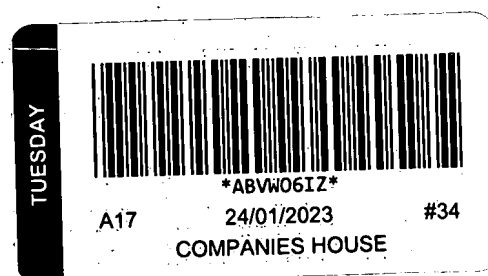


Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Annual report and financial statements

For the period from 18 January 2021 (date of incorporation) to 31 March 2022



Kyndryl UK Limited (formerly IBM Ocean UK Limited)

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Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Company Information

Directors David John Pearson
Jonathan Mark Ingram

Company secretary Martin William Graves

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Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

The directors present their Strategic report for the period ended 31 March 2022.

Principal activities and review of the business

Kyndryl UK Limited (formerly IBM Ocean UK Limited) (the "Company" or "Kyndryl UK") is a subsidiary of Kyndryl Holdings, Inc.

Kyndryl Holdings, Inc. is a leading technology services company and the largest IT infrastructure services provider in the world, serving as a partner to more than 4,000 customers and with operations in over 60 countries. We have a long track record of helping enterprises navigate major technological changes, particularly by enabling our customers to focus on the core aspects of their businesses during these shifts while trusting us with their most critical systems. Our purpose is to design, build and manage secure and responsive private, public and multi-cloud environments to accelerate our customers' digital transformations.

Kyndryl UK provides engineering talent, operating paradigms and insights derived from our data around IT patterns. This enables us to deliver advisory, implementation and managed services at scale across technology infrastructures that allow our customers to de-risk and realise the full value of their digital transformations. We do this while embracing new technologies and solutions and continually expanding our skills and capabilities, as we help advance the vital systems that power progress for our customers. We deliver transformation and secure cloud services capabilities, insights and depth of expertise to modernize and manage IT environments based on our customers' unique patterns of transformation at scale. We offer services across domains such as cloud services, core enterprise and zCloud services, applications, data and artificial intelligence services, digital workplace services, security and resiliency services and network and edge services as we continue to support our customers through technological change. Our services enable us to modernize and manage cloud and on-premise environments as "one" for our customers, enabling them to scale seamlessly.

To deliver these services, Kyndryl UK relies on our team of skilled practitioners, globally consisting of approximately 90,000 professionals within the Kyndryl Group. Given that our large and diversified customer base operates in multiple industries and geographies, we utilize a flexible labor and delivery model with a balanced mix of global and local talent as needed to meet customer-specific needs, regulatory requirements and data protection and labor laws. Our employees leverage their deep engineering expertise and extensive experience operating complex and heterogeneous technology environments to drive service quality, intellectual property development and our long-term trusted customer relationships.

We have many customer relationships that are decades long, as we provide high quality, mission-critical services that are core to operations with customers that represent the backbones of their respective industries. These customers entrust us to deliver the services they need and to manage their complex environments so that they can achieve their business objectives.

We partner with a broader ecosystem, including a wide range of hyperscale cloud providers, system integrators, independent software vendors and technology vendors from startups to market leaders. This enables us to serve our customers with the contemporary technology capabilities that best fit their needs and open new avenues for growth. This is all underpinned by our ability to integrate and operate mission-critical technology at scale using deep engineering expertise and intellectual property.

We are focused on driving revenue growth with sustainable margins by extending our leadership in the markets in which we operate while investing in our capabilities and expanding our high-value, next-generation services consistent with customer needs.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Principal activities and review of the business (continued)

	18 January 2021 to 31 March 2022 £000	as a % of revenue £000
Key indicators of financial performance		
Revenue	464,156	
Gross profit	13,292	2.9%
Operating loss	(4,524)	-1.0%
Loss before tax	(8,411)	-1.8%
Loss for the financial period	(8,411)	-1.8%
		31 March 2022 £000
Key indicators of financial position		
Cash and cash equivalents		3,816
Net current assets less Debtors > 1 year		77,873
Net assets		295,883
Current ratio*		1.4

*Referencing current assets less Debtors > 1 year divided by current liabilities per the balance sheet.

Company trading began in September 2021 through to March 2022, therefore these results represent seven months of full trading. The Company has seen revenue for this first financial period of £464,156,000. This has been driven by strong customer relationships which have continued post separation from IBM and through this transition period. Despite the ongoing impact of the coronavirus pandemic (COVID-19) to the UK economy, the Company has built on its new ways of working and continued to grow organically within its existing client base, with consistent revenue seen throughout this financial period. The operating loss in the period was £4,524,000 which included cost allocations from our former Parent. The Company's net assets position is £295,883,000. The cash and cash equivalents at the end of the period were £3,816,000. This excludes £45,161,000 which is deposited with Kyndryl Treasury Services DAC and shown within "Debtors: amounts falling due within one year" of the Company's balance sheet. As the Company is reporting against the first period of trading there are no year to year financials for comparison, however the directors are satisfied with the performance in the period.

Kyndryl UK is managed by the Kyndryl UK board of directors. The overall performance and results for all UK entities are analysed on a worldwide Kyndryl measurement basis. The development, performance, and position of Kyndryl Holdings, Inc., which includes the UK entities, is discussed on pages 14 to 26 in the Corporation's annual report for the period ended 31 December 2021, which does not form part of this report. Details of where to obtain a copy of these financial statements is shown in note 27.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Kyndryl's Spin-off

In October 2021, the Board of Directors of International Business Machines Corporation ("IBM") approved the spin-off (the "Separation" or the "Spin-off") of the infrastructure services unit (the "Kyndryl Businesses") of its Global Technology Services ("GTS") segment through the distribution of shares of Kyndryl's common stock to IBM stockholders (the "Distribution"). In conjunction with the Distribution, Kyndryl underwent an internal reorganisation following which it became the holder, directly or through its subsidiaries, of the Kyndryl Businesses. On 3 November 2021, the Separation was achieved through IBM's pro rata distribution of 80.1% of the shares of common stock of Kyndryl to holders of IBM's common stock as of the close of business on the record date of October 25, 2021. IBM retained 19.9% of the shares of the Company's common stock. IBM's stockholders of record received one share of the Company's common stock for every five shares of IBM's common stock.

Principal risks and uncertainties

The principal risks and uncertainties of Kyndryl Holdings, Inc., which include those of the Company, are discussed on page 14 of the group's annual report, which does not form part of this report.

The key business risks affecting the Company are considered to relate to the economic environment, talent retention and profitability.

Economic environment

Our business and operations could be adversely impacted by local legal, economic, political, health and other conditions, including the COVID-19 pandemic.

We are a globally integrated company and have operations worldwide. Changes in the laws or policies of the countries in which we operate, or inadequate development or enforcement of such laws or policies, could affect our business and our overall results of operations. Our results of operations also could be affected by economic and political changes in those countries and by macroeconomic changes, including recessions, inflation, rising energy costs, and currency fluctuations between the GBP and non-GBP currencies. In the current macroeconomic environment, customers continue to balance short-term challenges and opportunities for transformation. While some customers have begun to accelerate their digital transformation and increase their expenditures, the short-term priorities of other customers continue to be focused on operational stability, flexibility and cash preservation, and as such, we may experience some disruptions in transactional performance. Additionally, customers' short-term priorities, as well as quarantines, limitations on travel, supply chain disruptions and other factors associated with the COVID-19 pandemic have resulted and may continue to result in delays in some services projects.

We are exposed to currency risk that could adversely impact our costs

We derive a significant percentage of our costs from our affiliates operating in local currency environments, and those costs are affected by changes in the relative values of non-GBP currencies and GBP, as well as sudden shifts in regional or global economic activity such as those associated with the COVID-19 pandemic.

A lowering or withdrawal of the rating assigned by rating agencies may increase our future borrowing costs, reduce our access to capital and adversely impact our financial performance.

Any rating assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency's judgment, current or future circumstances relating to the basis of the rating, such as adverse changes to our business, so warrant. A reduction in our rating to below certain levels could cause certain customers to reduce or cease to do business with us, which would adversely impact our financial performance.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Principal risks and uncertainties (continued)***Talent Retention***

If we are unable to attract and retain key personnel and other skilled employees, our business could be harmed.

If any of our key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Although we have arrangements with some of our executive officers designed to promote retention, our employment relationships are generally at will, and key employees may leave us. We intend to continue to hire additional highly qualified personnel but may not be able to attract, assimilate or retain similarly qualified personnel in the future. In addition, much of our future success depends on the continued service, availability and integrity of skilled employees, including technical, sales and staff resources. Skilled and experienced personnel in the areas where we compete are in high demand, and competition for their talents is intense. Our inability to retain skilled employees could intensify the adverse impact of a shortage of critical skills. Changing demographics and labor workforce trends also may result in a shortage of or insufficient knowledge and skills. Further, as global opportunities and industry demand shift, realignment, training and scaling of skilled resources may not be sufficiently rapid or successful. Any failure to attract, integrate, motivate and retain these employees could harm our business.

Profitability

We may not meet our growth and productivity objectives.

Our goals for profitability and growth rely upon a number of assumptions, including our ability to further develop our business and simplify our operations. The risks and challenges we face in connection with our strategies include expanding our professional services capability and ensuring that our services remain competitive in a rapidly changing technological environment. Customer adoption rates and viable economic models are less certain in highly competitive segments. Additionally, emerging business and delivery models may unfavorably impact demand and profitability for our solutions or services. If we are unable to find partners to develop cutting-edge innovations in a highly competitive and rapidly evolving environment or are unable to implement and integrate such innovations with sufficient speed and versatility, we could fail in our ongoing efforts to maintain and increase our revenue and profit margins.

A lack of retention of existing customers and sales of additional services to customers could adversely impact our revenue and results of operations.

Our ability to maintain or increase our revenues and profit may be impacted by a number of factors, including our ability to retain existing customers and sell additional, comparable gross margin services to our customers. We may incur higher customer retention costs as a result of the Spin-off and as we seek to grow our customer base and expand our markets. Moreover, to the extent we are unable to retain and sell additional services to existing customers, our revenue and results of operations may decrease. Our outsourcing customer contracts typically have an average duration of over five years and, unless terminated, may be renewed, or automatically extended on a month-to-month basis. Our customers have no obligation to renew their services after their initial contract periods expire. The loss of business from any of our major customers, whether by the cancellation of existing contracts, the failure to obtain new business or lower overall demand for our services, could adversely impact our revenue and results of operations.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Future developments

Kyndryl UK is committed to the health and continuous improvement of the vital systems at the heart of the UK digital economy.

The UK Government's digital Strategy 2022 asserts that the UK's economic future, jobs, wage levels, prosperity, national security, cost of living, productivity, ability to compete globally and our geo-political standing in the world are all reliant on continued and growing success in digital technology, and that the UK must strengthen its position as a Global Science and Tech Superpower and that the government is taking steps to achieve this.

In the Integrated Review of Security, Defence, Development and Foreign Policy, the Prime Minister set out a vision for the UK in 2030. This called for the UK to be a recognised Science and Tech Superpower that is at the forefront of global regulation on technology, cyber, digital and data.

