors' Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

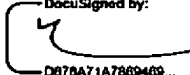
Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 Reduced Disclosure Framework.

Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the 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 Company or to cease operations, or have no realistic alternative but to do so.

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 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 Company and to prevent and detect fraud and other irregularities.

On behalf of the Board

DocuSigned by:

D67BA71A7889469...

Richard McCann
Director

19 September 2023



KPMG
Audit
The Soloist Building
1 Lanyon Place
Belfast BT1 3LP
Northern Ireland

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAINOS WORKSMART LIMITED

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Kainos Worksmart Limited ('the Company') for the year ended 31 March 2023 set out on pages 24 to 50, which comprise the income statement, balance sheet, statement of changes in equity and related notes, including the summary of significant accounting policies set out in note 3. The financial reporting framework that has been applied in their preparation is 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 Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- the 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 are independent of the Company in accordance with ethical requirements that are relevant to our audit of financial statements in the UK, including the Financial Reporting Council (FRC)'s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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 Company or to cease its operations, and as they have concluded that 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 its 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 our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over 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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAINOS WORKSMART LIMITED (continued)

Report on the audit of the financial statements (continued)

Conclusions relating to going concern (continued)

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 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.

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 Company will continue in operation.

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 as to the Company's policies and procedures regarding compliance with laws and regulations and prevention and detection of fraud; inquiring whether the Directors have knowledge of any actual or suspected non-compliance with laws or regulations or alleged fraud; inspecting the Company's regulatory and legal correspondence; and reading Board minutes.

We discussed identified laws and regulations, fraud risk factors and the need to remain alert among the audit team.

The Company is subject to laws and regulations that directly affect the financial statements including companies and financial reporting. 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.

The Company is not subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements.

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 did not identify any additional fraud risks.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAINOS WORKSMART LIMITED (continued)

Report on the audit of the financial statements (continued)

Detecting irregularities including fraud (continued)

In response to risk of fraud, we also performed procedures including: identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation; and 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.

Other information

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 strategic report and the Directors' report. The financial statements and our auditor's report thereon do not comprise part of the other information. 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.

Opinions on other matters prescribed by the Companies Act 2006

Based solely on our work on the other information undertaken during the course of the audit:

- we have not identified material misstatements in the Directors' report or the strategic report;
- in our opinion, the information given in the Directors' report and the strategic report is consistent with the financial statements;
- in our opinion, the Directors' report and the strategic report have been prepared in accordance with the Companies Act 2006.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- • the financial statements are not in agreement with the accounting records and returns; or
- • certain disclosures of directors' remuneration specified by law are not made; or
- • we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KAINOS WORKSMART LIMITED (continued)

Respective responsibilities and restrictions on use

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 19, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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.

A handwritten signature in black ink, appearing to read 'John Poole'.

John Poole (Senior Statutory Auditor)
for and on behalf of
KPMG Statutory Auditor
The Soloist Building
1 Lanyon Place
Belfast
BT1 3LP

21 September 2023

Kainos Worksmart Limited**Income Statement**

For the year ended 31 March 2023

| | Note | 2023 £'000 | 2022 £'000 |
|---------------------------------|------|-----------------|---------------|
| Revenue | 5 | 67,423 | 52,214 |
| Cost of sales | | (31,188) | (24,981) |
| Gross profit | | 36,235 | 27,233 |
| Operating expenses | | (19,132) | (14,759) |
| Operating profit | | 17,103 | 12,474 |
| Finance income | | 310 | 4 |
| Finance expense | | (1) | (1) |
| Profit before tax | 6 | 17,412 | 12,477 |
| Taxation on ordinary activities | 9 | (3,319) | (2,513) |
| Profit for the year | | 14,093 | 9,964 |

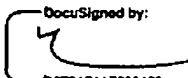
All items of comprehensive income for the current year are included in the profit and loss account and arise from continuing operations. Accordingly, no statement of comprehensive income is presented.

The notes on pages 27 to 50 form an integral part of these financial statements.

