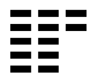
 Brønnøysundregistrene

ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer:	926 410 350
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	KYNDRYL NORWAY AS
Forretningsadresse:	Øvre Vollgate 13 0158 OSLO

Regnskapsår

Årsregnskapets periode:	01.01.2021 - 31.12.2021

Konsern

Morselskap i konsern:	Ja
Konsernregnskap lagt ved:	Ja

Regnskapsregler

Regler for små foretak benyttet:	Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet:	IFRS
Benyttet ved utarbeidelsen av årsregnskapet til konsernet:	-

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet:	Emil Stampe
Dato for fastsettelse av årsregnskapet:	31.01.2023

Grunnlag for avgivelse

År 2021: Årsregnskapet er elektronisk innlevert
År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 13.03.2024

Resultatregnskap

Beløp i: NOK	Note	2021	2020
RESULTATREGNSKAP			
Inntekter			
Salgsinntekt	5	466 627 000	
Sum inntekter		**466 627 000**	
Kostnader			
Nedskrivning av varige driftsmidler og immaterielle eiendeler	6,7	479 390 000	
Sum kostnader		**479 390 000**	
Driftsresultat		**-12 763 000**	
Finansinntekter og finanskostnader			
Annen finansinntekt	8	61 000	
Sum finansinntekter		**61 000**	
Annen finanskostnad	9	1 278 000	
Sum finanskostnader		**1 278 000**	
Netto finans		**-1 217 000**	
Ordinært resultat før skattekostnad		**-13 980 000**	**0**
Skattekostnad	10	-3 057 000	
Ordinært resultat etter skattekostnad		**-10 923 000**	**0**
Årsresultat		**-10 923 000**	**0**

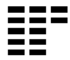
Balanse

Beløp i: NOK	Note	2021	2020
BALANSE - EIENDELER			
Anleggsmidler			
Immaterielle eiendeler			
Utsatt skattefordel	15	36 335 000	33 279 000
Sum immaterielle eiendeler		**36 335 000**	**33 279 000**
Varige driftsmidler			
Driftsløsøre, inventar, verktøy, kontormaskiner	13	147 805 000	155 311 000
Sum varige driftsmidler		**147 805 000**	**155 311 000**
Finansielle anleggsmidler			
Investering i datterselskap	14	85 538 000	85 538 000
Andre fordringer	12,25	20 933 000	6 819 000
Sum finansielle anleggsmidler		**106 471 000**	**92 357 000**
Sum anleggsmidler		**290 611 000**	**280 947 000**
Omløpsmidler			
Varer			
Fordringer			
Kundefordringer	11,19	348 496 000	124 439 000
Andre fordringer	12	12 558 000	11 005 000
Sum fordringer		**361 054 000**	**135 444 000**
Bankinnskudd, kontanter og lignende			
Bankinnskudd, kontanter og lignende		15 927 000	33 000 000
Sum bankinnskudd, kontanter og lignende		**15 927 000**	**33 000 000**
Sum omløpsmidler		**376 981 000**	**168 444 000**
SUM EIENDELER		**667 592 000**	**449 391 000**

BALANSE - EGENKAPITAL OG GJELD

Balanse

Beløp i: NOK	Note	2021	2020
Egenkapital			
Innskutt egenkapital			
Aksjekapital	20	16 400 000	14 909 000
Overkurs	21	190 241 000	23 732 000
Annen innskutt egenkapital	22	181 100 000	181 100 000
Sum innskutt egenkapital		**387 741 000**	**219 741 000**
Opptjent egenkapital			
Annen egenkapital	23	-10 620 000	
Sum opptjent egenkapital		**-10 620 000**	
Sum egenkapital		**377 121 000**	**219 741 000**
Sum langsiktig gjeld		**0**	**0**
Kortsiktig gjeld			
Leverandørgjeld	16	143 872 000	200 414 000
Annen kortsiktig gjeld	18,19	114 533 000	13 594 000
utsatt inntekt	17	17 354 000	15 642 000
lease	25	14 712 000	
Sum kortsiktig gjeld		**290 471 000**	**229 650 000**
Sum gjeld		**290 471 000**	**229 650 000**
SUM EGENKAPITAL OG GJELD		**667 592 000**	**449 391 000**

 Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Journalnummer: 2023 304367

Enheten

Organisasjonsnummer:	926 410 350
Organisasjonsform:	Aksjeselskap
Foretaksnavn:	KYNDRYL NORWAY AS
Forretningsadresse:	Lakkegata 53 0187 OSLO

Regnskapsår

Årsregnskapets periode:	01.01.2021 - 31.12.2021

Konsern

Morselskap i konsern:	Ja
Konsernregnskap lagt ved:	Ja

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Brønnøysundregistrene, 06.02.2023

Brønnøysundregistrene
Postadresse: Postboks 900, 8910 Brønnøysund
Telefon: 75 00 75 00
E-post: firmapost@brreg.no Internett: www.brreg.no
Organisasjonsnummer: 974 760 673

Organisasjonsnr: 926 410 350
KYNDRYL NORWAY AS

RESULTATREGNSKAP

Beløp i: NOK	Note	2021	2020
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Organisasjonsnr: 926 410 350
KYNDRYL NORWAY AS

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Egenkapital			
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	Note		
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Organisasjonsnr: 926 410 350
KYNDRYL NORWAY AS

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Note
1

Regnskapsprinsipper
Årsregnskapet er satt opp etter regnskapsloven. Regnskapsreglene for små foretak er fulgt.

Note
20

Antall aksjer og aksjeeiere

Note

Antall årsverk i regnskapsåret

Virksomheten har hatt følgende antall årsverk:
0.00

Note

Lån og sikkerhetsstillelse til ledende personer og aksjeeiere

Er det gitt lån eller sikkerhetsstillelse til ledende personer: Nei

Omløpsmidler	Startdato	Sluttdato	Endring

Skattemessig fremf.undersk.	Startdato	Sluttdato	Endring

Kortsiktig gjeld	Startdato	Sluttdato	Endring

kyndryl

2021

ANNUAL
REPORT

Kyndryl (NYSE: KD) is the world's largest IT infrastructure provider. The company designs, builds, manages and modernizes the complex, mission-critical information systems that the world depends on every day. Kyndryl's approximately 90,000 employees serve over 4,000 customers in more than 60 countries around the world, including 75 percent of the Fortune 100 companies. For more information, visit ***www.kyndryl.com***.

A Message from Our Chairman and Chief Executive Officer

Dear Fellow Stockholders,

MARTIN SCHROETER

On behalf of the entire Kyndryl Board of Directors, I am honored to invite you to Kyndryl's first ever Annual Meeting of Stockholders on July 28, 2022.

KYNDRYL: THE HEART OF PROGRESS

In less than a year as an independent company, with an intensity of purpose and a clear-eyed vision for the future, Kyndryl has solidified its place in a broader market. We are delivering on our overarching mission to modernize 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 is that partner, and as several milestone achievements show, 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. They will also double Kyndryl's addressable market from $240 billion to $510 billion by 2024.

Kyndryl's future is bright, and 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'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.

We are a compelling partner for our customers because of our unmatched global scale, and an enviable bench of talent with 88,683 employees as of December 31, 2021. It is my belief that our success is inextricably linked to our people, and that it is our people who drive our differentiation from competitors. As we strive to be an investment-of-choice and a partner-of-choice, it is critical that we be the employer-of-choice. Which is why we are actively shaping and nurturing a culture that is restless, empathetic, and devoted to our customers.

WORLD-CLASS, DIVERSE BOARD OF DIRECTORS

As Kyndryl changes the technology services industry, and our own firm, it is essential to have a strong Board to oversee and advise management. When Kyndryl became a public company in November 2021, it was "born" with a Board, which included nine independent directors, bringing together great leadership skills, diverse backgrounds and perspectives, and extensive transformation experience to help Kyndryl reach its potential. I am proud to serve as the Chairman of a Board that brings together a group of experts that have led large and complex organizations around the world in various positions such as chief executive officer, chief financial officer, chief human resources officer, chief information officer and university president.

STRONG ESG FOUNDATION

Our business is centered around our people, our customers, and our communities. We view Environmental, Social and Governance (ESG) as a central part of our mission to become a purpose-driven company and employer-of-choice, and are committed to sustainable and inclusive operations. We will implement industry best practices to govern our management systems, processes, and tools to ensure our operations meet the high standards of sustainability compliance and responsible business practices. Our environmental strategy will also focus on creating mid-term renewable energy consumption goals. Our social strategy focuses on creating a diverse, engaged, inclusive, and highly-skilled workforce, and engaging and equipping underserved communities with technical skills needed to enter the workforce of tomorrow. Our governance strategy focuses on maintaining our world-class, diverse Board of Directors and educating all our employees in key areas such as cybersecurity, privacy and ethics. Clearly, we view ESG as a central part of our strategy. To that end, for fiscal year 2023, our executive officers will be measured and paid in part based on achievement of key ESG objectives.

The opportunities ahead of us are clear. I am optimistic and proud about Kyndryl's role in the world, working with enterprises to support the health and security of the global digital economy.

Thank you for your continued belief in Kyndryl's journey.

Sincerely,

MARTIN SCHROETER
Chairman of the Board and
Chief Executive Officer
Kyndryl

June 14, 2022

> At Kyndryl, we're at the heart of progress. Our story is just beginning."

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BASIS OF PRESENTATION

Kyndryl Holdings, Inc. ("we," "Kyndryl" or the "Company") filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (the "2021 10-K") with the Securities and Exchange Commission (the "SEC") on March 10, 2022. On May 26, 2022, the Company filed a Current Report on Form 8-K (the "May 26, 2022 8-K") with the SEC that included an exhibit containing revised and recast "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements and Supplementary Data" sections of the 2021 10-K to reflect (a) the correction of an immaterial error consisting of an $87 million over-accrual in the Company's accrued contract costs balance that related to a majority-owned, consolidated joint venture in the Company's Principal Markets Segment that was principally built up prior to the Company's separation from International Business Machines Corporation and (b) updates to certain allocations methodologies among segments related to the Company's measure of adjusted EBITDA that the Company made during the three months ended March 31, 2022, in each case as more fully described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Financial Statements and Supplementary Data" sections of this Annual Report to Stockholders for the fiscal year ended December 31, 2022 (this "Annual Report").

The information in this Annual Report is comprised of portions of the 2021 10-K, as revised and recast in the May 26, 2022 8-K. Accordingly, information in this Annual Report is generally stated as of December 31, 2021, and does not reflect any subsequent information or events other than the revisions relating to the immaterial error and the updates of the segment allocation methodologies noted above. More current information is contained in the Company's Transition Report on Form 10-QT for the transition period from January 1, 2022 to March 31, 2022 and the Company's other filings with the SEC. For a discussion of events and developments subsequent to the filing of the Form 10-K, please refer to the Company's SEC filings since that date.

Business:

Our Company

Kyndryl Holdings, Inc. ("we," "Kyndryl" or the "Company") 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 multicloud environments to accelerate our customers' digital transformations.

We provide 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 realize 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, we rely on our team of skilled practitioners, consisting of approximately 90,000 professionals. 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.

As described in "— Our Customers," 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.

Our approach has enabled us to reach significant scale, with $18.7 billion in revenue for the year ended December 31, 2021. 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's Spin-off

In October 2021, the Board of Directors of International Business Machines Corporation ("IBM" or "Parent") 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 reorganization following which it became the holder, directly or through its subsidiaries, of the Kyndryl Businesses. On November 3, 2021, the Separation was achieved through the Parent's pro rata distribution of 80.1% of the shares of common stock of Kyndryl to holders of the Parent's common stock as of the close of business on the record date of

October 25, 2021. The Parent retained 19.9% of the shares of the Company's common stock. The Parent's stockholders of record received one share of the Company's common stock for every five shares of the Parent's common stock.

Our Industry and Market Opportunity

We participate in an industry that provides 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. Our 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 realize their future.

The market for these services is large and dynamic. We estimate that these markets, which are a subset of the total IT services market, collectively represent a $415 billion opportunity in 2021, which we expect will grow on average 7% annually to $510 billion in 2024. Growth in this market is driven by services that are aligned to customers' transformations, including public cloud managed services (expected compound annual growth of 11% from 2021 to 2024), data services (expected compound annual growth of 18% from 2021 to 2024), security services (expected compound annual growth of 12% from 2021 to 2024) intelligent automation services (expected compound annual growth of 27% from 2021 to 2024) and managed services for edge environments representing a smaller portion of the market (expected compound annual growth above 100% from 2021 to 2024).

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 modernization of IT within the enterprise. The COVID-19 global pandemic has accelerated this already pervasive trend, as organizations look to further their digital capabilities. International Data Corporation ("IDC") estimates that approximately 65% of GDP will be digitized by 2022. 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 organizations 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. IDC estimates that in 2021, enterprises created, captured and replicated 45.9 zettabytes of data. The challenge for many organizations 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.

- ***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. According to PwC's 2021 CEO Survey, one-third of U.S. CEOs plan to increase investments in cybersecurity by double digits, with 47% of CEOs citing cyber threats as sources of extreme concern to growth prospects. 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 organizations currently have 16 or more tools from different vendors in their cybersecurity portfolio, recognize 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 realize business objectives.

Our Services

We provide advisory, implementation and managed services in and across a range of technology domains to help our customers manage and modernize enterprise IT environments in support of their business and transformation objectives. Our services are differentiated based on our expertise and intellectual property and data around IT patterns across customers in the following domains:

- ***Cloud Services:*** We design, build and provide managed services for our customers' multicloud environments. We apply a mix of skilled practitioners, intelligent automation and modern service management principles of Site Reliability Engineering, AIOps, Infrastructure as Code and DevOps. We help enterprises optimize their use of hyperscale cloud providers in a unified environment, seamlessly integrating services delivered by independent software vendors ("ISVs"), large public cloud providers, internal platforms and other technologies (e.g., internet of things ("IoT")).

- ***Core Enterprise & zCloud Services:*** We establish and operate modern, dedicated technology infrastructure on behalf of enterprise customers to enable their current and future growth and profitability objectives. We support a range of enterprise infrastructure, including private clouds, mainframe environments, distributed computing, enterprise networks and storage environments.

- ***Application, Data and Artificial Intelligence Services:*** We provide end-to-end enterprise data services, including data transformation, data architecture and management, data governance and compliance and data migration. We support chief digital officers and chief information officers ("CIOs") in governing the vast quantities of enterprise data across internal and external sources to drive their digital strategies, transactions and business objectives, while maintaining security, ethical standards and compliance with country-specific data protection regulations (e.g., GDPR, HIPAA and PCI). We provide services to design, build, manage and automate the IT environments for enterprise applications as they migrate to the cloud. Our services help CIOs and chief technology officers unlock the full value of leading third-party enterprise resource planning systems (e.g., Oracle, SAP) and packaged applications through the use of AI and software-defined technologies.

- ***Digital Workplace Services:*** Our digital workplace services provide the technology infrastructure, mobility, security and access solutions to support a global workforce that is constantly evolving. Our services include enterprise mobility solutions that provide users with the ability to work seamlessly across environments and locations.

- ***Security & Resiliency Services:*** We provide comprehensive enterprise cybersecurity services for chief information security officers and chief risk officers, including insights, protection, detection, response and recovery to support the security of our client's hybrid IT estate, data and operations. Concurrently, we provide resiliency services that include a mix of business continuity planning and cloud-based disaster recovery capabilities (composed of experts, digital tools and automation and failover environments). These services allow our customers to operate without issue or disruption in response to attacks, outages, natural disasters and geopolitical events.

- ***Network Services & Edge:*** We provide network and edge services to help customers meet their technological and commercial requirements for connectivity and compute across their digital environments. Our strategy and assessment services help evaluate customers' network needs for their multicloud environments, while our network transformation and managed services allow customers to realize benefits of the latest software-defined network technologies. We deliver these services with a proprietary framework and architecture coupled with proof of concepts to then implement and manage enterprise networks with the right economics.

Our Competitive Strengths

We are a recognized leader in many of the services we provide, as acknowledged by research analysts (e.g., Everest, Forrester, Gartner, IDC, NelsonHall and HfS Research). We are known for our technology integration and modernization expertise – designing, building and managing complex technology environments. Our worldwide and high-quality service delivery is underpinned by experienced and highly-trained practitioners that bring the best of our capabilities to our customers on a daily basis. Importantly, our culture of customer service excellence – especially in times of crisis, from COVID-19 to tsunamis, floods, cyber-attacks and power outages – carries on from our heritage through our people. Given our unique capabilities, scale, intellectual property and engineering talent, we are positioned to partner with enterprises for their future across a range of technologies, use cases and business strategies to help them maximize the return on their technology investments and digital transformations.

Our competitive strengths stem from our intellectual property and data around IT patterns, our mission-critical expertise and our broad ecosystem of partners:

- ***We are a leader in technology services***. We are the largest provider of IT infrastructure services and are recognized by research analysts as a leader in key service areas. We possess significant experience in virtually all industries, gained through collaboration with customers across over 30 years designing, building and managing operating environments for their IT systems. Our highly skilled workforce provides the expertise (e.g., approximately 13,000 Red Hat accreditations) to securely and reliably handle many of the most complex issues. In conjunction with our delivery capabilities (such as artificial intelligence that augments our people) and scale, we provide mission-critical services to a diversified customer base. We also have unique intellectual property applicable to IT environments, as reflected by our portfolio of approximately 3,000 patents.

- ***We consistently deliver unsurpassed performance and reliability for complex environments***. Our expert practitioners and talented engineers provide services through modern ways of working, including agile and design thinking. Additionally, our unique intellectual property and industry-leading technology platforms utilize contemporary approaches to IT operations to provide reliable and efficient solutions for each customer's operating model. These capabilities allow us to execute with secure and compliant operating and delivery models at scale, driving high-quality performance and customer satisfaction. We realize high-quality performance across thousands of service-level agreements and consistently achieve world-class customer satisfaction and advocacy.

- ***We deliver insights at scale, supported by unique automation capabilities and application of AI.*** Our ability to deliver superior outcomes for customers is driven by our capacity to leverage our data around IT patterns and insights, derived from multiple technology environments across customer engagements. We apply machine learning, combined with our practitioner expertise, to derive unique insights used to service customers, enhance our offerings and produce our next-generation services. For example, we are recognized leaders in the use of automation and operational AI in the delivery of our services, with over 6,000,000 automated actions per month, enabling greater quality and efficiency for us and our customers. Our operational AI approach and set of technologies, along with intellectual property that we apply and continually evolve, are leveraged to develop predictive actions to prevent issues before they arise.

- ***We are a recognized leader in managed services for cloud and on-premise environments and services such as security and resiliency.*** We offer a range of high-value capabilities including cloud services and security & resiliency services, providing us with a sustainable competitive advantage when helping customers transform their technology environments. Our multicloud management capabilities are differentiated by our ability to

deliver an integrated view of our customers' diverse technology environments and to provide our services and solutions digitally. We offer integrated services between the cloud and on-premise environments.

- ***We offer an integrated ecosystem to help customers adopt and run an increasingly heterogeneous set of technologies.*** As customers pursue multiple cloud-based technology partners, applications and capabilities, integration is increasingly critical for customers to manage and orchestrate the technology ecosystem required to run their businesses and achieve their broader objectives. We provide holistic services across thousands of diverse technologies, delivering end-to-end integration across public and private / on-premise cloud platforms and other full-stack technology solutions. We continue to enhance our ecosystem of partners, including large public cloud providers, application-oriented system integrators, independent software vendors and other players in the technology stack to provide leading technologies and capabilities for our customers. Our services and ecosystems enable us to offer leading services for all levels of customer environment complexity and integration.

Our Strategies

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 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 realize the full, at-scale value of that journey. Underpinning all of this are our intellectual property, mission-critical expertise across industries and a broad ecosystem.

We benefit from our long-standing and deep relationship with IBM. We manage the largest installed base of IBM hardware and software products, including some of the most complex deployments.

Our focus is centered on the following strategic tenets:

- ***Scale insights and intellectual property.*** We are investing to position ourselves at the forefront of developing and innovating the services and operating paradigms for the evolution and integration of mission-critical technology, further expanding our existing intellectual property in differentiated areas. Our depth of experience implementing and operating complex architectures across technology sets has yielded valuable experience and intellectual property that has defined the operating paradigm for much of the technology stack. We have approximately 3,000 patents that relate to various areas of running complex technology environments, including certain patents related to multi-cloud management, orchestration, integrated monitoring, issue triage and resolution and several other areas that enable quality of service. Our mission-critical expertise across all industries, augmented by our automation platforms that draw on our IP and data, is a key differentiator in managing complex technology environments.

- ***Diverse ecosystem with freedom of action.*** As an independent entity, we have the freedom of action to develop a broad ecosystem of strategic partnerships with a wider set of technology and services companies. We are investing in an ecosystem of technology providers and corresponding skill-sets that are increasingly relevant as enterprises digitize and transform their business models, building on our existing base of certifications across many market-leading technologies. In parallel, we are extending our operating paradigms and governance and

compliance models to this broader set of technologies to integrate and provide end-to-end capabilities for our customers as they digitize and evolve their environments.

- ***Digitally consumable services models.*** Looking ahead, we see opportunity to further expand in areas where we can better serve customers through consumption models that allow them to experience our services digitally. These models will combine our platforms, our technology governance and our ecosystem with ease-of-use and scalability, tailored to the needs of specific customer segments such as middle-market enterprises.

To execute these strategies, our operating model reflects that of a services company, emphasizing customers and resulting in a flatter, faster and more focused company. We are pursuing an investment and co-investment strategy focused on building our team, developing aligned intellectual property and automation and broadening our ecosystem of partnerships.

Our Environmental, Social and Governance ("ESG") strategy is at the heart of Kyndryl's purpose to power human progress. We aim to create a sustainable and inclusive future by driving sustainable business practices and positive social impact at scale. As a newly independent company, Kyndryl is working to assess and establish its operational baseline across ESG dimensions.

Kyndryl expects to develop greenhouse gas ("GHG") emissions targets and plans to recertify pursuant to the ISO certifications most relevant to Kyndryl, including the ISO 14001 standard. Beyond our environmental commitments, Kyndryl is focused on building a diverse workforce and an inclusive and equitable culture. With respect to governance matters, Kyndryl will also leverage industry best practices to govern its quality management system, processes and tools to ensure operations meet the standards of compliance and responsible business practices that clients and partners expect. We also maintain Business Conduct Guidelines for directors, executive officers and employees which summarize our policies addressing anti-harassment; anti-discrimination; retaliation prevention; physical and cybersecurity; confidentiality and data privacy; and prevention of fraud, waste and abuse.

Our Customers

Our customer relationships across all industries demonstrate the deep level of trust that we have earned and the role we play as a partner that provides technical expertise, insight and intellectual property to solve customer challenges. We are the trusted advisor and partner to more than 4,000 customers worldwide, in technology-intensive and often highly regulated environments, managing mission-critical technology environments across a wide range of industries. Our customers collectively represent:

- In financial services, over 60% of the top 50 banks' assets under management
- In telecommunications, approximately half of the industry's mobile connections worldwide
- In retail, over 50% of the industry's hypermarket sales
- In automotive, approximately 45% of the industry's production of passenger vehicles
- In transportation, over 35% of total revenue passenger miles flown

Our revenues are concentrated in the industries mentioned above, but our revenues are diversified across a broad set of customers. In 2021, our top five customers accounted for approximately 9% of our revenue, with our largest customer representing approximately 2% of our revenue.

As companies engage in their digital journeys, they face a key impediment related to the skills and expertise needed to realize their transformations. This, in part, is brought on by the increasing complexity of enterprise environments, the incorporation of new technologies and the deployment of different operating models. While many companies have strengthened their technology teams, they have also encountered difficulties in sourcing the breadth of expertise needed for their environments and leveraged service providers to address their needs. Companies will benefit

from selecting service providers that have greater insight into their environments and needs, which advantages partners with long-lasting customer relationships.

Through decades of collaboration with customers, we have developed deep relationships as we supported the technology environments that advanced their business agendas. Recent examples include:

Large-scale transformation to cloud: We partnered with a large, European financial institution to help it migrate from a predominantly on-premise, classic infrastructure environment to a cloud-based infrastructure, utilizing both private and public clouds. We provided the expertise and support to navigate this digital transformation while maintaining and improving quality of service as we moved over 1,000 applications. We also deployed a new Kubernetes container-based environment and management capabilities to increase workload portability and flexibility. This work enabled the customer's platform to run with increased digital agility and efficiency, embedding strong data security within the new cloud-based infrastructure and providing alignment to the existing infrastructure environment. The customer's transformation has brought business benefits, from new products and services that are brought to market faster, to an increase in sales through online channels.

Modernization of the technology environment: Based on a relationship spanning almost two decades, we partnered with a large European bank to help launch a 10-year transformational program to increase operational agility and efficiency by optimizing the customer's critical infrastructure, reducing complexity, migrating to hybrid cloud and reducing operational costs. We reduced IT infrastructure complexity by redesigning critical infrastructure architecture, including networks, storage, virtualization and data backup for improved efficiency, enabled 'scalable' hybrid cloud by implementing and updating existing systems to a hybrid cloud solution supported by Red Hat and transformed legacy IT services by modernizing tools and the operating model for deployment of IT services. The customer will benefit from modern IT infrastructure including cloud and mainframes that supports their core banking services and treasury functions.

Digital transformation across the enterprise: We collaborated with a large material sciences company in North America to support their mission-critical IT infrastructure globally, providing integrated management for environments that include hybrid cloud infrastructure, network, security and end-user services. As the COVID-19 pandemic impacted the operations of many companies, we worked with our customer to help move more than 40,000 employees to a remote model while maintaining critical operations in production facilities without disruption. Building on our 16-year history of collaboration, we are working to accelerate their digital transformation. We are helping our customer build foundational capabilities for their digital journey, powered by data, analytics and artificial intelligence and machine learning integrated into core business processes and connected through a flexible and secure network. This will support our customer's ability to fully exploit digital technologies and realize business benefit.

Digitization for flexibility: Our customer, a large Japanese transportation company, was engaged in a technology-driven transformation to establish a flexible IT environment using hybrid cloud that evolves with changing business needs. We worked with the customer to build an integrated private and public cloud with the same virtualization architecture and a management capability that unifies operations and evolves with the business. Through our collaboration, we created an integrated infrastructure to meet our customer's current and future needs by modernizing its on-premise, off-premise and network environments as well as its management platform. We deployed software-defined networks across the environment and automation to realize improved quality and business continuity. Our work helps support our customer's efforts to become one of the most valued and preferred transportation companies in the world.

An important part of our services involve supporting our customers during times of crisis, including global disruptions. For instance, during the COVID-19 pandemic, our business continuity plans mitigated all COVID-driven outages in the height of the pandemic, providing peace-of-mind to our customers and giving them the confidence to focus on their core businesses. We ensured that our customers had the data and IT services needed to migrate operations to a work-from-home environment. Our response also demonstrated the resilience of our delivery model, as most of our professionals moved to work-from-home without impact to customer service.

Sales and Marketing

Our customer engagement and brand positioning is focused on deepening our existing customer relationships, attracting and winning new customers and creating an ecosystem built on go-to-market relationships with leading cloud and other technology providers, advisors and integrators to offer best-in-class advisory, implementation and managed services tailored to each existing and new customer's environment and requirements.

Customer-centric account approach. We have dedicated account coverage teams within our global operating structure. The teams leverage our intellectual capital and tools underpinned by insights and proven practices derived from operating at scale. Senior account leaders orchestrate the teams and have end-to-end accountability from sale to delivery for managed services customers. They tailor the full suite of our services to customers' needs to deliver value and business outcomes across a wide range of technology environments. Account leaders are supported by dedicated, multi-disciplinary technical sales and delivery teams, as well as by shared services teams, to support an effective and efficient engagement. This account coverage model ensures consistent and reliable delivery of services for our existing relationships over the lifetime of current and renewal contracts. In addition, the model supports the potential expansion of existing relationships based on our deep industry perspective and expertise and knowledge of customers' unique needs. Finally, this account-based model seeks to build and expand existing relationships with line-of-business buyers, as they have become critical decision makers working alongside our customers.

Customer growth and new customer acquisition. In line with our customer-centric approach, we are focused on co-creating and innovating with customers to advance and deepen our relationships. We leverage our broad base of expertise, capabilities and partners to prototype, test and develop innovative solutions across various approaches and technologies. Additionally, we offer bespoke project capabilities in advisory, implementation and transformation services to help customers enhance and evolve their technology environments. We deploy our talent, thought leadership, proven practices, intellectual capital and partnership ecosystem as part of our project engagements to mature them into longer-tail managed services opportunities. In addition, we attract and develop new customers across the globe via account-based marketing, insights derived from operating at scale and direct sales teams with years of sector-specific experience and proven practices to generate unique insights for customers. As we gain new customers, we apply our account coverage model to expand our relationships and footprint over time.