Kyndryl UK participates at the heart of this industry. We provide services for customers' technology environments that power their businesses. These services span areas such as management of mission-critical systems across dedicated data centers and multiple clouds. As customers advance their digital transformations, they are looking for partners that understand their business objectives and unique digital journeys and have the skills to instrument and engineer the IT environments to enable their transformations. The Company's long standing position as an informed and trusted partner, with decades-long relationships and leading capabilities, provides us with the knowledge and expertise to help existing and new customers realise their future. The UK market for these services is large and dynamic and through continued collaboration and partnership with a broad community of alliance partner organisations, Kyndryl UK can serve an increased share of this growing market. Growth in this market is driven by services that are aligned to customers' transformations, including public cloud managed, data, security intelligent automation services and managed services for edge environments representing a smaller portion of the market. Several trends underpin the growth of our market, including:

- Greater demand for digital transformation services. Companies continue to digitally transform to deliver better customer experiences and compete more effectively, which drives the need for services to support modernisation of IT within the enterprise. The COVID-19 global pandemic has accelerated this already pervasive trend, as organisations look to further their digital capabilities. While customers seek to transform, skills availability often represents a challenge, with lack of skills ranked as one of the top three impediments to transformation of the IT environment according to Technology Business Research, Inc.
- Ongoing migration to the cloud. Companies continue to migrate workloads to the cloud, adopting new capabilities for flexibility, workload portability and management. Public cloud is an increasingly critical component of enterprise IT strategy. These transitions are often complex, with companies frequently seeking assistance from service providers. Gartner forecasts that by 2026, 90% of large organisations will have engaged external service providers to migrate applications to the cloud, an increase from 53% in 2020. The extension of public cloud services to multiple environments in different locations has given rise to distributed cloud and migration of workload to these infrastructures that have a greater fit for purpose.
- Rapid data growth. As economies have evolved digitally, significantly increasing data volume, management of this data has become much more complex. International Data Corporation (IDC) estimates that in 2021, enterprises created, captured, and replicated 45.9 zettabytes of data. The challenge for many organisations is how to collect, harness and govern this data for insights that yield business results and realize data as a differentiator. In order to leverage advanced capabilities such as artificial intelligence and machine learning to enable their business use cases, enterprises need to address data privacy, compliance, security, multicloud data management and data governance across physical and virtual layers of the IT estate.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Future developments (continued)

- Increasing need for secure systems. As technology environments become increasingly complex and online, remote and distributed work environments persist, cybersecurity will remain of paramount importance as threats proliferate. Breaches in security can have severe, lasting financial and reputational consequences on businesses. In response, businesses continue to build out their cybersecurity efforts, using service providers to augment their capabilities. Enterprises seek service providers that can deploy the expertise and resources needed to manage their growing cybersecurity needs with an efficient and comprehensive approach. Gartner estimates approximately 80% of organisations currently have 16 or more tools from different vendors in their cybersecurity portfolio, realise vendor consolidation as an avenue for reduced costs and better security that addresses the complexity in their IT environments and are, therefore, interested in vendor consolidation strategies.
- Accelerating pace of technological advancement. As companies adopt new technologies for improved business performance and innovation, they face a challenge in complexity to integrate these new technologies with their existing IT estates. As a result, the required skills, integration burden and cost in end-to-end operational management often increases. This drives adoption of new capabilities, such as automation, artificial intelligence and machine learning to ensure that the IT environment is well designed and orchestrated to effectively realise business objectives.

The Company's vast expertise in mission critical systems can help our customers accelerate their transformation projects and meet their individual business priorities. We can help our customers to;

- Improve customers experiences, enhance employee productivity, and drive business agility and growth by accelerating the transformation to cloud and hybrid environments
- Drive innovation and sustainability through data, AI, 5G, Edge and other leading edge technologies
- Deploy intelligent IT automation and management to minimise technology costs and improve performance
- Protect, detect, and respond to cyber incidents and become a more secure and resilient business

As we look ahead, we are positioned for growth, as the Company continues to sign new large scale projects with customers and as we collaborate with our partners and strategic alliances with nearly thirty leading technology partners.

Together with the recent announcement of a new UK Company President whose skills lie in delivering large-scale IT solutions, building teams that can operate at scale and working as part of global operating environments, we have some of the world's best talent that design, run and manage the most advanced technology infrastructures each day. The year ahead is filled with immense opportunity to advance the vital systems that power economic and human progress. With our partners and customers, we co-create solutions to help enterprises reach their peak digital performance.

Financial risk management

The Company is exposed to a variety of financial risks as a result of its operations which include the effects of changes in market prices, credit risk, liquidity risk, interest rate risk and currency risk. The Company has a strong risk management program in place aligned to the worldwide programme of the Company's ultimate parent company, Kyndryl Holdings, Inc.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Financial risk management (continued)***Price risk***

The financial risk posed by external vendors is managed and controlled by Kyndryl's central procurement function. Procurement is the only business unit in Kyndryl which is authorised to make financial commitments to external vendors. The unit has responsibility for achieving overall value for Kyndryl in terms of supplier selection at the optimum price. All procurement activities are carried out under worldwide Kyndryl guidelines. The financial risk posed by sales price is managed through a central pricing team. The business only agrees to sign contracts once the appropriate pricing approval has been obtained.

Credit risk

The Company has in place policies that require appropriate credit checks on potential customers before sales are made, and regular reviews of credit limits on existing customers are carried out.

Liquidity and interest rate risk

If required, the Company has access to internal funding from Kyndryl Treasury Services Designated Activity Company (In House Bank) in Ireland. The In House Bank is ultimately funded by Kyndryl Holdings, Inc. Any borrowing is treated as short term debt finance. The Company did not have any other short term or long-term debt finance as at 31 March 2022. Currently the Company has a net cash position and deposits surplus cash to the In House Bank. Given the cash position, liquidity risk is minimal. As the Company invests or borrows cash balances internally, it operates daily in either a cash or overdraft position with no fixed period debt in place. Interest is paid or earned on the daily balance using the variable one month interest rate as the base.

Currency risk

Changes in the relative values of non-UK currencies to the UK pound affect our financial results and financial position. Large changes in currency exchange rates relative to our functional currency could increase the costs of our services to customers relative to local competitors, thereby causing us to lose existing or potential customers.

As part of Kyndryl's global hedging strategy the Company operates a 12 month forward rolling hedging programme with a non UK group undertaking to hedge a proportion of its UK pound costs arising from transactions with both related companies and suppliers. Foreign currency forward contracts are entered into with a third party bank by Kyndryl Holdings, Inc. which in turn passes down the impacts of these derivatives by entering into matching intercompany derivatives with the Company.

Section 172 Statement

The board of directors, in line with their duties under s.172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole and in doing so have regard to a range of matters and stakeholders when making decisions for the long term. Key decisions and matters that are of strategic importance to the Company are appropriately informed by s.172 factors.

The Company's strategy is in line with that of its ultimate parent, Kyndryl Holdings, Inc. ('Kyndryl'). Kyndryl's group strategy and business model are described in the annual report of Kyndryl Holdings, Inc. for the period ended 31 December 2021 (which does not form part of this report).

In addition to the governance provided by the board of directors, as a subsidiary of Kyndryl Holdings, Inc. the Company is subject to extensive organisational and management systems which enable the board through its directors, and through corporate delegations, to organise and oversee governance of the day-to-day operational activities of the Company. Further details of these systems are set out in the Company's Corporate Governance Statement.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Section 172 Statement (continued)

The board recognises that the long-term success of the Company's business is dependent on the way the Company interacts with stakeholders, including employees, clients, suppliers, the community and the environment.

Employees

The Company engages with and listens to employees in many ways, including through engagement surveys; virtual town hall meetings; internal publications; regular updates from leadership; virtual round tables and newsletters. Through the company management system, the Company maintains responsibility for safeguarding the interests of employees. In addition, the Company, through the board of directors and applicable delegations, manages and oversees the Company's obligations in relation to the employee pension schemes.

During the period the directors and other local leaders were briefed on a range of employment matters, including evolving the Kyndryl culture and development of the Kyndryl Way, employee engagement, diversity, inclusion and equity programmes, talent management and diversity ambition and competitive performance based rewards. Hiring Engagement survey results are analysed, reviewed and action plans developed as a result of the feedback; these surveys give employees an opportunity to express their views on matters of company strategy, management and employee inclusion and experience, and for the Company to transform its culture in response to this feedback.

Customers

Kyndryl aims to be our customers most vital and trusted services partner. To serve them we bring together the best talent, the right technology, insights, and operating models to help our customer to accelerate their unique business transformation and gain maximum business value from IT.

Kyndryl focuses on building strong relationships with its customers and invests considerable time with them, to understand their needs and how Kyndryl can improve its service to them.

Under the direction of the Delivery Integration Leader, the Company's Service Excellence Team (SET) fosters and monitors effective customer relationships and supports best practice engagement with customers. In the period, SET oversaw a wide range of matters and reported regularly on customer satisfaction ratings across the Kyndryl UK business, monitoring six key touch points across NPS Run, Relationship and Sales surveys.

Led by one of the directors in her role as the UK President, regular Leadership Team meetings were held throughout the period and also attended by other directors, who intend to continue this cadence into the future. Through this forum, the directors considered a wide range of matters important to the Company's customers, including updates on the transition from IBM; the impact of COVID-19; and reviews of strategic partnerships and customer needs.

Further details of both the Service Excellence Team and the Leadership Team can be found in the Corporate Governance Statement.

Suppliers

The board recognises that the relationship with suppliers is important to the Company's long term success. The board has reviewed the Company's Modern Slavery Act obligations and approved the Company's Modern Slavery Act statement for publication given the importance of such matters to the Kyndryl supply chain. In this context, consideration was also given to the impact of the Company's operations on the wider community and the importance to the Company of maintaining its reputation for high standards.

The Company's procurement organisation aspires to be a leader in sustainable procurement. Kyndryl has in place programmes with which it requires suppliers to comply, which in turn can help those suppliers to develop their own capacity to demonstrate their commitment to achieving social and environmental objectives. These programmes are directed to all Kyndryl suppliers, whether they are global or locally based here in the UK.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Section 172 Statement (continued)***Suppliers (continued)***

Consideration of impact to suppliers of business operations is also reflected in Kyndryl's collaboration with the Responsible Business Alliance, the principles of which are embedded in local processes. Further details are given in the Corporate Governance Statement.

The board supports these measures and considers impact to suppliers, through its implementation of the management system and approved Kyndryl Procurement processes. Further details can be found in the Corporate Governance Statement, together with those of other UK based supplier support processes and initiatives.

Community and Environment

Kyndryl UK, as a part of the broader Kyndryl group and supported by the board, seeks to ensure that it makes a positive contribution to the communities and societies of which it is a part, and it recognises its responsibilities to those communities.

Kyndryl UK's corporate social responsibility (CSR) and environmental, social and governance (ESG) strategy is at the heart of our mission to become a purpose driven company. Kyndryl UK will power human progress through strong ESG practices that deliver value reliably and consistently to our employees, customers, stakeholders, and communities.

Kyndryl UK commits to supporting the social and environmental initiatives where we can leverage our technology and workforce to make the greatest impact. Kyndryl UK's goal is to build a just and sustainable future for all by addressing inequities in our societal systems. Based on the results of a Materiality Assessment and Kyndryl UK's business priorities, and in alignment with the United Nation's Sustainable Development Goals (UN SDGs), our CSR and ESG strategy focuses on three impact areas: Future Forward Education; Climate Action; and Inclusive Economy.

Future Forward Education

Supporting equitable access to student-centred and technology-enabled education, ensuring all learners acquire the skills needed to promote sustainable development.

Climate Action

Supporting an equitable transition to an environmentally sustainable future through innovative technology. We are addressing the impacts of climate change by strengthening resilience and adaptive capacity in the communities most affected by climate change. Kyndryl's full corporate policy for Environmental affairs can be found on the web page: https://www.kyndryl.com/content/dam/kyndrylprogram/cs_ar_as/Kyndryl_Corporate_Policy_139_Environmental_Affairs.pdf.

Inclusive Economy

Investing in bold ideas that build a representative economy in which all individuals and communities participate in and benefit from sustained economic and social prosperity.