Kainos Worksmart Limited**Statement of Financial Position
At 31 March 2023**

| | Note | 2023 £'000 | 2022 £'000 |
|--|------|---------------|---------------|
| Non-current assets | | | |
| Property, plant & equipment | 11 | 13 | 19 |
| Right-of-use assets | 13 | - | 20 |
| Investments | 12 | 11,471 | 11,515 |
| Deferred tax asset | 15 | 205 | 468 |
| | | 11,689 | 12,022 |
| Current assets | | | |
| Trade and other receivables | 14 | 13,793 | 16,677 |
| Cash and cash equivalents | | 31,266 | 7,621 |
| | | 45,059 | 24,298 |
| Current liabilities | | | |
| Trade and other payables | 17 | (28,480) | (13,646) |
| Deferred income | 17 | (4,862) | (3,800) |
| Other tax and social security | 17 | (1,512) | (3,884) |
| Lease liabilities | 16 | (88) | (22) |
| Corporation tax | | (4,727) | (3,812) |
| | | 39,669 | 25,164 |
| Net current assets/(liabilities) | | 5,390 | (866) |
| Total assets less current liabilities | | 17,079 | 11,156 |
| Non-current liabilities | | | |
| Other provisions | 18 | - | (32) |
| Net assets | | 17,079 | 11,124 |
| Capital and Reserves | | | |
| Share capital | 19 | - | - |
| Retained earnings | | 17,079 | 11,124 |
| Total equity | | 17,079 | 11,124 |

The financial statements of Kainos Worksmart Limited (NI 622516) were approved by the Board of Directors and authorised for issue on 19 September 2023. They were signed on its behalf by:

DocuSigned by:

 0678A71A7869489...
 Richard McCann
 Director

The notes on pages 27 to 50 form an integral part of these financial statements.

Kainos Worksmart Limited**Statement of Changes in Equity**

| | Share Capital (note 19) £'000 | Retained Earnings £'000 | Total Equity £'000 |
|--|--|-------------------------------|-----------------------|
| Balance at 31 March 2021 | - | 5,742 | 5,742 |
| Profit for the year | - | 9,964 | 9,964 |
| Dividends paid | - | (5,000) | (5,000) |
| Current tax for equity-settled share-based payments | - | 450 | 450 |
| Deferred tax for equity-settled share-based payments | - | (32) | (32) |
| Balance at 31 March 2022 | - | 11,124 | 11,124 |
| Profit for the year | - | 14,093 | 14,093 |
| Dividends paid | - | (8,000) | (8,000) |
| Current tax for equity-settled share-based payments | - | 137 | 137 |
| Deferred tax for equity-settled share-based payments | - | (275) | (275) |
| Balance at 31 March 2023 | - | 17,079 | 17,079 |

The notes on pages 30 to 54 form an integral part of these financial statements.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

1. General information and basis of preparation

Basis of preparation

Kainos Worksmart Limited ("the Company") is a private company limited by shares, incorporated domiciled and registered in Northern Ireland. The address of the registered office is Kainos House, 4-6 Upper Crescent, Belfast BT7 1NT. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 2 to 14.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Basis of accounting

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101").

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 FRS 101 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 the transition to FRS 101 from UK-adopted IFRS, the Company has made no measurement and recognition adjustments.

The functional and presentation currency of these financial statements is sterling. All amounts have been rounded to the nearest thousand unless otherwise stated.

The Company's ultimate parent undertaking, Kainos Group plc includes the Company in its consolidated financial statements. The consolidated financial statements of Kainos Group plc are prepared in accordance with Adopted IFRSs and are available to the public and may be obtained from the Kainos Group website at www.kainos.com.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash flow statement and related notes;
- Certain disclosures regarding revenue;
- Certain disclosures regarding leases;
- Comparative period reconciliations for property, plant and equipment (including right-of-use assets) and share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- Disclosures in respect of compensation of Key Management Personnel; and
- The effects of new but not yet effective IFRSs.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

1. General information and basis of preparation (continued)

As the consolidated financial statements of Kainos Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS2 Share Based Payments in respect of group settled share-based payments; and
- 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 accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

2. Change in accounting policies

In the current year, the Company have applied the following standards and amendments that are effective for an annual period that begins on or after 1 January 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

Amendments to IFRS3: Reference to the Conceptual Framework

Annual Improvements to IFRS Accounting Standards 2018-2020 Cycle

Amendments to IAS37: Onerous Contracts – Cost of Fulfilling a Contract

Amendments to IAS16: Property, Plant and Equipment – Proceeds before Intended Use

3. Significant accounting policies

Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report.