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. We announced several partnerships in the fourth quarter of 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. 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.

Our Competition

We compete in a market for technology services along with many other providers, ranging from small, highly specialized companies that serve a limited number of customers to large, multi-service enterprises with many clients. These service providers include incumbents that have expanded their offerings to migration and management of cloud-based environments; companies that utilize labor-based models and leverage talent pools primarily in lower-cost countries that have grown to offer a broad range of services with a worldwide presence; and advisory-focused system integrators specializing in bringing together disparate technology environments so that they function as one. Many of these companies offer a mix of advisory, implementation and managed services across infrastructure, application and business processes. Examples include Atos, DXC, Fujitsu, Infosys, Rackspace, Tata Consultancy Services and Wipro, among others.

The basis of competition involves multiple factors, with key elements including quality of service, technical skills and capabilities, industry knowledge and experience, financial value, ability to innovate, intellectual property and methods, contracting flexibility and speed of execution. Long-standing partnerships and knowledge of the customers' technology environment often enable service providers to better address requirements and future needs. Our decades-long collaboration with customers provides us with the insights to realize distinctive performance that supports their digital transformation. We deliver unique value by providing intellectual property derived from insights at scale, deploying mission-critical expertise and leveraging a broad ecosystem – while building and strengthening partnerships to enhance the customer experience.

We position ourselves uniquely, leveraging a core strength in governance and management of complex IT infrastructure environments, delivered through a global footprint. Our services support customers' digital transformations, as we help accelerate their journeys by providing instrumented and engineered technology environments. We offer choice with consistency through an operating paradigm and management model built from our experiences with complex technologies. These capabilities uniquely position us as both a leading partner and competitor within the same market.

Intellectual Property

We are committed to developing leading-edge ideas and technologies and see innovation as a source of competitive advantage. We have approximately 3,000 patents that are related to our business model. A key pillar of our strategy is continuing to invest in knowledge and intellectual property to support extending our services to a broader ecosystem of technology providers and customer challenges and solutions. Our decades of experiences working with our customers has generated operational insights, creating intellectual property that we leverage for the benefit of our customers and deploy at scale. We rely on intellectual property protections in the countries in which we operate, along with contractual restrictions, to establish and protect our offerings and services and other applicable rights. In addition, we license third-party software along with other technologies that are used in the provision of or incorporated into some elements of our services. We possess a significant intellectual property portfolio, which we believe is important to our success. However, we believe our business as a whole is not materially dependent on any particular intellectual property right or any particular group of patents, trademarks, copyrights or licenses.

Additionally, we own or have rights to various trademarks, logos, service marks and trade names that are used in the operation of our business. We also own or have the rights to copyrights that protect the content of our products and other proprietary materials.

Human Capital Resources

Employees

As of December 31, 2021, we had approximately 90,000 employees in more than 60 countries. Approximately 92% of our employees work outside the U.S., with workforce hubs in India, Poland, Brazil, Japan, Czech Republic and Hungary.

Our people advance the vital systems that power human progress. Our global workforce is highly skilled, reflective of the work we do for our customers' digital transformations and in support of their mission-critical operations. Our industry experts are also always continuously learning. Over the past five years, we earned more than 245,000 badges through our learning platform in strategic skills, including cloud, AI, analytics, design thinking, quantum and security. At Kyndryl, we are:

- A purpose-led culture, focused on inspiring our dedicated people to advance what's possible for our customers
- A business where our people are our business. We want empowered employees who keep learning, thriving and creating
- Inclusive and open. This starts with a diverse and empathetic workforce that listens and learns at every step

- Fostering an environment that supports new ways of working, accelerated career progression and the chance to work with the most interesting technology systems
- Promoting innovation at every turn – in our open and transparent leadership, in our purpose and in our shared values built around a commitment to advancing what's next for ourselves and our customers

Our people are at the center of designing, building and managing the technology environments that the world depends on every day. We will continue to invest in our teams to be at the heart of technological change for our customers.

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 optimizing 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.

Inclusion, Diversity and Equity ("ID&E")

We empower Kyndryls 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

Health, Safety and Well-Being

We have a clear commitment to the health, safety and well-being of our employees. We have 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, minimizes workplace health and safety risks and provides for safe and healthy workplaces so our employees can do their best work.

Throughout the COVID-19 pandemic, our 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.

Company Website, Social Media and Availability of SEC Filings

The Company's internet website is *www.kyndryl.com*. Information on the Company's website is not incorporated by reference herein and is not a part of this report. The Company makes available free of charge on its website or provides a link on its website to the Company's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after those reports are electronically filed with or furnished to the Securities and Exchange Commission. To access these filings, go to the investor relations section of the Company's website (*investors.kyndryl.com*) and under the "Financials" heading, click on "SEC Filings." In addition, the SEC maintains an Internet website (http://www.sec.gov) containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company may use its website and/or social media outlets, such as Facebook, LinkedIn and Twitter, as distribution channels of material Company information. Financial and other important information regarding the Company is routinely posted on and accessible through the Company's website at https://investors.kyndryl.com, its Facebook page at https://www.facebook.com/kyndryl, its LinkedIn page at https://linkedin.com/company/kyndryl and its Twitter account (@Kyndryl) at https://twitter.com/Kyndryl. In addition, you may automatically receive email alerts and other information about the Company when you enroll your email address by visiting the "Investor Email Alerts" section under the "Resources" section at https://investors.kyndryl.com.

Industry and Market Data

The sources of certain statistical data, industry data, estimates and forecasts contained in this 10-K are the following independent industry publications or reports:

- Gartner, Smarter With Gartner: Top Security and Risk Trends for 2021, dated April 5, 2021
- Gartner, Forecast: IT Services, Worldwide, 2019-2025, 4Q21 Update, dated December 21, 2021 (the "Gartner IT Services Report")
- Gartner, Forecast Analysis: Digital Business Consulting Services, Worldwide, dated December 7, 2020 (the "Gartner Consulting Services Forecast Report")
- Gartner, Forecast Analysis: Cloud Consulting and Implementation Services, Worldwide, dated July 23, 2021
- Gartner, Magic Quadrant for Managed Mobility Services, Global 2021, dated April 6, 2021
- Gartner, Market Share: IT Services, Worldwide 2020, dated April 8, 2021

We performed calculations of market sizes and growth rates using Gartner research from the Gartner IT Services Report and the Gartner Consulting Services Forecast Report.

The Gartner reports described herein (the "Gartner Content") represent research opinion or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. ("Gartner") and are not representations of fact. The Gartner Content speaks as of its original publication date (and not as of the date of this 10-K), and the opinions expressed in the Gartner Content are subject to change without notice.

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Risk Factors:

Risks Relating to Our Business

A lack of new customers, 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 attract new customers, retain existing customers and sell additional, comparable gross margin services to our customers. We may incur higher customer acquisition or 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 and any termination fees associated with an early termination may not be sufficient to recover our costs associated with such contracts. 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.

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 make successful investments to grow and 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, expanding in geographies where we currently have a small presence and ensuring that our services remain competitive in a rapidly changing technological environment. We may invest significantly in key strategic areas to drive long-term revenue growth and share gains. These investments may adversely affect our near-term revenue growth and results of operations, and we cannot guarantee that they will ultimately be successful. 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.

Competition in the markets in which we operate may adversely impact our results of operations.

Our competitors include incumbents that have expanded their offerings to migration and management of cloud-based environments; companies that utilize labor-based models and leverage talent pools primarily in lower-cost countries that have grown to offer a broad range of services with a worldwide presence; and advisory-focused system integrators specializing in bringing together disparate technology environments. Our competitiveness is based on factors including quality of services, technical skills and capabilities, industry knowledge and experience, financial value, ability

to innovate, intellectual property and methods, contracting flexibility, and speed of execution. If we are unable to compete based on such factors, our results of operations and business prospects could be harmed.

This competition may decrease our revenue and place downward pressure on operating margins in our industry, particularly for contract extensions or renewals. As a result, we may not be able to maintain our current revenue and operating margins, or achieve favorable operating margins, for contracts extended or renewed in the future. If we fail to create and sustain an efficient and effective cost structure that scales with revenues during periods with declining revenues, our margins and results of operations may be adversely affected.

Companies with whom we have alliances in certain areas may be or become competitors in other areas. In addition, companies with whom we have alliances also may acquire or form alliances with competitors, which could reduce their business with us. If we are unable to effectively manage these complicated relationships with alliance peers, our business and results of operations could be adversely affected.

Our business could be adversely impacted by our relationships with critical suppliers and partners.

Our business employs a wide variety of products and services from a number of suppliers and partners around the world. Our relationships with our partners, who supply us with necessary components to the services and solutions we offer our customers, are also critical to our ability to provide many of our services and solutions that address customer demands. There can be no assurance that we will be able to maintain such relationships, including in light of our separation from IBM. Among other things, such partners may in the future decide to compete with us, form exclusive or more favorable arrangements with our competitors or otherwise reduce our access to their products, impairing our ability to provide the services and solutions demanded by customers. Further, changes in the business condition (financial or otherwise) of these suppliers or partners could subject us to losses and affect our ability to bring our offerings to market. Additionally, the failure of our suppliers and partners to deliver products and services in sufficient quantities, in a timely manner, and in compliance with all applicable laws and regulations could adversely affect our business. Any defective products or inadequate services received from suppliers or partners could reduce the reliability of our services and harm our reputation.

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.

Due to our global presence, 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. Further, we may be impacted directly or indirectly by the development and enforcement of laws and regulations in the U.S. and globally that are specifically targeted at the technology industry. Our results of operations also could be affected by economic and political changes in those countries and by macroeconomic changes, including recessions, inflation, currency fluctuations between the U.S. dollar and non-U.S. currencies and adverse changes in trade relationships among those countries. As we expand our customer base and the scope of our offerings, both within the United States and globally, we may be further impacted by additional regulatory

or other risks, including compliance with U.S. and foreign data privacy requirements, data localization requirements, labor relations laws, enforcement of intellectual property protection laws, laws relating to anti-corruption, anti-competition regulations, and import, export and trade restrictions. Further, international trade disputes could create uncertainty. Tariffs and international trade sanctions resulting from these disputes could affect our ability to move goods and services across borders, or could impose added costs to those activities. Measures taken to date by us to mitigate these impacts could be made less effective should trade sanctions or tariffs change. In addition, any widespread outbreak of an illness, pandemic or other local or global health issue, natural disasters including those that could be related to climate change impacts, or uncertain political climates, international hostilities, or any terrorist activities, could adversely affect customer demand, our operations and supply chain, and our ability to source and deliver solutions to our customers. For example, the COVID-19 pandemic has created significant volatility, uncertainty and economic disruption. 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.

A downturn in the economic environment and customer spending budgets could adversely impact our business.

Our overall performance depends in part on global macroeconomic and geopolitical conditions, which can change suddenly and unpredictably. Because we operate globally and have significant businesses in many markets, an economic slowdown in any of those markets could adversely affect our results of operations. If overall demand for our solutions decreases, or if customers decide to reduce their spending budgets as a result of such conditions, including those associated with the COVID-19 pandemic, our revenue and profit could be materially and adversely impacted.

Damage to our reputation could adversely impact our business.

Our reputation may be susceptible to damage by events such as significant disputes with customers, internal control deficiencies, delivery failures, cybersecurity incidents, government investigations or legal proceedings or actions of current or former customers, directors, employees, competitors, vendors, alliance partners or joint venture partners. If we fail to gain a positive reputation as leader in our field, or if our brand image is tarnished by negative perceptions, our ability to attract and retain customers and talent could be impacted.

If we are unable to accurately estimate the cost of services and the timeline for completion of contracts, the profitability of our contracts may be materially and adversely affected.

Our commercial contracts are typically awarded on a competitive or "sole-source" basis. Our bids are priced upon, among other items, the expected cost to provide the services. We are dependent on our internal forecasts and predictions about our projects and the marketplace and, to generate an acceptable return on our investment in these contracts, we must be able to accurately estimate our costs to provide the services required by the contract and to complete the contracts in a timely manner. We face a number of risks when pricing our contracts, as many of our projects entail the coordination of operations and workforces in multiple locations and utilizing workforces with different skill sets and competencies across geographically diverse service locations. In addition, revenues from some of our contracts are recognized using the percentage-of-completion method, which requires estimates of total costs at completion, fees earned on the contract, or both. This estimation process, particularly due to the technical nature of the services being performed and the long-term nature of certain contracts, is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained, and additional information becomes known, even though the scope of the work required under the contract may not change. Moreover, inflation can adversely affect us by increasing our costs and, if we are unable to adjust our pricing, revenue or costs, can adversely affect the profitability of our contracts. If we fail to accurately estimate our costs or the time required to complete a contract, the profitability of our contracts may be materially and adversely affected.

Service delivery issues could adversely impact our business and operating results.

We have customer agreements in place that include certain service-level commitments. If we are unable to meet such commitments, we may be contractually obligated to pay penalties or provide these customers with service credits for a portion of the service fees paid by our customers. However, we cannot be assured that our customers will accept these penalties or credits in lieu of other legal remedies that may be available to them. Our failure to meet our commitments could also result in customer dissatisfaction or loss and have an adverse effect on our business, financial condition and results of operations.

Risks from acquisitions, alliances and dispositions include integration challenges, failure to achieve objectives, the assumption of liabilities and higher debt levels.

Subject in certain circumstances to the consent of IBM under the Tax Matters Agreement, as discussed in "-Risks Relating to our Recent Spin-off from IBM," we may decide to make acquisitions, alliances and dispositions in furtherance of our strategy. Such transactions can present significant challenges and risks, and there can be no assurances that we will identify or manage such transactions successfully or that strategic opportunities will be available to us on acceptable terms or at all. The related risks include our failure to achieve strategic objectives, our failure to achieve anticipated revenue improvements and cost savings, our failure to retain key strategic relationships of acquired companies, our failure to retain key personnel and our assumption of liabilities related to litigation or other legal proceedings involving the businesses in such transactions, as well as our failure to close planned transactions. Such transactions may require us to secure financing, and our indebtedness may limit the availability of financing to us or the favorability of the terms of available financing. If we do acquire other companies, we may not realize all the economic benefit from those acquisitions, which could cause an impairment of goodwill or intangible assets. If our goodwill or net intangible assets become impaired, we may be required to record a charge to our income statement as we did in the quarter ended December 31, 2021. See "—We have recorded significant goodwill impairment charges and may be required to record additional charges to future earnings if our goodwill or long-lived assets become impaired."

We could be adversely impacted by our business with government customers.

Our customers include numerous governmental entities within and outside the United States, including foreign governments and U.S. state and local entities. Some of our agreements with these customers may be subject to periodic funding approval. Funding reductions or delays could adversely impact public sector demand for our services. Also, government contracts tend to have additional requirements beyond commercial contracts and, for example, may contain provisions providing for higher liability limits for certain losses. In addition, we could be suspended or debarred as a governmental contractor and could incur civil and criminal fines and penalties, which could negatively impact our results of operations, financial results and reputation.

Intellectual property matters could adversely impact our business.

Our intellectual property rights may not prevent competitors from independently developing services similar to or duplicative of ours, nor can there be any assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology. Our ability to protect our intellectual property could also be impacted by changes to existing laws, legal principles and regulations governing intellectual property. Further, we rely on third-party intellectual property rights, open-source software, and other third-party software in providing some of our services and solutions, and there can be no assurances that we will be able to obtain from third parties the licenses we need in the future. If we cannot obtain licenses to third party intellectual property on commercially reasonable terms, or if we must obtain alternative or substitute technology or redesign services, our business may be adversely affected. Additionally, we cannot be sure that our services and solutions, or the solutions of others that we offer to our customers, do not infringe on the intellectual property rights of third parties (including competitors as well as non-practicing holders of intellectual property assets), and these third parties could claim that we, our customers or parties indemnified by us are infringing upon their intellectual property rights. In addition, we may be the target of aggressive and opportunistic enforcement of patents by third parties, including patent assertion entities and non-practicing entities. These claims, even if we believe they have no merit, could subject us to a temporary or permanent injunction or damages, harm our reputation, divert management

attention and resources, and cause us to incur substantial costs or prevent us from offering some services or solutions in the future. Even if we have an agreement providing for third parties to indemnify us for the foregoing claims, the indemnifying parties may be unwilling or unable to fulfill their contractual obligations.

We have recorded significant goodwill impairment charges and may be required to record additional charges to future earnings if our goodwill or long-lived assets become impaired.

We are required under accounting principles generally accepted in the United States of America ("GAAP") to review our goodwill for impairment at least annually, and to review goodwill and long-lived assets when events or changes in circumstances indicate the carrying value may not be recoverable. Some factors that may be considered events or changes in circumstances that would require our long-lived assets and/or goodwill to be reviewed for impairment include a sustained decline in stock price, a substantial decline in business performance or other entity-specific events such as changes in business management and strategy. In the fourth quarter of 2021, we reviewed our long-lived assets and goodwill for impairment and identified certain reporting units in which the carrying value of the reporting unit exceeded the fair value. Consequently, the Company recorded a non-cash impairment charge of $469 million in the fourth quarter. We may be required to record additional non-cash impairment charges during any period in which we determine that our goodwill or long-lived assets are impaired, which could adversely affect our results of operations. As of December 31, 2021, our goodwill balance was $732 million, which represented 6% of total consolidated assets. See Note 10 – Intangible Assets Including Goodwill to our financial statements included elsewhere in this report for additional information about our 2021 goodwill impairment.

Risks Relating to Cybersecurity and Data Privacy

Cybersecurity and privacy considerations could adversely impact our business.

We maintain information, including confidential and proprietary information, in digital form regarding our business and information of our customers, contractors, business partners, vendors, employees, competitors and other third parties. We also rely on third-party vendors to provide certain digital services in connection with our business. There are numerous and evolving risks to our cybersecurity and privacy, including risks originating from intentional acts of criminal hackers, hacktivists and nation states; from intentional and unintentional acts of customers, contractors, business partners, vendors, employees, competitors and other third parties; and from errors in processes or technologies, as well as the risks associated with an increase in the number of customers, contractors, business partners, vendors, employees and other third parties working remotely as a result of the COVID-19 pandemic. Computer hackers and others routinely attack the security of technology products, services, systems and networks using a wide variety of methods, including ransomware or other malicious software and attempts to exploit vulnerabilities in hardware, software, and infrastructure. Attacks also include social engineering to fraudulently induce customers, contractors, business partners, vendors, employees and other third parties to disclose information, transfer funds or unwittingly provide access to systems or data. We are at risk of security breaches not only of our own services, systems and networks, but also those of customers, contractors, business partners, vendors, employees and other third parties.

Cyber threats are continually evolving, making it difficult to defend against certain threats and vulnerabilities that can persist undetected over extended periods of time. Our services, systems and networks, including cloud-based systems and systems and technologies that we maintain on behalf of our customers, may be used in critical Company, customer or third-party operations, and involve the storage, processing and transmission of sensitive data, including valuable intellectual property, other proprietary or confidential data, regulated data, and personal information of employees, customers and others. These services, systems and networks are also used by customers in heavily regulated industries, including those in the financial services, healthcare, critical infrastructure and government sectors. Successful cybersecurity attacks or other security incidents with respect to our systems or those of our third-party vendors could result in, for example, one or more of the following: unauthorized access to, disclosure, modification, misuse, loss or destruction of Company, customer or other third-party data or systems; theft or import or export of sensitive, regulated or confidential data including personal information and intellectual property; the loss of access to critical data or systems through ransomware, crypto mining, destructive attacks or other means; and business delays, service or system disruptions or denials of service. In the event of such actions, we, our customers and other third parties could be exposed

to liability, litigation, and regulatory or other government action, as well as the loss of existing or potential customers, damage to brand and reputation, damage to our competitive position, and other financial loss.

The cost and operational consequences of responding to cybersecurity incidents and implementing remediation measures could be significant. In our industry, security vulnerabilities are increasingly discovered, publicized and exploited across a broad range of hardware, software or other infrastructure, elevating the risk of attacks and the potential cost of response and remediation for us and our customers. In addition, the fast-paced, evolving, pervasive, and sophisticated nature of certain cyber threats and vulnerabilities, as well as the scale and complexity of the business and infrastructure, make it possible that certain threats or vulnerabilities will be undetected or unmitigated in time to prevent or minimize the impact of an attack on us or our customers. Cybersecurity risk to us and our customers also depends on factors such as the actions, practices and investments of customers, contractors, business partners, vendors and other third parties. Cybersecurity attacks or other catastrophic events resulting in disruptions to or failures in power, information technology, communication systems or other critical infrastructure could result in interruptions or delays to Company, customer or other third-party operations or services, financial loss, injury or death to persons or property, potential liability, and damage to brand and reputation. Although we continuously take significant steps to mitigate cybersecurity risk across a range of functions, such measures can never eliminate the risk entirely or provide absolute security. To date, while we continue to monitor for, identify, investigate, respond to, remediate and develop plans to quickly recover from cybersecurity incidents, there have not been cybersecurity incidents that have had a material adverse effect on us, though there is no assurance that there will not be cybersecurity incidents that will have a material adverse effect in the future.

As we are a global enterprise, the regulatory environment with regard to cybersecurity, privacy and data protection issues to which we are subject is increasingly complex and will continue to impact our business, including through increased risk, increased costs, and expanded or otherwise altered compliance obligations. As our reliance on data grows, the potential impact of regulations on our business, risks, and reputation will grow accordingly. The enactment and expansion of data protection and privacy laws and regulations around the globe, including an increased focus on international data transfer mechanisms driven by the European Court of Justice decision in the Schrems II matter; the lack of harmonization of such laws and regulations; the increase in associated litigation and enforcement activity; the potential for damages, fines and penalties; and the potential regulation of new and emerging technologies, such as artificial intelligence, will continue to result in increased compliance costs and risks. Any additional costs and penalties associated with increased compliance, enforcement and risk reduction could make certain offerings less profitable or increase the difficulty of bringing certain offerings to market.

Risks Relating to Laws and Regulations

Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violation of these regulations could harm our business.

We are subject to numerous, and sometimes conflicting, legal regimes on matters as diverse as anticorruption, import/export controls, content requirements, trade restrictions, tariffs, taxation, sanctions, immigration, internal and disclosure control obligations, securities regulation, ESG initiatives, anti-competition, anti-money-laundering, data privacy and protection, wage-and-hour standards, employment and labor relations and human rights. The global nature of our operations, including emerging markets where legal systems may be less developed or understood by us, and the diverse nature of our operations across a number of regulated industries, further increase the difficulty of compliance. Compliance with diverse legal requirements is costly and time-consuming and requires significant resources. Violations of one or more of these regulations in the conduct of our business could result in significant fines, enforcement actions or criminal sanctions against us and/or our employees, prohibitions on doing business, unfavorable publicity and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our customers also could result in liability for significant monetary damages and restrictions on our ability to effectively carry out our contractual obligations and thereby expose us to potential claims from our customers. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws may not be well developed or provide sufficiently clear guidance and may be insufficient to protect our rights.

In particular, in many parts of the world, including countries in which we operate and/or seek to expand, practices in the local business community might not conform to international business standards and could violate anti-corruption laws, or regulations, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act 2010. Our employees, subcontractors, vendors, agents, alliance or joint venture partners, the companies we acquire and their employees, subcontractors, vendors and agents, and other third parties with which we associate could take actions that violate policies or procedures designed to promote legal and regulatory compliance or applicable anti-corruption laws or regulations. Violations of these laws or regulations by us, our employees or any of these third parties could subject us to criminal or civil enforcement actions (whether or not we participated or knew about the actions leading to the violations), including fines or penalties, disgorgement of profits and suspension or disqualification from work, including U.S. federal contracting, any of which could materially adversely affect our business, including our results of operations and our reputation.

Changes in laws and regulations could also mandate significant and costly changes to the way we implement our services or could impose additional taxes on our services. For example, changes in laws and regulations to limit using off-shore resources in connection with our work or to penalize companies that use off-shore resources, which have been proposed from time to time in various jurisdictions, could adversely affect our results of operations. Such changes may result in contracts being terminated or work being transferred on-shore, resulting in greater costs to us.

Tax matters could impact our results of operations and financial condition.

We are subject to income taxes in both the United States and numerous foreign jurisdictions. We calculate and provide for taxes in each tax jurisdiction in which we operate. Tax accounting often involves complex matters and requires our judgment to determine our worldwide provision for income taxes and other tax liabilities. Our provision for income taxes and cash tax liability in the future could be adversely affected by numerous factors including, but not limited to, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in tax laws, regulations, accounting principles or interpretations thereof, which could adversely impact our results of operations and financial condition in future periods. The Organization for Economic Cooperation and Development (OECD) continues to issue guidelines that are different, in some respects, than long-standing international tax principles. As countries unilaterally amend their tax laws to adopt certain parts of the OECD guidelines, this may increase tax uncertainty and may adversely impact our income taxes. Local country, state, provincial or municipal taxation may also be subject to review and potential override by regional, federal, national or similar forms of government, which may also adversely impact our income taxes. In addition, it is likely that our tax returns could be examined by taxing authorities in the jurisdictions in which we do business. While we regularly assess the likelihood of adverse outcomes resulting from these examinations in order to determine the adequacy of our provision for income taxes, there can be no assurance that the outcomes from these examinations will not have an adverse effect on the Company's provision for income taxes and cash flows.

We are subject to legal proceedings and investigatory risks.

As a company with approximately 90,000 employees and with customers in over 100 countries, we are or may become involved as a party and/or may be subject to a variety of claims, demands, suits, investigations, tax matters and other proceedings that arise from time to time in the ordinary course of our business. The risks associated with such legal proceedings are described in more detail in Note 13 – Commitments and Contingencies in the financial statements elsewhere in this report. We believe that we have adopted appropriate risk management and compliance programs. Legal and compliance risks, however, will continue to exist, and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, may arise from time to time.

We could incur costs for regulated environmental matters.

We are subject to various federal, state, local and foreign laws and regulations concerning the discharge of materials into the environment or otherwise related to environmental protection. We could incur costs, including cleanup costs, fines and civil or criminal sanctions, as well as third-party claims for property damage or personal injury, if we

were to violate or become liable under environmental laws and regulations. In addition, if we were to violate or become liable under environmental laws and regulations our reputation could be harmed, which could have a negative impact on demand for our products and services. Compliance with environmental laws and regulations is not expected to have a material adverse effect on our financial position, results of operations and competitive position.

We could be materially and adversely affected by increased focus on and demands from customers, investors and regulators with respect to climate change and environmental, social and governance issues.

Global climate change is the result of increasing carbon emissions and has been linked to increasing environmental degradation and increased incidence of natural disasters. Governments are implementing local, national and international regulations, taxes and carbon mechanisms to reduce these emissions. If we do not meet these demands, our business and operations may be negatively impacted. In addition, investors have linked corporate risks and management of ESG to sustainable profits and growth. ESG includes not only environmental issues but also human rights, diversity, responsible supply chain management, ethics, cybersecurity and privacy concerns. We risk divestment and challenges to corporate practices and policies if we do not meet the ESG expectations of stockholders. Further, employees and customers may seek employment opportunities, products and services that offer ESG benefits and/or minimize ESG risks. If we fail to meet these demands, it may negatively impact our business and damage our reputation.

Risks Relating to Financing and Capital Markets Activities

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

Any rating, outlook or watch 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, outlook or watch, such as adverse changes to our business, so warrant. Any future lowering of our ratings, outlook or watch likely would make it more difficult or more expensive for us to obtain additional debt financing. Moreover, 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.

The commercial and credit environment may adversely affect our access to capital.

Our ability to issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our services or in the solvency of our customers or suppliers or if there are other significantly unfavorable changes in economic conditions. Volatility in the world financial markets could increase borrowing costs or affect our ability to access the capital markets. These conditions may adversely affect our credit ratings.

Our financial performance could be adversely impacted by changes in market liquidity conditions and by customer credit risk on receivables.

Our financial performance is exposed to a wide variety of industry sector dynamics worldwide, including sudden shifts in regional or global economic activity such as those associated with the COVID-19 pandemic. Our earnings and cash flows, as well as our access to funding, could be negatively impacted by changes in market liquidity conditions. Our customer base includes many worldwide enterprises, from small and medium businesses to the world's largest organizations and governments, with a significant portion of our revenue coming from global customers across many sectors. If we become aware of information related to the creditworthiness of a major customer, or if future actual default rates on receivables in general differ from those currently anticipated, we may have to adjust our allowance for credit losses, which could affect our net income in the period the adjustments are made.