In March 2022, Kyndryl UK launched Carbon Literacy Education for its employees in partnership with the Carbon Literacy Trust. Carbon Literacy develops employees' understanding of the impact of climate change and the actions individuals and organisations can take to reduce their carbon emissions. The education, which is interactive, and action orientated, culminates in employees submitting individual and group carbon reduction pledges. Employees that submit satisfactory pledges to the Carbon Literacy Trust achieve Carbon Literate certification. For every certificate issued, a donation is made to support Carbon Literacy education in the community. Carbon Literacy for employees aligns with Kyndryl's environmental and social goals and supports the journey to net zero.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Strategic report (continued)
For the period ended 31 March 2022

Section 172 Statement (continued)***Inclusive Economy (continued)***

Kyndryl's social strategy includes engaging employees in social and environmental issues they care about and providing them with opportunities to give back to the community. In February 2022 Kyndryl launched its global giving and volunteering online platform in partnership with Deed. The Deed platform enables employees to donate to vetted charities of their choice, find or set up volunteering opportunities, and log their volunteering hours. Kyndryl's Deed launch campaign included donation matching and opportunities for the countries/regions with the highest percentage of employees registered on the platform to direct charitable donations to vetted non-profit organisations.

At the start of calendar year 2022 Kyndryl UK Limited began the process of joining Business in the Community (BITC) and establishing a corporate partnership with the Prince's Trust. Going forward, Kyndryl UK Limited will utilise the BITC's advisors, events and community programmes to develop its CSR practice and provide giveback opportunities for its employees. Membership of BITC will also support Kyndryl's goal to become an employer of choice by engaging with its campaigns, including those focusing on inclusive recruitment and wellbeing. Through its partnership with the Prince's Trust, Kyndryl will support digital employability skills programmes that benefit young people who are unemployed, underemployed or vulnerable. The Prince's Trust corporate partnership will also enable Kyndryl's employees to contribute to the community through skills-based volunteering.

Further details of the Company's support to its community and its approach to environmental matters can be found on the Corporate Social Responsibility and Climate Action web pages (<https://www.kyndryl.com/gb/en/about-us/corporate-responsibility> & <https://www.kyndryl.com/gb/en/about-us/corporate-responsibility/environmental-sustainability>).

The Company's board also recognises that trust and responsibility lie at the heart of Kyndryl's business, and that this is the basis upon which that business operates and flourishes. All stakeholders - employees, clients, suppliers, etc. - depend on the integrity by which Kyndryl operates. Each year all company employees undertake mandatory global business conduct training and commit to following Kyndryl's comprehensive 'Business Conduct Guidelines'. Similarly, all employees undertake mandatory training annually on matters such as cyber security and data privacy. Kyndryl's Privacy Statement outlines the Company's position on protecting data as part of its "Governance" approach and can be viewed here: <https://www.kyndryl.com/gb/en/privacy>.

Health, Safety and Well-Being

We have a clear commitment to the health, safety and well-being of our employees. Kyndryl has an experienced Health and Safety team comprised of medical doctors, nurses, industrial hygiene, safety and workforce health experts. This team has implemented a health and safety management system that ensures compliance with all local health and safety regulations, minimises workplace health and safety risks and provides for safe and healthy workplaces so our employees can do their best work.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

**Strategic report (continued)
For the period ended 31 March 2022**

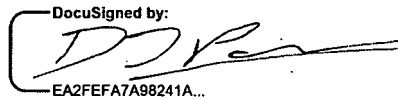
Section 172 Statement (continued)

Health, Safety and Well-Being (continued)

Throughout the COVID-19 pandemic, Kyndryl's priority has continued to be the health and safety of employees, customers and partners, while supporting our customers' operations. We have a comprehensive, global pandemic management plan that is regularly updated to reflect the changing environment of workplace health and safety. Our employees are supported with access to our Health and Safety team, education, timely updates and forums to ask questions and raise concerns. Additionally, we have continued to focus on mental health and supporting our employees through different phases of the pandemic.

Approved and signed on behalf of the board

David John Pearson
Director

DocuSigned by:

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Date: 20 January 2023 | 08:13 PST

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

The directors present their annual report and the audited financial statements of Kyndryl UK Limited (formerly IBM Ocean UK Limited) (the "Company" or "Kyndryl UK") for the financial period ended 31 March 2022.

A review of the business including the results for the period, details of principal risks and uncertainties, key performance indicators and future developments of the Company's business are covered in the Strategic report.

Dividends

The Directors did not recommend the payment of a dividend for the period ended 31 March 2022.

Directors

The directors who served the Company during the period and up to the date of signing these financial statements were as follows:

Tosca Maria Colangeli (appointed 1 September 2021, resigned 12 January 2023)

Jonathan Mark Ingram (appointed 2 November 2021)

David John Pearson (appointed 2 November 2021)

Christopher Cook (appointed 1 September 2021, resigned 3 November 2021)

Sreeram Visvanathan (appointed 18 January 2021, resigned 3 November 2021)

Directors' indemnity and insurance

Kyndryl Holdings, Inc. has purchased Directors' and Officers' liability insurance cover for the Company directors against liabilities arising in relation to the Company, as permitted by S234 of the Companies Act 2006.

Political and charitable donations

Kyndryl UK launched its internal online giving platform in February 2022, which allows employees to donate to vetted registered charities. Charitable donations in the period amounted to £4,246.

Kyndryl Business Conduct Guidelines state that Kyndryl will not endorse, support or make contributions or payments to any political parties or candidates, including through political action committees, campaign funds, trade or industry associations or similar organisations. No political donations have been made in this financial period.

Research and development

Research and development expenditure for the period has been *£nil*.

Employees with a disability

Under the 2010 Equality Act Kyndryl's focus on disability strives to eliminate disadvantage and provide support to employees with disabilities, such that we are able to attract, develop and retain the broadest range of experience and skill.

Kyndryl UK commits to providing workplace adaptations to ensure that every disabled employee is able to achieve their career potential.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Employee engagement

Employees receive information on the financial and economic factors affecting the performance of the business, along with product offering announcements, details of organisational changes and all other matters of direct concern and interest to them. This information is provided by email and also shared on the Company's intranet site and through Kyndryl Internal News & HR updates.

There is a quarterly cascade of business performance information cascaded from the Kyndryl Holdings, Inc. Chairman and CEO, followed by a geography analysis and then a country analysis. This is available to every employee.

Business Leaders run virtual Town Hall meetings providing communications on current business performance, and other topics of interest.

Managers are an essential element of the communications cascade and key messages are shared on team calls and in face-to-face meetings.

An annual pulse survey evaluates employee sentiment and engagement.

Consultation bodies, consisting of representatives of the employee population who are elected to represent the views of employees and consult with the Company on major areas of interest, are formed as and when required.

In February 2022 the Company launched a global volunteering and giving platform in partnership with Deed.

The Deed platform features a catalogue of over two million not for profit organisations and the ability to track and report volunteer hours globally. This platform enables employees of Kyndryl Holdings, Inc. to create and manage programmes, fundraisers, and volunteer activities across our markets.

Remuneration***Our Compensation Philosophy***

Kyndryl's Compensation Committee bases its compensation decisions with respect to the compensation of our executive officers on the following principles:

- Pay for performance – the majority of executive compensation opportunity is performance-based and tied to the Company's business results and individual performance;
- Align with shareholders – incentives are tied to both short-term and long-term performance goals to balance risk while rewarding for delivering financial, operating and strategic performance aligned with the Company's business strategy and shareholder interests; and
- Pay competitively – total target compensation levels are competitive to attract and retain the best, diverse talent; actual pay levels will vary based on performance results

Corporate Governance Statement

The Company benefits from global corporate governance systems put in place by its ultimate parent company, Kyndryl Holdings, Inc. Kyndryl Holdings, Inc. is listed on the New York Stock Exchange, which is a recognised equivalent listing regime to that of the UK. Kyndryl Holdings, Inc. has in place a corporate governance statement which can be found at: <https://investors.kyndryl.com/governance/governance-documents/default.aspx>. This Directors' report voluntarily discloses relevant extracts of this statement as appropriate.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Corporate Governance Statement (continued)

Kyndryl Holdings, Inc. designs and deploys controls, policies and procedures for and into its subsidiaries around the world, including the Company. This is designed to ensure, among other things, a harmonised approach to corporate governance within and across the Kyndryl group.

For example, there is a code of ethics applicable to all employees across the Kyndryl group, including directors and executive officers, the Kyndryl Business Conduct Guidelines, which are available on the Kyndryl website at: <https://investors.kyndryl.com/governance/governance-documents/default.aspx>.

Our Business Conduct Guidelines are applicable to all of our directors, officers and employees, and sets forth our policies and expectations on a number of topics, including conflicts of interest, compliance with laws (including insider trading laws), use of our assets and business conduct and fair dealing.

In addition, there are a number of Kyndryl corporate directions, in the form of corporate policies, instructions and organisational letters which are issued by Kyndryl Holdings, Inc, and which provide a framework of various corporate governance principles to be applied across the Kyndryl group.

Policies and uniform standards and practices are established by these global corporate directions which are the group's primary method for documenting and communicating its policies, delegations and instructions to local management and employees. For example, procurement matters are delegated to the local procurement function and legal matters to the local legal function.

The Company benefits from these centralised group directions from identifying common standards, policies, procedures and delegations to be applied, among other things, across business processes, applications, information, technology and security to ensure coordinated management and operation of the Group's business and support for clients, other trading partners and employees on a multi-jurisdictional basis. The Company has not adopted a separate code of governance and implements these global controls, policies and procedures to govern and manage the activities of UK business operations. The directors are active in management and oversight of the local business, including compliance with these referenced Kyndryl group directions where applicable. Where driven by local need, the board supports additional controls, policies and procedures.

Audit Committee

The Kyndryl Holdings, Inc. Audit Committee extends to all entities consolidated in the Kyndryl Group. As such, the Company benefits from the oversight of the Kyndryl Holdings, Inc. Audit Committee, the Charter for which can be found on the Kyndryl Holdings, Inc. investor website '<https://investors.kyndryl.com/corporate-governance/governance-documents>'.

The Kyndryl Holdings, Inc. Audit Committee consists entirely of independent directors, each of whom meets the independence requirements set forth in the listing standards of the New York Stock Exchange, Rule 10A-3 under the Exchange Act and the Audit Committee charter. Each member of the Audit Committee is financially literate, and each director has accounting and related financial management expertise.

The Audit Committee is responsible for overseeing reports of the group's financial results, audit reporting, internal controls, and adherence to our Business Conduct Guidelines in compliance with applicable laws and regulations. Concurrent with that responsibility, as set out more fully in the Audit Committee charter, the Audit Committee will perform other functions, including:

- selecting the independent registered public accounting firm, approving all related fees and compensation, overseeing the work of the independent accountant, and reviewing its selection with the Board;
- annually preapproving the proposed services to be provided by the accounting firm during the period;

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Corporate Governance Statement (continued)***Audit Committee (continued)***

- reviewing the procedures of the independent registered public accounting firm for ensuring its independence and other qualifications with respect to the services performed for us;
- reviewing any significant changes in accounting principles or developments in accounting practices and the effects of those changes on our financial reporting;
- assessing the effectiveness of our internal audit function and overseeing the adequacy of internal controls and risk management processes; and
- meeting with management prior to each quarterly earnings release and periodically to discuss the appropriate approach to earnings press releases and the type of financial information and earnings guidance to be provided to analysts and rating agencies.

Stakeholder Relationships and Engagement

Kyndryl UK is committed to principles of business ethics and lawful conduct. It is Kyndryl UK's policy to conduct itself ethically and lawfully in all matters and to maintain Kyndryl UK's high standards of business integrity. Employees must at all times comply with the Kyndryl Business Conduct Guidelines. Violation of any Kyndryl guideline is cause for discipline, including dismissal from the Company. Employees should consult their management immediately if they have any question whether their actions could violate a Kyndryl guideline. Furthermore, it is Kyndryl UK's practice to voluntarily and promptly disclose known violations of government procurement laws to appropriate officials of government.