Having reviewed the future plans and projections for the business and its current financial position, the Board believes that the Company is well placed to manage its business risks successfully. The Company has adequate financial resources, no borrowings, a good level of recurring revenue, and a broad spread of customers. As a consequence of these factors and having reviewed the forecasts for the coming year, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

3. Significant accounting policies (continued)

Investments in subsidiary

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

Revenue

Revenue is recognised to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. The Company 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 Company's activities is recognised as detailed below.

The Company recognises a contract asset (accrued income) when the value of the satisfied performance obligations is in excess of the payment due to the Company 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 and contract liabilities are represented by deferred income.

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.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

Significant accounting policies (continued)

Revenue (continued)

Fixed price contracts

Other contracts for the provision of software related services are contracted on a fixed price basis. The Directors have assessed that the stage of completion determined as a proportion of the total cost expected for the project that has elapsed at the end of the reporting period is an appropriate measure of progress towards complete satisfaction of these 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 the 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.

Dividend revenue

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established, provided that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably.

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The Company 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 Company 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.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

3. Significant accounting policies (continued)

Leases (continued)

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 Company 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 Company 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 assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and less any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Company incurs an obligation for costs to restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS37. These costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Company does not have any leases that include purchase options or that transfer ownership of the underlying asset at the end of the lease term.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

3. Significant accounting policies (continued)

Right-of-use asset (continued)

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

Foreign currencies

Transactions in currencies other than the Company's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on 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.

Government grants

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

Government grants that compensate the Company 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 Company 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 IAS 20 '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 Company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the Company to the fund 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.

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****3. Significant accounting policies (continued)****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 profit and loss account 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 Company'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 Company 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.

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****3. Significant accounting policies (continued)****Deferred tax (continued)**

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

Property, plant & equipment

Property, plant and equipment 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 over their useful lives, using the straight-line method, on the following basis:

| | |
|------------------------------|---|
| 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 Company 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 plant, property & 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 scrapping of an asset is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the income statement.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's statement of financial position when the Company 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.

Investments

Investments in subsidiaries are stated at cost and where appropriate, less allowances for impairment.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

3. Significant accounting policies (continued)

Financial instruments (continued)

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 Company 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 Company.

The Company has not recognised an expected credit loss on cash and cash equivalents as it is deemed not material.

Impairment of financial assets

The Company 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 Company 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 Company 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 Company's historical experience and informed credit assessment and including forward-looking information.

ECLs are a probability-weighted estimate of credit losses estimated using a provision matrix.

The Company recognises a loss allowance of 100% against all receivables older than six months at the reporting date.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

3. Significant accounting policies (continued)

Financial Instruments (continued)

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 liabilities

The Company derecognises financial liabilities when, and only when, the Company'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 Company 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.

Share-based payments

Where the Company's parent company has granted rights to its equity instruments to employees of the Company, such arrangements are accounted for as equity-settled share-based payment arrangements. In such instances a capital contribution is recognised to the extent that the Company is not recharged by its parent.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each statement of financial position date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

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:

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

3. Significant accounting policies (continued)

Internally-generated intangible assets – research and development expenditure (continued)

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

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

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company 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 balance sheet 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 Company 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.

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****4. Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies which are described in note 3, the Directors are required to make judgements and estimates that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors considered relevant and take account of the circumstances and facts at the period end. 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.

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***Services revenue***

The Company charges for its 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 Company 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.

Critical judgements in applying the Company's accounting policies***Product development expenditure***

The Company 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 Company 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 (2022: £nil). The total product development expenditure in the period is £5.8 million (2022: £3.6m million). R&D expenditure credit ('RDEC') grants received from HMRC and product development expenditure incurred are presented gross in note 6.