Our results of operations and financial condition could be negatively impacted by our pension plans.

Adverse financial market conditions and volatility in the credit markets may have an unfavorable impact on the value of our pension trust assets and its future estimated pension liabilities. As a result, our financial results in any period could be negatively impacted. In addition, in a period of an extended financial market downturn, we could be required to provide incremental pension plan funding with resulting liquidity risk which could negatively impact our financial flexibility. Further, our results could be negatively impacted by premiums for mandatory pension insolvency insurance coverage outside the United States. Premium increases could be significant due to the level of insolvencies of unrelated companies in the country at issue.

We are exposed to currency risk that could adversely impact our revenue and business.

We derive a significant percentage of our revenues and costs from our affiliates operating in local currency environments, and those results are affected by changes in the relative values of non-U.S. currencies and the U.S. dollar, as well as sudden shifts in regional or global economic activity such as those associated with the COVID-19 pandemic. In addition, large changes in foreign exchange rates relative to our functional currencies could increase the costs of our services to customers relative to local competitors, thereby causing us to lose existing or potential customers to these local competitors. Further, as we grow our international operations, our exposure to foreign currency risk could become more significant. Our hedging strategies may not fully mitigate our foreign currency risk or may prove disadvantageous.

Risks Relating to our Recent Spin-off from IBM

The Spin-off may not achieve some or all of the anticipated benefits.

We may not realize some or all of the anticipated strategic, financial, operational, marketing or other benefits from the Spin-off, or such benefits may be delayed by a variety of circumstances, which may be outside of our control. As an independent publicly-traded company, we are smaller and less diversified with a narrower business focus than IBM and may be more vulnerable to changing market conditions, which could materially and adversely affect our business, financial condition and results of operations.

The Spin-off could result in significant tax liability to IBM and its stockholders if it is determined to be a taxable transaction.

Prior to the Spin-off, IBM received a private letter ruling from the Internal Revenue Service ("IRS") together with a written opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP to the effect that, among other things, the Distribution, including IBM's retention of 19.9% of the shares of our common stock, will qualify as a transaction that is tax-free for U.S. federal income tax purposes under the Internal Revenue Code of 1986 (the "Code").

The opinion of counsel does not address any U.S. state or local or foreign tax consequences of the Spin-off. The opinion of counsel and the private letter ruling rely on certain facts, assumptions, representations and undertakings from IBM and us regarding the past and future conduct of the companies' respective businesses and other matters. If any of these facts, assumptions, representations or undertakings are incorrect or not otherwise satisfied, IBM and its stockholders may not be able to rely on the private letter ruling or the opinion of counsel and could be subject to significant tax liabilities. The opinion of counsel is not binding on the IRS or the courts, and there can be no assurance that the IRS or a court will not take a contrary position. Notwithstanding the private letter ruling or opinion of counsel, the IRS could determine on audit that the Distribution or any of certain related transactions is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion that are not covered by the private letter ruling, or for other reasons, including as a result of certain significant changes in the stock ownership of IBM or us after the Distribution.

If the Distribution were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, each stockholder that is subject to U.S. federal income tax who received our common stock in the Distribution would generally be treated as having received a distribution in an amount equal to the fair market value of our common stock received, which would generally result in: (i) a taxable dividend to such stockholder to the extent of that such stockholder's *pro rata* share of IBM's current or accumulated earnings and profits; (ii) a

reduction in such stockholder's basis (but not below zero) in IBM common stock to the extent the amount received exceeds the stockholder's share of IBM's earnings and profits; and (iii) taxable gain from the exchange of IBM common stock to the extent the amount received exceeded the sum of such stockholder's share of IBM's earnings and profits and such stockholder's basis in its IBM common stock.

If the Spin-off were determined not to qualify as tax-free for U.S. federal income tax purposes, we could have an indemnification obligation to IBM, which could adversely affect our business, financial condition and results of operations.

If, as a result of any of our representations being untrue or our covenants being breached, the Spin-off were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, we could be required to indemnify IBM for the resulting taxes and related expenses. Those amounts could be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations.

In addition, if we or our stockholders were to engage in transactions that resulted in a 50% or greater change by vote or value in the ownership of our stock during the four-year period beginning on the date that begins two years before the date of the Distribution, the Distribution would generally be taxable to IBM, but not to its stockholders, under Section 355(e) of the Code, unless it were established that such transactions and the Distribution were not part of a plan or series of related transactions. If the Distribution were taxable to IBM due to such a 50% or greater change in ownership of our stock, IBM would recognize gain equal to the excess of the fair market value on the Distribution Date of our common stock distributed to IBM stockholders over IBM's tax basis in our common stock, and we generally would be required to indemnify IBM for the tax on such gain and related expenses. Those amounts could be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations.

We agreed to numerous restrictions to preserve the tax-free treatment of the Spin-off, which may reduce our strategic and operating flexibility.

To preserve the tax-free nature of the Spin-off and related transactions, we agreed in the Tax Matters Agreement with IBM to covenants and indemnification obligations that address compliance with Section 355 of the Code and related provisions of the Code, as well as state, local and foreign tax law. These covenants include certain restrictions on our activity for a period of two years following the Spin-off. Specifically, we are subject to certain restrictions on our ability to enter into acquisition, merger, liquidation, sale and stock redemption transactions with respect to our stock or assets. In addition, under the Tax Matters Agreement, we may be required to indemnify IBM against any such tax liabilities as a result of the acquisition of our stock or assets, even if we do not participate in or otherwise facilitate the acquisition. Furthermore, we are subject to specific restrictions on discontinuing the active conduct of our trade or business, the issuance or sale of stock or other securities (including securities convertible into our stock, but excluding certain compensatory arrangements), and sales of assets outside the ordinary course of business. These covenants and indemnification obligations may limit our ability to pursue strategic transactions or engage in new businesses or other transactions that may maximize the value of our business, and might discourage or delay a strategic transaction that our stockholders may consider favorable.

Our accounting and other management systems and resources may not be adequately prepared to meet the financial reporting and other requirements to which we are subject following the Spin-off.

As a result of the Spin-off, we are subject to reporting and other obligations under the U.S. Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Beginning with our second required Annual Report on Form 10-K, we intend to comply with Section 404 of the Sarbanes Oxley Act of 2002, as amended (the "Sarbanes Oxley Act"), which will require annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent registered public accounting firm on the effectiveness of internal control over financial reporting. These reporting and other obligations may place significant demands on management, administrative and operational resources, including accounting systems.

The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. Under the Sarbanes Oxley Act, we are required to maintain effective disclosure controls and procedures and internal controls over financial reporting. To comply with these requirements, we may need to upgrade our systems, implement additional financial and management controls, reporting systems and procedures and hire additional accounting and finance staff. We expect to incur additional annual expenses for the purpose of addressing these, and other public company reporting, requirements. If we are unable to upgrade our financial and management controls, reporting systems, information technology systems and procedures in a timely and effective fashion, our ability to comply with financial reporting requirements and other rules that apply to reporting companies under the Exchange Act could be impaired, and we may be unable to conclude that our internal control over financial reporting is effective and to obtain an unqualified report on internal controls from our auditors as required under Section 404 of the Sarbanes-Oxley Act. Any failure to achieve and maintain effective internal controls could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Certain of our employees may have actual or potential conflicts of interest because of their financial interests in IBM.

Because of their former positions with IBM, certain of our executive officers own equity interests in both us and IBM. Continuing ownership of IBM shares could create, or appear to create, potential conflicts of interest if we face decisions that could have implications for both us and IBM. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between us and IBM regarding the terms of the agreements governing the separation and distribution and our relationship with IBM. Potential conflicts of interest may also arise out of any commercial arrangements that we or IBM may enter into in the future.

We or IBM may fail to perform under various transaction agreements that were executed as part of the Separation.

In connection with the Separation, we and IBM entered into various transaction agreements related to the Spin-off. These agreements also govern our relationship with IBM following the Spin-off. We rely on IBM to satisfy its performance obligations under these agreements. If we or IBM are unable to satisfy our or its respective obligations under these agreements, including indemnification obligations, our business, results of operations and financial condition could be adversely affected.

Risks Relating to Our Common Stock and the Securities Market

Substantial sales of our common stock may occur in the future, including the disposition by IBM of our shares of common stock that it retained after the Distribution, which could cause our stock price to decline.

IBM owns 19.9% of our outstanding common stock. We understand that IBM currently intends to dispose of all of our common stock that it retained after the Distribution through one or more subsequent exchanges of our common stock for IBM debt held by one or more investment banks or, if market and general economic conditions and sound business judgment do not support such exchanges during the twelve-month period following the Distribution, IBM may dispose of such common stock (i) through distributions to IBM stockholders as dividends or in exchange for outstanding shares of IBM common stock, in each case during the twelve-month period following the Distribution or (ii) in one or more public or private sale transactions (including potentially through secondary transactions) as soon as practicable, taking into account market and general economic conditions and sound business judgment, but in no event later than five years after the Distribution. Prior to the Distribution, we entered into a stockholder and registration rights agreement under which we agreed, upon the request of IBM, to use our reasonable best efforts to effect a registration under applicable federal and state securities laws of any shares of our common stock retained by IBM, to facilitate IBM's disposition of our common stock. "Certain Relationships and Related Transactions, and Directors Independence – Agreements with IBM – Stockholder and Registration Rights Agreement."

The sales of significant amounts of our common stock or the perception in the market that such sales might occur may decrease the market price of our common stock.

Holders of our common stock may be diluted due to future equity issuances.

In the future, holders of our common stock may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including any equity awards that we will grant to our directors, officers and employees. Such awards have a dilutive effect on our earnings per share, which could adversely affect the market price of our common stock. We plan to issue additional stock-based awards, including annual awards, new hire awards and periodic retention awards, as applicable, to our directors, officers and other employees under our employee benefits plans as part of our ongoing equity compensation program.

Certain provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws and Delaware law may discourage takeovers and limit the power of our stockholders.

Several provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-Laws and Delaware law may discourage, delay or prevent a merger or acquisition. These include, among others, provisions that (i) provide for staggered terms for directors on our Board for a period following the Spin-off; (ii) establish advance notice requirements for stockholder nominations and proposals; (iii) provide for the removal of directors only for cause during the time the Board is classified; (iv) limit the ability of stockholders to call special meetings or act by written consent; and (v) provide the Board the right to issue shares of preferred stock without stockholder approval. In addition, we are subject to Section 203 of the Delaware General Corporation Law ("DGCL"), which could have the effect of delaying or preventing a change of control that you may favor.

These and other provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By-Laws and Delaware law may discourage, delay or prevent certain types of transactions involving an actual or a threatened acquisition or change in control, including unsolicited takeover attempts, even though the transaction may offer our stockholders the opportunity to sell their shares of our common stock at a price above the prevailing market price. Our Board believes these provisions will protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with the Board and by providing the Board with more time to assess any acquisition proposal. These provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that the Board determines is not in our and our stockholders' best interests.

Our Amended and Restated Certificate of Incorporation provides that certain courts in the State of Delaware or the federal district courts of the United States will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our Amended and Restated Certificate of Incorporation provides, in all cases to the fullest extent permitted by law, unless we consent in writing to the selection of an alternative forum, the Court of Chancery located within the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of us, any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee or stockholder to us or our stockholders, any action asserting a claim arising pursuant to the DGCL or as to which the DGCL confers jurisdiction on the Court of Chancery located in the State of Delaware or any action asserting a claim governed by the internal affairs doctrine or any other action asserting an "internal corporate claim" as that term is defined in Section 115 of the DGCL, or any action asserting a claim arising under the DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated By-Laws. However, if the Court of Chancery within the State of Delaware does not have jurisdiction, the action may be brought in the United States District Court for the District of Delaware. The exclusive forum provision provides that it will not apply to claims arising under the Securities Act, the Exchange Act or other federal securities laws for which there is exclusive federal or concurrent federal and state jurisdiction. Unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act.

Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of and, to the fullest extent permitted by law, to have consented to the provisions of our Amended and Restated Certificate of Incorporation described above. The choice of forum provision may limit a stockholder's

ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, other employees or stockholders, which may discourage such lawsuits against us and our directors, officers, other employees or stockholders. However, the enforceability of similar forum provisions in other companies' certificates of incorporation has been challenged in legal proceedings. If a court were to find the exclusive choice of forum provision contained in our Amended and Restated Certificate of Incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions.

Properties:

As of December 31, 2021, we owned or leased approximately 27.4 million square feet of space worldwide, a summary of which is provided below. We believe that our existing properties are in good condition and are suitable for the conduct of our business.

	U.S.		Japan		Principal Markets		Strategic Markets		Total	
	Number of Locations	Square Feet (in millions)	Number of Locations	Square Feet (in millions)	Number of Locations	Square Feet (in millions)	Number of Locations	Square Feet (in millions)	Number of Locations	Square Feet (in millions)
Leased . . .	28	5.2	52	1.5	144	10.0	148	5.9	372	22.7
Owned . . .	3	3.1	—	—	8	0.9	4	0.8	15	4.7
Total	31	8.3	52	1.5	152	10.8	152	6.7	387	27.4

Our principal executive offices, including our global headquarters, are located at New York, New York. We believe that our facilities are sufficient for our current needs.

Legal Proceedings:

Refer to Note 13 – Commitments and Contingencies to the consolidated financial statements included elsewhere in this Annual Report.

Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities:

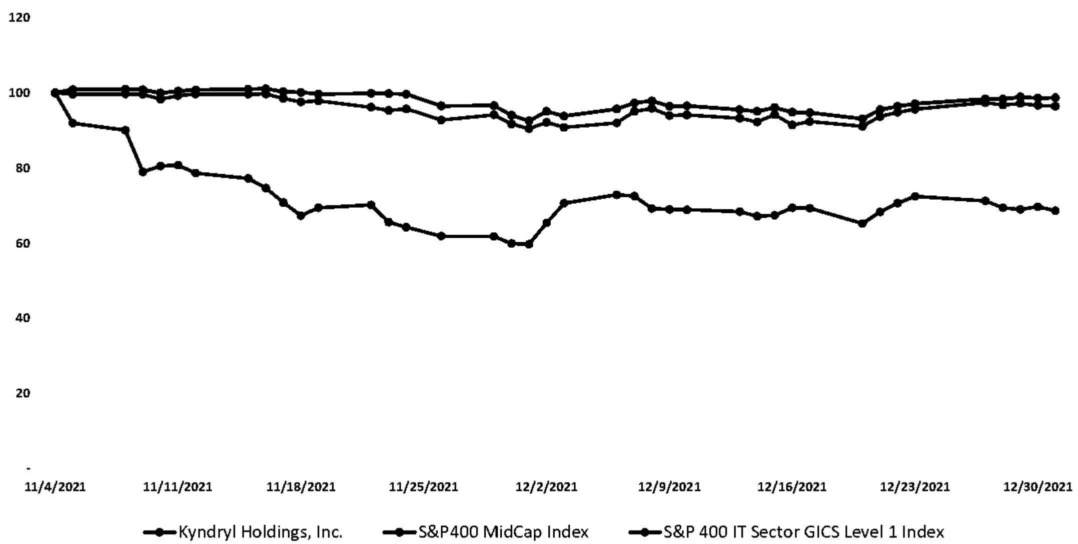
Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol KD.

As of March 4, 2022, there were approximately 280,520 record holders of our common stock. This is not the actual number of beneficial owners of the Company's common stock as some shares are held in "street name" by brokers and others on behalf of individual owners.

Since the Separation, we have not paid, and we currently do not plan to pay, cash dividends on our common stock.

Stock Performance Graph

The graph below compares the cumulative total return of holders of our common stock with the cumulative total return of the S&P 400 Midcap index and S&P IT Sector index. The graph tracks the performance of a $100 investment in our common stock and in each index from November 4, 2021, the date our stock commenced regular-way trading on the NYSE, to December 31, 2021.



Management's Discussion and Analysis of Financial Condition and Results of Operations:

Note: The information contained in this section has been updated for changes in certain allocation methodologies related to Kyndryl's measure of segment adjusted EBITDA as described in Item 7.01 of Kyndryl's Form 8-K filed with the SEC on May 26, 2022. The changes in the segment measure are further discussed in Note 4 to the Consolidated Financial Statements. In addition, this section has been updated to reflect the impacts of the revision to current annual and prior periods related to accrued contract costs, as described in Item 8.01 of Kyndryl's Form 8-K filed with the SEC on May 26, 2022. The revision is further discussed in Note 19 to the Consolidated Financial Statements. This section has not been updated for any other changes since the filing of Kyndryl's 2021 Annual Report on Form 10-K filed with the SEC on March 10, 2022.

Overview

Included below are year-over-year comparisons between 2021 and 2020. For further information on year-over-year comparisons between 2020 and 2019 not covered in the "Segment Results" below, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Form 10 for the period, which was filed with the SEC on September 28, 2021.

(Dollars in millions)	Year Ended December 31, 2021	2020
Revenue	$ 18,657	$ 19,352
Revenue growth (GAAP)	(4)%	(5)%
Revenue growth in constant currency[1]	(5)%	(5)%
Net income (loss)	(2,304)	(2,007)
Adjusted EBITDA[1]	2,069	2,185

(1) Revenue growth in constant currency and adjusted EBITDA are non-GAAP financial metrics. For definitions of these metrics and a reconciliation of adjusted EBITDA to the most directly comparable financial measure calculated and presented in accordance with GAAP, see "—Segment Results."

(Dollars in millions)	At December 31, 2021	2020
Assets	$ 13,213	$ 11,205
Liabilities	10,446	6,220
Equity	2,767	4,985

Organization of Information

Kyndryl was formed as a wholly-owned subsidiary of IBM in September 2021 to hold the operations of the managed infrastructure services unit of IBM's Global Technology Services segment. On November 3, 2021, IBM distributed shares representing 80.1% of Kyndryl's outstanding common stock to holders of record of IBM's common stock as of the close of business on October 25, 2021, in a Spin-off that is tax-free for U.S. federal tax purposes. Following the distribution, Kyndryl became an independent, publicly-traded company and is the world's leading managed infrastructure services provider.

Kyndryl utilized allocations and carve-out methodologies through the date of distribution to prepare historical financial statements. The consolidated financial statements for periods prior to the Separation herein may not be indicative of our future performance, do not necessarily include the actual expenses that would have been incurred by us and may not reflect our results of operations, financial position and cash flows had we been a separate, standalone company during the historical periods presented. For additional information, see "Basis of Presentation" in Note 1 – Significant Accounting Policies to the accompanying Consolidated Financial Statements.

Financial Performance Summary

Macro Dynamics

The COVID-19 pandemic and related macroeconomic uncertainty beginning in March 2020 caused many clients to experience declines in their business volumes and resulted in client priorities shifting toward maintaining operational stability, flexibility, and preservation of cash. The declines in business volumes and shifting client priorities negatively impacted demand for technology services in 2020.

In 2021, we saw a broad-based macroeconomic recovery in most regions of the world. Demand for technology services rebounded, as large organizations again demonstrated a need for assistance in designing, building, managing and modernizing their technology systems. Most economists, including the International Monetary Fund, expect global macroeconomic growth to continue in 2022.

2021 Financial Performance

In 2021, we reported $18.7 billion in revenue, a decline of 4 percent when compared to the prior year primarily driven by lower contract volumes due to existing and new clients pausing activities during our planned Separation from our former Parent, as well as expected price declines in certain new and renewed customer contracts. This was a consistent trend across all segments. United States revenue declined 5 percent, Japan declined 4 percent, Principal Markets declined 1 percent and Strategic Markets declined 5 percent compared to 2020. Net loss of $2.3 billion increased by $297 million versus the prior year. The current year Net loss includes a goodwill impairment charge of $469 million, transaction-related costs of $627 million and litigation charges for certain long-standing claims and disputes of $52 million, as well as cost allocations from our former Parent.

2020 Financial Performance

In 2020, we reported $19.4 billion in revenue, a decline of 5 percent when compared to the prior year which was primarily driven by declines in the United States. Revenue declined primarily due to a reduction in client volumes within industries heavily impacted by the global pandemic. Net loss was $2.0 billion, an increase of $1.1 billion when compared to the prior year, primarily due to higher workforce rebalancing charges of $759 million. We took these structural actions to simplify and optimize our operating model.

Basis of Presentation

We prepare our consolidated financial statements in accordance with U.S. GAAP, which requires us to make estimates and assumptions that impact the amounts reported and disclosed in our consolidated financial statements and the accompanying notes. We prepared these estimates based on the most current and best available information, but actual results could differ materially from these estimates and assumptions. COVID-19 has had and we expect will continue to have, significant effects on economic activity, on demand for our services and on our results of operations in 2022.

Prior to November 4, 2021, the accompanying financial statements of Kyndryl were derived from the consolidated financial statements and accounting records of the Parent as if the Company operated on a standalone basis during the periods presented and were prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of the SEC. Historically, the Company consisted of the managed infrastructure services unit of the Parent's Global Technology Services segment and did not operate as a separate standalone company. Accordingly, the Parent had reported the financial position and results of operations, cash flows and changes in equity of the Company in the Parent's consolidated financial statements.

The accompanying financial statements through the Separation date reflect allocations of certain IBM corporate, infrastructure and shared services expenses, including centralized research, legal, human resources, payroll, finance and accounting, employee benefits, real estate, insurance, information technology, telecommunications, treasury and other expenses. Where possible, these charges were allocated based on direct usage, with the remainder allocated on

a pro rata basis of headcount, gross profit, asset or other allocation methodologies that are considered to be a reasonable reflection of the utilization of services provided or the benefit received by Kyndryl during the periods presented. The accompanying financial statements through the Separation date may not be indicative of the Company's future performance and do not necessarily reflect what the financial position, results of operations and cash flows would have been had it operated as an independent company during the periods presented.

After the Separation on November 3, 2021, the Company's financial statements for the periods from November 4, 2021, through December 31, 2021, are consolidated financial statements based on our reported results as a standalone company. All significant transactions and accounts between Kyndryl entities were eliminated. All significant intercompany transactions between IBM and Kyndryl prior to the Separation were included within Net Parent investment on the accompanying Consolidated Financial Statements.

Prior to the Separation, our operations were included in the consolidated U.S. federal and certain state and local and foreign income tax returns filed by IBM, where applicable. The Company also files certain separate foreign income tax returns. For purposes of the historical periods presented on a "carve-out" basis, the income tax provisions have been calculated using the separate return basis, as if we filed separate tax returns.

Post-Separation, the income tax provisions are calculated based on Kyndryl's operating footprint, as well as tax return elections and assertions. Current income tax liabilities including amounts for unrecognized tax benefits related to our activities included in IBM's income tax returns were deemed to be immediately settled with IBM through the Net Parent investment account in the Consolidated Balance Sheet and reflected in Net transfers from Parent in the financing activities section in the Consolidated Statement of Cash Flows.

During the quarter ended March 31, 2022, the Company identified an $87 million over-accrual in its accrued contract costs balance that related to a majority-owned, consolidated joint venture in our Principal Markets segment. This over-accrual was built up over the pre-Separation periods of January 1, 2012 to November 3, 2021, resulting in overstatements of cost of services and accrued contract costs. Although the Company concluded that such impacts were not material to any prior annual or interim period, we made an immaterial revision to portions of our 2021 Annual Report and will make immaterial revisions to prior interim periods in our subsequent Quarterly Reports on Form 10-Q. Further information regarding the revision is included in Note 19 – Revision of Prior-Period Financial Statements.

Additionally, during the three months ended March 31, 2022, the Company updated certain allocation methodologies among segments related to its measure of adjusted EBITDA, which by itself did not change the aggregate amount of adjusted EBITDA. The following discussions on segment results, cost and expenses and financial positions, as well as Note 4 – Segments, have been revised to reflect the correction for the over-accrual of accrued contract costs and to recast the segment adjusted EBITDA measures.

Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts. Certain items have been recast to conform to current-period presentation.

Segment Results

As a result of the Separation, in the fourth quarter of 2021, the Company implemented a new operating model and reporting structure resulting in four reportable segments: United States, Japan, Principal Markets and Strategic Markets. Principal Markets consists of our operations in Australia/New Zealand, Canada, France, Germany, Italy, India, Spain/Portugal and United Kingdom/Ireland. Strategic Markets consists of our operations in all other countries. In addition to this change, the measures of segment operating performance changed to revenue and adjusted EBITDA.

The following table presents our reportable segments' revenue and adjusted EBITDA for the years ended December 31, 2021, 2020 and 2019. Segment revenue and revenue growth in constant currency exclude any transactions between the segments.

(Dollars in millions)	Year Ended December 31, 2021	2020	2019	Year-over-Year Change 2021 vs. 2020	2020 vs. 2019
Revenue					
United States	$ 4,805	$ 5,084	$ 5,340	(5)%	(5)%
Japan	2,923	3,042	2,929	(4)%	4 %
Principal Markets	7,085	7,187	7,587	(1)%	(5)%
Strategic Markets	3,844	4,040	4,424	(5)%	(9)%
Total revenue	$ 18,657	$ 19,352	$ 20,279	(4)%	(5)%
Revenue growth in constant currency[1]	(5)%	(5)%			
Adjusted EBITDA[1]					
United States	$ 842	$ 940	$ 974	(10)%	(3)%
Japan	501	534	468	(6)%	14 %
Principal Markets	341	375	609	(9)%	(38)%
Strategic Markets	540	488	660	11 %	(26)%
Corporate and other[2]	(154)	(153)	(144)	NM	NM
Total adjusted EBITDA[1]	$ 2,069	$ 2,185	$ 2,566	(5)%	(15)%

NM – not meaningful
(1) Revenue growth in constant currency and adjusted EBITDA are non-GAAP financial metrics. See the information below for definitions of these metrics and a reconciliation of adjusted EBITDA to the most directly comparable financial measure calculated and presented in accordance with GAAP.
(2) Represents net amounts not allocated to segments

We report our financial results in accordance with GAAP. We also present certain non-GAAP financial measures to provide useful supplemental information to investors. We provide these non-GAAP financial measures as we believe it improves visibility to underlying results and the impact of management decisions on operational performance and enables better comparison to peer companies.

Revenue growth in constant currency is a non-GAAP measure that eliminates the effects of exchange rate fluctuations when translating from foreign currencies to the United States dollar. It is calculated by using the average exchange rates that existed for the same period of the prior year. Constant currency measures are provided so that revenue can be viewed without the effect of fluctuations in currency exchange rates, which is consistent with how management evaluates our revenue results and trends.

Additionally, management uses adjusted EBITDA to evaluate our performance. Adjusted EBITDA is a non-GAAP measure and defined as net income (loss) excluding net interest expense, depreciation and amortization (excluding depreciation of right-of-use assets and amortization of capitalized contract costs), pension costs other than pension servicing costs and multi-employer plan costs, early extinguishment of debt charges, workforce rebalancing and restructuring charges, transaction-related and integration-related items, goodwill and long-lived asset impairment charges, foreign currency impacts of highly inflationary countries, significant litigation costs, stock-based compensation expense and income taxes. We believe that adjusted EBITDA is a helpful supplemental measure to assist investors in evaluating our operating results as it excludes certain items whose fluctuation from period to period does not necessarily correspond to changes in the operations of our business. We provide this non-GAAP financial measure as we believe it improves visibility to underlying results and the impact of management decisions on operational performance, enables better comparison to peer companies and allows us to provide a long-term strategic view of the business.

These disclosures are provided in addition to and not as a substitute for the percentage change in revenue and profit or loss measures on a GAAP basis compared to the corresponding period in the prior year. Other companies may calculate and define similarly labeled items differently, which may limit the usefulness of this measure for comparative purposes.

The following table provides a reconciliation of GAAP net income (loss) to adjusted EBITDA:

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Net income (loss)	$ (2,304)	$ (2,007)	$ (939)
Provision for income taxes	402	247	366
Workforce rebalancing charges	39	918	159
Transaction-related costs	627	21	—
Stock-based compensation expense	71	64	51
Impairment expense	469	—	—
Interest expense	64	63	76
Depreciation expense	1,300	1,445	1,469
Amortization expense	1,314	1,408	1,335
Other adjustments *	88	27	50
Adjusted EBITDA (non-GAAP)	$ 2,069	$ 2,185	$ 2,566

* Other adjustments represents pension expense other than pension servicing costs and multi-employer plan costs, significant litigation costs and currency impacts of highly inflationary countries.