Kyndryl UK employees should immediately make known to appropriate levels of management, either directly or through the Open Door or Confidentially Speaking programs, any and all allegations of violations in connection with any government contract.

Talent and Culture

Our business is our people, and our talent strategy revolves around our ability to best serve our customers through ongoing investment in talent and skill development. We attract, develop and retain talent in a dynamic and competitive environment. We are focused on optimising the employee experience at Kyndryl through:

- **Attracting:** We create technical careers of the future through increased skill development to meet and exceed new market demands
- **Developing:** We align our people's goals with our customers', promoting acquisition of critical skills on an individual level and continuous learning
- **Retaining:** We retain talent through increased career mobility, internal upskilling, reskilling opportunities and promotions

We are committed to building the technical careers of the future and have made investments in training and skills to ensure our people are relevant, experienced and technically positioned to serve our customers on their most complex challenges. We continue to expand our certifications and accreditations each year through consistent investment in skill development around emerging technologies and key areas for growth. We offer comprehensive market-competitive rewards and benefits programs including health benefits, mental health support and Employee Assistance Plans, retirement savings benefits, paid time off and recognition programs, among others.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Corporate Governance Statement (continued)**Inclusion, Diversity and equity ("ID&E")**

We empower Kyndryl employees to embed ID&E throughout our business to engender a diverse workforce and inclusive, equitable culture that delivers exceptional service for our customers and advances the vital systems that power human progress.

We will uphold and build upon a strong history of inclusion, diversity and equity. Key diversity and inclusion objectives are:

- Connected and inclusive culture: Drive a culture where employees feel a sense of inclusion and belonging
- Diverse and representative teams: Attract, develop and retain diverse talent across levels and geographies
- Embedding ID&E within business and operations: Embedding ID&E in every part of our business
- Community engagement and advocacy: Cultivate opportunity and promote equity for under-served communities

Customers

The s.172 Statement in the Strategic report provides details of how the Company supports and builds relationships with its customers and the directors' focus on understanding customer needs.

Kyndryl operates an enterprise-wide Customer Experience programme, based on Medallia and Net Promoter Score (NPS), to ensure Kyndryl actively seeks feedback from its customers and uses this to continually improve their experience of working with Kyndryl. The Company's NPS programme brings this together to give a 360 degree view of client experience and feedback. In particular, and as set out in the Company's Strategic report, the Company has a Service Excellence Team (SET) charged with understanding and fostering effective customer relationships. Further details regarding the recent activity of this team can be found in the s.172 Statement.

The regular Leadership Team meetings also provide an opportunity for the directors to understand the current needs of the Company's customers and to target business responses accordingly. Throughout the period the Leadership Team regularly considered the impact on our customers from the Covid pandemic and the transition from IBM. Further details of recent team activity in this respect can be found in the s.172 Statement.

Our strategy is centered on our ability to build and enrich trusted relationships with customers and technology partners, differentiating through our proven ability to create and deploy scale-derived intellectual property, provide mission-critical expertise across industries and partner with a broad ecosystem for contemporary capabilities that best suit customers' needs. We have a strong and long-standing foundation developed by governing and managing complex technology environments, including IBM (e.g., Red Hat and Cloud Paks) and third-party technologies (e.g., VMware, ServiceNow and Microsoft). We are extending these capabilities to an even broader ecosystem of technology providers, including new strategic relationships with Microsoft and Google Cloud announced in fourth quarter of the calendar year 2021, and are developing more services that are digitally consumable to expand accessibility to new customers and markets.

We have a long track record of running customers' technology environments, enabling them to focus on the core aspects of their businesses. Given the nature of the work we do, we have a unique perspective on the operating paradigms that enable the high-quality technology environments which our customers have come to rely on for their most critical systems. This position enables us to meet customers where they are in their unique digital transformations, work alongside our customers to take them where they want to be and in turn enable them to realise the full, at-scale value of that journey. Underpinning all of this is our intellectual property, mission-critical expertise across industries and a broad ecosystem.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Corporate Governance Statement (continued)**Partnership and Alliance Ecosystem**

While we maintain a large and strong partnership with IBM, we are continuing to enhance and develop strategic partnerships with companies in the ecosystems most relevant to our customers' digital transformations. This includes building new routes to market across these ecosystems to serve as a multiplier enabling us to expand business via partners such as: public cloud providers, ISVs, technology providers (ranging from established, scaled players to growth-stage start-ups), system integrators, business consulting firms and business services providers. These relationships bring value to our customers through broader access to best-in-class solutions that are tailored for their unique technology environments and digital journeys. Kyndryl Holdings, Inc. announced several partnerships in the fourth quarter of the calendar year 2021, including with Microsoft, Google, SAP and VMware, that accelerate broader market participation, joint solution development and investment in skills and certification enhancements for Kyndryl Holdings, Inc. and its subsidiaries. We have established dedicated teams to support our key alliance partners and will continue to co-create and co-market with them to deliver value to our mutual customers, driving differentiation in the market with industry leading technology and Kyndryl services.

Suppliers

Kyndryl's Global Procurement Policies and Practices which are adopted by Kyndryl UK provides the framework that address the evaluation and assessment of new and existing suppliers to verify they meet Procurement criteria for qualified suppliers (for example, financial solvency, compliance with applicable laws and regulations and Kyndryl's social and environmental requirements).

Kyndryl's Supply Chain organisation is responsible for overseeing Kyndryl's governance in relation to its global network of suppliers. Central to this effort is collaboration with industry groups focused on sustainable and responsible practices such as the Responsible Business Alliance (RBA).

Kyndryl UK endorses the RBA Code of Conduct for its own operations and extends this Code to its direct suppliers of goods and services. Fundamental to adopting the RBA Code is the understanding that a business, in all its activities, must operate in full compliance with the laws, rules, and regulations of the countries in which it operates. The Code encourages participants to go beyond legal compliance, drawing upon internationally recognised standards, in order to advance social and environmental responsibility and business ethics.

The Code consists of five sections: Labour, Health and Safety, Environment, Ethics, and Management Systems. Each section has provisions describing specific requirements associated with working hours, rest days, prevention of human trafficking, treatment of employees, safe workplace practices, conservation of resources, fair business practices, and formal processes to ensure compliance. The RBA Code encompasses for Kyndryl UK suppliers the minimum social responsibility standards Kyndryl UK expects from them as a condition of doing business with Kyndryl.

Kyndryl UK recognises that a diverse supplier base is integral to delivering its corporate objectives. The Company also works with organisations which certify businesses which are majority owned by women or ethnic minorities. Through close collaboration with these organisations, the Company has identified diverse suppliers who are innovative, responsive and add value to the services Kyndryl UK delivers to its clients. Utilising these suppliers allows the Company to positively impact UK communities.

Community and Environment

Kyndryl UK is committed to advancing a sustainable and inclusive future for the global communities where we live and work. Kyndryl UK will focus on key areas for investments to deliver positive impacts in society. These focus areas include education, climate action and inclusive economies.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Corporate Governance Statement (continued)***Community and Environment (continued)***

The Corporate Social Responsibility & Citizenship (CSR) Team under the Corporate Affairs organisation is responsible for the overall policy of community involvement of employees and for providing assistance and direction to business units and division executives for all aspects of community engagement, charitable giving, and volunteerism programs. CSR is the sole organisation within Kyndryl UK that can donate Kyndryl UK assets, including cash, products and services. Kyndryl UK's Environmental Social Governance (ESG) practice is also a core part of the CSR function. The ESG practice is responsible for developing progressive social and environmental commitments, working with internal and external stakeholders to align on key ESG priorities and initiatives and informing broader Kyndryl UK CSR and corporate strategy on ESG issues.

Under the leadership of the CSR Team, Kyndryl has assembled a global ESG Executive Committee that will focus on driving impacts on the social and environmental issues most material to Kyndryl. The ESG Executive Committee is comprised of C-level executives who will meet regularly to report on their progress on social and environmental commitments and establish ESG goals throughout the period.

In addition to the CSR Team and ESG practice, Kyndryl UK also demonstrates its commitment to CSR through its work with the global and local Diversity, Equity and Inclusion Team. This team is dedicated to creating an equitable and inclusive workforce for Kyndryl and its employees.

Kyndryl has a strong commitment to operating a sustainable and responsible business. As a newly independent company, as of 4 November 2021, Kyndryl UK Limited is working to establish its own operational baseline, including those on climate and sustainability issues. That baseline will be used to establish our integrated Environmental and Energy Management Systems (E&EnMS) addressing sustainable practices, such as energy conservation, energy efficiency and renewable energy, waste, water and biodiversity.

Kyndryl will build its net zero goal and GHG emissions targets on the scientific recommendations of the United Nations Intergovernmental Panel on Climate Change (IPCC).

Kyndryl plans to certify to the ISO certifications most relevant to Kyndryl, including the ISO 14001 and ISO 50001 standards. Kyndryl will also leverage industry best practices to govern its quality management system, processes and tools to ensure operations meet the high standards of sustainability compliance and responsible business practices that clients and partners expect.

Further details of Kyndryl's Corporate Social Responsibility programme and partnerships can be accessed at: <https://www.kyndryl.com/gb/en/about-us/corporate-responsibility>. Information about Kyndryl's environmental sustainability strategy can be accessed at: <https://www.kyndryl.com/gb/en/about-us/corporate-responsibility/environmental-sustainability>.

Purpose and Leadership

Through the leadership and oversight of the Company's directors, a clear vision of the Kyndryl group's business purpose and overall values is articulated. This underpins and defines the values, strategy, and culture of the organisation, and is communicated through the UK management system.

The directors ensure that relevant policies and controls are in place to support the Company's purpose and values across the local business and drive overall engagement with UK employees, shareholders and stakeholders.

More details of Kyndryl UK's purpose, group strategy and business model are provided in the Strategic report, and also in the s.172 statement, together with details as to how Kyndryl supports country-based operations.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Corporate Governance Statement (continued)**Board Composition**

Directors are chosen to reflect a balance of skills, experience, and knowledge to bring meaningful contribution to board decisions. The board includes the President of Kyndryl UK and Ireland and the Chief Operating Officer of Kyndryl UK and Ireland, who together provide robust oversight of business strategy and operations and the application of governance to the business. In addition, the board includes a senior client relationship executive who is thus well placed to represent the Company's interests as a business, supplier, and employer, including through the critical lens of client experience.

The President of Kyndryl UK and Ireland is the permanent chair of the board (unless they are unavailable) and oversees and directs board matters. The board meets as necessary throughout the period.

The Company Secretary is responsible for ensuring that board procedures are complied with and recorded as relevant and that directors are supplied with information in a timely manner. Board materials are circulated in advance of meetings and board decisions.

Through the leadership of the President of Kyndryl UK and Ireland, and consistent with the Kyndryl UK management system, regular Leadership Team meetings were held throughout the period to ensure that independence of thinking was brought to the directors by a wide range of local Kyndryl UK business leaders and experts who regularly attend or are specially invited, and who represent a wide range of Kyndryl UK stakeholder matters. The Leadership Team meetings also ensure that business priorities were given attention as necessary throughout the period.

Responsive to the risks posed by the COVID-19 pandemic, the Company also set up a local Crisis Management Team and through this regularly reviewed Kyndryl UK's response to the pandemic.

Directors' responsibilities

Responsibilities of the directors include understanding Kyndryl's UK's business and financial strategies and challenges, attending board meetings, preparing for meetings by advance review of any meeting materials, actively participating in board discussions, and making themselves available outside of board meetings for advice and consultation. As above, board members are selected based on their Kyndryl leadership roles, business and professional experience, and their overview of the UK business operations.