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

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 Company'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 2023 is £0.4 million (2022: £0.4 million) and represents the Company'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 2023 is £0.7 million (2022: £0.7 million) and is included within other receivables in the statement of financial position.

5. Revenue

An analysis of the Company's revenue is as follows:

| | 2023 | 2022 |
|-----------------------|---------------|---------------|
| | £'000 | £'000 |
| Revenue | | |
| Services | 24,594 | 16,582 |
| SaaS | 4,810 | 3,734 |
| 3 rd Party | 92 | 39 |
| Intercompany | 37,927 | 31,859 |
| | 67,423 | 52,214 |

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****5. Revenue (continued)**

An analysis of the Company's revenue by geographical market is set out below:

| | 2023 | 2022 |
|-------|---------------|---------------|
| | £'000 | £'000 |
| UK | 24,972 | 20,524 |
| ROI | 6,978 | 1,680 |
| USA | 27,420 | 20,506 |
| Other | 8,053 | 9,504 |
| | 67,423 | 52,214 |

6. Profit for the year

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

| | 2023 | 2022 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Net foreign exchange (gain)/loss | (1,874) | 410 |
| Research and development costs | 5,770 | 3,605 |
| Research and development expenditure credit grant | (479) | (503) |
| Depreciation of property, plant & equipment | 6 | 5 |
| Depreciation of right-of-use assets | - | 55 |
| Staff costs | 36,916 | 23,622 |
| Auditor's remuneration – audit of these financial statements | 11 | 10 |

7. Directors' Remuneration

| | 2023 | 2022 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Remuneration for services as directors | 424 | 391 |
| | 424 | 391 |

Directors' remuneration relates to remuneration paid by the Company. In addition, two Directors are remunerated by the ultimate parent company and it is not possible to apportion the cost for services to this Company.

During the financial year £nil retirement benefits were accruing to Directors in respect of defined contribution pension schemes (2022: £nil).

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****8. Staff numbers and costs**

The average monthly number of employees (including Executive Directors) was:

| | 2023 | 2022 |
|-----------|---------------|---------------|
| | Number | Number |
| Technical | 375 | 299 |
| Selling | 44 | 40 |
| Admin | 48 | 32 |
| | 467 | 371 |

Their aggregate remuneration comprised:

| | 2023 | 2022 |
|-----------------------|---------------|---------------|
| | £'000 | £'000 |
| Wages and salaries | 31,285 | 20,016 |
| Social security costs | 3,162 | 2,024 |
| Other pension costs | 1,405 | 867 |
| Share-based payments | 1,064 | 715 |
| | 36,916 | 23,622 |

9. Taxation expense

| | 2023 | 2022 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current tax: | | |
| Corporation tax on profits for the period | 3,300 | 2,638 |
| Adjustments in respect of previous periods | 31 | (116) |
| | 3,331 | 2,522 |
| Deferred tax (note 15): | | |
| Origination and reversal of timing differences | 42 | (26) |
| Effect of changes in tax rate | - | 11 |
| Adjustments in respect of previous periods | (54) | 6 |
| | (12) | (9) |
| | 3,319 | 2,513 |

UK corporation tax has been calculated at 19% (2022: 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 2023 was 19% (2022: 20%).

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 as at 31 March 2022 and therefore included in the prior year financial statements. Temporary differences were remeasured in the prior year using these enacted tax rates that are expected to apply when the liability is settled, or the asset realised.

We envisage our future effective tax rates to be broadly in line with the main UK corporation tax rate.

Kainos Worksmart Limited**Notes to the Financial Statements****For the year ended 31 March 2023****9. Taxation on ordinary activities (continued)**

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

| | 2023 | 2022 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Profit before tax | 17,412 | 12,477 |
| Tax at the UK corporation tax rate of 19% (2022: 19%) | 3,308 | 2,371 |
| Tax effect of non-deductible expenses | 24 | 247 |
| Adjustments in respect of previous periods | (23) | (110) |
| Impact of rate change on opening balance | - | 11 |
| Change in rate from deferred tax to current tax | 10 | (6) |
| Tax expense for the year | 3,319 | 2,513 |