United States

(Dollars in millions)	Year Ended December 31, 2021	2020	Year-over-Year Change
Revenue	$ 4,805	$ 5,084	(5)%
Adjusted EBITDA	842	940	(10)%

For the year ended December 31, 2021, United States revenue of $4.8 billion decreased 5 percent as compared to the prior year, primarily driven by lower contract volumes due to clients pausing activities during the pandemic and our planned Separation as well as lower pricing. Adjusted EBITDA decreased $99 million from the prior year, primarily due to lower revenue, partially offset by cost reductions. For the year ended December 31, 2020, United States revenue of $5.1 billion decreased 5 percent as compared to the prior year, driven by declines across the contract portfolio and impacts from the COVID-19 pandemic. Adjusted EBITDA decreased $33 million from the prior year, driven by revenue declines which were partially offset by travel and discretionary cost reductions due to the COVID-19 pandemic as well as realizing benefits from structural actions taken in first quarter of 2020.

Japan

(Dollars in millions)	Year Ended December 31, 2021	2020	Year-over-Year Change
Revenue	$ 2,923	$ 3,042	(4)%
Revenue growth in constant currency	(1)%	2 %	
Adjusted EBITDA	501	534	(6)%

For the year ended December 31, 2021, Japan revenue of $2.9 billion decreased 4 percent as compared to the prior year. Revenue decreased primarily as a result of currency exchange rates. Adjusted EBITDA decreased $33 million from the prior year largely due to decreased revenue. For the year ended December 31, 2020, Japan revenue of $3.0 billion increased 4 percent as compared to the prior year driven by strong performance in new client contracts. Adjusted EBITDA increased $67 million from the prior year behind the strength of revenue growth mixed with lower travel and discretionary costs due to the COVID-19 pandemic.

Principal Markets

(Dollars in millions)	Year Ended December 31, 2021	Year Ended December 31, 2020	Year-over-Year Change
Revenue	$ 7,085	$ 7,187	(1)%
Revenue growth in constant currency	(6)%	(6)%	
Adjusted EBITDA	341	375	(9)%

For the year ended December 31, 2021, Principal Markets revenue of $7.1 billion decreased 1 percent as compared to the prior year. Revenue decreased due to certain joint ventures not transferring to us in connection with the Separation partially offset by a favorable currency exchange rate impact of 4 points, primarily driven by the weakening of the U.S. dollar against the euro and British pound. Adjusted EBITDA decreased $34 million from the prior year, primarily due to lower revenue, partially offset by cost reductions from structural actions taken in the prior year. For the year ended December 31, 2020, Principal Markets revenue of $7.2 billion decreased 5 percent as compared to the prior year, driven by declines across the contract portfolio and impacts from the COVID-19 pandemic. Adjusted EBITDA decreased $234 million from the prior year, primarily due to revenue decline in these higher fixed-cost European countries.

Strategic Markets

(Dollars in millions)	Year Ended December 31, 2021	Year Ended December 31, 2020	Year-over-Year Change
Revenue	$ 3,844	$ 4,040	(5)%
Revenue growth in constant currency	(7)%	(7)%	
Adjusted EBITDA	540	488	11 %

For the year ended December 31, 2021, Strategic Markets revenue of $3.8 billion decreased 5 percent as compared to the prior year. Revenue decreased due to certain joint-ventures not transferring to us in connection with the Separation and impacts from exiting low-margin accounts, partially offset by a favorable currency exchange rate impact of 2 points, primarily driven by the weakening of the U.S. dollar against the euro. Adjusted EBITDA increased $52 million from the prior year, primarily due to exiting low-margin accounts and realizing benefits from structural actions taken in the prior year. For the year ended December 31, 2020, Strategic Markets revenue of $4.0 billion decreased 9 percent as compared to the prior year, driven primarily by strategic decisions to exit certain loss-making contracts to strengthen our go-forward profit position. Adjusted EBITDA decreased $172 million from the prior year, primarily due to lower revenue as a result of both client volumes and pause of small-deal signings after the announcement of our Separation in the higher fixed-cost European countries.

Corporate and Other

Corporate and other had an adjusted EBITDA loss of $154 million in 2021 compared to a loss of $153 million in 2020. Corporate and other had an adjusted EBITDA loss of $144 million in 2019.

Costs and Expenses

(Dollars in millions)	Year Ended December 31, 2021	Year Ended December 31, 2020	Percent of Revenue 2021	Percent of Revenue 2020	Change 2021 vs. 2020
Revenue	$ 18,657	$ 19,352	100.0 %	100.0 %	(4)%
Cost of services	16,550	17,137	88.7 %	88.6 %	(3)%
Selling, general and administrative expenses	2,776	2,948	14.9 %	15.2 %	(6)%
Workforce rebalancing charges	39	918	0.2 %	4.7 %	(96)%
Transaction-related costs	627	21	3.4 %	0.1 %	NM
Impairment expense	469	—	2.5 %	— %	— %
Interest expense	64	63	0.3 %	0.3 %	2 %
Other (income) and expense	35	25	0.2 %	0.1 %	40 %
Income (loss) before income taxes	$ (1,903)	$ (1,760)			NM

NM – not meaningful

Costs of services were 88.7% of revenue in 2021 compared to 88.6% in 2020, primarily driven by the impact of revenue decrease of advisory & implementation services and price decreases embedded in certain new and renewed contracts mostly offset by benefits realized from prior-year structural actions. Selling, general and administrative expenses were 14.9% of revenue in 2021 compared to 15.2% in 2020, primarily driven by benefits realized from prior-year structural actions, partially offset by additional legal liabilities recorded in the fourth quarter of 2021. Workforce rebalancing charges arising from structural actions to enhance productivity and cost-competitiveness and to rebalance skills that result in payments to employees terminated in the ongoing course of business. Workforce rebalancing charges were 0.2% of revenue in 2021 compared to 4.7% in 2020, when the Company announced a significant workforce reduction, primarily in Europe, in the fourth quarter of 2020. Transaction-related costs were 3.4% of revenue in 2021 compared to 0.1% in 2020, primarily driven by costs related to our Separation, including legal, consulting, audit and other professional fees, information technology transition costs, and employee retention expenses. Impairment expenses were 2.5% of revenue in 2021, primarily driven by an impairment of goodwill we recorded in the fourth quarter of 2021. Interest expense was 0.3% of revenue in 2021 compared to 0.3% in 2020, and includes interest expense associated with the indebtedness we incurred in connection with our Separation. Other (income) and expenses were 0.2% of revenue in 2021 compared to 0.1% in 2020.

Transaction-related Charges

The process of completing our Separation involves significant costs and expenses. Transaction-related charges are primarily related to additional spend to establish certain standalone functions and information technology systems, professional services fees, employee retention expenses and other spend related to contract and supplier novation agreements. These costs primarily include items that are incremental and one-time in nature. Transaction-related charges totaled $627 million in 2021. Transaction-related charges recorded for the year ended December 31, 2020 and 2019 were $21 million and $0, respectively. The $498 million of transaction-related charges incurred in the periods prior to Separation had no tax effect due to the valuation allowances discussed in Note 5 – Taxes. The tax impact of the $129 million of transaction-related charges incurred post-Separation was $33 million.

Income Taxes

The Company's consolidated provision for income taxes and effective tax rate were as follows:

(Dollars in millions)	Year Ended December 31, 2021	Year Ended December 31, 2020
Provision for income taxes	$ 402	$ 247
Effective tax rate	(21.1)%	(14.0)%

In 2021 and 2020, we recorded income tax expense of $402 million and $247 million, respectively, on a pretax book loss, which resulted in a negative effective tax rate. Our 2021 income tax expense was primarily related to taxes on

foreign operations generating taxable income, uncertain tax positions, and tax charges related to the transfer of Kyndryl's operations from Parent in contemplation of the Company's Separation from IBM.

The effective tax rate for 2021 was lower compared to 2020 due primarily to tax charges related to the transfer of Kyndryl's operations from Parent in contemplation of the Company's Separation and nondeductible goodwill impairment. For more information, see Note 5 – Taxes.

Financial Position

Dynamics

Cash and cash equivalents at December 31, 2021, were $2.2 billion, an increase of $2.2 billion when compared to prior year-end since Kyndryl's cash was managed by the Parent's centralized treasury system in 2020.

Total assets of $13.2 billion increased by $2.0 billion from December 31, 2020 predominantly driven by an increase in cash and cash equivalents of $2.2 billion driven by proceeds from debt issuances net of payment made to former Parent; an increase in accounts receivable of $835 million primarily driven by a reduction in factoring of receivables, new commercial activity with our former Parent, and receivables with the former Parent that are no longer settled immediately post-Separation; and an increase in right-of-use assets of $230 million primarily due to entering into post-Separation leases with the former Parent for spaces that are partially occupied by Kyndryl employees. These increases were partially offset by a decrease in property and equipment of $1.1 billion mainly driven by the disposal of certain properties with net book value of approximately $200 million, removal of property and equipment of approximately $300 million that were previously attributable to Kyndryl but did not transfer to Kyndryl upon Separation and depreciation outpacing capital expenditures in 2021, a decrease of goodwill of $497 million primarily due to an impairment charge of $469 million recorded in the fourth quarter of 2021 and a decrease of deferred costs of $460 million driven by lower revenue and joint ventures previously attributed to Kyndryl that did not transfer to Kyndryl upon Separation.

Total liabilities of $10.4 billion increased by $4.2 billion from December 31, 2020 primarily as a result of a $3.0 billion increase in indebtedness, an increase in value-added and income tax liabilities of $357 million because the Company's tax liabilities were paid by the Parent through the Separation date, an increase of accounts payable of $221 million primarily due to commercial activity with our former Parent and balances owed to our former Parent that are no longer settled immediately post-Separation, an increase in right-of-use liabilities of $184 million primarily due to entering into post-Separation leases with the former Parent for spaces that are partially occupied by Kyndryl employees, and an increase in retirement and nonpension postretirement benefit obligations of $307 million driven by pension obligations transferred to Kyndryl after establishment of Kyndryl's legal entities in the third quarter of 2021; see Note 1 – Significant Accounting Policies for more details. This was partially offset by a decrease in workforce rebalancing liabilities of $513 million driven by payments to employees. Total equity of $2.8 billion decreased $2.2 billion from year-end 2020, mainly driven by our loss from operations of $2.3 billion.

Overall pension funded status as of December 31, 2021, was 64% of estimated pension benefit obligation, an increase from 55% at year-end 2020.

Working Capital

(Dollars in millions)	At December 31, 2021		At December 31, 2020	
Current assets	$	5,777	$	2,843
Current liabilities		4,457		3,838
Working capital	$	1,320	$	(995)

Working capital increased $2.3 billion from the year-end 2020 position. Current assets increased $2.9 billion due to an increase of $2.2 billion in cash and cash equivalents primarily driven by proceeds from our debt issuance and an increase of $835 million in accounts receivable primarily driven by a reduction in factoring of receivables, new commercial activity with our former Parent, and receivables with the former Parent that are no longer settled immediately post-Separation. Current liabilities increased $619 million as a result of an increase in value-added and income taxes of $357 million, and an increase in accounts payable of $221 million primarily due to commercial activity with our former Parent and balances owed to our former Parent that are no longer settled immediately post-Separation.

Cash Flow

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows are summarized in the table below.

(Dollars in millions)	For the year ended December 31: 2021		2020	
Net cash provided by (used in):				
Operating activities	$	(119)	$	628
Investing activities		(572)		(953)
Financing activities		2,915		312
Effect of exchange rate changes on cash, cash equivalents and restricted cash		(22)		1
Net change in cash, cash equivalents and restricted cash	$	2,203	$	(13)

The change in net cash used of $119 million compared to a net cash provided by operating activities of $628 million in prior year was driven by payments of workforce rebalancing liabilities of $370 million arising from restructuring actions taken by the former Parent in the fourth quarter of 2020 and cash used due to an increase in accounts receivable of $1.1 billion primarily driven by a reduction in factoring of receivables, new commercial activity with our former Parent, and receivables with the former Parent that are no longer settled immediately post-Separation; partially offset by an increase in operating liabilities and accrued costs of approximately $400 million that were established by the Company for the first time as an independent entity.

Net cash used by investing activities decreased $381 million in 2021 when compared to the prior year driven by sales of two data centers and lower capital expenditures than in 2020.

Net cash provided by financing activities increased $2.6 billion in 2021 when compared to the prior year driven by debt issuances of $3.0 billion, partially offset by a reduction in transfer from former Parent of $408 million.

Liquidity and Capital Resources

We believe that our existing cash and cash equivalents and the Revolving Credit Agreement entered into in October 2021 will be sufficient to meet our anticipated cash needs for at least the next twelve months.

Senior Unsecured Notes

In October 2021, in preparation for our Spin-off, we completed the offering of $2.4 billion in aggregate principal amount of senior unsecured fixed-rate notes as follows: $700 million aggregate principal amount of 2.05% Senior Notes due 2026, $500 million aggregate principal amount of 2.70% Senior Notes due 2028, $650 million

aggregate principal amount of 3.15% Senior Notes due 2031 and $550 million aggregate principal amount of 4.10% Senior Notes due 2041 (the "Notes"). The Notes were offered and sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to non-U.S. persons in reliance on Regulation S of the Securities Act. The Notes are subject to customary affirmative covenants, negative covenants and events of default for financings of this type and are redeemable at our option in a customary manner. In connection with the issuance of the Notes, we entered into a registration rights agreement with the initial purchasers of the Notes, pursuant to which we will use commercially reasonable efforts to file and have declared effective a registration statement with respect to a registered offer to exchange each series of Notes for new notes with substantially identical terms by October 15, 2022. If the exchange offer is not completed on or before October 15, 2022, and under certain other circumstances, we are required to use commercially reasonable efforts to file and have declared effective a shelf registration statement relating to the resale of the Notes.

Term Loan and Revolving Credit Facility

In October 2021, we entered into a $500 million three-year variable rate term loan credit agreement (the "Term Loan Credit Agreement"). In November 2021, we drew down the full $500 million available under the Term Loan Credit Agreement.

In October 2021, we entered into a $3.15 billion multi-currency revolving credit agreement (the "Revolving Credit Agreement" and, together with the Term Loan Credit Agreement, the "Credit Agreements") for our future liquidity needs. The Revolving Credit Agreement expires, unless extended, in October 2026, and the Term Loan Credit Agreement matures, unless extended, in November 2024. Interest rates on borrowings under the Credit Agreements will be based on prevailing market interest rates, plus a margin, as further described in the Credit Agreements.

The Notes and the Credit Agreements were initially guaranteed by IBM. Approximately $900 million of the net proceeds from the term loan and the sale of the Notes was transferred to IBM in conjunction with the Separation. Following the completion of the Separation, the guarantee was released, and the Notes and the Credit Agreements are no longer obligations of IBM.

We expect to be able to voluntarily prepay borrowings under the Credit Agreements without premium or penalty, subject to customary "breakage" costs. The Credit Agreements include certain customary mandatory prepayment provisions. In addition, the Credit Agreements include customary events of default and affirmative and negative covenants as well as a maintenance covenant that will require that the ratio of our indebtedness for borrowed money to consolidated EBITDA (as defined in the Credit Agreements) for any period of four consecutive fiscal quarters be no greater than 3.50 to 1.00.

Receivables Purchase Agreement

A portion of our receivables with extended payment terms were historically assigned to IBM's Global Financing business. In connection with the assignment, these receivables were not recognized on the Company's Consolidated Balance Sheet. In October 2021, in preparation for the Separation, we entered into a receivables purchase agreement with an unaffiliated bank with similar volumes to the amounts historically financed by IBM (the "Receivables Agreement"). Pursuant to the Receivables Agreement, we may sell at any one time, on a revolving basis, up to $1.1 billion of our trade receivables. Under the Receivables Agreement, from time to time, we sell certain customers' trade receivables with extended payment terms at a discount on a non-recourse basis. These transactions are accounted for as sales. The initial term of the Receivables Agreement is 18 months.

Off-Balance Sheet Arrangements and Contractual Obligations

From time to time, we may enter into (i) off-balance sheet arrangements as defined by SEC Financial Reporting Release 67 (FRR-67), "Disclosure in Management's Discussion and Analysis about Off-Balance Sheet Arrangements and Aggregate Contractual Obligations." or (ii) purchase commitments, which we expect to use in the ordinary course of business.

At December 31, 2021, and December 31, 2020, we had no such off-balance sheet arrangements that have, or are reasonably likely to have, a material current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. We do not have retained interests in assets transferred to unconsolidated entities or other material off-balance sheet interests or instruments.

At December 31, 2021, the Company's material future contractual obligations were related to tax indemnifications, leases, debt and pension liabilities. See Note 5 – Taxes, Note 9 – Leases, Note 11 – Borrowings, Note 12 – Other Liabilities and Note 16 – Retirement-Related Benefits of Notes to the Company's consolidated financial statements. Additionally, the Company uses several software and cloud partners to provides services to its customers. The majority of the Company's purchase obligations relate to noncancelable commitments to those third parties. At December 31, 2021, we had short-term (in 2022), mid-term (in 2023 and 2024) and long-term (after 2024) purchase commitments in the amount of $0.8 billion, $1.5 billion and $1.1 billion, respectively.

Other Information

Signings

The following table presents the Company's signings for the years ended December 31, 2021 and 2020.

	Year Ended December 31,	
($ in billions)	**2021**	**2020**
Total signings	$ 13.5	$ 17.8

A significant portion of the year-over-year decline in signings was driven by large renewals of existing client contracts in the first and third quarters of 2020.

The following table presents the total contract value for the Company's signings greater than $100 million for new and existing customers for the years ended December 31, 2021 and 2020.

	Year Ended December 31,	
($ in millions)	**2021**	**2020**
New customers	$ 775	$ 1,484
Existing customers	$ 3,401	$ 6,770

We believe that the estimated values of signings provide insight into the Company's potential future revenue and a tool to monitor trends in the business, including the business' ability to attract new customers and sell additional scope into our existing customer base, and we believe signings are helpful information for investors. There are no third-party standards or requirements governing the calculation of signings. We define signings as an initial estimate of the value of a customer's commitment under a contract. The calculation involves estimates and judgments to gauge the extent of a customer's commitment, including the type and duration of the agreement and the presence of termination charges or wind-down costs. Contract extensions and increases in scope are treated as signings only to the extent of the incremental new value. Signings can vary over time due to a variety of factors including, but not limited to, the timing of signing a small number of larger outsourcing contracts. The conversion of signings into revenue may vary based on the types of services and solutions, customer decisions and other factors, which may include, but are not limited to, macroeconomic environment or external events.

Critical Accounting Estimates

The application of GAAP requires us to make estimates and assumptions about certain items and future events that directly affect our reported financial condition. The accounting estimates and assumptions discussed in this section are those that we consider to be the most critical to our financial statements. Our significant accounting policies are described in Note 1 – Significant Accounting Policies to our consolidated financial statements.

The inputs into certain of our critical accounting estimates considered the macroeconomic impacts of the ongoing COVID-19 pandemic. These estimates included but were not limited to, the allowances for credit losses, the carrying values of goodwill and intangible assets and other long-lived assets, valuation allowances for tax assets and revenue recognition. The macroeconomic impacts of the COVID-19 pandemic did not have a material impact on our critical accounting estimates reflected in our 2021 results. Given the inherent uncertainty of the magnitude of future impacts from and/or the duration of the pandemic, our estimates may change materially in future periods.

A quantitative sensitivity analysis is provided where that information is reasonably available, can be reliably estimated and provides material information to investors. The amounts used to assess sensitivity (e.g., 1 percent, 10 percent, etc.) are included to allow users of this report to understand a general effect of changes in the estimates and do not represent management's predictions of variability. For all of these estimates, it should be noted that future events rarely develop exactly as forecasted and estimates require regular review and adjustment.

Revenue Recognition

Application of GAAP related to the measurement and recognition of revenue requires us to make judgments and estimates. Specifically, complex arrangements with nonstandard 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 recognized 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 us to make judgements and estimates. Other significant judgments include determining whether we are 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 our 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. We consider various factors when making these judgments, including a review of specific transactions, historical experience and market and economic conditions. Evaluations are conducted each quarter to assess the adequacy of the estimates. If the estimates were changed by 10 percent in 2021, the impact on net income would have been immaterial.

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 we use 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. We perform 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 labor costs and product costs and expected productivity efficiencies.

Capitalization of Contract Costs

In connection with services arrangements, we incur and capitalize direct costs for transition and setup activities performed at the inception of these long-term contracts that are necessary to enable us 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. We perform 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. A significant change in an estimate or assumption on one or more contracts could have a material effect on our results of operations.

Pension Assumptions

For Company-sponsored and co-sponsored defined benefit pension plans, the measurement of the benefit obligation to plan participants and net periodic benefit cost requires the use of certain assumptions, including, among others, estimates of discount rates and expected return on plan assets.

Changes in the discount rate assumptions would impact the actuarial (gain)/loss amortization and interest cost components of the net periodic benefit cost calculation and the projected benefit obligation (PBO). If the average discount rate assumption for the non-U.S. defined benefit pension plans had increased or decreased by 25 basis points from 1.19 percent on December 31, 2021, this would not result in a material change to pretax income recognized in 2022. Further changes in the discount rate assumptions would impact the PBO which, in turn, may impact our funding decisions if the PBO exceeds plan assets. A 25 basis point increase or decrease in the discount rate would result in an approximate corresponding decrease or increase, respectively, of $85 million in the Plans' estimated PBO and accumulated postretirement benefit obligation (APBO) based upon December 31, 2021 data.

The expected long-term return on plan assets assumption is used in calculating the net periodic benefit cost. Expected returns on plan assets are calculated based on the market-related value of plan assets, which recognizes changes in the fair value of plan assets systematically over a five-year period in the expected return on plan assets line in net periodic benefit cost. The differences between the actual return on plan assets and the expected long-term return on plan assets are recognized over five years in the expected return on plan assets line in net periodic benefit cost and also as a component of actuarial (gains)/losses, which are recognized over the service lives or life expectancy of the participants, depending on the plan, provided such amounts exceed thresholds which are based upon the benefit obligation or the value of plan assets, as provided by accounting standards.

To the extent the outlook for long-term returns changes such that management changes its expected long-term return on plan assets assumption, a 50 basis point increase or decrease in the expected long-term return on plan assets assumption would not have a material estimated decrease or increase on the following year's pretax net periodic benefit cost (based upon plan assets at December 31, 2021 and expected contributions and benefit payments for 2022).

We may voluntarily make contributions or be required, by law, to make contributions to our pension plans. Actual results that differ from the estimates may result in more or less future funding into the pension plans than is planned by management. Impacts of these types of changes on our pension plans would vary depending upon the status of each respective plan.

In addition to the above, we evaluate other pension assumptions involving demographic factors, such as retirement age and mortality and update these assumptions to reflect experience and expectations for the future. Actual results in any given year can differ from actuarial assumptions because of economic and other factors.

For additional information on our pension plans and the development of these assumptions, see Note 16 – Retirement-Related Benefits to our consolidated financial statements.

Income Taxes

Prior to the Separation, our operations were included in the consolidated U.S. federal and certain state and local and foreign income tax returns filed by IBM. The Company also filed certain separate foreign income tax returns. For purposes of the financial statements presented on a "carve-out" basis, the income tax provisions were calculated as if we filed separate tax returns and include transactions related to our Separation attributed to us, even if the related tax liabilities were our former Parent's responsibility.

Post-Separation, our income tax provisions are calculated based on Kyndryl's operating footprint, as well as our tax return elections and assertions. Current income tax liabilities including amounts for unrecognized tax benefits related to our activities included in IBM's income tax returns were deemed to be immediately settled with IBM through the Net Parent investment account in the Consolidated Balance Sheet and reflected in Net transfers from Parent in the financing activities section in the Consolidated Statement of Cash Flows. Post-Separation, liabilities related to unrecognized tax

benefits for which the Company is liable are reported within the Consolidated Balance Sheet based upon tax authorities' ability to assert the Company may be the primary obligor for historical taxes, among other factors. Significant judgment is required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies and actions. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust the valuation allowance with a corresponding impact to income tax expense in the period in which such determination is made.

Prior to the Separation, the Company recorded deferred tax assets for stock-based compensation awards that result in tax deductions in the consolidated financial statements calculated using the separate return basis based on the amount of compensation cost recognized and the relevant statutory tax rates. Post-Separation, the differences between the deferred tax assets recognized for financial reporting purposes and the actual tax deduction reported on the Company's income tax return are recorded as a benefit or expense to the provision for income taxes in the Consolidated Income Statement.

Valuation of Assets

The application of valuation and impairment accounting requires the use of significant estimates and assumptions. Impairment testing for assets, other than goodwill, requires the allocation of cash flows to those assets or group of assets and if required, an estimate of fair value for the assets or group of assets. Our estimates are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable. These valuations require the use of management's assumptions, which would not reflect unanticipated events and circumstances that may occur. Assumptions used to perform a recoverability test are consistent with those used for goodwill impairment; see "Valuation of Goodwill" for further detail.

Valuation of Goodwill

We review goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable by first assessing qualitative factors to determine if it is more likely than not that fair value is less than carrying value. The fair values of the reporting units were determined using a discounted cash flow model. Significant assumptions inherent in the valuation methodologies include estimates of future projected business results, long-term growth rates and the weighted-average cost of capital.

We assess qualitative factors in each of our reporting units that carry goodwill including relevant events and circumstances that affect the fair value of reporting units. Examples include, but are not limited to, macroeconomic, industry and market conditions, as well as other individual factors such as:

- A significant adverse shift in the operating environment of the reporting unit such as unanticipated competition;
- Significant pending litigation;
- A loss of key personnel;
- A more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of; and
- An adverse action or assessment by a regulator.

We assess these qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. This quantitative test is required only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount. After performing the annual goodwill impairment qualitative analysis during the fourth quarter of 2021, the Company determined it was necessary to perform the quantitative goodwill impairment test.

We use an income-based approach where fair value is determined using a discounted cash flow model that requires significant judgment with respect to revenue and growth rates, based upon annual budgets and long-term strategic plans. Fair value estimates employed in our annual impairment review of goodwill involve using various assumptions. Assumptions critical to our fair value were discount rates used in determining the fair value of the reporting unit, expected revenue growth and projected EBITDA margins. These and other assumptions are impacted by economic conditions and expectations of management and may change based on different facts and circumstances. We believe the assumptions used to estimate future cash flows are reasonable, but there can be no assurance that the expected cash flows will be realized. The use of different assumptions would increase or decrease discounted cash flows or earnings projections and therefore, could change impairment determinations.

As a result of the impairment testing performed in the fourth quarter, we determined that $293 million of the goodwill balance was impaired in our legacy EMEA segment and $176 million of the goodwill was impaired in our new United States segment. As of October 1, 2021, the estimated fair value of the Strategic Markets reporting unit, which had goodwill of $176 million, exceeded its carrying amount by greater than 50 percent. Management's cash flow projections for this reporting unit included significant judgments and assumptions relating to expected revenue growth and projected EBITDA margins. A decline in the expected revenue growth rate of 50 basis points or projected EBITDA margins of 50 basis points would not have resulted in an impairment of the Strategic Market reporting unit. See Note 10 – Intangible Assets Including Goodwill for further discussion.

Loss Contingencies

We are currently involved in various claims and legal proceedings. At least quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. These revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Cybersecurity

While cybersecurity risk can never be completely eliminated, our approach draws on the depth and breadth of our global capabilities, both in terms of our offerings to clients and our internal approaches to risk management. In cooperation with partners, we offer commercial security solutions that deliver capabilities in areas such as identity and access management, data security, application security, network security and endpoint security. These solutions include pervasive encryption, threat intelligence, analytics, cognitive and artificial intelligence and forensic capabilities that analyze client security events, yielding insights about attacks, threats and vulnerabilities facing the client. We also offer professional consulting and technical services solutions for security from assessment and incident response to deployment and resource augmentation. In addition, we offer managed and outsourced security solutions from multiple security operations centers around the world. Finally, security is embedded in a multitude of our offerings through secure engineering and operations and by critical functions (e.g., encryption, access control) in servers, storage, software, services and other solutions.

From an enterprise perspective, we implement a multi-faceted risk-management approach based on the National Institute of Standards and Technology Cybersecurity Framework to identify and address cybersecurity risks. In addition, we have established policies and procedures that provide the foundation upon which our infrastructure and data are managed. We regularly assess and adjust our technical controls and methods to identify and mitigate emerging cybersecurity risks. We use a layered approach with overlapping controls to defend against cybersecurity attacks and threats on networks, end-user devices, servers, applications, data and cloud solutions. We also have threat intelligence and security monitoring programs, as well as a global incident response process to respond to cybersecurity threats and attacks. In addition, we utilize a combination of online training, educational tools, videos and other awareness initiatives to foster a culture of security awareness and responsibility among our workforce.