The board has a clear understanding of the individual directors' accountability and responsibility, evidenced by the briefings given to the board prior to board decisions, whereby the board considers aspects relevant to the business and its stakeholders. Where the board has delegated some of its responsibilities to appropriate local management, a detailed analysis of oversight and controls has been required and reviews are conducted on renewal of the delegations; for example, in carefully considering in 2021 the renewal of various delegations concerning standard contract signature. Through such measures, the board supports effective decision-making and independent challenge, yet retains overall control.

The processes and information systems established both globally and locally also provide the directors with a clear understanding and detailed insight into the Company's strategies and challenges which, in turn, supports effective decision making.

In addition, the board benefits from the group Internal Audit system to ensure accountability and to support independent and objective assessments of Kyndryl UK's system of internal control overseen by the directors; guidance in managing control risks for Kyndryl UK's stakeholders; proactive support to oversee and improve controls where relevant; independent investigations regarding allegations of violations of Kyndryl's Business Conduct Guidelines; and independent review of Kyndryl UK's suppliers' contractual compliance. The board is supported in its responsibilities by tax, accounting, legal and other advisers.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Corporate Governance Statement (continued)***Directors' responsibilities (continued)***

The s.172 Statement gives further details as to how the Company's board takes direct responsibility for safeguarding the interests of relevant UK stakeholders and how the directors implement their duties to promote the success of the Company for the benefit of its members as a whole, having regard to a range of matters and stakeholders when making decisions for the long term.

Opportunity

The board's clear understanding of the Group's corporate purpose and values enables it to focus on the promotion of long-term sustainable success and the identification of appropriate opportunities to create and preserve value.

The operation of the Company's management system delivers a detailed understanding of potential local opportunities, as well as strategic partnerships and opportunities.

In less than a year of trading as an independent company, with an intensity of purpose and a clear-eyed vision for the future, the Kyndryl Group has solidified its place in a broader market. We are delivering on our overarching mission to modernise and manage the world's mission-critical systems and services -the 'hearts and lungs' of the most important enterprises around the world, helping to power the global economy.

This mission is crucial as enterprises everywhere need a partner they can trust to keep systems working and moving efficiently and securely. Kyndryl UK is that partner, and our growing team is well-positioned to serve our customers as they evolve to meet new demands and achieve their long-term growth goals. The strategic partnerships we have already forged with industry leaders such as Microsoft, Google Cloud, Amazon Web Services, VMware, and SAP allow Kyndryl to tailor our work with customers based on their singular needs and aspirations.

We continue to create momentum as we drive toward profitable growth and pursue three key priorities. Those include expanding our alliances with key partners, leaning into Kyndryl UK's advanced delivery advantage when working with customers across their most complex business operations, and profitably growing our accounts as more enterprises seek a trusted partner to help facilitate their digital transformation.

Risk

An overall review of risks is inherent in the board's consideration of Kyndryl UK's long-term strategies, including capital expenditures and financial matters. The board is responsible for overseeing management in the execution of their responsibilities and assessing the Company's approach to risk management.

The board understands that it is vital to ensure a risk-aware culture across local operations. A risk-aware culture is one where all employees understand and accept the importance of risk management and the role they play in managing risks. Risk management education, training and tools are used to assess and manage risks and are viewed by the board to be critical processes.

Financial risk management is overseen by the Company's finance function. Examples of processes and controls include credit risk management, spending management and pricing delegations.

The key business risks facing the Company are considered to relate to the economic and competitive environment and more detail can be found in the Strategic report included within the Financial Statements. Kyndryl UK also has a strong financial risk management programme in place which is aligned with the group's global programme.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

Going concern

The Company's directors have made an assessment of the Company's ability to continue as a going concern, including a review of future cash flow forecasts and consideration of downside risks, and is satisfied that the Company has sufficient resources to continue in business for the foreseeable future. The financial statements have been prepared on the going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

Directors confirmations

Each of the persons who are directors at the date of approval of this report confirm that:

- there is no relevant audit information of which the Company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Streamlined energy and carbon reporting (SECR)***Kyndryl UK Limited and the Environment***

Kyndryl UK Limited's goal is to mitigate the impacts of climate change by investing in sustainable technologies and strengthening the resilience and adaptive capacity in the communities most affected by climate change. Kyndryl UK is committed to driving positive impact at scale and leading our industry in sustainable business practices. We are also committed to improving transparency of Greenhouse Gas (GHG) reporting and as such are reporting in line with UK Streamlined Energy & Carbon Reporting (SECR).

More information on our corporate approach to reducing our environmental impact, as well as more information on our environmental programs, can be found online here: <https://www.kyndryl.com/gb/en/about-us/corporate-responsibility/environmental-sustainability>.

Methodology:

Our UK emissions have been calculated in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). The boundary of the reporting is operational control and emissions have been calculated using UK BEIS GHG emission factors. During this period our GHG reporting activities cover energy across Scopes 1, 2 & 3:

Scope 1: Direct emissions over which Kyndryl UK has operational control (gas and company cars)

Scope 2: Indirect emissions over which Kyndryl UK has operational control (in the case of Kyndryl this is purchased electricity)

Scope 3: Other indirect emissions (in this case emissions from non-fleet transportation)

Data was gathered across each of these energy sources for the purposes of reporting. This included consumption data for fuels, electricity, and transport. Where data was not available, electricity estimations were calculated based either on contracted kWh/day, or intensity factor by or site type benchmarking.

To normalise emissions for annual comparison, FTE was used (against total location-based tCO₂e).

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022****Streamlined energy and carbon reporting (SECR) (continued)****UK Annual Energy and Carbon****Table 1: Annual Energy Consumption (MWh)**

Energy (MWh)	Gas	Electricity	Transportation	Total
FY22	2,439	46,325	50	48,814

Table 2: Location-based emissions (tCO2e)

FY22	Scope 1	Scope 2	Scope 3	Total
2021/22	454	10,800	12	11,266

Table 3: Emissions Intensity (tCO2e/Full Time Employees (FTE))

Intensities	tCO2e (location-based)/ FTE
FY22	8.75394

Energy Efficiency Measures

Kyndryl UK continues to look into minimising its impact on the environment through reducing energy consumption both at our facilities and through our transportation activities.

Examples of efficiency opportunities identified in these areas during FY22 include:

- Primary and secondary central heating and chilled-water cooling hydronic rebalancing, which has been estimated to save 1,610 MWh/year
- Implementing a chiller operational strategy, estimated to save 395 MWh/year
- Computer room air handler optimisation, estimated to save 229 MWh/year.

Energy Conservation

Kyndryl UK has a strong commitment to operating a sustainable and responsible business. As a newly independent company, Kyndryl is establishing our operational baseline on climate and sustainability issues. That baseline will be used to establish our Environmental Management Systems and Energy Program addressing sustainable practices, such as energy conservation, energy efficiency and renewable energy.

Kyndryl UK will build its net zero goal and GHG emissions targets on the scientific recommendations of the United Nations Intergovernmental Panel on Climate Change (IPCC) and plans to recertify against the ISO certifications most relevant to Kyndryl. We will also leverage industry best practices to govern our quality management system, processes and tools to ensure operations meet the high standards of sustainability compliance and responsible business practices that clients and partners expect. Kyndryl Holdings, Inc. will report its result in its first Environmental, Social and Governance report in 2023.

Events after the reporting date

There have been no material adjusting or disclosable events since the financial period end.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Directors' report (continued)

For the period from 18 January 2021 (date of incorporation) to 31 March 2022

Russia / Ukraine Crisis

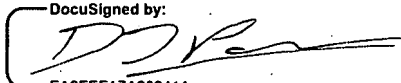
The directors are actively monitoring the war in Ukraine. Although the event doesn't materially directly affect the operations of the Company within the United Kingdom, the directors are taking all reasonable steps necessary to mitigate any associated risks to ensure all operational and financial performance is maintained.

Independent auditors

PricewaterhouseCoopers LLP are deemed to be appointed under section 487(2) of the Companies Act 2006.

Approved and signed on behalf the board

DocuSigned by:



EA2FEFA7A982A1A...
David John Pearson

Director

Date: 20 January 2023 | 08:13 PST

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

**Statement of directors' responsibilities in respect of the financial statements
For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

The directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Independent auditors' report to the members of Kyndryl UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kyndryl UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the period from 18 January 2021 to 31 March 2022;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2022; the Profit and loss account and the Statement of changes in equity for the period then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditors' report to the members of Kyndryl UK Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for 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 to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for 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.

Independent auditors' report to the members of Kyndryl UK Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Responsibilities of the directors for the financial statements (continued)

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 or error, and to issue an auditors' report that includes our opinion. 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 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the regulatory requirements of the Bribery Act 2010, the General Data Protection Regulation, and import and export duties compliance, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and corporate tax compliance. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or profit and management bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Inquiries with management, including internal legal counsel to identify known or suspected instances of non-compliance with laws and regulations, and fraud;
- Applying risk filters to search for journal entries, such as those posted with unusual account combinations or posted by members of senior management with a financial reporting oversight role, and testing those journals highlighted (if any); and
- Reviewing the disclosures in the Annual Report and financial statements against the specific legal requirements, for example within the Directors' Report.

Independent auditors' report to the members of Kyndryl UK Limited (continued)

Report on the audit of the financial statements (continued)

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Kyndryl UK Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Christopher Boreham (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
23 January 2023

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Profit and loss account
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

	Note	18 January 2021 to 31 March 2022 £000
Revenue	4	464,156
Cost of sales		(450,864)
Gross profit		<u>13,292</u>
Administrative expenses		(17,816)
Operating loss	7	<u>(4,524)</u>
Finance Income	9	219
Finance Costs	10	(4,106)
Loss before tax		<u>(8,411)</u>
Tax on loss	11	-
Loss for the financial period		<u><u>(8,411)</u></u>

The above results were derived from continuing operations.

The Company has no other recognised gains or losses for the period other than the results included in the profit and loss account above, and therefore no separate statement of other comprehensive income has been prepared.


The notes on pages 34 to 57 form an integral part of these financial statements.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)
Registered number: 13141201

Balance sheet
As at 31 March 2022

	Note	31 March 2022 £000
Fixed assets		
Tangible assets	13	111,064
Right-of-use assets	14	45,424
		<u>156,488</u>
Current assets		
Debtors: amounts falling due after more than one year	15	137,766
Debtors: amounts falling due within one year	15	291,198
Cash and cash equivalents		3,816
		<u>432,780</u>
Creditors: amounts falling due within one year	16	(217,141)
Net current assets		<u>215,639</u>
Total assets less current liabilities		<u>372,127</u>
Creditors: amounts falling due after more than one year	17	(75,358)
Provisions for liabilities	20	(886)
Net assets		<u><u>295,883</u></u>
Capital and reserves		
Called up share capital	21	10
Share premium account	21,22	291,135
Share based payment reserve	23	6,289
Acquisition reserve	22	6,860
Profit and loss account	22	(8,411)
Total shareholders' fund		<u><u>295,883</u></u>

The financial statements on pages 31 to 57 were approved by the board on 20 January 2023 signed on its behalf by:

DocuSigned by:

 EA2FEFA7A98241A...

David John Pearson
 Director

The notes on pages 34 to 57 form an integral part of these financial statements.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Statement of changes in equity
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

	Called up share capital	Share premium account	Share based payment reserve	Acquisition reserve	Profit and loss account	Total shareholder s' fund
	£000	£000	£000	£000	£000	£000
At 18 January 2021 (date of incorporation)	-	-	-	-	-	-
Loss for the period	-	-	-	-	(8,411)	(8,411)
Shares issued during the period	10	291,135	-	-	-	291,145
Share based payment costs (note 23)	-	-	6,289	-	-	6,289
Acquisition reserve (note 22)	-	-	-	6,860	-	6,860
At 31 March 2022	10	291,135	6,289	6,860	(8,411)	295,883

The notes on pages 34 to 57 form an integral part of these financial statements.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

1. General information

Kyndryl UK Limited (formerly IBM Ocean UK Limited) (the 'Company') is a private company limited by shares incorporated and domiciled in the United Kingdom with its registered office at 2nd Floor, 100 Liverpool Street, London, United Kingdom, EC2M 2AT. The financial statements can be obtained at the registered office in London.