In addition to the amount charged to the profit and loss account, the following amounts relating to tax have been recognised directly in equity.

| | 2023 | 2022 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Current tax relating to share options | 137 | 451 |
| Deferred tax relating to share options | (275) | (32) |
| | (138) | 419 |

10. Dividends

During the year the following dividends were declared and recognised as distributions to equity shareholders:

| | 2023 | 2022 |
|----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Dividends paid to parent company | 8,000 | 5,000 |
| | 8,000 | 5,000 |

Kainos Worksmart Limited

Notes to the Financial Statements
For the year ended 31 March 2023

11. Property, plant & equipment

| | Office equipment £'000 | Fixtures & fittings £'000 | Total £'000 |
|---------------------------------|------------------------------|---------------------------------|----------------|
| Cost | | | |
| At 1 April 2022 | 31 | 40 | 71 |
| Additions | - | - | - |
| Disposals | (3) | (40) | (43) |
| At 31 March 2023 | 28 | - | 28 |
| Accumulated depreciation | | | |
| At 1 April 2022 | 12 | 40 | 52 |
| Charge for the year | 6 | - | 6 |
| Eliminated on disposals | (3) | (40) | (43) |
| At 31 March 2023 | 15 | - | 15 |
| Carrying amount | | | |
| At 31 March 2023 | 13 | - | 13 |
| At 31 March 2022 | 19 | - | 19 |

12. Investments

| | |
|------------------------------------|---------------|
| Investments in subsidiaries | £'000 |
| Cost | |
| At 1 April 2022 | 11,515 |
| Foreign exchange adjustments | (44) |
| At 31 March 2023 | 11,471 |
| | £ |
| Provision for impairment | |
| At 1 April 2022 and 31 March 2023 | - |
| | £'000 |
| Carrying amount | |
| At 31 March 2023 | 11,471 |
| At 31 March 2022 | 11,515 |

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****12. Investments (continued)**

Details of the Company's subsidiaries are as follows:

| Subsidiary | Incorporated | Registered office | Principal activity | Holding | % |
|-----------------------------|--------------|---|----------------------|-----------------|-----|
| Kainos Worksmart Inc. | USA | WeWork Tower Place, 3280 Peachtree Road, Atlanta, Georgia, 30305, USA | Software Development | Ordinary Shares | 100 |
| Kainos Worksmart GmbH | Germany | The Sqaire 12, Am Flughafen, Frankfurt 60549 | Software Development | Ordinary Shares | 100 |
| Kainos Worksmart ApS | Denmark | Office no. 280110080 Harsdorffs Hus Office Club Kongens Nytorv 5 1050 Copenhagen | Software development | Ordinary Shares | 100 |
| Kainos Worksmart Canada Inc | Canada | 500 – 20 Wellington Street East, Toronto, ON, M5E 1C5 | Software development | Ordinary Shares | 100 |
| Kainos Worksmart SAS | France | 3-5 Rue Saint Georges TMF Pole 750009, Paris, France | Software development | Ordinary Shares | 100 |
| Kainos Worksmart OY | Finland | c/o TMF Finland Oy, Erottajankatu 9 B 3, 00130, Helsinki | Software development | Ordinary Shares | 100 |
| Formulate Kainos Limited | England | 2nd Floor, 21 Farringdon Road, London, EC1M 3HA | Software services | Ordinary Shares | 100 |
| KW Software Oy | Finland | c/o TMF Finland Oy Erottajankatu 15-17 00130, Helsinki | Software services | Ordinary Shares | 100 |
| Kainos AB | Sweden | Vasagatan 11 111 20 Stockholm, Sweden | Software services | Ordinary Shares | 100 |
| Kainos AS | Norway | c/o Azets Insigt AS, Drammensveien, 151, 0277 Oslo | Software services | Ordinary Shares | 100 |
| Kainos the Netherlands B.V. | Netherlands | Gustav, Mahlerplein 2, 1082MA, Amsterdam The Netherlands | Software services | Ordinary Shares | 100 |
| Kainos Belgium BV | Belgium | 2060 Wommelgem Nijverheidsstraat 70, Belgium | Software services | Ordinary Shares | 100 |
| Kainos OÜ | Estonia | Harju maakond, Tallinn, Lasnamäe linnaosa, Valukoja tn 8/1, 11415 Estonia | Software services | Ordinary Shares | 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 | Ordinary Shares | 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 | Ordinary Shares | 100 |
| Kainos Argentina S.A.U | Argentina | Av. Del Libertador 498, 13 th floor, "South", Buenos Aires | Software services | Ordinary Shares | 100 |
| Kainos Planning LLC | US | 355 S.Teller Street, Suite 200, Lakewood, Colorado, 80226, USA | Software services | Ordinary Shares | 100 |
| Blackline Group Inc. | US | 522 W Riverside Avenue, Suite 4197, Spokane, WA 99201 | Software services | Ordinary Shares | 100 |