Cautionary Note Regarding Forward-Looking Statements

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this report, including statements concerning the Company's plans, objectives, goals, beliefs, business strategies, future events, business condition, results of operations, financial position, business outlook and business trends and other non-historical statements in this report are forward-looking statements. Such forward-looking statements often contain words such as "will," "anticipate," "predict," "project," "contemplate," "plan," "forecast," "estimate," "expect," "intend," "target," "may," "should," "would," "could," "seek," "aim" and other similar words or expressions or the negative thereof or other variations thereon. Forward-looking statements are based on the Company's current assumptions and beliefs regarding future business and financial performance. The Company's actual business, financial condition or results of operations may differ materially from those suggested by forward-looking statements as a result of risks and uncertainties which include, among others:

- risks related to the Company's recent Spin-off from IBM;
- failure to attract new customers, retain existing customers or sell additional services to customers;
- technological developments and the Company's response to such developments;
- failure to meet growth and productivity objectives;
- competition;
- impacts of relationships with critical suppliers;
- inability to attract and retain key personnel and other skilled employees;
- impact of local legal, economic, political, health and other conditions, including the COVID-19 pandemic;
- a downturn in economic environment and customer spending budgets;
- damage to the Company's reputation;
- inability to accurately estimate the cost of services and the timeline for completion of contracts;
- service delivery issues;
- the Company's ability to successfully manage acquisitions, alliances and dispositions, including integration challenges, failure to achieve objectives, the assumption of liabilities and higher debt levels;
- the impact of our business with government customers;
- failure of the Company's intellectual property rights to prevent competitive offerings and the failure of the Company to obtain necessary licenses;
- risks relating to cybersecurity and data privacy;
- adverse effects from tax matters and environmental matters;
- legal proceedings and investigatory risks;
- impact of changes in market liquidity conditions and customer credit risk on receivables;
- the Company's pension plans;
- the impact of foreign currency fluctuations; and
- risks related to the Company's common stock and the securities market.

Additional risks and uncertainties include, among others, those risks and uncertainties described in the "Risk Factors" section of this report, as such factors may be updated from time to time in the Company's periodic filings with the SEC. Any forward-looking statement in this report speaks only as of the date on which it is made. Except as required by law, the Company assumes no obligation to update or revise any forward-looking statements.

Quantitative and Qualitative Disclosures About Market Risk:

Currency Rate Fluctuations

Changes in the relative values of non-U.S. currencies to the U.S. dollar affect our financial results and financial position. At December 31, 2021, currency changes resulted in assets and liabilities denominated in local currencies being translated into more dollars than at year-end 2020. During periods of sustained movements in currency, the marketplace and competition adjust to the changing rates. Large changes in currency exchange rates relative to our functional currencies could increase the costs of our services to customers relative to local competitors, thereby causing us to lose

existing or potential customers. Currency movements impacted our year-to-year revenue growth. Based on the currency rate movements in 2021, total revenue decreased 4 percent as reported and 5 percent in constant currency versus 2020. For non-U.S. subsidiaries and branches that operate in U.S. dollars or whose economic environment is highly inflationary, translation adjustments are reflected in results of operations. Generally, we manage currency risk in these entities by linking prices and contracts to U.S. dollars.

Market Risk

In the normal course of business, our financial position is routinely subject to a variety of risks. In addition to the market risk associated with non-U.S. dollar denominated assets and liabilities, another example of risk is the collectability of accounts receivable. We regularly assess these risks and have established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, we do not anticipate any material losses from these risks.

To meet disclosure requirements, we perform a sensitivity analysis to determine the effects that market risk exposures may have on the fair values of our financial assets. The financial instruments that are included in the sensitivity analysis are comprised of our cash and cash equivalents and short-term and long-term debt.

To perform the sensitivity analysis, we assess the risk of loss in fair values from the effect of hypothetical changes in interest rates and currency exchange rates on market-sensitive instruments. The market values for interest and currency exchange risk are computed based on the present value of future cash flows as affected by the changes in rates that are attributable to the market risk being measured. The discount rates used for the present value computations were selected based on market interest and foreign currency exchange rates in effect at December 31, 2021 and 2020. The differences in this comparison are the hypothetical losses associated with each type of risk.

Information provided by the sensitivity analysis does not necessarily represent the actual changes in fair value that we would incur under normal market conditions because, due to practical limitations, all variables other than the specific market risk factor are held constant. In addition, the results of the model are constrained by the fact that certain items are specifically excluded from the analysis, while the financial instruments relating to the financing or hedging of those items are included by definition.

The results of the sensitivity analysis at December 31, 2021 and 2020 are as follows:

Interest Rate Risk

A hypothetical 10 percent adverse change in the levels of interest rates, with all other variables held constant, would result in a $21 million and a $2 million impact in the fair value of our financial instruments at December 31, 2021 and 2020, respectively.

Currency Exchange Rate Risk

A hypothetical 10 percent adverse change in the levels of currency exchange rates relative to the U.S. dollar, with all other variables held constant, would result in a $188 million and a $19 million impact in the fair value of our financial instruments at December 31, 2021 and 2020, respectively.

Financial Statements and Supplementary Data:

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Kyndryl Holdings, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Kyndryl Holdings, Inc. and its subsidiaries (the "Company") as of December 31, 2021 and 2020, and the related consolidated income statements, statements of comprehensive income (loss), statements of equity and statements of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and December 31, 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Reporting Unit Goodwill Impairment Assessment

As described in Note 10 to the consolidated financial statements, the Company's goodwill balance was $732 million as of December 31, 2021 including $176 million associated with the Strategic Markets reporting unit (the "Reporting Unit"). Goodwill is reviewed for impairment annually, or whenever events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. In the fourth quarter of 2021, management reviewed its goodwill balances for impairment. Fair value is determined by management using a discounted cash flow model, which requires significant judgments and assumptions relating to discount rates, expected revenue growth, and projected EBITDA margins.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment for the Reporting Unit is a critical audit matter are (i) the significant judgment by management when developing the fair value of the Reporting Unit; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to the expected revenue growth and projected EBITDA margins; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others, (i) testing management's process for developing the fair value estimate of the Reporting Unit, (ii) evaluating the appropriateness of the discounted cash flow model; (iii) testing the completeness and accuracy of underlying data used in the model; and (iv) evaluating the reasonableness of the significant assumptions used by management related to the expected revenue growth and projected EBITDA margins. Evaluating management's assumptions related to the expected revenue growth and projected EBITDA margins involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the Reporting Unit; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted cash flow model.

/s/ PricewaterhouseCoopers LLP
New York, New York
March 10, 2022, except for the change in measure of segment operating performance discussed in Note 4 and the effects of the revision discussed in Note 19 to the consolidated financial statements, as to which the date is May 26, 2022

We have served as the Company's auditor since 2020.

KYNDRYL HOLDINGS, INC.
CONSOLIDATED INCOME STATEMENT
(In millions, except per share amounts)

	Notes	Year Ended December 31, 2021	2020	2019
Revenues *	3	$ 18,657	$ 19,352	$ 20,279
Cost of services **	3	$ 16,550	$ 17,137	$ 17,676
Selling, general and administrative expenses		2,776	2,948	2,970
Workforce rebalancing charges		39	918	159
Transaction-related costs		627	21	—
Impairment expense	10	469	—	—
Interest expense	11	64	63	76
Other (income) and expense		35	25	(29)
Total costs and expenses		$ 20,560	$ 21,112	$ 20,852
Income (loss) before income taxes		$ (1,903)	$ (1,760)	$ (573)
Provision for income taxes	5	$ 402	$ 247	$ 366
Net income (loss)		$ (2,304)	$ (2,007)	$ (939)
Basic earnings (loss) per share	6	$ (10.28)	$ (8.96)	$ (4.19)
Diluted earnings (loss) per share		(10.28)	(8.96)	(4.19)
Weighted-average basic shares outstanding	6	224.1	224.1	224.1
Weighted-average diluted shares outstanding		224.1	224.1	224.1

* Including related-party revenue of $704 in 2021, $645 in 2020 and $613 in 2019
** Including related-party cost of service of $3,979 in 2021, $3,767 in 2020 and $3,592 in 2019

The accompanying notes are an integral part of the financial statements.

KYNDRYL HOLDINGS, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(Dollars in millions)

	Year Ended December 31,		
	2021	2020	2019
Net income (loss)	$ (2,304)	$ (2,007)	$ (939)
Other comprehensive income (loss), before tax:			
Foreign currency translation adjustments	194	129	11
Unrealized gains (losses) on cash flow hedges:			
Unrealized gains (losses) arising during the period	4	—	—
Reclassification of (gains) losses to net income	(1)	—	—
Total unrealized gains (losses) on cash flow hedges	3	—	—
Retirement-related benefit plans:			
Prior service costs (credits)	1	—	(1)
Net (losses) gains arising during the period	72	(41)	(84)
Curtailments and settlements	3	—	—
Amortization of prior service (credits) costs	—	(1)	—
Amortization of net (gains) losses	51	36	27
Total retirement-related benefit plans	127	(6)	(57)
Other comprehensive income (loss), before tax	324	123	(46)
Income tax (expense) benefit related to items of other comprehensive income (loss)	(33)	2	18
Other comprehensive income (loss), net of tax	292	125	(28)
Total comprehensive income (loss)	$ (2,013)	$ (1,883)	$ (967)

The accompanying notes are an integral part of the financial statements.

KYNDRYL HOLDINGS, INC.
CONSOLIDATED BALANCE SHEET
(In millions, except per share amounts)

	Notes	December 31, 2021	December 31, 2020
Assets:			
Current assets:			
Cash and cash equivalents		$ 2,223	$ 24
Restricted cash		17	14
Accounts receivable (net of allowances of $44 in 2021 and $91 in 2020)*		2,279	1,444
Deferred costs	3	920	1,205
Prepaid expenses and other current assets		337	157
Total current assets		$ 5,777	$ 2,843
Property and equipment, net	8	$ 2,923	$ 3,991
Operating right-of-use assets, net	9	1,361	1,131
Deferred costs	3	1,265	1,441
Deferred taxes	5	675	424
Goodwill	10	732	1,230
Intangible assets, net	10	36	60
Pension assets		58	1
Other assets		385	85
Total assets		$ 13,213	$ 11,205
Liabilities:			
Current liabilities:			
Accounts payable**		$ 1,140	$ 919
Value-added tax and income tax liabilities		357	—
Short-term debt	11	105	69
Accrued compensation and benefits		381	350
Deferred income (current portion)	3	872	854
Operating lease liabilities (current portion)	8	360	333
Accrued contract costs		498	440
Other accrued expenses and liabilities	12	744	874
Total current liabilities		$ 4,457	$ 3,838
Long-term debt	11	$ 3,128	$ 140
Retirement and nonpension postretirement benefit obligations	16	856	550
Deferred income (noncurrent portion)	3	475	543
Operating lease liabilities (noncurrent portion)	9	1,007	850
Other liabilities	12	522	300
Total liabilities		$ 10,446	$ 6,220
Commitments and contingencies	13		
Equity:			
Stockholders' equity	14		
Net Parent investment		—	6,023
Common stock, par value $0.01 per share, and additional paid-in capital (1,000.0 shares authorized, 224.2 shares issued)		4,284	—
Accumulated deficit		(375)	—
Treasury stock, at cost (shares: 2021 - 0.0)		(1)	—
Accumulated other comprehensive income (loss)		(1,143)	(1,096)
Total stockholders' equity before noncontrolling interests		$ 2,765	$ 4,927
Noncontrolling interests		3	58
Total equity		$ 2,767	$ 4,985
Total liabilities and equity		$ 13,213	$ 11,205

* Including related-party accounts receivable of $373 at December 31, 2021
** Including related-party accounts payable of $733 at December 31, 2021

The accompanying notes are an integral part of the financial statements.

KYNDRYL HOLDINGS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in millions)

	Year Ended December 31,		
	2021	**2020**	**2019**
Cash flows from operating activities:			
Net income (loss)	$ (2,304)	$ (2,007)	$ (939)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization			
Depreciation of property and equipment	1,300	1,445	1,469
Depreciation of right-of-use assets	327	424	429
Amortization of transition costs and prepaid software	1,278	1,379	1,305
Amortization of capitalized contract costs	563	683	803
Amortization of intangible assets	37	29	29
Goodwill impairment	469	—	—
Stock-based compensation	71	64	51
Deferred taxes	(401)	(52)	(33)
Net (gain) loss on asset sales and other	11	4	1
Change in operating assets and liabilities:			
Deferred costs (excluding amortization)	(1,618)	(1,917)	(1,802)
Right-of-use assets and liabilities (excluding depreciation)	(374)	(372)	(418)
Workforce rebalancing liabilities	(341)	560	27
Receivables	(1,076)	387	23
Accounts payable	125	70	33
Taxes (including items settled with Parent)	994	299	399
Other assets and other liabilities	822	(365)	(244)
Net cash provided by (used in) operating activities	$ (119)	$ 628	$ 1,134
Cash flows from investing activities:			
Payments for property and equipment	$ (752)	$ (1,036)	$ (1,190)
Proceeds from disposition of property and equipment	194	84	63
Other investing activities, net	(14)	(1)	(2)
Net cash used in investing activities	$ (572)	$ (953)	$ (1,128)
Cash flows from financing activities:			
Debt repayments	$ (91)	$ (66)	$ (18)
Proceeds from issuance of debt, net of debt issuance costs	3,038	—	—
Net transfers (to) from Parent	(30)	377	18
Common stock repurchases for tax withholdings	(1)	—	—
Net cash provided by financing activities	$ 2,915	$ 312	$ (0)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	$ (22)	$ 1	$ (1)
Net change in cash, cash equivalents and restricted cash	$ 2,203	$ (13)	$ 5
Cash, cash equivalents and restricted cash at January 1	$ 38	$ 50	$ 46
Cash, cash equivalents and restricted cash at December 31	$ 2,240	$ 38	$ 50
Supplemental data			
Income taxes paid, net of refunds received	$ 12	$ —	$ —
Interest paid on debt	$ 2	$ —	$ —

The accompanying notes are an integral part of the financial statements.

KYNDRYL HOLDINGS, INC.
CONSOLIDATED STATEMENT OF EQUITY
(In millions)

	Common Stock and Additional Paid-In Capital		Net Parent Investment	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Accumulated Deficit	Non-Controlling Interests	Total Equity
	Shares	Amount						
Equity – January 1, 2019	—	$ —	$ 7,499	$ (1,193)	$ —	$ —	$ 52	$ 6,358
Net income (loss)			(939)					(939)
Other comprehensive income (loss), net of tax				(28)				(28)
Net transfers from Parent			598					598
Changes in non-controlling interests							4	4
Equity – December 31, 2019	—	$ —	$ 7,159	$ (1,221)	$ —	$ —	$ 56	$ 5,994

	Common Stock and Additional Paid-In Capital		Net Parent Investment	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Accumulated Deficit	Non-Controlling Interests	Total Equity
	Shares	Amount						
Equity – January 1, 2020	—	$ —	$ 7,159	$ (1,221)	$ —	$ —	$ 56	$ 5,994
Net income (loss)			(2,007)					(2,007)
Other comprehensive income (loss), net of tax				125				125
Net transfers from Parent			872					872
Changes in non-controlling interests							2	2
Equity – December 31, 2020	—	$ —	$ 6,023	$ (1,096)	$ —	$ —	$ 58	$ 4,985

	Common Stock and Additional Paid-In Capital		Net Parent Investment	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Accumulated Deficit	Non-Controlling Interests	Total Equity
	Shares	Amount						
Equity - January 1, 2021	—	$ —	$ 6,023	$ (1,096)	$ —	$ —	$ 58	$ 4,985
Net income (loss)			(1,929)			(375)		(2,304)
Other comprehensive income (loss), net of tax				292				292
Issuance of common stock and reclassification of net transfers from Parent	224.1	4,271	(4,095)	(339)				(163)
Common stock issued under employee plans	0.1	13						13
Purchases of treasury stock	0.0				(1)			(1)
Changes in non-controlling interests							(56)	(56)
Equity - December 31, 2021	224.2	$ 4,284	$ —	$ (1,143)	$ (1)	$ (375)	$ 3	$ 2,767

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Kyndryl's Spin-off

Kyndryl Holdings, Inc. ("we", "the Company" or "Kyndryl") is a leading technology services company and the largest infrastructure services provider in the world, serving as a partner to more than 4,000 customers whose operations span over 100 countries. Prior to November 3, 2021, the Company was wholly owned by International Business Machines Corporation ("IBM", "Parent" or "former Parent").

In October 2021, the Board of Directors of 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. In conjunction with the Distribution, Kyndryl underwent an internal reorganization following which it became the holder, directly or through its subsidiaries, of the Kyndryl Businesses. On October 12, 2021, Kyndryl's registration statement on Form 10, as amended, was declared effective by the US Securities and Exchange Commission ("SEC"). On November 3, 2021, the Separation was achieved through the Parent's pro rata distribution of 80.1% of the shares of common stock of Kyndryl to holders of the Parent's common stock as of the close of business on the record date of October 25, 2021. The Parent retained 19.9% of the shares of the Company's common stock. The Parent's stockholders of record received one share of the Company's common stock for every five shares of the Parent's common stock.

Description of Business

Our purpose is to design, build and manage secure and responsive private, public and multicloud environments to accelerate our customers' digital transformations. 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.

We provide 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 realize 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, we rely on our global team of skilled practitioners, consisting of approximately 90,000 professionals.

Basis of Presentation

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP"), which requires us to make estimates and assumptions that impact the amounts reported and disclosed in our consolidated financial statements and the accompanying notes. We prepared these estimates based on the most current and best available information, but actual results could differ materially from these estimates and assumptions, particularly in light of the continuing COVID-19 pandemic. COVID-19 has had and we expect will continue to have, significant effects on economic activity, on demand for our services and on our results of operations in 2022.

The financial statements and footnotes for the annual periods ending December 31, 2020 and 2019 and the period from January 1 through November 3, 2021 (the "pre-Separation periods") reflect allocations of certain IBM corporate, infrastructure and shared services expenses using a variety of allocation methodologies that are appropriate for the type of allocated expense. Where possible, these charges were allocated based on direct usage, with the remainder

allocated on a pro rata basis of headcount, gross profit, asset or other allocation methodologies that are considered to be a reasonable reflection of the utilization of services provided or the benefit received by Kyndryl during the periods presented.

The Consolidated Balance Sheet of the Company for the pre-Separation periods includes assets and liabilities of IBM that are specifically identifiable or otherwise attributable to the Company, including subsidiaries and/or joint ventures ("JVs") conducting managed infrastructure services business in which IBM had a controlling financial interest or was the primary beneficiary. Certain of these subsidiaries and JVs were historically managed by IBM's GTS segment but not transferred to Kyndryl in conjunction with the Separation. The JVs' balance sheet balances, revenues, costs, expenses and cash flow activities were recorded in the consolidated financial statements during the pre-Separation periods. The JVs' balance sheet amounts were settled through Net Parent investment on the Separation date, and their business activities were no longer recorded in the Consolidated Income Statement and Consolidated Statement of Cash Flow after the Separation date.

Cash and cash equivalents held by IBM at the corporate level during the pre-Separation periods were not attributable to the Company for any of the periods presented due to IBM's centralized approach to cash management and the financing of its operations. Only cash amounts specifically held by Kyndryl are reflected in the Consolidated Balance Sheet. IBM's debt was not attributed to the Company for any of the periods presented because IBM's borrowings are not the legal obligation of Kyndryl. The only third-party debt obligations included in the consolidated financial statements are those for which the legal obligor is a legal entity of Kyndryl. Interest expense for the pre-Separation periods in the Consolidated Income Statement reflects the allocation of interest on borrowing and funding related activity associated with the portion of IBM's borrowings where the proceeds benefited us.

Transfers of cash, both to and from IBM's centralized cash management system prior to Separation, are reflected as a component of Net Parent investment in the Consolidated Balance Sheet and as financing activities in the accompanying Consolidated Statement of Cash Flows. In addition, Net Parent investment in the Consolidated Balance Sheet represents the accumulation of the Company's net income (loss) over time and net non-trade intercompany transactions between Kyndryl and IBM (for example, investments from IBM or distributions to IBM).

As a result of the allocations and carve-out methodologies used to prepare the consolidated financial statements for the pre-Separation periods, the results may not be indicative of the Company's future performance, and may not reflect the results of operations, financial position and cash flows Kyndryl would have achieved if it had been a separate, standalone company during the pre-Separation periods.

The income tax provision included in these consolidated financial statements for the pre-Separation periods was calculated using the separate return basis, as if Kyndryl filed separate tax returns. The calculation of income taxes on a hypothetical separate return basis requires a considerable amount of judgment and use of both estimates and allocations; pre-Separation current and deferred taxes may not be reflective of the actual tax balances subsequent to the Separation. Current income tax liabilities including amounts for unrecognized tax benefits related to Kyndryl's activities included in the Parent's income tax returns were assumed to be immediately settled with Parent through the Net Parent investment account in the Consolidated Balance Sheet and reflected in Net transfers from Parent in the Consolidated Statement of Cash Flows during these periods.

Certain items have been recast to conform to current period presentation.

Consolidation

For the pre-Separation periods, the accompanying financial statements of Kyndryl were derived from the consolidated financial statements and accounting records of the Parent as if the Company operated on a standalone basis during the periods presented and were prepared in accordance with U.S. GAAP and pursuant to the rules and regulations of the SEC. Historically, the Company consisted of the managed infrastructure services unit of the Parent's Global Technology Services segment and did not operate as a separate standalone company. Accordingly, the Parent had reported the financial position and results of operations, cash flows and changes in equity of the Company in the Parent's consolidated financial statements.

All significant intercompany transactions during the pre-Separation periods between Kyndryl and IBM have been included in the consolidated financial statements. Intercompany transactions between Kyndryl and IBM are considered to be effectively settled in the consolidated financial statements at the time the transaction is recorded. The total net effect of the settlement of these intercompany transactions is reflected as Net transfers from Parent in the financing activities section in the Consolidated Statement of Cash Flows and in the Consolidated Balance Sheet within Net Parent investment.

After the Separation on November 3, 2021, the Company's financial statements for the periods from November 4, 2021, through December 31, 2021, are consolidated financial statements based on our reported results as a standalone company. All significant transactions and accounts within Kyndryl were eliminated. All significant intercompany transactions between IBM and Kyndryl prior to the Separation were included within Net Parent investment on the accompanying Consolidated Financial Statements.

Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes. Percentages presented are calculated from the underlying whole-dollar amounts. Certain items have been recast to conform to current-period presentation. Dollars are in millions except where otherwise noted.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts that are reported in the consolidated financial statements and accompanying disclosures. Estimates are used in determining the allocation of costs and expenses from IBM and are used in determining the following, among others: revenue, costs to complete service contracts, income taxes, pension assumptions, valuation of assets including goodwill and intangible assets, the depreciable and amortizable lives of other long-lived assets, loss contingencies, allowance for credit losses, deferred transition costs and other matters. These estimates are based on management's knowledge of current events, historical experience and actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances, including the macroeconomic impacts of the COVID-19 pandemic (beginning in 2020). Actual results may be different from these estimates.

Revenue

The Company accounts for a contract with a client 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.

Revenue is recognized when, or as, control of a promised service or product transfers to a client, 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 variable consideration. In certain rare circumstances, if we grant the customer the right to return a product and receive a full or partial credit or refund of any consideration paid, the Company (i) recognizes revenue for the transferred products in the amount of consideration to which it expects to be entitled, (ii) records a refund liability and (iii) recognizes an asset for its right to recover products from customers on settling the refund liability.

The Company only includes estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company may not be able to reliably estimate variable consideration 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. Changes in estimates of variable consideration are included in Note 3 – Revenue Recognition.

The Company's standard billing terms are that payment is due upon receipt of invoice, payable within 30 days. Invoices are generally issued as services are rendered and/or as control transfers, either at monthly or quarterly intervals or upon achievement of contractual milestones. In some services contracts, the Company bills the client prior to recognizing revenue from performing the services. In these cases, deferred income is presented in the Consolidated Balance Sheet. In other services contracts, the Company performs the services prior to billing the client. When the Company performs services prior to billing the client, the right to consideration is typically subject to milestone completion or client acceptance and the amount is recorded as a contract asset. Contract assets are generally classified as current and are recorded on a net basis with deferred income (i.e., contract liabilities) at the contract level. Refer to Note 3 – Revenue Recognition for contract assets for the periods presented.

Contract assets are included in prepaid expenses and other current assets in the Consolidated Balance Sheet. The unconditional unbilled accounts receivable of $454 million and $358 million at December 31, 2021 and 2020, respectively, is included in accounts receivable in the Consolidated Balance Sheet.

Additionally, in determining the transaction price, the Company would adjust 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 client 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 client and when the client pays for that product or service will be one year or less.

The Company may include subcontractor services or Original Equipment Manufacturer (OEM) hardware and/or OEM software components in certain integrated services arrangements. In these types of arrangements, revenue from sales of OEM hardware and/or OEM software components or services is recorded net of costs when the Company is acting as an agent between the client 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 fulfillment to the client, as well as inventory risk and pricing discretion.

The Company reports revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions.

Performance Obligations

The Company's capabilities as an infrastructure services company include offerings that often encompass multiple types of services and may integrate various OEM hardware and/or OEM software components. When an arrangement contains multiple distinct performance obligations, revenue follows the specific revenue recognition policies for each performance obligation, depending on the type of offering. The Company determines if the products or services are distinct and allocates the consideration to each distinct performance obligation on a relative standalone selling price basis. When products and services are not distinct, the Company determines an appropriate measure of progress based on the nature of its overall promise for the single performance obligation.

The revenue policies below are applied to each performance obligation, as applicable.

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 client. The Company establishes SSP based on management's estimated selling price or observable prices of products or services sold separately in comparable circumstances to similar clients. For OEM hardware and/or OEM software components, the Company is able to establish SSP based on the cost from the vendor. The Company reassesses SSP ranges on a periodic basis or when facts and circumstances change.

In certain instances, the Company may not be able to establish a SSP range based on observable prices and the Company estimates SSP. 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. Estimating SSP is a formal process that includes review and approval by the Company's management.

Nature of Products and Services

The Company delivers transformation and secure cloud services capabilities, insights and depth of expertise to modernize and manage IT environments based on its customers' unique patterns of transformation at scale. The Company offers services such as cloud managed services, data services, security and resiliency services, enterprise infrastructure services, digital workplace services, network services, managed Independent Software Vendor services and distributed cloud services to support its customers through technological change. Many of these services can be delivered entirely or partially through cloud or as-a-service delivery models. 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 10 years. The Company typically satisfies the performance obligation and recognizes revenue over time in services arrangements because the client simultaneously receives and consumes the benefits provided as the Company performs the services.

In outsourcing, other managed services, application management and other cloud-based services arrangements, 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 recognized over the period the services are provided on a usage basis. This results in revenue recognition that corresponds with the value to the client of the services transferred to date relative to the remaining services promised.

Revenue from time-and-material contracts is recognized on an output basis as labor hours are delivered and/or direct expenses are incurred. Revenue from as-a-service type contracts is recognized 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 an as-a-service contract includes setup activities, those promises in the arrangement are evaluated to determine if they are distinct.

In design and build arrangements, revenue is recognized based on progress toward completion of the performance obligation using a cost-to-cost measure of progress (e.g., labor costs incurred to date as a percentage of the total estimated labor costs to fulfill the contract). The estimation of cost at completion is complex, subject to many variables and requires significant judgment. Changes in original estimates 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 by the Company. Refer to Note 3 – Revenue Recognition for the amount of revenue recognized 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 to determine whether the latest estimates of revenues, costs and profits require updating. If at any time these estimates indicate that the contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately. For other types of services contracts, any losses are recorded as incurred.

The Company's services offerings may include the integration and/or sale of OEM hardware and/or software components. Contracts that include hardware and/or software components are evaluated to determine if they are distinct performance obligations as discussed in "Performance Obligations" above. Further, the Company assesses contracts with customers to determine whether an embedded lease arrangement exists. A contract with a customer includes an embedded lease when the Company grants the customer a right to control the use of an identified asset for a period of time in exchange for consideration. Generally, the hardware or software utilized in outsourcing, managed services, application management and other cloud-based services arrangements are not distinct and do not meet the criteria to be considered an embedded lease. As a result, revenue is generally recognized over time, consistent with the services provided to the customer.