The Company's immediate parent entity is Kyndryl UK CLG limited, a Company registered in the United Kingdom. The Company's ultimate parent entity is Kyndryl Holdings Inc., a Company registered in the United States. Kyndryl UK Limited (formerly IBM Ocean UK Limited) is a limited company which has been spun off from IBM.

The Company was incorporated on 18 January 2021. The name of the Company was changed from IBM Ocean UK Limited to Kyndryl UK Limited on 6 May 2021.

The nature of the Company's operations and its principal activities are set out in the Strategic report on page 2.

2. Significant accounting policies**2.1 Summary of significant accounting policies and key accounting estimates**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.2 Statement of compliance

The individual financial statements of Kyndryl UK Limited have been prepared in compliance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

2.3 Basis of preparation

These financial statements have been prepared under going concern basis, using the historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

The Company's functional and presentation currency is Sterling Pounds (£) and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The financial statements contain information about Kyndryl UK Limited as an individual entity and do not contain consolidated financial information. The Company has taken advantage of the exemption under Section 401 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included in the consolidated financial statements of Kyndryl Holdings, Inc., which are publicly available.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)
2.4 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share based payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases. The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details in indebtedness relating to amounts payable after 5 years required by company law is presented separately for lease liabilities and other liabilities, and in total
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 40A-D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

2.5 New standards and interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the period ended 31 March 2022 that have a material impact on the Company's financial statements.

2.6 Going concern

The Company's directors have made an assessment of the Company's ability to continue as a going concern, including a review of future cash flow forecasts and consideration of downside risks, and is satisfied that the Company has sufficient resources to continue in business for the foreseeable future. The financial statements have been prepared on the going concern basis, which contemplates the realisation of assets and the settlement of liabilities in the ordinary course of business.

2.7 Revenue recognition
Revenue from contracts with customers

The Company accounts for a contract with a customer when it has written approval, the contract is committed, the rights of the parties, including payment terms, are identified, the contract has commercial substance and consideration is probable of collection.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)**2.7 Revenue recognition (continued)****Revenue from contracts with customers (continued)**

Revenue is recognised when, or as, control of a promised product or service transfers to a customer, in an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring those products or services. If the consideration promised in a contract includes a variable amount, the Company estimates the amount to which it expects to be entitled using either the expected value or most likely amount method. The Company's contracts may include terms that could cause variability in the transaction price, including, for example, rebates, volume discounts, service-level penalties, and performance bonuses or other forms of contingent revenue.

The Company only includes estimated amounts in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. The Company may not be able to reliably estimate contingent revenue in certain long-term arrangements due to uncertainties that are not expected to be resolved for a long period of time or when the Company's experience with similar types of contracts is limited. The Company's arrangements infrequently include contingent revenue. Estimates of variable consideration and the determination of whether to include estimated amounts in the transaction price are based on all information (historical, current and forecasted) that is reasonably available to the Company, taking into consideration the type of customer, the type of transaction and the specific facts and circumstances of each arrangement.

The Company's standard billing terms are that payment is due upon receipt of invoice, payable within 30 days. Invoices are generally issued as control transfers and/or as services are rendered. Additionally, in determining the transaction price, the Company adjusts the promised amount of consideration for the effects of the time value of money if the billing terms are not standard and the timing of payments agreed to by the parties to the contract provide the customer or the Company with a significant benefit of financing, in which case the contract contains a significant financing component. As a practical expedient, the Company does not account for significant financing components if the period between when the Company transfers the promised product or service to the customer and when the customer pays for that product or service will be one year or less.

The Company may include subcontractor services or third-party vendor equipment or software in certain integrated services arrangements. In these types of arrangements, revenue from sales of third-party vendor products or services is recorded net of costs when the Company is acting as an agent between the customer and the vendor, and gross when the Company is the principal for the transaction. To determine whether the Company is an agent or principal, the Company considers whether it obtains control of the products or services before they are transferred to the customer. In making this evaluation, several factors are considered, most notably whether the Company has primary responsibility for fulfilment to the customer, as well as inventory risk and pricing discretion.

The Company assesses collectability at the inception of a contract. If a contract meets the collectability criterion at contract inception, the criterion should not be reassessed unless there is an indication of a significant change in facts and circumstances. If consideration for an overall arrangement is not considered collectible but cash is received, revenue cannot be recognised until there are no remaining obligations and substantially all of the consideration has been received, or the contract is terminated, or the Company stops transferring goods/services and has no obligation to transfer additional goods/services and the cash is non-refundable in all cases. Prior to the adoption of the new revenue standard, revenue is recorded when cash is received for poor credit rated customers and suspense customers. In addition to the aforementioned general policies, the following are the specific revenue recognition policies for arrangements with multiple performance obligations and for each major category of revenue.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022.**

2. Significant accounting policies (continued)**2.7 Revenue recognition (continued)****Services**

The Company's primary services offerings include information technology (IT) datacentre and business process transformation outsourcing, application management services, technology infrastructure and system maintenance, web hosting, and the design and development of complex IT systems to a client's specifications (design and build). These services offerings fall primarily under the Company's Technology Services & Cloud Platforms segment. The Company's services are provided on a time-and-material basis, as a fixed-price contract or as a fixed-price per measure of output contract and the contract terms range from less than one year to over ten years.

In services arrangements, the Company typically satisfies the performance obligation and recognises revenue over time. In design and build arrangements, the performance obligation is satisfied over time either because the customer controls the asset as it is created (e.g., when the asset is built at the customer site) or because the Company's performance does not create an asset with an alternative use and the Company has an enforceable right to payment plus a reasonable profit for performance completed to date. In most other services arrangements, the performance obligation is satisfied over time because the customer simultaneously receives and consumes the benefits provided as the Company performs the services.

In outsourcing, other managed services and application management, the Company determines whether the services performed during the initial phases of the arrangement, such as setup activities, are distinct. In most cases, the arrangement is a single performance obligation comprised of a series of distinct services that are substantially the same and that have the same pattern of transfer (i.e., distinct days of service). The Company applies a measure of progress (typically time-based) to any fixed consideration and allocates variable consideration to the distinct periods of service based on usage. As a result, revenue is generally recognised over the period the services are provided on a usage basis. This results in revenue recognition that corresponds with the value to the customer of the services transferred to date relative to the remaining services promised.

Revenue from time-and-material contracts is recognised on an output basis as labour hours are delivered and/or direct expenses are incurred. Revenue from as-a-Service type contracts, such as Infrastructure-as-a-Service, is recognised either on a straight-line basis or on a usage basis, depending on the terms of the arrangement (such as whether the Company is standing ready to perform or whether the contract has usage-based metrics). If the as-a-Service contract includes setup activities, those promises in the arrangement are evaluated to determine if they are distinct. Revenue related to maintenance and support services and extended warranty is recognised on a straight-line basis over the period of performance because the Company is standing ready to provide services throughout the contract period.

In fixed-price design and build contracts, revenue is recognised based on progress towards completion of the performance obligation using a cost-to-complete measure of progress (i.e., percentage-of-completion (POC) method of accounting). Revenue is recognised based on the labour costs incurred to date as a percentage of the total estimated labour costs to fulfil the contract. Due to the nature of the work performed in these arrangements, the estimation of cost at completion is complex, subject to many variables and requires significant judgment. Key factors reviewed by the Company to estimate costs to complete each contract are future labour and product costs and expected productivity efficiencies. If circumstances arise that change the original estimates of revenues, costs, or extent of progress toward completion, revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in revenue on a cumulative catch-up basis in the period in which the circumstances that gave rise to the revision become known to the Company.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)**2.7 Revenue recognition (continued)****Services (continued)**

The amount of revenue recognised in the reporting period on a cumulative catch-up basis (i.e., from performance obligations satisfied, or partially satisfied, in previous periods). The Company performs ongoing profitability analyses of its design and build services contracts accounted for using a cost-to-cost measure of progress in order to determine whether the latest estimates of revenues, costs and profits require updating. For contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision. Onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

In some services contracts, the Company bills the customer prior to recognizing revenue from performing the services and the amount is classified as a deferred income. In other services contracts, the Company performs the services prior to billing the customer. When the Company performs services prior to billing the customer in design and build contracts, the right to consideration is typically subject to milestone completion or customer acceptance and the unbilled accounts receivable is classified as a contract asset. Billings usually occur in the month after the Company performs the services or in accordance with specific contractual provisions.

Intercompany Services and Sales

The Company's intercompany services include support services and infrastructure services provided to its related companies. These services are provided on a cost plus pre-agreed mark-up. The Company has elected the practical expedient to recognise revenue from these services in the amount to which the Company has a right to invoice. Customers are invoiced monthly, quarterly, annually, or upon completion of projects; and consideration is payable when invoiced.

Standalone Selling Price

The Company allocates the transaction price to each performance obligation on a relative standalone selling price basis. The standalone selling price (SSP) is the price at which the Company would sell a promised product or service separately to a customer. In most cases, the Company is able to establish SSP based on the observable prices of products or services sold separately in comparable circumstances to similar customers. The Company typically establishes a standalone selling price range for its products and services which are reassessed on a periodic basis or when facts and circumstances change.

In certain instances, the Company may not be able to establish a standalone selling price range based on observable prices and the Company estimates the standalone selling price. The Company estimates SSP by considering multiple factors including, but not limited to, overall market conditions, including geographic or regional specific factors, competitive positioning, competitor actions, internal costs, profit objectives and pricing practices. Additionally, in certain circumstances, the Company may estimate SSP for a product or service by applying the residual approach. This approach has been most commonly used when certain perpetual software licenses are only sold bundled with one year of post-contract support and a price has not been established for the software. Estimating SSP is a formal process that includes review and approval by the Company's management.

Services Costs

Recurring operating costs for services contracts, including costs related to bid and proposal activities are expensed as incurred.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)**2.7 Revenue recognition (continued)****Services Costs (continued)**

For fixed-price design and build contracts, the costs of external hardware and software accounted for under the cost-to-cost measure of progress are deferred and recognised based on the labour costs incurred to date (i.e., the measure of progress), as a percentage of the total estimated labour costs to fulfil the contract as control transfers over time for these performance obligations.

Certain eligible, non-recurring costs incurred in the initial phases of outsourcing contracts and other cloud-based services contracts (i.e., setup costs) are capitalized when the costs relate directly to the contract, the costs generate or enhance resources of the Company that will be used in satisfying the performance obligation in the future, and the costs are expected to be recovered. These costs consist of transition and setup costs related to the installation of systems and processes and other deferred fulfilment costs, including, prepaid assets used in services contracts (i.e., prepaid software or prepaid maintenance), and other deferred fulfilment costs eligible for capitalization. Capitalized costs are amortized on a straight-line basis over the expected period of benefit, which includes anticipated contract renewals or extensions, consistent with the transfer to the customer of the services to which the asset relates. Additionally, fixed assets associated with these contracts are capitalized and depreciated on a straight-line basis over the expected useful life of the asset.

If an asset is contract specific, then the depreciation period is the shorter of the useful life of the asset or the contract term. Amounts paid to customers in excess of the fair value of acquired assets used in outsourcing arrangements are deferred and amortized on a straight-line basis as a reduction of revenue over the expected period of benefit. The Company performs periodic reviews to assess the recoverability of deferred contract transition and setup costs. This review is done by comparing the carrying amount of the asset to the remaining amount of consideration the Company expects to receive for the services to which the asset relates, less the costs that relate directly to providing those services that have not yet been recognised. If the carrying amount is deemed not recoverable, an impairment loss is recognised.