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****13. Right-of-use assets**

| | Property | Total |
|---------------------------------|-----------------|--------------|
| | £'000 | £'000 |
| Cost | | |
| At 1 April 2022 | 194 | 194 |
| Disposals | (194) | (194) |
| At 31 March 2023 | - | - |
| Accumulated depreciation | | |
| At 1 April 2022 | 174 | 174 |
| Charge for the year | 19 | 19 |
| Elimination on disposal | (193) | (193) |
| At 31 March 2023 | - | - |
| Carrying amount | | |
| At 31 March 2023 | - | - |
| At 31 March 2022 | 20 | 20 |

The Company is not committed to any leases that have not yet commenced as at 31 March 2023. The maturity analysis of lease liabilities is presented in note 16.

Amounts recognised in the income statement:

| | 2023 | 2022 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Depreciation expense on right-of use assets | 19 | 55 |
| Interest expense on lease liabilities | - | 1 |

At 31 March 2023, the Company is not committed to any short-term leases (2022: none).

14. Trade and other receivables

| | 2023 | 2022 |
|------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Trade receivables | 3,609 | 2,895 |
| Amounts owed by group undertakings | 5,452 | 9,896 |
| Prepayments | 401 | 335 |
| Accrued income | 3,642 | 2,743 |
| Other receivables | 689 | 808 |
| | 13,793 | 16,677 |

The Company'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 Company within the normal course of business in the year.

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****14. Trade and other receivables (continued)**

Trade receivables and accrued income are shown net of a loss allowance for impairment.

Amounts owed by other group companies are repayable on demand and are unsecured. 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.

15. Deferred tax

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

| | Short term temporary differences £'000 | Accelerated capital allowances £'000 | Share based payments £'000 | Total £'000 |
|--|---|---|-------------------------------------|----------------|
| At 1 April 2021 | 65 | 4 | 422 | 491 |
| Debit to income statement | 1 | - | 8 | 9 |
| Credit to statement of changes in equity | - | - | (196) | (196) |
| Rate change in equity | - | - | 164 | 164 |
| At 31 March 2022 | 66 | 4 | 398 | 468 |
| Adjustments in respect of previous periods | 59 | (5) | - | 54 |
| Credit to income statement | (28) | - | (14) | (42) |
| Credit to statement of changes in equity | - | - | (275) | (275) |
| At 31 March 2023 | 97 | (1) | 109 | 205 |

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 Company intends to settle its current tax assets and liabilities on a net basis.

| | 2023 £'000 | 2022 £'000 |
|----------------------------|-----------------------|-----------------------|
| Deferred tax assets | 205 | 468 |
| | 205 | 468 |

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****16. Lease liabilities**

| | 2023 | 2022 |
|--------------------------|--------------|--------------|
| | £'000 | £'000 |
| Maturity analysis | | |
| Less than one year | 88 | 22 |
| One to five years | - | - |
| More than 5 years | - | - |
| Less: unearned interest | - | - |
| | 88 | 22 |
| Analysed as: | | |
| Non-current | - | - |
| Current | 88 | 22 |

17. Trade and other payables

| | 2023 | 2022 |
|------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Trade payables and accruals | 7,134 | 6,029 |
| Amounts owed to group undertakings | 21,346 | 7,617 |
| | 28,480 | 13,646 |
| Deferred income | 4,862 | 3,800 |
| Other tax and social security | 1,512 | 3,884 |
| | 34,854 | 21,330 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers, no interest is charged on payables.