For distinct OEM hardware sales, revenue is recognized when control has transferred to the customer which typically occurs when the hardware has been shipped to the client, risk of loss has transferred to the client and the Company has a present right to payment for the hardware.

Arrangements that include a license to the software are determined to have distinct software components. To meet this criterion, the customer must have both the contractual right to take possession of the software at any time and the ability to feasibly run the software on its own hardware or hire another party to host the software without significant economic or functional penalty. Revenue for distinct software is typically recognized at the beginning of the services arrangement as that is the point in time the customer can access and benefit from the software and the point at which they have a legal right to possession.

Cost of Services

Recurring operating costs for services contracts are recognized as incurred. Certain eligible, nonrecurring costs (i.e., setup costs) incurred in the initial phases of outsourcing contracts and other cloud-based services contracts, 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 fulfillment costs, including, for example, prepaid assets used in services contracts (i.e., prepaid software or prepaid maintenance). Capitalized costs are amortized on a straight-line basis over the expected period of benefit, which approximates the pattern of transfer to the client of the services to which the asset relates and includes anticipated contract renewals or extensions. Additionally, fixed assets associated with these contracts are capitalized and depreciated on a straight-line basis over the expected useful life of the asset and recorded in cost of sales. If an asset is contract-specific and cannot be repurposed, then the depreciation period is the shorter of the useful life of the asset or the contract term. Setup costs paid on behalf of clients in excess of the fair value of services delivered 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. If the carrying amount is deemed not recoverable, an impairment loss is recognized. Refer to Note 3 – Revenue Recognition for the amount of deferred costs to fulfill a contract at December 31, 2021 and 2020.

In situations in which an outsourcing contract is terminated, the terms of the contract may require the client to reimburse the Company for the recovery of unbilled accounts receivable, unamortized deferred contract costs and 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 capitalized and amortized on a straight-line basis, which approximates the pattern that the assets' economic benefits are expected to be consumed, over the

expected customer relationship period if the Company expects to recover those costs. The expected customer relationship period is determined based on the average customer relationship period, including expected renewals, for each offering type and ranges from three to six years. 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 programs meet the requirements to be capitalized. Some commission programs are not subject to capitalization as the commission expense is paid and recognized as the related revenue is recognized.

Expense and Other (Income)

Expense and other income within the Company's financial statements through the Separation reflect allocations to the Company by IBM based on direct usage, with the remainder allocated on a pro-rata basis of gross profit, headcount, assets or other measures the Company has determined as reasonable. Expense and other income within the Company's consolidated financial statements for the periods from November 4, 2021, through December 31, 2021, are based on our reported results as a standalone company.

Selling, General and Administrative

Selling, general and administrative ("SG&A") expense is charged to income as incurred, except for certain sales commissions, which are capitalized and amortized. For further information regarding capitalizing sales commissions, see "Incremental Costs of Obtaining a Contract" above. Expenses of promoting and selling services are classified as selling expense and, in addition to sales commissions, include such items as compensation, advertising and travel. General and administrative expense includes such items as compensation, legal costs, office supplies, non-income taxes, insurance and office rental. In addition, general and administrative expense includes other operating items such as allowance for credit losses, amortization of certain intangible assets and research, development and engineering ("RD&E") costs allocated to the Company by the former Parent. Total RD&E costs allocated to Kyndryl were $63 million, $76 million and $83 million for the years ended December 31, 2021, 2020 and 2019.

Advertising and Promotional Expense

Advertising and promotional costs are expensed as incurred. Advertising and promotional expense, which includes media, agency and promotional expense directly incurred by the Company was $56 million, $34 million and $55 million in 2021, 2020 and 2019, respectively, and is recorded in SG&A expense in the Consolidated Income Statement.

Other (Income) and Expense

Other (income) and expense primarily consists of expense related to certain components of retirement-related costs, including interest costs, expected return on plan assets, amortization of prior service costs (credits), curtailments and settlements and other net periodic benefit costs. Also included are gains and losses from foreign currency transactions, certain real estate transactions and corporate expenses. For more information, see Note 17 – Related-Party Transactions.

Defined Benefit Pension and Nonpension Postretirement Benefit Plans

Prior to the Separation, the defined benefit plans and nonpension postretirement benefit plans in which certain Kyndryl employees participated were sponsored by IBM. During this period, an allocation of certain assets and liabilities was reflected in the Consolidated Balance Sheet based on legal entities, and the Consolidated Income Statement reflected a proportional allocation of net period benefit cost based on headcount associated with the Company.

In September 2021, in preparation for the Separation, certain defined benefit plans and nonpension postretirement benefit plans were amended, and Kyndryl became sponsor or co-sponsor (with IBM) of these plans. Refer to Note 16 – Retirement-Related Benefits for further details on the accounting for these plans.

As a result of the amendment of these plans to make Kyndryl sponsor or co-sponsor in September 2021, the funded status of these plans became recognized in the Consolidated Balance Sheet. The funded status is measured as the difference between the fair value of plan assets and the projected benefit obligation at the balance sheet date. For defined benefit pension plans, the benefit obligation is the projected benefit obligation (PBO), which represents the actuarial present value of benefits expected to be paid upon retirement based on employee services already rendered and estimated future compensation levels. For nonpension postretirement benefit plans, the benefit obligation is the accumulated postretirement benefit obligation (APBO), which represents the actuarial present value of postretirement benefits attributed to employee services already rendered. The fair value of plan assets represents the current market value of assets held for the benefit of participants. For co-sponsored plans, the fair value of plan assets based on Company contributions, distributions and market returns and the benefit obligation attributed to employees of the Company are allocated to Kyndryl. Overfunded plans, in which the fair value of plan assets exceeds the benefit obligation, are aggregated and recorded as a prepaid pension asset equal to this excess. Underfunded plans, in which the benefit obligation exceeds the fair value of plan assets, are aggregated and recorded as a retirement and nonpension postretirement benefit obligation equal to this excess.

The current portion of the retirement and nonpension post-retirement benefit obligations represents the actuarial present value of benefits payable in the next twelve months exceeding the fair value of plan assets, measured on a plan-by-plan basis. This obligation is recorded in accrued compensation and benefits in the Consolidated Balance Sheet.

Net periodic benefit cost of defined benefit pension and nonpension postretirement benefit plans is recorded in the Consolidated Income Statement and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs/(credits) and actuarial (gains)/losses previously recognized as a component of other comprehensive income/(loss) (OCI). The service cost component of net benefit cost is recorded in Cost of services and SG&A in the Consolidated Income Statement (unless eligible for capitalization) based on the employees' respective functions. The other components of net benefit cost are presented separately from service cost within other (income) and expense in the Consolidated Income Statement.

Actuarial (gains) losses and prior service costs/(credits) are recognized as a component of OCI in the Consolidated Statement of Comprehensive Income (Loss) as they arise. Those actuarial (gains) losses and prior service costs/(credits) are subsequently recognized as a component of net periodic benefit cost pursuant to the recognition and amortization provisions of applicable accounting guidance. Actuarial (gains) losses arise as a result of differences between actual experience and assumptions or as a result of changes in actuarial assumptions. Prior service costs/(credits) represent the cost of benefit changes attributable to prior service granted in plan amendments.

The measurement of benefit obligations and net periodic benefit cost is based on estimates and assumptions approved by the Company's management. These valuations reflect the terms of the plans and use participant-specific information such as compensation, age and years of service, as well as certain assumptions, including estimates of discount rates, expected return on plan assets, rate of compensation increases, interest crediting rates and mortality rates.

The Company participates in non-U.S. multi-employer pension plans and makes required contributions to those plans, which are recorded in Cost of services and SG&A in the Consolidated Income Statement based on the employees' respective functions.

Defined Contribution Plans

Prior to the Separation, the Parent offered various defined contribution plans for U.S. and non-U.S. employees. In September 2021, in preparation for the Separation, Kyndryl established standalone defined contribution plans, and employees identified as Kyndryl employees were enrolled into these plans. Contribution expense associated with employer matching benefits are recorded when the employee renders service to the Company. The charge is recorded in Cost of services and SG&A in the Consolidated Income Statement based on the employees' respective functions.

Stock-Based Compensation

Prior to the Separation, the Company participated in various IBM stock-based compensation plans, including incentive compensation plans and an employee stock purchase plan. All awards granted under the plans were based on IBM's common shares and, as such, were reflected in the Parent's Consolidated Statement of Stockholders' Equity and not in the Company's Consolidated Statement of Equity. For historical periods, stock-based compensation cost is based on the awards and terms previously granted to employees by the Parent. Compensation costs associated with Kyndryl employees' participation in the Parent's incentive plans have been identified for employees who exclusively support Kyndryl operations.

Stock-based compensation represents the cost related to stock-based awards granted to employees under the stock-based compensation plans. The Company establishes stock-based compensation values at the grant date, based on the estimated fair value of the award and recognizes 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 stock awards granted to employees that entitle the holder to shares of Kyndryl common stock 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 the Company's stock price and are cliff-vested at the end of the service period. Stock options are vested over a one- to four-year period. Dividend equivalents are not paid on the stock-based awards described above. The fair value of the RSUs is determined on the grant date based on Kyndryl's stock 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 stock options is determined on the grant date using a Black-Scholes model. Stock-based compensation cost is recorded in Cost of services and SG&A in the Consolidated Income Statement based on the employees' respective functions.

At the time of Kyndryl's Spin-off, each outstanding IBM RSU and PSU held by a Kyndryl 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 stock on the first trading day following the Spin-off.

The Company records deferred tax assets for awards that result in tax deductions in the consolidated financial statements calculated using the separate return basis based on the amount of compensation cost recognized and the relevant statutory tax rates. The differences between the deferred tax assets recognized 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 Consolidated Income Statement.

Derivative Financial Instruments

Prior to the third quarter of 2021, Kyndryl did not independently execute derivative financial instruments to manage its foreign currency risk and instead participated in a centralized foreign currency hedging program administered by IBM. The hedging activity allocated to Kyndryl is for the management of the Company's forecasted foreign currency expenses.

In the third quarter of 2021, we began to execute trades to manage foreign currency risk. The Company does not use derivative financial instruments for trading or speculative purposes. The Company's derivative financial instruments that qualify for hedge accounting are designated as cash flow hedges. Additionally, the Company may enter into derivative contracts that economically hedge certain of its risks, even when hedge accounting does not apply, or the Company elects not to apply hedge accounting.

Derivatives are recognized in the Consolidated Balance Sheet at fair value on a gross basis as either assets or liabilities and classified as current or noncurrent based upon whether the maturity of the instrument is less than or greater than twelve months. We designate the derivative based on the exposure being hedged and assess, both at the hedge's inception and on an ongoing basis, whether the designated derivative instrument is highly effective in offsetting changes

in cash flows of the hedged items. Changes in the fair value of effective derivatives designated as cash flow hedges are recorded, net of applicable taxes, in OCI and subsequently reclassified into the same income statement line item as the hedged exposure when the underlying hedged item is recognized in earnings. Changes in fair value of derivatives not designated as effective hedges are reported in earnings primarily in other (income) and expense. See Note 7 – Financial Assets and Liabilities for further information.

The cash flows associated with derivatives designated as cash flow hedges are reported in cash flows from operating activities in the Consolidated Statement of Cash Flows. Cash flows from derivatives not designated as hedges are reported in cash flows from investing activities in the Consolidated Statement of Cash Flows.

Translation of Non-U.S. Currency Amounts

Assets and liabilities of non-U.S. subsidiaries that have a local functional currency are translated to U.S. dollars at year-end exchange rates. Translation adjustments are recorded in OCI. Income and expense items are translated at weighted-average rates of exchange prevailing during the year.

Property and equipment, deferred income and other non-monetary assets and liabilities of non-U.S. subsidiaries and branches that operate in U.S. dollars are translated at the approximate exchange rates prevailing when the Company acquired the assets or liabilities. All other assets and liabilities denominated in a currency other than U.S. dollars are translated at year-end exchange rates with the transaction gain or loss recognized in other (income) and expense. Income and expense items are translated at the weighted-average rates of exchange prevailing during the year. These translation gains and losses are included in net income for the period in which exchange rates change.

Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less on the date of purchase are considered to be cash equivalents.

Accounts Receivable and Allowance for Current Expected Credit Losses

The Company classifies the right to consideration in exchange for products or services transferred to a client as a receivable. Receivables are recorded concurrent with billing and delivery of a service to customers. An allowance for uncollectible receivables and contract assets, if needed, is estimated based on specific customer situations, current and future expected economic conditions and past experiences of losses, as well as an assessment of potential recoverability of the balance due.

Effective January 1, 2020, the Company adopted the new accounting standard related to current expected credit losses (Accounting Standards Update 2016-13, "Financial Instruments – Credit Losses (Topic 326)). The standard applies to financial assets measured at amortized cost, including accounts receivable and certain off-balance sheet commitments. As of the effective date, the Company estimates its allowance for current expected credit losses based on an expected loss model, compared to prior periods which were estimated using an incurred loss model. The impact related to adopting the new standard was not material.

Receivable losses are charged against the allowance in the period in which the receivable is deemed uncollectible. Subsequent recoveries, if any, are credited to the allowance. Write-offs of receivables and associated reserves occur to the extent that the customer is no longer in operation and/or there is no reasonable expectation of additional collections or repossession.

Transfers of Financial Assets

The Company enters into arrangements to sell to third-party financial institutions certain financial assets (primarily accounts receivable). For a transfer of financial assets to be considered a sale, the asset must be legally isolated from the Company, and the purchaser must have control of the asset. Determining whether all the requirements have been met includes an evaluation of legal considerations, the extent of the Company's continuing involvement with

the assets transferred and any other relevant consideration. While we do continue to service the assets, doing so does not create significant continuing involvement. When the true-sale criteria are met, the Company derecognizes the carrying value of the financial asset transferred and recognizes a net gain or loss on the sale. The proceeds from these arrangements are reflected as cash provided by operating activities in the Consolidated Statement of Cash Flows. If the true-sale criteria are not met, the transfer is considered a secured borrowing, and the financial asset remains on the Consolidated Balance Sheet with proceeds from the sale recognized as debt and recorded as cash flows from financing activities in the Consolidated Statement of Cash Flows.

Arrangements to sell accounts receivable are used in the normal course of business as part of the Company's cash and liquidity management. Third-party programs primarily in the U.S. and several countries in Europe enable the Company to sell certain accounts receivable, without recourse, to third parties to manage credit, collection, concentration and currency risk. In the fourth quarter of 2021, the Company entered into a third-party factoring program and had arrangements to sell certain financial assets under this facility. Proceeds from receivables sold under this program and proceeds from receivables sold to third parties outside of this program, were $326 million and $36 million, respectively, for the year ended December 31, 2021. Prior to the Separation, the gross amount of the Company's receivables sold to third parties under the former Parent's facility was $296 million, $803 million and $650 million for the years ended December 31, 2021, 2020 and 2019, respectively. The fees and the net gains and losses associated with the transfer of receivables were not material for any of the periods presented. Additionally, prior to entering into the third-party factoring program in the fourth quarter of 2021, the Company had arrangements to assign certain financial assets to IBM's Global Financing business. Refer to Note 17 – Related-Party Transactions for further information, including the amount of proceeds under these arrangements for the years ended December 31, 2021, 2020 and 2019.

Fair Value Measurement

In determining the fair value of its financial instruments, the Company uses methods and assumptions that are based on market conditions and risks existing at each balance sheet date. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company classifies certain assets and liabilities based on the following fair value hierarchy:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date;
- Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 — Unobservable inputs for the asset or liability.

Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation. The determination of fair value considers various factors including interest rate yield curves and time value underlying the financial instruments. For derivatives and debt securities, the Company uses a discounted cash flow analysis using discount rates commensurate with the duration of the instrument.

In determining the fair value of financial instruments, the Company considers certain market valuation adjustments to the "base valuations" using the methodologies described below for several parameters that market participants would consider in determining fair value:

- Counterparty credit risk adjustments are applied to financial instruments, taking into account the actual credit risk of a counterparty as observed in the credit default swap market to determine the true fair value of such an instrument.

- Credit risk adjustments are applied to reflect the Company's own credit risk when valuing all liabilities measured at fair value. The methodology is consistent with that applied in developing counterparty credit risk adjustments, but incorporates the Company's credit risk as observed in the credit default swap market.

The Company holds investments in time deposits that are designated as available-for-sale. Available-for-sale securities are measured for impairment on a recurring basis by comparing the security's fair value with its amortized cost basis. There were no impairments recognized for any of the periods presented.

Certain non-financial assets such as property, plant and equipment, operating right-of-use assets, land, goodwill and intangible assets are recorded at fair value or at cost, as appropriate, in the period they are initially recognized, and such fair value may be adjusted in subsequent periods if an event occurs or circumstances change that indicate that the asset may be impaired. The impairment models used for non-financial assets depend on the type of asset. The fair value measurements, in such instances, would be classified in Level 3 of the fair value hierarchy.

Leases

When procuring goods or services, the Company determines whether an arrangement contains a lease at its inception. As part of that evaluation, the Company considers whether there is an implicitly or explicitly identified asset in the arrangement and whether the Company, as the lessee, has the right to control the use of that asset.

In its ordinary course of business, the Company enters into leases as a lessee for property and equipment. Prior to the Separation, the Company recognized right-of-use ("ROU") assets and associated lease liabilities in the Consolidated Balance Sheet for leases with a term of more than twelve months when a majority percentage of utilization was attributed to the Company. The lease liabilities were measured at the lease commencement date and determined using the present value of the lease payments not yet paid and the Parent's incremental borrowing rate, since they were negotiated by the Parent prior to Separation. Any new or modified leases entered into after the Separation are measured at Kyndryl's incremental borrowing rate. The interest rate implicit in the lease is generally not determinable in transactions where the Company is the lessee. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid rent and lease incentives. The Company's variable lease payments generally relate to payments tied to various indexes, non-lease components and payments above a contractual minimum fixed amount.

Operating leases are included in operating right-of-use assets net, current operating lease liabilities and operating lease liabilities in the Consolidated Balance Sheet. Finance leases are included in property and equipment, short-term debt and long-term debt in the Consolidated Balance Sheet. The lease term includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The Company made a policy election to not recognize leases with a lease term of twelve months or less in the Consolidated Balance Sheet.

For all asset classes, the Company has elected the lessee practical expedient to combine lease and non-lease components (e.g., maintenance services) and account for the combined unit as a single lease component. A significant portion of the Company's lease portfolio is real estate leases, which are mainly accounted for as operating leases and are primarily used for corporate offices and data centers. The average term of the real estate leases is approximately five years. The Company also has equipment leases, such as for IT equipment and vehicles, which have lease terms that range from two to five years. For certain of these operating and finance leases, the Company applies a portfolio approach to account for the lease assets and lease liabilities.

Intangible Assets Including Goodwill

Goodwill attributed to the Company represents the historical goodwill balances in the Parent's managed infrastructure services business arising from acquisitions specific to the Company. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the Company and the acquired assembled workforce, neither of which qualifies as a separately identifiable intangible asset. Goodwill recorded

in an acquisition is assigned to applicable reporting units based on expected revenues or expected cash flows. Identifiable intangible assets with finite lives are amortized on a straight-line basis over their useful lives, which approximates the pattern that the assets' economic benefits are expected to be consumed over time. Amortization of completed technology is recorded in cost of services and amortization of all other intangible assets is recorded in SG&A expense. All costs related to internally developed computer software during planning and evaluation stage are expensed as incurred. Costs incurred during application development stage are capitalized and included in intangibles.

Impairment

Long-lived assets, other than goodwill, are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment test is based on undiscounted cash flows and, if impaired, the asset is written down to fair value based on either discounted cash flows or appraised values. Goodwill is tested for impairment at least annually and whenever changes in circumstances indicate an impairment may exist. The goodwill impairment test is performed at the reporting unit level, which aligns with our operating segments. Impairment charges related to long-lived assets, intangible assets and goodwill, if any, are recorded as impairment expense in the Consolidated Income Statement.

Transaction-related Costs

The Company classifies certain expenses related to the Separation, acquisitions and divestitures (if any) as "transaction-related costs" in the Consolidated Income Statement. Transaction-related costs include expenditures incurred to prepare for and execute the Separation and establish Kyndryl as a standalone business. These costs include employee retention expenses, information technology costs, marketing expenses to establish the Kyndryl brand, legal, accounting, consulting and other professional service costs required to prepare for and execute the Separation, and other costs related to contract and supplier novation and integration.

Property and Equipment

Property and equipment are recorded at cost, or in the case of acquired property and equipment, at fair value at the date of the acquisition. Expenditures for repairs and maintenance costs are expensed as incurred, whereas expenditures that extend the life or increase the functionality of the asset are capitalized as additions to property and equipment. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is included in the determination of net income or loss.

We compute depreciated expense on a straight-line method over the estimated useful lives of the assets as follows:

Classification	Estimated Useful Life
Buildings	30 to 50 years
Land improvements	20 years
Leasehold improvements*	Estimated useful life or term of lease
Office and other equipment	2 to 20 years
Information technology equipment	1.5 to 5 years

* Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term, rarely exceeding 10 years.

Environmental

The costs of internal environmental protection programs that are preventative in nature are expensed as incurred. When a cleanup program becomes likely and it is probable that the Company will incur cleanup costs and those costs can be reasonably estimated, the Company accrues remediation costs for known environmental liabilities.

Income Taxes

Prior to the Separation, our operations were included in the consolidated U.S. federal and certain state and local and foreign income tax returns filed by IBM, where applicable. The Company also files certain separate foreign income tax returns. For purposes of the historical periods presented on a "carve-out" basis, the income tax provisions have been calculated using the separate return basis, as if the Company filed separate tax returns. The separate return method applies the accounting guidance for income taxes to the standalone financial statements as if the Company were a separate taxpayer and a standalone enterprise for the periods presented. Tax attributes have been reported based on the hypothetical separate return basis results for the periods presented in the Company's financial statements. The calculation of income taxes on a hypothetical separate return basis requires a considerable amount of judgment and use of both estimates and allocations; pre-Separation current and deferred taxes may not be reflective of the actual tax balances subsequent to the Separation.

Post-Separation, the income tax provisions are calculated based on Kyndryl's operating footprint, as well as tax return elections and assertions. Current income tax liabilities including amounts for unrecognized tax benefits related to our activities included in IBM's income tax returns were deemed to be immediately settled with IBM through the Net Parent investment account in the Consolidated Balance Sheet and reflected in Net transfers from Parent in the financing activities section in the Consolidated Statement of Cash Flows. Post-Separation, liabilities related to unrecognized tax benefits for which the Company is liable are reported within the Consolidated Balance Sheet based upon tax authorities' ability to assert the Company may be the primary obligor for historical taxes, among other factors.

Income tax expense is based on reported income before income taxes. Deferred income taxes reflect the tax effect of temporary differences between asset and liability amounts that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. These deferred taxes are measured by applying currently enacted tax laws. U.S. tax reform introduced Global Intangible Low-Taxed Income ("GILTI"), which subjects a U.S. shareholder to current tax on income earned by certain foreign subsidiaries. GAAP allows companies to either (i) recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or (ii) account for taxes on GILTI as period costs in the year the tax is incurred. The Company has elected to recognize GILTI impact in the specific period in which it occurs.

Valuation allowances are recognized to reduce deferred tax assets to the amount that will more likely than not be realized. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income and the feasibility of ongoing tax planning strategies and actions. When there is a change in the determination as to the amount of deferred tax assets that can be realized, the valuation allowance is adjusted with a corresponding impact to provision for income taxes in the period in which such determination is made.

The Company recognizes additional tax liabilities when the Company believes that certain positions may not be fully sustained upon review by tax authorities. Benefits from tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. The noncurrent portion of tax liabilities is included in other liabilities in the Consolidated Balance Sheet. To the extent that new information becomes available which causes the Company to change its judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact income tax expense in the period in which such determination is made. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in income tax expense.

Net Loss per Share

Net loss per share is computed by dividing net loss for the period by the weighted-average number of common shares outstanding during the period. The calculation of basic and diluted earnings per share for any of the periods presented prior to the Separation and the Distribution were based on the number of shares outstanding on November 4, 2021. For periods prior to the Separation and Distribution, it is assumed that there are no dilutive equity instruments as there were no Kyndryl stock-based awards outstanding prior to the Separation and the Distribution. Weighted-average common shares outstanding do not include restricted stock, market-conditioned performance awards or stock options for the periods presented because the effect of their inclusion would have been anti-dilutive. Refer to Note 6 – Net Loss per Share for a reconciliation as well as Note 15 – Stock-based Compensation for further discussion on awards.

NOTE 2. ACCOUNTING CHANGES

New Standards to be Implemented

In October 2021, the Financial Accounting Standards Board ("FASB") issued guidance ("Revenue Contracts with Customers Acquired in a Business Combination") which requires that an acquirer recognize and measure contract assets and liabilities acquired in a business combination as if it had originated the contracts, in accordance with ASC 606, *Revenue from Contracts with Customers*. Deferred revenue acquired in a business combination is no longer required to be measured at its fair value, which had historically resulted in a deferred revenue impairment at the date of acquisition. The amendment is effective January 1, 2023, and early adoption is permitted. The Company is evaluating the impact of the guidance and adoption date.

Standards Implemented

In December 2019, the FASB issued guidance ("Simplifying the Accounting for Income Taxes") intended to simplify various aspects of income tax accounting by removing certain exceptions to the general principle of the guidance and also clarified and amended existing guidance to improve consistency in application. The guidance was effective January 1, 2021, and early adoption was permitted. The Company adopted the guidance on a prospective basis as of the effective date. The guidance did not have a material impact in the consolidated financial results.

NOTE 3. REVENUE RECOGNITION

Disaggregation of Revenue

The Company views its segment results to be the best view of disaggregated revenue. Refer to Note 4 – Segments.

Remaining Performance Obligations

The remaining performance obligation ("RPO") represents the aggregate amount of contractual deliverables yet to be recognized as revenue at the end of the reporting period. It is intended to be a statement of overall work under contract that has not yet been performed and does not include contracts in which the customer is not committed. The customer is not considered committed when it is able to terminate for convenience without payment of a substantive penalty. The RPO also includes estimates of variable consideration. Additionally, as a practical expedient, the Company does not include contracts that have an original duration of one year or less. RPO estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidations, adjustment for revenue that has not materialized and adjustments for currency.

At December 31, 2021, the aggregate amount of RPO related to customer contracts that are unsatisfied or partially unsatisfied was $49.7 billion. Approximately 54 percent of the amount is expected to be recognized as revenue in the subsequent two years, approximately 37 percent in subsequent years three through five, and the balance thereafter.

Revenue Recognized for Performance Obligations Satisfied (or Partially Satisfied) in Prior Periods

For the year ended December 31, 2021, revenue was reduced by $16 million for performance obligations satisfied (or partially satisfied) in previous periods, mainly due to changes in estimates on contracts with cost-to-cost measures of progress.

Contract Balances

The following table provides information about accounts receivable, contract assets and deferred income balances:

	December 31,	
(Dollars in millions)	**2021**	**2020**
Accounts receivable (net of allowances of $44 in 2021 and $91 in 2020)	$ 2,279	$ 1,444
Contract assets *	62	72
Deferred income (current)	872	854
Deferred income (noncurrent)	475	543

* Included within prepaid expenses and other current assets in the Consolidated Balance Sheet.

The amount of revenue recognized during the year ended December 31, 2021, that was included within the deferred income balance at December 31, 2020, was $877 million.

The following table provides roll-forwards of the accounts receivable allowance for expected credit losses for the years ended December 31, 2021, 2020 and 2019:

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Beginning balance	$ 91	$ 82	$ 111
Additions (releases)	(23)	25	51
Write-offs	(5)	(7)	(78)
Other *	(19)	(9)	(3)
Ending balance	$ 44	$ 91	$ 82

* Primarily represents translation adjustments and reclassifications.

The decrease in the accounts receivable allowance during 2021 was primarily due to collections from certain clients that we previously reserved for. The contract assets allowance for expected credit losses was not material in any of the periods presented.

Deferred Costs

Costs to acquire and fulfill customer contracts are deferred and amortized over the contract period or expected customer relationship life. The expected customer relationship period is determined based on the average customer relationship period, including expected renewals, for each offering type and ranges from three to six years. For contracts with an estimated amortization period of less than one year, we elected the practical expedient to expense incremental costs immediately.

The following table provides amounts of capitalized costs to acquire and fulfill customer contracts at December 31, 2021 and 2020:

(Dollars in millions)	December 31, 2021	2020
Deferred transition costs	$ 1,012	$ 1,369
Prepaid software costs	658	679
Capitalized costs to fulfill contracts	235	328
Capitalized costs to obtain contracts	282	269
Total deferred costs *	$ 2,185	$ 2,646

* Of the total deferred costs, $920 million was current and $1,265 million was noncurrent at December 31, 2021, and $1,205 million was current and $1,441 million was noncurrent at December 31, 2020.