In situations in which an outsourcing contract is terminated, the terms of the contract may require the customer to reimburse the Company for the recovery of unbilled accounts receivable, unamortized deferred costs incurred to purchase specific assets utilized in the delivery of services and to pay any additional costs incurred by the Company to transition the services.

Incremental Costs of Obtaining a Contract

Incremental costs of obtaining a contract (e.g. sales commissions) are capitalised and amortised on a straight-line basis over the expected customer relationship period if the Company expects to recover those costs. The Company previously expensed these costs as incurred. The expected customer relationship is determined based on the average customer relationship period, including expected renewals, for each offering type. Expected renewal periods are only included in the expected customer relationship period if commission amounts paid upon renewal are not commensurate with amounts paid on the initial contract. Incremental costs of obtaining a contract include only those costs the Company incurs to obtain a contract that it would not have incurred if the contract had not been obtained.

The Company has determined that certain commissions programmes meet the requirements to be capitalized. Some commission programs are not subject to capitalization as the commission expense is paid and recognised as the related revenue is recognised. Additionally, as a practical expedient, the Company expenses costs to obtain a contract as incurred if the amortisation period would have been a year or less. These costs are included in selling, general and administrative expenses.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)**2.8 Selling, General and Administrative expenses**

Selling, general, and administrative expenses are recognised in the profit and loss account as incurred, and include selling expenses, salaries, office supplies, non-income taxes, insurance and office rental. In addition, selling, general and administrative expenses include other operating items such as bad debts written off, workforce accruals for contractually obligated payments to employees terminated in the ongoing course of business and environmental remediation costs.

2.9 Finance income

Finance income represents interest income on deposit held with related parties which is recognised on an accruals basis using the effective interest rate method.

2.10 Finance costs

Finance costs represent interest on bank overdrafts, short-term borrowings determined using the effective interest method and foreign exchange losses.

2.11 Employee benefits

Provision is made for benefits accruing to employees in respect of wages, salaries and other benefits when it is probable that settlement will be required and they are capable of being measured reliably. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Defined contribution plans

Contributions to defined contribution retirement plans are recognised as an expense when the employees have rendered services entitling them to the contributions. All employees are members of a defined contribution plan.

2.12 Taxation

Income tax expense represents the current tax calculated on taxable profits for the period, any adjustments in respect of prior periods and the deferred tax charge or credit for the period.

The current tax is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods 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 reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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 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. The carrying amount of deferred tax assets is reviewed at each reporting 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.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)
2.12 Taxation (continued)

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted and that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

2.13 Foreign currency transactions and balances

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

2.14 Tangible assets

Property, plant and equipment are stated in the balance sheet at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment includes the estimated cost of dismantling and removing the asset and restoring the site to the extent that such cost is recognised as a provision. These liabilities are initially recorded at fair value and the carrying amount of the related assets is increased by the same amount. These incremental carrying amounts are depreciated over the remaining useful lives of the related assets.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

The depreciable amount of an asset is determined after deducting its residual value. The residual value of an asset is the estimated amount that the Company would obtain from the disposal of the asset, after deducting the estimated cost of disposal.

Depreciation is charged so as to write off the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives used in the calculation of depreciation are as follows:

Building equipment	10 - 30 years
Leasehold improvements	Lesser of remaining lease term or depreciable life of the underlying asset type
Machinery & equipment	2 - 10 years
Furniture & fixture	3 - 15 years
I/T Equipment	1.5 - 5 years

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)**2.14 Tangible assets (continued)**

Depreciation is not charged on land and leasehold improvements which are in progress.

Residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each reporting date. The management has assessed the residual values and useful lives of assets and believe there is no significant revision required.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amounts.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account for the period.

2.15 Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the leases (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

2.16 Debtors

Debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment. Any losses arising from impairment are recognised in profit and loss account in operating expenses. These are classified as either short term or long term depending on their expected maturity date.

2.17 Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

2.18 Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

2. Significant accounting policies (continued)**2.19 Lease liabilities**

At commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for termination a lease, if the lease term reflects the group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. The interest used at the inception of the contract will be the same for the whole life of the lease term aside if there are modifications in contract terms such as a change in the lease term, a change in the in-substance fixed lease payment or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of a low-value assets recognition exemption to leases of office equipment that are considered of low value.

2.20 Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event; it is probable that the Company will be required to settle that obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

An asset retirement obligation (ARO) is a legal obligation that is associated with the retirement of a tangible, long-term asset. A provision for ARO is recognised when a company is responsible for removing equipment or cleaning up hazardous materials at some agreed-upon future date. Dissolvment of an ARO is planned for the end of lease date by default, but can be utilised earlier in case of location abandonment, when premises need to be brought back to the (original) state agreed with the lessor.

2.21 Business transfer

The Business transfer in Note 12 was accounted for using the predecessor value accounting method. The assets and liabilities acquired in the business transfer were recorded at book value. The excess purchase consideration paid over the book value of net assets acquired is debited to the acquisition reserve within equity.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

2. Significant accounting policies (continued)**2.22 Share based payment**

Prior to the Separation, the Company participated in various IBM share based compensation plans, including incentive compensation plans and an employee stock purchase plan.

Share based compensation represents the cost related to share based awards granted to employees under the share based compensation plans. The Company establishes share based compensation values at the grant date, based on the estimated fair value of the award and recognises the cost on a straight-line basis (net of estimated forfeitures) over the requisite employee service period. Kyndryl grants the Company's employees Restricted Stock Units (RSUs), market-conditioned performance awards (Launch Performance Stock Units, or "Launch PSUs") and stock options: RSUs are share awards granted to employees that entitle the holder to shares of Kyndryl common shares as the award vests, typically over a one- to four-year period. Market-conditioned performance awards are restricted stock units granted to employees with vesting conditions based on Kyndryl's share price and are cliff-vested at the end of the service period. Share options are vested over a one- to four-year period with a maximum term of 4 years with settlement occurring in shares. There are no cash settlement alternatives for the aforementioned awards. Dividend equivalents are not paid on the share based awards described above. The fair value of the RSUs is determined on the grant date based on Kyndryl's share price, adjusted for the exclusion of dividend equivalents where applicable. The fair value of market-conditioned performance awards is determined on the date of grant using a Monte Carlo simulation model which estimates the probability of satisfying market conditions. The fair value of share options is determined on the grant date using a Black-Scholes model. Share based compensation cost is recorded in cost of sales and administration expense in the profit and loss account based on the employees' respective functions. A credit is recognised directly in equity.

At the time of Kyndryl's Spin-off, each outstanding IBM RSU and PSU held by a company employee was converted into a Kyndryl RSU. The equity award exchange ratio was determined as the closing per share price of IBM shares on the last trading day prior to the Spin-off divided by the opening price of Kyndryl common share on the first trading day following the Spin-off.

The Company records deferred tax assets for awards that result in tax deductions in the financial statements calculated using the separate return basis based on the amount of compensation cost recognised and the relevant statutory tax rates. The differences between the deferred tax assets recognised for financial reporting purposes and the actual tax deduction reported on the income tax return are recorded as a benefit or expense to the provision for income taxes in the profit and loss account. During the fiscal period 2021, the Company withheld 6,427,000 shares to satisfy employees' tax obligations.

2.23 Share Capital

Ordinary shares are classified as equity.

3. Significant accounting policies, judgements, estimates and assumptions

The Company prepares its financial statements in accordance with Financial Reporting Standard 101 ("FRS 101"), which require management to make judgements, estimates and assumptions which affect the application of the accounting policies, and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)**For the period from 18 January 2021 (date of incorporation) to 31 March 2022**

3. Significant accounting policies, judgements, estimates and assumptions (continued)

The following areas are considered to involve a significant degree of judgement or estimation.

Accounting estimates***Revenue recognition***

Application of various accounting principles related to the measurement and recognition of revenue requires that the Company make judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether promised goods and services specified in an arrangement are distinct performance obligations. In certain arrangements revenue is recognised based on progress toward completion of the performance obligation using a cost-to-cost measure of progress. The estimation of cost at completion is complex and requires the Company to make judgements and estimates. Other significant judgments include determining whether the Company is acting as the principal in a transaction and whether separate contracts should be combined and considered part of one arrangement. Revenue recognition is also impacted by the Company's ability to determine when a contract is probable of collection and to estimate variable consideration, including, for example, rebates, price concessions, service-level penalties, and performance bonuses. The Company consider various factors when making these judgments, including a review of specific transactions, historical experience and market and economic conditions. Complex judgements and estimates are consulted with other functions, mainly accounting and legal or other as appropriate and whenever necessary.

Costs to Complete Service Contracts

During the contractual period, revenue, cost and profits may be impacted by estimates of the ultimate profitability of each contract, especially contracts for which the Company uses cost-to-cost method to measure progress. If at any time these estimates indicate the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately in cost. The Company performs ongoing profitability analyses of these services contracts in order to determine whether the latest estimates require updating. Key factors reviewed to estimate the future costs to complete each contract are future labour costs and product costs and expected productivity efficiencies.

Accounting judgements***Capitalisation of Contract Costs***

In connection with services arrangements, the Company incurs and capitalises direct costs for transition and setup activities performed at the inception of these long-term contracts that are necessary to enable the Company to perform under the terms of the arrangement. These costs are capitalized and are amortized on a straight-line basis over the expected period of benefit. The Company performs periodic reviews to assess the recoverability of deferred contract transition and setup costs. To assess recoverability, undiscounted estimated cash flows of the contract are projected over its remaining life and compared to the carrying amount of contract-related assets, including the unamortized deferred cost balance. Such estimates require judgment and assumptions, and actual future cash flows could differ from these estimates.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

4. Revenue

Revenue represents the net amounts received and receivable for goods and software sold by the Company to outside customers, less return and allowances and revenue arising from services provided for the period.

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

	Home £000	Export £000	18 January 2021 to 31 March 2022 Total £000
Revenue from Contract with customers			
Services	412,313	39,902	452,215
Maintenance Services	5,707	-	5,707
Software	3,656	-	3,656
Hardware	2,578	-	2,578
Total revenue	<u>424,254</u>	<u>39,902</u>	<u>464,156</u>

5. Employee expenses

Employee expense are as follows:

	18 January 2021 to 31 March 2022 £000
Wages and salaries	79,719
Social Security Costs	9,577
Contributions to defined contribution pension plans	5,267
Share based payment charges (note 23)	6,289
Total employee expenses	<u>100,852</u>

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

5. Employee expenses (continued)**Average monthly number of employees**

The average monthly number of employees during the financial period was made up as follows: (including executive directors)

	18 January 2021 to 31 March 2022 Numbers
Support Services	186
Contract Services	1,067
Total	1,253

6. Directors' remuneration

	18 January 2021 to 31 March 2022 £000
Aggregate emoluments	1,416
Contributions made to pension scheme	29
	1,445

Highest paid director:

Aggregate emoluments	648
Contributions made to pension scheme	11

None of the directors of the Company were members of defined benefit plans.