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

There was no revenue recognised in the current reporting period that related to performance obligations that were satisfied in a prior year. All deferred income is recognised within 12 months.

Amounts owed to other group companies are repayable on demand and are unsecured.

The Directors consider that the carrying value of trade payables approximates to their fair value.

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****18. Provisions**

Other provisions are analysed as follows:

| | 2023 (£000s) | 2022 (£000s) |
|----------------------------|----------------------------|-----------------|
| Property-related provision | - | 32 |
| | - | 32 |
| | 2023 (£000s) | 2022 (£000s) |
| Current | - | - |
| Non-current | - | 32 |
| | - | 32 |
| | Property-related provision | Total |
| | (£000s) | (£000s) |
| At 1 April 2022 | 32 | 32 |
| Utilisation of provision | (32) | (32) |
| At 31 March 2023 | - | - |

The property-related provision represents management's best estimate of the Company's liability for future contractual repair works at the end of the lease period.

19. Share capital and reserves

| | 2023 £ | 2022 £ |
|--|-----------|-----------|
| Allotted, called up and fully paid - 1 ordinary share of £1 each | 1 | 1 |

The Company has one class of ordinary shares 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 retained earnings represents cumulative profits or losses, net of dividends paid, and other adjustments related to share options.

Kainos Worksmart Limited

**Notes to the Financial Statements
For the year ended 31 March 2023**

20. Pensions

The Company participates in the group operated defined contribution pension scheme. The assets of the schemes are held separately from those of the Company in independently administered funds under the control of trustees. The total cost charged to income of £1,405k (2022: £867k) represents contributions payable to these funds by the Company at rates specified in the rules of the schemes. As at 31 March 2023, contributions of £nil (2022: £nil) were payable to the funds.

21. Related party transactions

As the Company is a wholly owned subsidiary of Kainos Group plc, the Company has taken advantage of the exemption contained in FRS 101 and has not disclosed transactions or balances with wholly owned entities which form part of the Kainos Group plc Group.

22. Equity-settled share option scheme

The Company participates in a number of share option schemes relating to the parent Company, Kainos Group plc. Options are exercisable on the shares of the parent Company as per the conditions of each scheme detailed below. Options are forfeited if the employee leaves the Company before the options vest.

Kainos Group Performance Share Plan

Share options are granted to employees as determined by the Remuneration Committee of Kainos Group Plc 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.

Company Share Option Plan

Share options are granted to employees as determined by the Remuneration Committee of Kainos Group Plc. 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.

Kainos Worksmart Limited**Notes to the Financial Statements
For the year ended 31 March 2023****22. Equity-settled share option scheme (continued)****SAYE Scheme**

The Company has an all-employee share plan open to UK employees. Under the scheme, employees who participate have entered 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.

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.

Fair Values

The weighted average share price at the date of exercise for share options exercised during the period was £14.67 (2022: £17.22). In the financial year ending 31 March 2023, 175,801 options were granted on 28th June 2022 (23,124 PSP, 7,215 CSOP and 145,462 SAYE). In the financial year ending 31 March 2022, 17,979 options were granted on 29 June 2021 (14,710 PSPs and 3,269 CSOPs). The options outstanding at the year end have an exercise price in the range of £0.005 to £14.66 and a weighted average contractual life of 5.1 years.

23. Ultimate parent company

The immediate parent company is Kainos Software Limited, a company incorporated and registered in Northern Ireland. The ultimate parent undertaking of the Company is Kainos Group plc, a public company incorporated and registered in England and Wales.

Kainos Group plc is the largest and smallest group for which the Company is consolidated. Publicly available copies of the Group accounts can be obtained on the Kainos Group website at www.kainos.com or from Kainos Group plc's registered office at 21 Farringdon Road, 2nd Floor, London, England, EC1M 3HA.

24. Subsequent events

There have been no significant events subsequent to year end that would require adjustment or disclosure in these financial statements.