The amount of total deferred costs amortized during the year ended December 31, 2021 was $1.8 billion, composed of $403 million of amortization of deferred transition costs, $874 million of amortization of prepaid software and $563 million of amortization of capitalized contract costs. Total deferred costs amortized during the year ended December 31, 2020 was $2.1 billion, composed of $478 million of amortization of deferred transition costs, $901 million of amortization of prepaid software and $683 million of amortization of capitalized contract costs. There were no material impairment losses incurred in both years. Refer to Note 1 – Significant Accounting Policies for additional information on deferred costs to fulfill a contract and capitalized costs of obtaining a contract.

NOTE 4. SEGMENTS

In conjunction with the Separation, the Company implemented a new operating structure. With this change, the way the Company organizes its operating and reportable segments was revised to better reflect the way the chief operating decision maker ("CODM") reviews performance and allocates resources.

In addition, the measure of segment operating performance used by Kyndryl's CODM changed. The updated measure of segment operating performance used by Kyndryl's CODM is adjusted EBITDA. Adjusted EBITDA is defined as net income (loss) excluding net interest expense, depreciation and amortization (excluding depreciation of right-of-use assets and amortization of capitalized contract costs), pension costs other than pension servicing costs and multi-employer plan costs, early extinguishment of debt charges, workforce rebalancing and restructuring charges, transaction-related and integration-related items, goodwill and long-lived asset impairment charges, foreign currency impacts of highly inflationary countries, significant litigation costs, stock-based compensation expense and income taxes. The use of revenue and adjusted EBITDA aligns with how the CODM assesses performance and allocates resources for the Company's segments. During the three months ended March 31, 2022, the Company updated certain allocation methodologies related to its measure of segment adjusted EBITDA and has accordingly recast the prior-period information to reflect these updates, which by itself did not change the aggregate amount of segment adjusted EBITDA. The following discussions on Principal Markets segment results also reflect the revision of the over-accrual of accrued contract costs as discussed in Note 19.

Our four reportable segments consist of the following:

United States: This reportable segment is comprised of Kyndryl's operations in the United States.

Japan: This reportable segment is comprised of Kyndryl's operations in Japan.

Principal Markets: This reportable segment represents the aggregation of our operations in Australia / New Zealand, Canada, France, Germany, India, Italy, Spain / Portugal, and the United Kingdom / Ireland, comprised of Kyndryl's operations in those respective countries.

Strategic Markets: This reportable segment is comprised of our operations in all other countries.

While this reporting change did not impact the Company's consolidated results, segment data has been recast in the tables below to be consistent for all periods presented.

Our geographic markets frequently work together to sell and implement certain contracts. The resulting revenues and costs from these contracts may be apportioned among the participating geographic markets. The economic environment and its effects on the industries served by our geographic markets affect revenues and operating expenses within our geographic markets to differing degrees. Currency fluctuations also tend to affect our geographic markets differently, depending on the geographic concentrations and locations of their businesses.

The following table reflects the results of the Company's segments:

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Revenue			
United States	$ 4,805	$ 5,084	$ 5,340
Japan	2,923	3,042	2,929
Principal Markets	7,085	7,187	7,587
Strategic Markets	3,844	4,040	4,424
Total revenue	$ 18,657	$ 19,352	$ 20,279
Segment adjusted EBITDA			
United States	$ 842	$ 940	$ 974
Japan	501	534	468
Principal Markets	341	375	609
Strategic Markets	540	488	660
Total segment adjusted EBITDA	$ 2,223	$ 2,337	$ 2,710

The following table reconciles consolidated totals to certain segment information:

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Pretax income (loss)	$ (1,903)	$ (1,760)	$ (573)
Workforce rebalancing charges	39	918	159
Transaction-related costs	627	21	—
Stock-based compensation expense	71	64	51
Impairment expense	469	—	—
Interest expense	64	63	76
Depreciation expense	1,300	1,445	1,469
Amortization expense	1,314	1,408	1,335
Corporate expense not allocated to the segments	154	153	144
Other adjustments *	88	27	50
Segment adjusted EBITDA	$ 2,223	$ 2,337	$ 2,710

* Other adjustments represent significant litigation costs and pension costs other than pension servicing costs and multi-employer plan costs.

Segment Assets and Other Items

The Company does not allocate assets to the above reportable segments for our CODM's review.

Major Clients

Other than transactions with the Parent (see Note 17 – Related-Party Transactions), no single client represented 10 percent or more of the Company's total revenue in 2021, 2020 or 2019.

Geographic Information

The following tables provide information for those countries that represent 10 percent or more of the specific category. Refer to Note 8 – Property and Equipment and Note 9 – Leases for more information on allocation methodologies.

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Revenue*			
United States	$ 4,805	$ 5,081	$ 5,340
Japan	2,923	3,037	2,925
Other countries	10,930	11,235	12,015
Total revenue	$ 18,657	$ 19,352	$ 20,279

* Revenues are attributed to countries based on the location of the client and exclude certain allocations.

	At December 31,	
(Dollars in millions)	**2021**	**2020**
Property and equipment, net		
United States *	$ 890	$ 922
Canada	260	430
Other countries	1,773	2,638
Total property and equipment, net	$ 2,923	$ 3,991
Operating right-of-use assets, net		
United States *	$ 205	$ 66
Japan	139	77
Belgium	176	197
Italy	86	114
Other countries	755	677
Total operating right-of-use assets, net	$ 1,361	$ 1,131

* Includes corporate and other.

NOTE 5. TAXES

Prior to the Separation, income taxes have been calculated as if we filed income tax returns for the Company on a standalone basis. The Company's operations historically have been included in the income tax returns of IBM.

Income (loss) before income taxes by geography was as follows:

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Income (loss) before income taxes:			
U.S. operations	$ (1,765)	$ (974)	$ (732)
Non-U.S. operations	(138)	(786)	159
Total income (loss) before income taxes	$ (1,903)	$ (1,760)	$ (573)

The components of the provision for income taxes by taxing jurisdiction were as follows:

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
U.S. federal:			
Current	$ 17	$ —	$ —
Deferred	(73)	—	—
	$ (56)	$ —	$ —
U.S. state and local:			
Current	$ —	$ —	$ —
Deferred	(5)	—	—
	$ (5)	$ —	$ —
Non-U.S.:			
Current	$ 790	$ 305	$ 413
Deferred	(327)	(58)	(47)
	$ 463	$ 247	$ 366
Total provision for income taxes	$ 402	$ 247	$ 366

A reconciliation of the statutory U.S. federal tax rate to the Company's effective tax rate from continuing operations was as follows:

	Year Ended December 31, 2021	2020	2019
Statutory rate	21.0 %	21.0 %	21.0 %
Tax differential on foreign income	(8.6)%	(5.9)%	(18.8)%
State and local taxes	3.0 %	2.8 %	6.4 %
Valuation allowances	(16.1)%	(26.1)%	(59.7)%
Reserves for uncertain tax positions	(8.3)%	(4.9)%	(7.2)%
Intercompany prepayment *	0.5 %	0.7 %	0.6 %
Undistributed foreign earnings	(0.6)%	(1.0)%	(3.5)%
Impact of foreign operations	(4.7)%	— %	(0.9)%
Separation-related transactions	(2.6)%	— %	— %
Goodwill impairment	(4.0)%	— %	— %
Other	(0.7)%	(0.6)%	(1.6)%
Effective tax rate	(21.1)%	(14.0)%	(63.8)%

* Represents a U.S. tax rate benefit related to foreign tax prepayment on prepaid royalty income.

The provision for income taxes for 2021 was $402 million compared to $247 million in 2020. The increase in income tax expense was primarily driven by foreign operations, tax charges related to the transfer of Kyndryl's operations from IBM that were deemed to be immediately settled with IBM through the Net Parent Investment account and changes in uncertain tax positions, offset by valuation allowance reductions. The provision for income taxes for 2020 was $247 million compared to $366 million in 2019. The decrease in the provision was primarily driven by higher pretax losses in 2020 partially offset by an increase in valuation allowances in jurisdictions with losses.

The Company's effective tax rate for 2021 was lower than the statutory tax rate primarily due to changes in valuation allowances, losses in certain jurisdictions that cannot be benefited from and tax charges related to the transfer of Kyndryl's operations from IBM that were deemed to be immediately settled with IBM through the Net Parent Investment account. The Company's effective tax rate for 2020 was lower than the statutory tax rate primarily due to changes in valuation allowances and losses in certain jurisdictions that cannot be benefited from.

U.S. tax reform introduced Global Intangible Low-Taxed Income ("GILTI"), which subjects a U.S. shareholder to current tax on income earned by certain foreign subsidiaries. GAAP allows companies to either (i) recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or (ii) account for taxes on GILTI as

period costs in the year the tax is incurred. The Company has elected to recognize GILTI impact in the specific period in which it occurs.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes were as follows:

(Dollars in millions)	December 31, 2021	December 31, 2020
Deferred tax assets		
Retirement benefits	$ 255	$ 126
Leases	340	380
Stock-based and other compensation	60	37
Domestic tax loss/credit carryforwards	16	643
Deferred income	31	50
Foreign tax loss/credit carryforwards	76	509
Allowance for credit losses	10	37
Fixed assets and depreciation	130	—
Restructuring charges	—	59
Limitation on deductibility of interest	—	50
Accruals	57	91
Other	54	—
Gross deferred tax assets	$ 1,029	$ 1,982
Less: valuation allowance	(6)	(1,110)
Net deferred tax assets	$ 1,023	$ 872
Deferred tax liabilities		
Fixed assets and depreciation	$ —	$ 80
Goodwill and intangible assets	—	45
Leases and right-of-use assets	331	331
Undistributed foreign earnings	25	57
Deferred transition costs	106	—
Other	21	12
Gross deferred tax liabilities	$ 483	$ 525

As of December 31, 2021, the Company had tax-affected domestic and foreign net operating loss deferred tax assets of $16 million and $76 million, respectively. If not utilized, the foreign net operating loss carryforwards will begin to expire in 2022. The federal net operating loss can be carried forward indefinitely.

The valuation allowances as of December 31, 2021, 2020 and 2019 were $6 million, $1.11 billion and $650 million, respectively. The additions to valuation allowances for the years ended December 31, 2020 and 2019 were $460 million and $342 million, respectively. The reduction in valuation allowances in 2021 was $1.10 billion. The decrease in valuation allowance is primarily attributable to net operating losses and tax credit carryforwards that existed on a separate return basis for the historical periods presented on a “carve-out” basis. For purposes of the historical periods presented on a “carve-out” basis, the Company’s income tax provisions were calculated using the separate return basis, as if the Company filed separate tax returns. Prior to Separation, the Company’s operations were included in the consolidated U.S. federal and certain state, local and foreign income tax returns filed by IBM. Post-Separation, certain net operating losses and tax credit carryforwards that were included for purposes of the historical periods presented on a “carve-out” basis available to be utilized by IBM are not available for future utilization by the Company and were settled through Net Parent investment immediately prior to the Separation. The Company scheduled the utilization of net operating losses and tax credit carryforwards and concluded that a valuation allowance of $6 million should remain on a portion of our foreign net operating losses that are not more-likely-than-not to be realized prior to expiration. As of December 31, 2021, based on all available evidence, Management concluded that no other valuation allowance was necessary to reduce the deferred tax assets remaining post-Separation since estimated future taxable income is expected

to be sufficient to utilize these assets prior to their expiration. Estimates of future taxable income could change, perhaps materially, which may require us to revise our assessment of the recoverability of the deferred tax asset at that time.

A reconciliation of the beginning and ending amount of unrecognized tax benefits was as follows:

(Dollars in millions)	2021	2020	2019
Balance at January 1	$ 18	$ 15	$ 14
Additions based on tax positions related to the current year	479	89	41
Additions for tax positions of prior years	—	—	—
Reductions for tax positions of prior years (including impacts due to a lapse of statute)	—	—	—
Settlements (closed out to Net Parent investment)	(453)	(86)	(40)
Balance at December 31	$ 44	$ 18	$ 15

Post-Separation, liabilities related to unrecognized tax benefits for which the Company is liable are reported within the Consolidated Balance Sheet based upon tax authorities' ability to assert the Company may be the primary obligor for historical taxes, among other factors.

With limited exceptions, the Company is subject to U.S. federal, state and local, and non-U.S. income tax audits for tax years subsequent to September 1, 2021. Pursuant to the Tax Matters Agreement, any tax liabilities attributable to the tax period (or portion thereof) ending on or before November 3, 2021, are generally not the Company's liability. As of December 31, 2021, the Company is not aware of any open income tax audits that would result in a liability owed by the Company. The Company does not expect a significant increase or decrease in unrecognized tax benefits within the next twelve months. The net amount of $44 million in unrecognized tax benefits, if recognized, would favorably affect the Company's effective tax rate. Interest and penalties related to income tax liabilities are included in income tax expense. During the year ended December 31, 2021, the Company recognized $0 million in interest expense and penalties. The Company had $0 million for interest and penalties accrued at December 31, 2021.

Pursuant to the Tax Matters Agreement with Kyndryl's former Parent, the Company identified certain tax refunds related to estimated tax payments and refundable value-added taxes for which we are required to reimburse our former Parent as the refunds are received, as well as certain tax benefits related to net operating losses that were transferred to the Company for which we are required to indemnify our former Parent as the tax benefits are realized. As of December 31, 2021, the Company estimated the amount of our indemnification obligations to our former Parent related to these tax refunds and tax benefits to be approximately $99 million, where $66 million is recorded in other accrued expenses and liabilities expected to be paid within one year, and $33 million is recorded in other liabilities expected to be paid beyond the one-year period. The Company also estimated the amount of our former Parent's indemnification obligations to us related to income tax liabilities attributable to tax periods (or portions thereof) ending on or before November 3, 2021, to be approximately $41 million, which is recorded in prepaid expenses and other current assets on our Consolidated Balance Sheet.

At December 31, 2021, the Company's undistributed earnings from certain non-U.S. subsidiaries were not indefinitely reinvested. Accordingly, the Company recorded a deferred tax liability of $25 million for the estimated taxes associated with the repatriation of these earnings. The Company intends to repatriate certain foreign earnings that have been taxed in the U.S. and undistributed earnings to the extent the foreign earnings are not restricted by local laws and can be accessed in a cost-effective manner. Undistributed earnings of approximately $122 million and other outside basis differences in foreign subsidiaries are indefinitely reinvested in foreign operations. Quantification of the deferred tax liability, if any, associated with indefinitely reinvested earnings and outside basis differences is not practicable.

NOTE 6. NET LOSS PER SHARE

We did not declare any stock dividends in the periods presented. The following tables provide the computation of basic and diluted earnings per share of common stock for the twelve months ended December 31, 2021, 2020 and 2019.

(In millions, except per share amounts)	Year Ended December 31, 2021	2020	2019
Net income (loss) on which basic and diluted earnings per share is calculated	$ (2,304)	$ (2,007)	$ (939)
Number of shares on which basic and diluted earnings per share is calculated	224.1	224.1	224.1
Basic earnings (loss) per share	(10.28)	(8.96)	(4.19)
Diluted earnings (loss) per share	(10.28)	(8.96)	(4.19)

The following securities were not included in the computation of diluted earnings (loss) per share because they would have been anti-dilutive:

(In millions)	
Nonvested RSUs issued and outstanding	10.2
Market-conditioned performance awards	1.8
Stock options issued and outstanding	3.8
Total	15.8

NOTE 7. FINANCIAL ASSETS AND LIABILITIES

Financial Assets and Liabilities Measured at Fair Value

The gross balances of derivative assets contained within prepaid expenses and other current assets in the Consolidated Balance Sheet at December 31, 2021, were $9 million. The gross balances of derivative liabilities contained within other accrued expenses and liabilities, and other liabilities in the Consolidated Balance Sheet at December 31, 2021, were $1 million. These financial instruments are categorized as Level 2 in the fair value hierarchy. There were no outstanding derivatives in the Consolidated Balance Sheet at December 31, 2020.

The Company may enter into master netting agreements with certain counterparties that allow for netting of exposures in the event of default or breach. However, in the Consolidated Balance Sheet, the Company does not offset derivative assets against liabilities with counterparties in master netting arrangements by counterparty, and there were no derivative instruments activity impacted by master netting agreements at December 31, 2021 and 2020.

The Company also has time deposits that are classified as available-for-sale debt securities with carrying values that approximate fair value. The balance of these securities contained within cash and cash equivalents in the Consolidated Balance Sheet at December 31, 2021, was $609 million. These securities are categorized as Level 2 in the fair value hierarchy. There were no outstanding available-for-sale debt securities in the Consolidated Balance Sheet at December 31, 2020.

Financial Assets and Liabilities Not Measured at Fair Value

Accounts receivable are financial assets with carrying values that approximate fair value. Accounts payable, other accrued expenses and short-term debt (excluding the current portion of long-term debt and including short-term finance lease liabilities) are financial liabilities with carrying values that approximate fair value. If measured at fair value in the consolidated financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy, except for short-term debt, which would be classified as Level 2.

Fair value of long-term debt for which quoted prices are not available, is calculated using an expected present value technique that uses rates currently available to the Company for debt with similar terms and remaining maturities. The carrying value of long-term debt approximates fair value. If measured at fair value in the consolidated financial statements, long-term debt (including the current portion) would be classified as Level 2 in the fair value hierarchy.

Derivative Financial Instruments

In the normal course of business, we are exposed to risks arising from business operations and economic factors, such as fluctuations in currency exchange rates. We use derivatives to manage the volatility related to these exposures with the objective of reducing fluctuations in earnings and cash flows associated with changes in currency exchange rates.

Anticipated Cost Transactions

At December 31, 2021, the total notional amount of forward contracts designated as cash flow hedges of forecasted foreign currency cost transactions was $213 million. The Company had no forward contracts outstanding under this program at December 31, 2020. The notional amounts of derivative instruments do not necessarily represent the amounts exchanged by the Company with third parties and are not necessarily a direct measure of the financial exposure. The maximum remaining length of time over which the Company hedged its exposure is approximately one year. At December 31, 2021, the weighted-average remaining maturity of these instruments was approximately 0.5 years.

At December 31, 2021, in connection with cash flow hedges of currency cost transactions, the Company recorded net deferred gains of $4 million (before taxes) in AOCI. At December 31, 2020, there were no currency exchange derivatives that were recorded in the Company's consolidated financial statements. The Company estimates that $4 million (before taxes) of deferred net gains on derivatives in AOCI at December 31, 2021, will be reclassified to net income within the next twelve months, providing an offsetting economic impact against the underlying anticipated transactions.

Subsidiary Cash and Foreign Currency Asset/Liability Management

The Company uses a global treasury center to manage the cash of its subsidiaries. This center principally uses currency swaps to convert cash flows in a cost-effective manner. Changes in fair value of derivatives not designated as hedges are reported in earnings in other (income) and expense. Cash flows from derivatives not designated as hedges are reported in cash flows from investing activities in the Consolidated Statement of Cash Flows. The terms of these swap contracts are generally less than one year. The changes in the fair values of these contracts and of the underlying hedged exposures are generally offsetting and are recorded in other (income) and expense in the Consolidated Income Statement. At December 31, 2021, the total notional amount of derivative instruments in economic hedges of currency exposure was $581 million, and there were no outstanding derivatives instruments at December 31, 2020.

The Effect of Derivative Instruments in the Consolidated Income Statement

The total amounts of income and expense line items presented in the Consolidated Income Statement in which the effects of cash flow hedges and derivatives not designated as hedging instruments are recorded and the total effect of hedge activity on these income and expense line items are as follows:

(Dollars in millions)	Total			Gains (Losses) from Hedge Activity		
For the year ended December 31:	2021	2020	2019	2021	2020	2019
Cost of services	$ 16,550	$ 17,137	$ 17,676	$ 1	$ 7	$ 19
Selling, general and administrative expenses	2,776	2,948	2,970	—	(1)	12
Other (income) and expense	35	25	(29)	4	6	20

(Dollars in millions)	Gain (Loss) Recognized in Consolidated Income Statement						
	Consolidated Income Statement	Recognized on Derivatives			Attributable to Risk Being Hedged		
For the year ended December 31:	Line Item	2021	2020	2019	2021	2020	2019
Derivative instruments not designated as hedging instruments:							
Foreign exchange contracts	Other (income) and expense	$ 4	$ 6	$ 20	NA	NA	NA
Total		$ 4	$ 6	$ 20	$ —	$ —	$ —

NA – not applicable

(Dollars in millions)	Gain (Loss) Recognized in Consolidated Income Statement and Other Comprehensive Income						
	Recognized in OCI			Consolidated Income Statement	Reclassified from AOCI		
For the year ended December 31:	2021	2020	2019	Line Item	2021	2020	2019
Derivative instruments in cash flow hedges:							
Foreign exchange contracts	$ 4	$ —	$ —	Cost of services	$ 1	$ 7	$ 19
				Selling, general and administrative expenses	—	(1)	12
Total	$ 4	$ —	$ —		$ 1	$ 6	$ 31

For the years ended December 31, 2021, 2020 and 2019, there were no gains or losses excluded from the assessment of hedge effectiveness for cash flow hedges, or associated with an underlying exposure that did not or was not expected to occur; nor are there any anticipated in the normal course of business.

NOTE 8. PROPERTY AND EQUIPMENT

The following table presents the balances of property and equipment by type:

(Dollars in millions)	December 31, 2021	December 31, 2020
Information technology equipment	$ 7,847	$ 10,005
Buildings and leasehold improvements	2,869	2,968
Office and other equipment	397	346
Land and land improvements	72	149
Property and equipment, gross	$ 11,185	$ 13,468
Less: Accumulated depreciation	8,261	9,478
Property and equipment, net	$ 2,923	$ 3,991

Depreciation of property and equipment was $1.30 billion, $1.45 billion and $1.47 billion for the years ended December 31, 2021, 2020 and 2019, respectively.

During the year ended December 31, 2021, the Company disposed of certain property and equipment with net book value of approximately $200 million. Additionally, the decrease in net property and equipment in 2021 was attributable to depreciation outpacing capital expenditures and the final transfer of assets from our former Parent at Separation. In the 2020 period, the Company's property and equipment balance was based on an allocation of IBM's balances depending on the type of asset. Information technology equipment balances relating to assets specifically utilized by the Company were fully allocated to the Company. Leasehold improvements associated with leases attributed to Kyndryl were fully allocated to the Company. The remaining asset balances representing assets associated with space (land, buildings, and office and other equipment in the space) were allocated based on the percentage of space utilized. The 2020 basis of presentation prior to Separation assumed a greater basis of assets attributable to Kyndryl as compared to the assets ultimately transferred, and the transfer was recorded as a non-cash distribution within the net parent investment at Separation.

NOTE 9. LEASES

The following table presents the various components of lease costs:

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Finance lease costs	$ 69	$ 61	$ 18
Operating lease costs	354	424	429
Short-term lease costs	7	10	12
Variable lease costs	73	114	124
Sublease income	(5)	(4)	(2)
Total lease costs	$ 498	$ 605	$ 581

For pre-Separation periods, the Company's right-of-use assets and lease liabilities reflected in the Consolidated Balance Sheet are based on an allocation of IBM's balances depending on the type of lease. Finance lease balances relating to assets specifically utilized by the Company were fully allocated to the Company. The real estate lease balances were allocated based on the percentage of space utilized. The remaining lease balances were allocated to the Company based on headcount.

The Company had no sale and leaseback transactions for the years ended December 31, 2021, 2020 and 2019.

The following table presents supplemental information relating to the cash flows arising from lease transactions. Cash payments related to variable lease costs and short-term leases are not included in the measurement of operating and finance lease liabilities and, as such, are excluded from the amounts below.

(Dollars in millions)	Year Ended December 31, 2021	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash outflows for finance leases	$ 3	$ 3	$ 1
Financing cash outflows for finance leases	70	72	19
Operating cash outflows for operating leases	327	450	454
Right-of-use assets obtained in exchange for new finance lease liabilities	86	129	147 *
Right-of-use assets obtained in exchange for new operating lease liabilities	562	336	1,647 *

* Includes opening balance additions as a result of the adoption of the new lease guidance effective January 1, 2019. The post-adoption addition of leases for the year ended December 31, 2019 was $430 million for operating leases and $141 million for finance leases.

The following table presents the weighted-average lease term and discount rate for finance and operating leases:

	December 31, 2021	December 31, 2020
Finance leases		
Weighted-average remaining lease term	3.3 years	3.5 years
Weighted-average discount rate	1.41 %	1.35 %
Operating leases		
Weighted-average remaining lease term	5.2 years	5.7 years
Weighted-average discount rate	2.66 %	2.19 %

The following table presents a maturity analysis of expected undiscounted cash flows for operating and finance leases on an annual basis for the next five years and thereafter.

(Dollars in millions)	2022	2023	2024	2025	2026	Thereafter	Imputed Interest*	Total**
Finance leases	$ 78	$ 68	$ 44	$ 28	$ 8	$ —	$ (5)	$ 222
Operating leases	403	302	236	201	121	190	(87)	1,366

* Imputed interest represents the difference between undiscounted cash flows and discounted cash flows.

** The Company entered into lease agreements for certain facilities and equipment with payments totaling approximately $27 million that have not yet commenced as of December 31, 2021, and therefore are not included in this table.

The following table presents the total amount of finance leases recognized in the Consolidated Balance Sheet:

(Dollars in millions)	December 31, 2021	December 31, 2020
Right-of-use assets – Property and equipment	$ 221	$ 201
Lease liabilities:		
Short-term debt	76	69
Long-term debt	147	140

NOTE 10. INTANGIBLE ASSETS INCLUDING GOODWILL

Intangible Assets

The following tables present the Company's intangible asset balances by major asset class.

	At December 31, 2021		
(Dollars in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Capitalized software	$ 16	$ (13)	$ 3
Client relationships	130	(97)	33
Completed technology	20	(20)	—
Patents and trademarks	2	(2)	—
Total	$ 169	$ (132)	$ 36

	At December 31, 2020		
(Dollars in millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Capitalized software	$ 7	$ (4)	$ 3
Client relationships	130	(77)	53
Completed technology	20	(17)	3
Patents and trademarks	2	(2)	—
Total	$ 159	$ (99)	$ 60

There was no impairment of identifiable intangible assets recorded in 2021 and 2020. The net carrying amount of intangible assets decreased $24 million during the year ended December 31, 2021, primarily due to intangible asset amortization, partially offset by additions of capitalized software. The aggregate intangible asset amortization expense was $37 million, $29 million and $29 million for the years ended December 31, 2021, 2020 and 2019 respectively. In 2021, the Company retired $7 million of fully amortized intangible assets, impacting both the gross carrying amount and accumulated amortization by this amount.

The future amortization expense relating to intangible assets currently recorded in the Consolidated Balance Sheet was estimated to be the following at December 31, 2021:

(Dollars in millions)	**Capitalized Software**	**Acquired Intangibles**	**Total**
2022	$ 3	$ 18	$ 21
2023	—	10	11
2024	—	6	6
2025	—	—	—
2026	—	—	—
Thereafter	—	—	—

Goodwill

The Company reviews goodwill for impairment annually and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable by first assessing qualitative factors to determine if it is more likely than not that fair value is less than carrying value and whether it is necessary to perform the quantitative goodwill impairment test. This quantitative test is required only if we conclude that it is more likely than not that a reporting unit's fair value is less than its carrying amount. After performing the annual goodwill impairment qualitative analysis during the fourth quarter of 2021, the Company determined it was necessary to perform the quantitative goodwill impairment test.

We use an income-based approach where fair value is determined using a discounted cash flow model that requires significant judgment with respect to revenue and growth rates, based upon annual budgets and long-term

strategic plans. Fair value estimates employed in our annual impairment review of goodwill involve using various assumptions. Assumptions critical to our fair value estimates were discount rates, expected revenue growth and projected EBITDA margins used in determining the fair value of the reporting units. These and other assumptions are impacted by economic conditions and expectations of management and may change based on different facts and circumstances. We believe the assumptions used to estimate future cash flows are reasonable, but there can be no assurance that the expected cash flows will be realized. The use of different assumptions would increase or decrease discounted cash flows or earnings projections and therefore could change impairment determinations.