During the period, none of the directors were remunerated by other group companies for their services to the group as a whole.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

7. Operating loss

Operating loss is stated after charging/(crediting):

	18 January 2021 to 31 March 2022 £000
Depreciation on tangible assets	26,583
Amortisation on Right-of-Use assets	9,879
Loss on disposal of tangible fixed assets	4,665
Share based payment expense	6,289
	<u> </u>

8. Auditors' remuneration

	18 January 2021 to 31 March 2022 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	305
	<u> </u>

9. Finance income

	18 January 2021 to 31 March 2022 £000
Interest income from bank	205
Interest income from related parties	14
	<u> </u>
	<u>219</u>

10. Finance costs

	18 January 2021 to 31 March 2022 £000
Interest payable to related parties	3
Foreign exchange loss	3,524
Interest payable on lease liability	579
	<u> </u>
	<u>4,106</u>

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

11. Tax on loss

	18 January 2021 to 31 March 2022 £000
Current tax	
UK corporation tax at 19.00%	-
Deferred tax	
Origination and reversal of timing differences	-
Tax on loss on ordinary activities	-
Factors affecting tax charge for the period	

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 19.00%. The differences are explained below:

	18 January 2021 to 31 March 2022 £000
Loss on ordinary activities before tax	(8,411)
Tax on loss on ordinary activities at standard corporation tax rate of 19.00%	(1,598)
Effects of:	
Expenses not deductible for tax purposes	349
Movement in unrecognised deferred tax	1,249
Total tax charge for the period	-

Factors that may affect future tax charges

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

12. Business Transfer

During the financial period, the Company's former ultimate parent company International Business Machines Corporation ("IBM") carried out a divestiture exercise to spin off its managed infrastructure services (MIS) unit of its Global Technology Services ("GTS") segment to an independent company, Kyndryl Holdings, Inc. As part of the implementation, MIS business including assets and liabilities was sold to Kyndryl UK Limited at a consideration of £291,145,000 by issuing 10,000 ordinary shares of £1 each at a premium of £291,135,000. The acquisition from IBM resulted in the creation of an acquisition reserve of £6,860,000.

The details of net assets acquired are as follows:

	1 September 2021
	£000
Assets	
Tangible fixed assets (note 13)	131,680
Right-of-use assets (note 14)	53,976
Finance receivables	12,100
Trade and other receivables	61,847
Cash and cash equivalents	11,000
Other assets	193,243
Total assets acquired	463,846
Liabilities	
Deferred revenue	(83,800)
Provisions for liabilities and charges (note 20)	(886)
Lease liabilities	(50,055)
Trade and other payables	(28,100)
Total liabilities acquired	(162,841)
Equity	
Equity compensation reserve	(3,000)
Total equity acquired	(3,000)
Net assets acquired	298,005
Purchase considerations	(291,145)
Acquisitions reserve	6,860

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

13. Tangible fixed assets

	Building Equipment £000	Leasehold Improvements £000	Leasehold Improvements - In process £000	Machinery & Furniture & Fixture Equipment £000	Furniture & Fixture £000	Furniture & Fixture - In process £000	IT Equipment £000	Total £000
Cost or valuation								
At 18 January 2021 (date of incorporation)	-	-	-	-	-	-	-	-
Acquisitions	430	161,608	2,640	6	7,640	21	323,626	495,971
Additions	22	1,229	-	-	321	-	5,814	7,386
Disposals	-	-	(1,145)	-	-	(21)	(14,572)	(15,738)
Transfers between classes	-	(13)	13	-	-	-	-	-
At 31 March 2022	452	162,824	1,508	6	7,961	-	314,868	487,619
Accumulated depreciation								
At 18 January 2021 (date of incorporation)	-	-	-	-	-	-	-	-
Acquisitions	233	125,513	-	6	6,496	-	232,043	364,291
Charge for the period	10	5,175	-	-	114	-	21,284	26,583
Disposals	-	-	-	-	-	-	(14,319)	(14,319)
At 31 March 2022	243	130,688	-	6	6,610	-	239,008	376,555
Net book value								
At 31 March 2022	209	32,136	1,508	-	1,351	-	75,860	111,064

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

14. Right-of-Use Assets

	Lease Asset £000	Real Estate Asset £000	Vehicle £000	Total £000
Cost				
At 18 January 2021 (date of incorporation)	-	-	-	-
Acquisitions	20,483	33,493	-	53,976
Additions	4,107	-	466	4,573
Disposals	(150)	(3,096)	-	(3,246)
	<u>24,440</u>	<u>30,397</u>	<u>466</u>	<u>55,303</u>
Accumulated depreciation				
At 18 January 2021 (Date of incorporation)	-	-	-	-
Charge for the period	5,626	4,191	62	9,879
	<u>5,626</u>	<u>4,191</u>	<u>62</u>	<u>9,879</u>
Net book value				
At 31 March 2022	<u>18,814</u>	<u>26,206</u>	<u>404</u>	<u>45,424</u>

15. Debtors

	31 March 2022 £000
Due after more than one year	
Prepayments and accrued income	128,110
Amounts recoverable on long term contracts	9,656
	<u>137,766</u>
	31 March 2022 £000
Due within one year	
Trade debtors	130,267
Amounts owed by group undertakings	77,586
Prepayments and accrued income	81,145
Amounts recoverable on long term contracts	2,200
	<u>291,198</u>

Amount owned by group undertakings are priced on an arms length basis, unsecured and repayable on demand. Interest is earned on the balance using a one-month reference rate which is refreshed daily.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

16. Creditors: amounts falling due within one year

	31 March 2022 £000
Trade creditors	136,442
Accruals and deferred income	37,697
Amounts owed to group undertakings	27,762
Lease liabilities (note 18)	15,240
	<u>217,141</u>

Amount owned to group undertakings are priced on an arms length basis, unsecured and repayable on demand. Interest is charged on the balance using a one-month reference rate which is refreshed daily.

17. Creditors: amounts falling due after more than one year

	31 March 2022 £000
Lease liabilities (note 18)	33,605
Accruals and deferred income	41,753
	<u>75,358</u>

18. Lease liabilities

	31 March 2022 £000
Current lease liabilities	15,240
Non-current lease liabilities	33,605
	<u>48,845</u>

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

18. Lease liabilities (continued)

The Company has the following future minimum lease payments under non-cancellable operating leases liabilities as follows:

	31 March 2022 £000
Within one year	16,427
One to five years	34,095
	<u>50,522</u>

19. Deferred taxation

The Company has a potential deferred tax asset of £33,433,000 as at 31 March 2022 which is unrecognised as management consider it is more likely than not that there will be insufficient taxable profit in future to recover the asset. The asset relates to fixed asset temporary differences (£31,359,000), short term timing differences (£1,572,000) and tax losses (£502,000).

20. Provisions

	Provision for asset retirement obligations £000	Other provisions £000	Total £000
At 18 January 2021 (date of incorporation)	-	-	-
Acquired from IBM	770	116	886
At 31 March 2022	<u>770</u>	<u>116</u>	<u>886</u>

21. Called up share capital

Authorised, issued and fully paid:

	31 March 2022		
	Called up share capital £000	Share Premium £000	Total £000
10,000 ordinary shares of £1 each	10	291,135	291,145
	<u>10</u>	<u>291,135</u>	<u>291,145</u>

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

22. Reserves**Share premium account**

Share premium is the excess money received for issued shares above the base value.

Profit and loss account

The profit and loss account represent cumulative profits or losses, net of dividends paid and other adjustments.

Acquisition reserve

This reserve is created due to difference of assets and liabilities transferred from IBM United Kingdom Limited to Kyndryl UK Limited. The transfer from IBM United Kingdom Limited resulted in the creation of an acquisition reserve of £6,860,000 (note 12).

23. Share based payments

The following table presents share based payment cost which is included in the profit and loss account.

	31 March 2022
	£000
Cost of services	1,656
Selling, general & administrative expense	4,633
Pre-tax share based payment cost	<u>6,289</u>
Income tax benefits	-
Share based payment cost, net of tax	<u>6,289</u>
	31 March 2022
	£000
Expense arising from equity-settled awards, pre-tax	6,289
Expense arising from cash-settled awards, pre-tax	-
Pre-tax share based payment cost	<u>6,289</u>

Replacement Awards

The pro rata vesting of IBM awards and replacement of forfeited unvested IBM awards with Kyndryl awards represents a modification under IFRS 2, Share based payment. The Company measured the fair value of the awards immediately prior to and subsequent to the modification and concluded that £958,000 incremental fair value was provided to award holders. Accordingly, the Company continues to recognise as an expense the amount of unrecognised compensation cost of the original awards over the remaining vesting periods. Kyndryl issued £329,000 unvested equity-based awards to the Company's employees in connection with the modification at the time of the Spin-off. The replacement awards consist primarily of RSUs and market-conditioned performance awards, and vest over a period consistent with the original vesting schedule of the awards which they replaced.

Aside from the replacement awards above, were no other cancellations or modifications to the awards in the period ended 31 March 2022.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

23. Share based payments (continued)
Incentive awards

Share based incentive awards were provided to the Company's employees under the terms of Kyndryl's employment and the long-term performance plans (the "Plans" or "LTPP"). Awards under the Plans principally include Restricted Stock Units (RSUs), market-conditioned performance awards (launch PSUs) and share options. RSUs and share options generally vest based on continued passage of time. Market-conditioned performance awards are cliff-vested at the end of the service period.

The following table summarises RSU, market-conditioned performance award and share option activities:

	RSUs	Market- Conditioned Performance Awards
	Number of units (in thousands)* ¹	Number of units (in thousands)
Balance at January 18, 2021	-	-
Awards converted from IBM Programmes	332	-
Awards granted	55	31
Awards vested	14	-
Awards exercised	-	-
Awards expired	-	-
Awards cancelled / forfeited	(4)	-
Balance at March 31, 2022	397	31
Exercisable at March 31, 2022	-	-

	Stock Options		
	Number of Units (in thousands)* ¹	Weighted Average Exercise Price per Share	Weighted Average Contractual Term (in years)
Balance at January 18, 2021	-	-	-
Awards converted from IBM Programs	-	-	-
Awards granted	64	17.78	6.3
Awards vested	-	-	-
Awards exercised	-	-	-
Awards expired	-	-	-
Awards cancelled / forfeited	-	-	-
Balance at March 31, 2022	64	-	-

1. Balance and activity prior to the Separation converted at a ratio of 4.474833 Kyndryl awards for every 1 IBM award.

Exercise prices for options outstanding at 31 March 2022 is £23.81. The weighted average remaining contractual life of the share options outstanding at 31 March 2022 was 6.3 years. The weighted-average grant price prior to Separation used in the assessment was derived from IBM's share price at grant. The aggregate fair value (which is based on the share price at grant date) of restricted stock units (including IBM's PSUs converted to RSUs) vested was £572,000 during the period ended 31 March 2022.

Kyndryl UK Limited (formerly IBM Ocean UK Limited)

Notes to the financial statements (continued)
For the period from 18 January 2021 (date of incorporation) to 31 March 2022

23. Share based payments (continued)

The following table lists the inputs to the models used for the three types of share based payments for the period ended 31 March 2022.

	2022	
	Market- Conditioned Performance Rewards	Stock Options
Weighted average fair values at measurement date	20.81	8.76
Dividend yield (%)	0%	0%
Expected volatility (%)	35%	35%
Risk-free interest rate (%)	1%	1%
Expected life of RSU/option	3 years	4 years
Weighted average share price	23.81	23.81
Model used	Monte Carlo	Black-Scholes

The expected life of the market-conditioned performance rewards and share options is based on historical data and current expectations and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends, which may not necessarily be the actual outcome.

24. Related party transactions

The Company has taken advantage of the exemption contained within paragraphs 8(k) and (j) of FRS 101, and has not disclosed transactions entered into with wholly-owned group companies or key management personnel. There were no other related party transactions in the period.

25. Events after the reporting date

There are no subsequent events which could have any significant impact on these financial statements.

26. Commitments

At 31 March 2022 the Company has a non-cancellable commitment of £22,931,000 with supplier Broadcom ending on 29 March 2025. In addition, the Company has contingent liabilities in respect of matters arising in the normal course of business, including claims with customers. No material liability is expected to arise in respect of these arrangements.

27. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Kyndryl UK CLG Limited.

The parent undertaking of the smallest and largest group which includes the Company and for which publically available group financial statements are prepared is Kyndryl Holdings, Inc.. The consolidated financial statements of Kyndryl Holdings, Inc. are available at 1 Vanderbilt Ave, New York, New York, 10017, United States. Copies of these financial accounts can be obtained from www.kyndryl.com.

At the date of the balance sheet the ultimate parent undertaking and controlling party is Kyndryl Holdings, Inc., who controls the Group.