In the fourth quarter of 2021, the Company reviewed its goodwill balances for impairment under both the previous segment structure and the new segment structure, as required. For further details on segment changes, see Note 4 – Segments. The Company determined that $469 million of goodwill in the former EMEA ($293 million) and current U.S. ($176 million) reporting units was impaired in fourth quarter 2021, largely attributable to margin challenges in the EMEA segment as well as the geographic re-segmentation of the former Americas segment. The impairment was recorded in the Impairment expense line item within the Consolidated Income Statement.

The rollforward of goodwill balances by segment for the years ended December 31, 2021 and December 31, 2020 were as follows:

(Dollars in millions) Segment	Balance at January 1, 2020	Foreign Currency Translation and Other Adjustments*	Balance at December 31, 2020	Foreign Currency Translation and Other Adjustments*	Re-allocation of Goodwill	Impairment	Balance at December 31, 2021
Americas	$ 416	$ 24	$ 440	$ (10)	$ (431)	$ —	$ —
EMEA	272	16	288	5	—	(293)	—
Asia Pacific	74	4	78	(16)	(62)	—	—
Japan	401	23	424	(9)	—	—	415
U.S.	—	—	—	—	176	(176)	—
Principal Markets	—	—	—	1	141	—	142
Strategic Markets	—	—	—	—	176	—	176
Total	$ 1,162	$ 67	$ 1,230	$ (29)	—	$ (469)	$ 732

* Primarily driven by foreign currency translation.

NOTE 11. BORROWINGS

Debt

The following table presents the components of our debt:

(Dollars in millions)	Weighted-Average Interest Rate*	Maturities*	December 31, 2021	December 31, 2020
Long-term debt	2.7%	2024-2041	$ 3,029	$ —
Finance lease obligations	1.4%	2022-2026	222	209
			$ 3,251	$ 209
Less: Unamortized discount			5	—
Less: Unamortized debt issuance costs			15	—
Less: Current maturities of long-term debt			103	69
Total			$ 3,128	$ 140

* As of December 31, 2021.

Contractual obligations of long-term debt outstanding at December 31, 2021, were as follows:

(Dollars in millions)*	December 31, 2021
2022	$ 103
2023	94
2024	572
2025	57
2026	726
Thereafter	1,700
Total	$ 3,251

* Contractual obligations approximate scheduled repayments.

Senior Unsecured Notes

In October 2021, in preparation for the Separation, we completed the offering of $2.4 billion in aggregate principal amount of senior unsecured fixed-rate notes (the "Notes") as follows: $700 million aggregate principal amount of 2.05% Senior Notes due 2026, $500 million aggregate principal amount of 2.70% Senior Notes due 2028, $650 million aggregate principal amount of 3.15% Senior Notes due 2031 and $550 million aggregate principal amount of 4.10% Senior Notes due 2041. The Notes were offered and sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act and to non-U.S. persons in reliance on Regulation S of the Securities Act. The Notes are subject to customary affirmative covenants, negative covenants and events of default for financings of this type and are redeemable at our option in a customary manner. In connection with the issuance of the Notes, we entered into a registration rights agreement with the initial purchasers of the Notes, pursuant to which we will use commercially reasonable efforts to file and have declared effective a registration statement with respect to a registered offer to exchange each series of Notes for new notes with substantially identical terms by October 15, 2022. If the exchange offer is not completed on or before October 15, 2022 and, under certain other circumstances, we are required to use commercially reasonable efforts to file and have declared effective a shelf registration statement relating to the resale of the Notes.

Term Loan and Revolving Credit Facility

In October 2021, we entered into a $500 million three-year variable rate term loan credit agreement (the "Term Loan Credit Agreement"). In November 2021, we drew down the full $500 million available under the Term Loan Credit Agreement.

In October 2021, we entered into a $3.15 billion multi-currency revolving credit agreement (the "Revolving Credit Agreement" and, together with the Term Loan Credit Agreement, the "Credit Agreements") for our future liquidity needs.

The Revolving Credit Agreement expires, unless extended, in October 2026, and the Term Loan Credit Agreement matures, unless extended, in November 2024. Interest rates on borrowings under the Credit Agreements will be based on prevailing market interest rates, plus a margin, as further described in the Credit Agreements. The total expense recorded by the Company for the Term Loan Credit Agreement and Revolving Credit Agreement was immaterial in 2021.

The Notes, revolving credit facility and term loan were initially guaranteed by Parent. Approximately $900 million of the net proceeds from the term loan and the sale of the Notes was transferred to Parent in conjunction with the Separation. Following the completion of the Separation on November 3, 2021, the guarantee was released and the Notes, term loan and revolving credit facility are no longer obligations of IBM.

We expect to be able to voluntarily prepay borrowings under the Credit Agreements without premium or penalty, subject to customary "breakage" costs. The Credit Agreements include certain customary mandatory

prepayment provisions. In addition, the Credit Agreements include customary events of default and affirmative and negative covenants as well as a maintenance covenant that will require that the ratio of our indebtedness for borrowed money to consolidated EBITDA (as defined in the Credit Agreements) for any period of four consecutive fiscal quarters be no greater than 3.50 to 1.00.

Loan Agreement

In the second quarter of 2021, our former Parent entered into a $140 million loan agreement with a bank to finance a purchase of software licenses on behalf of Kyndryl. The loan was transferred to Kyndryl in conjunction with the Separation and is included in the Company's consolidated financial statements. The carrying amount of the loan approximates fair value. If measured at fair value in the consolidated financial statements, the loan would be classified as Level 2 in the fair value hierarchy.

The amortizing loan is secured by collateral and contains covenants, primarily for compliance with the scheduled payments in the loan agreement. Failure to comply with the loan covenants could constitute an event of default and result in the immediate repayment of the principal and interest on the loan. The Company is in compliance with all of the loan covenants and is expected to maintain a credit rating at or above the level outlined in the loan agreement.

Interest on Debt

Interest expense for the years ended December 31, 2021, 2020 and 2019 was $64 million, $63 million and $76 million, respectively. Cost of financing and interest capitalized for the periods presented was immaterial. Pre-Separation, most of the interest in the Consolidated Income Statement reflects the allocation of interest expense associated with debt issued by IBM for which a portion of the proceeds benefited Kyndryl. Such IBM debt has not been attributed to the Company for any periods presented because IBM's borrowings were not the legal obligation of the Company, except for the loan agreement described below. Post-Separation, interest expense also reflects the standalone interest related to our fourth quarter borrowings. Refer to Note 17 – Related-Party Transactions for more information on the allocation of IBM's corporate expenses.

NOTE 12. OTHER LIABILITIES

The following table provides the components of other liabilities at December 31, 2021 and 2020.

	December 31,	
(Dollars in millions)	**2021**	**2020**
Workforce rebalancing (current)	$ 82	$ 595
Other service accruals	662	279
Other accrued expenses and liabilities	$ 744	$ 874
Workforce rebalancing (noncurrent)	$ 51	$ 82
Deferred taxes	135	78
Income tax reserve	44	18
Other	293	122
Other noncurrent liabilities	$ 522	$ 300

In response to changing business needs, the Company has in the past taken workforce rebalancing actions to increase productivity, enhance cost-competitiveness and rebalance skills. The noncurrent liabilities related to workforce rebalancing actions are accruals primarily related to terminated employees who are no longer working for the Company who were granted annual payments to supplement their incomes in certain countries. Depending on the individual country's legal requirements, these required payments will continue until the former employee begins receiving pension benefits or dies. Workforce rebalancing costs decreased in 2021 compared to 2020.

Pursuant to the Tax Matters Agreement with our former Parent, the Company will be required to reimburse our former Parent for certain tax refunds we receive and to indemnify our former Parent for certain tax payments. For more information, see Note 5 – Taxes.

NOTE 13. COMMITMENTS AND CONTINGENCIES

The Company guarantees certain loans and financial commitments. The maximum potential future payment under these financial guarantees and the fair value of these guarantees recognized in the Consolidated Balance Sheet at December 31, 2021, and December 31, 2020, were not material. Additionally, the Company has contractual commitments that are noncancellable with certain software and cloud partners to provides services to its customers. At December 31, 2021, we had short-term (in 2022), mid-term (in 2023 and 2024) and long-term (after 2024) purchase commitments in the amount of $0.8 billion, $1.5 billion and $1.1 billion, respectively.

As a company with approximately 90,000 employees and with clients around the world, Kyndryl is subject to, or could become subject to, either as plaintiff or defendant, a variety of contingencies, including claims, demands and suits, investigations, tax matters and proceedings that arise from time to time in the ordinary course of its business. Given the rapidly evolving external landscape of cybersecurity, privacy and data protection laws, regulations and threat actors, the Company or its clients could become subject to actions or proceedings in various jurisdictions. Also, as is typical for companies of Kyndryl's scope and scale, the Company is subject to, or could become subject to, actions and proceedings in various jurisdictions involving a wide range of labor and employment issues (including matters related to contested employment decisions, country-specific labor and employment laws and the Company's benefit plans), as well as actions with respect to contracts, securities, foreign operations, competition law and environmental matters. These actions may be commenced by a number of different parties, including competitors, clients, employees, government and regulatory agencies, stockholders and representatives of the locations in which the Company does business. Some of the actions to which the Company is, or may become, party may involve particularly complex technical issues, and some actions may raise novel questions under the laws of the various jurisdictions in which these matters arise. Additionally, the Company is, or may be, a party to agreements pursuant to which it may be obligated to indemnify the other party with respect to certain matters.

The Company records a provision with respect to a claim, suit, investigation or proceeding when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In accordance with the relevant accounting guidance, the Company provides disclosures of matters for which the likelihood of material loss is at least reasonably possible. In addition, the Company may also disclose matters based on its consideration of other matters and qualitative factors, including the experience of other companies in the industry and investor, customer and employee relations considerations. Following the Separation from IBM, the Company has continued to analyze its ongoing disputes and outstanding claims in the context of the Separation and Distribution agreement from IBM and the avenues available for resolution post-Separation. In connection with this assessment, in the quarter ended December 31, 2021, the Company recorded $62 million of estimated liabilities in anticipation of the potential resolution related to these matters.

The Company reviews claims, suits, investigations and proceedings at least quarterly, and decisions are made with respect to recording or adjusting provisions and disclosing reasonably possible losses or range of losses (individually or in the aggregate) to reflect the impact and status of settlement discussions, discovery, procedural and substantive rulings, reviews by counsel and other information pertinent to a particular matter.

Whether any losses, damages or remedies finally determined in any claim, suit, investigation or proceeding could reasonably have a material effect on the Company's business, financial condition, results of operations or cash flows will depend on a number of variables, including the timing and amount of such losses or damages; the structure and type of any such remedies; the significance of the impact any such losses, damages or remedies may have in the consolidated financial statements; and the unique facts and circumstances of the particular matter that may give rise to additional factors. While the Company will continue to defend itself vigorously, it is possible that the Company's business, financial condition, results of operations or cash flows could be affected in any particular period by the resolution of one or more of these matters.

In July 2017, BMC Software, Inc. ("BMC") sued IBM in the U.S. Court for the Southern District of Texas in a dispute involving IBM's managed infrastructure services business. BMC alleges IBM's removal of BMC software from one of its client's sites at the client's request constituted breach of contract and trade secret misappropriation. IBM defeated BMC's motion for injunctive relief, completed the client's transformation project and counterclaimed for breach of contract. In September 2021, the trial court overruled in part and granted in part the magistrate judge's recommendations on summary judgment, dismissing IBM's counterclaims and permitting some of BMC's claims for damages to proceed. The case remains pending.

NOTE 14. EQUITY

The following tables present reclassifications and taxes related to items of other comprehensive income (loss) for the years ended December 31, 2021, 2020 and 2019:

(Dollars in millions) For the year ended December 31, 2021:	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	$ 194	$ —	$ 194
Unrealized gains (losses) on cash flow hedges			
Unrealized gains (losses) arising during the period	4	—	4
Reclassification of (gains) losses to net income	(1)	—	(1)
Total unrealized gains (losses) on cash flow hedges	3	—	3
Retirement-related benefit plans*:			
Prior service (credits) costs	1	(2)	(1)
Net (losses) gains arising during the period	72	(17)	54
Curtailments and settlements	3	(1)	2
Amortization of net (gains) losses	51	(13)	38
Total retirement-related benefit plans	127	(33)	94
Other comprehensive income (loss)	$ 324	$ (33)	$ 292

* These AOCI components are included in the computation of net periodic benefit cost. Refer to Note 16 – Retirement-Related Benefits for additional information.

(Dollars in millions) For the year ended December 31, 2020:	Pretax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	$ 129	$ —	$ 129
Retirement-related benefit plans*:			
Net (losses) gains arising during the period	$ (41)	$ 13	$ (28)
Amortization of prior service (credits) costs	(1)	—	—
Amortization of net (gains) losses	36	(12)	24
Total retirement-related benefit plans	$ (6)	$ 2	$ (4)
Other comprehensive income (loss)	$ 123	$ 2	$ 125

* These AOCI components are included in the computation of net periodic benefit cost. Refer to Note 16 – Retirement-Related Benefits for additional information.

(Dollars in millions) For the year ended December 31, 2019:	Before Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
Foreign currency translation adjustments	$ 11	$ —	$ 11
Retirement-related benefit plans*:			
Prior service costs (credits)	$ (1)	$ —	$ (1)
Net (losses) gains arising during the period	(84)	27	(57)
Amortization of net (gains) losses	27	(9)	18
Total retirement-related benefit plans	$ (57)	$ 18	$ (39)
Other comprehensive income (loss)	$ (46)	$ 18	$ (28)

* These AOCI components are included in the computation of net periodic benefit cost. Refer to Note 16 – Retirement-Related Benefits for additional information.

The following table presents the components of accumulated other comprehensive income (loss), net of taxes:

(Dollars in millions)	Net Unrealized Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation Adjustments*	Net Change Retirement-Related Benefit Plans	Accumulated Other Comprehensive Income (Loss)
December 31, 2018	$ —	$ (1,019)	$ (175)	$ (1,193)
Other comprehensive income (loss)**	—	11	(39)	(28)
December 31, 2019	$ —	$ (1,007)	$ (214)	$ (1,221)
Other comprehensive income (loss)**	—	129	(4)	125
December 31, 2020	$ —	$ (878)	$ (218)	$ (1,096)
Net transfers from Parent	—	—	(339)	(339)
Other comprehensive income (loss)**	3	194	94	292
December 31, 2021	$ 3	$ (684)	$ (463)	$ (1,143)

* Foreign currency translation adjustments are presented gross.

** No amounts were reclassified from accumulated other comprehensive income.

NOTE 15. STOCK-BASED COMPENSATION

The following table presents stock-based compensation cost which is included in net income (loss).

(Dollars in millions)	Year Ended December 31 2021	2020	2019
Cost of services	$ 28	$ 26	$ 15
Selling, general and administrative expense	44	37	35
Pretax stock-based compensation cost	$ 71	$ 64	$ 51
Income tax benefits	(13)	(14)	(12)
Stock-based compensation cost, net of tax	$ 58	$ 49	$ 40

The Company's total unrecognized compensation cost related to non-vested awards at December 31, 2021 was $235 million and is expected to be recognized over a weighted-average period of approximately 2.7 years. If there are any modifications or cancellations of the underlying unvested awards, the Company may be required to accelerate, increase or cancel all or a portion of the remaining unearned stock-based compensation expense. Future unearned stock-based compensation will increase to the extent the Company grants additional equity awards, changes incentive awards terms, or assumes unvested equity awards in connection with acquisitions. Capitalized stock-based compensation cost was not material at December 31, 2021, 2020 and 2019.

Incentive Awards

Stock-based incentive awards were provided to 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 stock options. RSUs and stock 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 summarizes RSU, market-conditioned performance award and stock option activities:

	RSUs		Market-Conditioned Performance Awards	
	Number of Units (in millions)	Weighted-Average Grant-Date Fair Value	Number of Units (in millions)	Weighted-Average Grant-Date Fair Value
Balance at December 31, 2020	—	$ —	—	$ —
Awards converted from IBM programs	8.5	28.78	—	—
Awards granted	2.0	18.20	1.8	15.14
Awards vested	(0.1)	29.30	—	—
Awards canceled/ forfeited	(0.2)	21.71	—	—
Balance at December 31, 2021	10.2	$ 26.82	1.8	$ 15.14

	Stock Options				
	Number of Units (in millions)	Weighted-Average Grant-Date Fair Value	Weighted-Average Exercise Price per Share	Intrinsic Value per Share	Weighted-Average Contractual Term (in years)
Balance at December 31, 2020	—	$ —	$ —	$ —	—
Awards converted from IBM programs	—	NM	8.28	9.82	NM
Awards granted	3.8	6.54	17.78	—	6.3
Awards vested	—	—	—	—	—
Awards canceled/forfeited	—	—	—	—	—
Balance at December 31, 2021	3.8	$ 6.56	$ 17.76	$ —	6.3

NM – not meaningful; stock options from former Parent were fully vested in 2019.

The weighted-average grant date fair value of RSUs granted for the years ended December 31, 2021, 2020 and 2019 was $18, $117 and $123, respectively. The weighted-average grant price prior to Separation used in the assessment was derived from the Parent's stock price at grant. The aggregate fair value (which is based on the stock price at grant date) of restricted stock units (including former Parent's PSUs converted to RSUs) vested was $45 million, $36 million and $34 million during the years ended December 31, 2021, 2020 and 2019, respectively.

NOTE 16. RETIREMENT-RELATED BENEFITS

Description of Plans

The Company sponsors and co-sponsors defined benefit pension plans and other nonpension postretirement benefit plans that cover certain non-U.S. employees and retirees. The defined benefit pension plan benefits are based principally on employees' years of service and/or compensation levels at or near retirement. These plans are accounted for as defined benefit pension plans for purposes of the consolidated financial statements. Accordingly, the net benefit plan obligations and the related benefit plan expenses of those plans have been recorded in the Company's consolidated financial statements. The nonpension postretirement benefit plans provide a fixed monthly dollar credit for retiree health care expense. The benefit obligation and related expenses for these plans are included in the consolidated financial statements.

Additionally, certain Company employees participate in multi-employer defined benefit pension plans and post-retirement health plans which are sponsored by third parties and include other participants as well as defined contribution plans that are sponsored by the Company. Accordingly, the Company does not record an asset or liability to recognize the funded status of the multi-employer plans. However, the Company records service cost and defined contribution cost attributable to its employees who participate in the multi-employer and the defined contribution plans, as well as expense allocated for certain corporate and shared functional employees. These amounts are included in the Consolidated Income Statement.

Plan Financial Information

The following tables present the components of net periodic benefit cost for the retirement-related benefit plans recognized in the Consolidated Income Statement, excluding defined contribution plans.

(Dollars in millions)	Defined Benefit Pension Plans			Nonpension Postretirement Benefit Plans		
For the year ended December 31:	2021	2020	2019	2021	2020	2019
Service cost	$ 81	$ 109	$ 101	$ 2	$ 3	$ 3
Interest cost*	11	10	17	2	1	1
Expected return on plan assets*	(30)	(24)	(27)	(1)	(1)	(1)
Amortization of prior service costs (credits)*	—	(1)	—	—	—	—
Recognized actuarial losses*	51	36	26	—	—	—
Curtailments and settlements*	2	—	—	—	—	—
Multi-employer plans and other costs**	7	13	20	—	—	—
Total net periodic benefit cost	$ 123	$ 143	$ 138	$ 3	$ 3	$ 4

* These components of net periodic benefit cost are included in other (income) and expense in the Consolidated Income Statement.
** Multi-employer plan costs represent required contributions for the period to multi-employer plans, which are plans sponsored by third parties. The Company recognizes expense in connection with these plans as contributions are funded.

The following table presents the changes in net benefit obligation and plan assets, excluding defined contribution plans and multi-employer plans.

(Dollars in millions)	Defined Benefit Pension Plans 2021	Defined Benefit Pension Plans 2020	Nonpension Postretirement Benefit Plans 2021	Nonpension Postretirement Benefit Plans 2020
Change in benefit obligation				
Benefit obligation at January 1	$ 1,202	$ 1,099	$ 13	$ 13
Service cost*	10	15	—	1
Interest cost	4	10	1	1
Plan participants' contributions	1	—	—	—
Benefit obligation assumed from former Parent**	1,178	(12)	6	—
Actuarial losses (gains)	(43)	33	3	(1)
Benefits paid from trust	(2)	(21)	—	—
Direct benefit payments	(3)	(19)	—	—
Foreign exchange impact	(34)	97	—	—
Amendments, curtailments, settlements and other	(11)	—	(4)	—
Benefit obligation at December 31	$ 2,302	$ 1,202	$ 19	$ 13
Change in plan assets				
Fair value of plan assets at January 1	$ 654	$ 612	$ 13	$ 12
Actual return on plan assets	39	13	—	2
Employer contributions	23	4	—	—
Fair value of plan assets assumed from former Parent**	810	(10)	(13)	—
Plan participants' contributions	1	—	—	—
Benefits paid from trust	(2)	(21)	—	—
Foreign exchange impact	(22)	56	—	(1)
Settlements	(8)	—	—	—
Fair value of plan assets at December 31	$ 1,496	$ 654	$ —	$ 13
Funded status at December 31	$ (807)	$ (548)	$ (19)	$ —
Accumulated benefit obligation***	$ 2,181	$ 1,171		

* Represents service costs attributable to Company-sponsored and co-sponsored plans.
** Represents the impact to benefit obligation and fair value of plan assets resulting from pension assets and liabilities assumed in connection with establishment of certain Kyndryl legal entities.
*** Represents the benefit obligation assuming no future participant compensation increases.

The following table presents the amounts recorded in the Consolidated Balance Sheet.

(Dollars in millions)	Defined Benefit Pension Plans December 31, 2021	Defined Benefit Pension Plans December 31, 2020	Nonpension Postretirement Benefit Plans December 31, 2021	Nonpension Postretirement Benefit Plans December 31, 2020
Noncurrent assets – pension assets	$ 58	$ —	$ —	$ 1
Current liabilities – accrued compensation and benefits	(28)	—	—	—
Noncurrent liabilities – retirement and nonpension postretirement benefit obligations	(836)	(548)	(18)	(1)
Funded status, net	$ (807)	$ (548)	$ (19)	$ —

The following table presents information for defined benefit plans with accumulated benefit obligations (ABO) or projected benefit obligations (PBO) in excess of plan assets.

(Dollars in millions)	At December 31, 2021 Benefit Obligation	At December 31, 2021 Plan Assets	At December 31, 2020 Benefit Obligation	At December 31, 2020 Plan Assets
PBO in excess of plan assets	$ 1,990	$ 1,125	$ 1,202	$ 654
ABO in excess of plan assets	1,790	1,039	1,079	561
Plan assets in excess of PBO	312	371	—	—

The following table presents information for the nonpension postretirement benefit plans with accumulated postretirement benefit obligations (APBO) in excess of plan assets.

(Dollars in millions)	At December 31, 2021 Benefit Obligation	At December 31, 2021 Plan Assets	At December 31, 2020 Benefit Obligation	At December 31, 2020 Plan Assets
APBO in excess of plan assets	$ 19	$ —	$ 1	$ —
Plan assets in excess of APBO	—	—	12	13

The following table presents the pretax net loss and prior service costs (credits) recognized in OCI and the changes in pretax net loss and prior service costs (credits) as well as Separation-related transfers from Parent recognized in AOCI for the retirement-related benefits plans.

(Dollars in millions)	Defined Benefit Pension Plans 2021	Defined Benefit Pension Plans 2020	Nonpension Postretirement Benefit Plans 2021	Nonpension Postretirement Benefit Plans 2020
Net loss (gain) at January 1	$ 314	$ 307	$ (2)	$ (1)
Current period loss (gain)	(75)	43	3	(2)
Curtailments and settlements	(3)	—	—	—
Amortization of net loss included in net periodic benefit cost	(51)	(36)	—	—
Separation-related transfers from Parent **	444	—	5	—
Net loss (gain) at December 31	$ 629	$ 314	$ 6	$ (2)
Prior service costs (credits) at January 1	(2)	(3)	—	—
Current period prior service costs (credits)	3	—	(4)	—
Amortization for prior service costs (credits) included in net periodic benefit cost	—	1	—	—
Separation-related transfers from Parent **	9	—	—	—
Prior service costs (credits) at December 31	$ 9	$ (2)	$ (4)	$ —
Total amounts recognized in accumulated other comprehensive loss (income) *	$ 638	$ 312	$ 2	$ (2)

* See Note 14 - Equity for the total change in AOCI and the Consolidated Statement of Comprehensive Income for the components of net periodic benefit cost, including the related tax effects, recognized in OCI for the retirement-related benefit plans.

** Separation-related transfers from Parent represent the pretax impact resulting from the assumption of pension assets and liabilities, along with the associated deferred costs, in connection with establishment of certain Kyndryl legal entities. These transfers are not recognized in OCI; rather they are recognized as transfers into AOCI. See Note 14 – Equity.

The following table presents the weighted-average assumptions used to measure the net periodic benefit cost and the year-end benefit obligations.

Weighted-average assumptions used to measure	Defined Benefit Pension Plans 2021	Defined Benefit Pension Plans 2020	Defined Benefit Pension Plans 2019	Nonpension Postretirement Benefit Plans 2021	Nonpension Postretirement Benefit Plans 2020	Nonpension Postretirement Benefit Plans 2019
Net periodic benefit cost						
Discount rate	0.62 %	0.86 %	1.65 %	8.31 %	8.31 %	8.89 %
Expected long-term returns on plan assets	3.00 %	4.03 %	4.62 %		8.20 %	9.00 %
Rate of compensation increase	2.22 %	2.25 %	1.37 %			
Benefit obligations						
Discount rate	1.19 %	0.62 %	0.86 %	1.04 %	8.31 %	8.31 %
Rate of compensation increase	2.30 %	2.22 %	2.25 %			
Interest crediting rate - cash balance plans	1.43 %					

In certain countries, a portfolio of high-quality corporate bonds is used to construct a yield curve. Cash flows from the Company's expected benefit obligation payments are matched to the yield curve to derive discounts. In other countries where the markets for high-quality long-term bonds are not as well developed, a portfolio of long-term government bonds is used as a base and a credit spread is added to simulate corporate bond yields at these maturities in the jurisdiction of each plan. This is the benchmark for developing the respective discount rates.

In developing the expected long-term rate of return on assets, the Company considers the long-term expectations for future returns. The use of expected returns may result in pension income that is greater or less than the actual return of those plan assets in a given year. Over time, however, the expected rate of return is expected to

approximate the actual long-term results, leading to a pattern of income or loss recognition that more closely matches the pattern of services provided by the employees.

For the nonpension postretirement benefit plans, the Company reviews external data to determine the healthcare costs trends. The healthcare cost trend rates have an insignificant effect on plan costs or other benefit obligations due to terms of the plan which limit the Company's obligation to the participants.

Investment Policies and Strategies

The investment objective of the plan assets is to generate returns that will enable the plan to meet its future obligations. The weighted-average target allocation for the defined benefit plans is 24 percent equity securities, 45 percent fixed-income securities, 4 percent real estate, 17 percent insurance contracts and 11 percent other investments. Typically the responsibility for determining the target allocation and managing the investments lies with a plan governing board that may include up to 50 percent of members elected by employees and retirees. Generally, these defined benefit plans do not invest in illiquid assets, and their use of derivatives is mainly for currency hedging, interest rate risk management, credit exposure and alternative investment strategies.

Plan Assets and Fair Value Measurements

The following table presents the Company's defined benefit pension plans' asset classes and their associated fair value at December 31, 2021 and 2020.

	December 31, 2021				December 31, 2020			
(Dollars in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Equity								
Equity securities	$ 9	$ —	$ —	$ 9	$ —	$ —	$ —	$ —
Fixed income								
Government and related [1]	—	158	—	158	—	18	—	18
Corporate bonds	—	32	—	32	—	—	—	—
Insurance contracts	—	255	—	255	—	91	—	91
Cash and short-term investments [2]	14	—	—	14	1	—	—	1
Derivative assets [3]	3	12	—	15	—	—	—	
Mutual funds	—	—	—	—	7	—	—	7
Subtotal	$ 26	$ 457	$ —	$ 483	$ 8	$ 110	$ —	$ 118
Investments measured at net asset value using NAV as a practical expedient [4]	—	—	—	1,013	—	—	—	537
Fair value of plan assets	$ 26	$ 457	$ —	$ 1,496	$ 8	$ 110	$ —	$ 654

(1) Includes debt issued by national, state and local governments and agencies.
(2) Includes cash, cash equivalents and short-term marketable securities.
(3) Includes forward contracts, interest rate swaps, exchange traded and other over-the-counter derivatives.
(4) Investments measured at fair value using the net asset value (NAV) per share (or its equivalent), as a practical expedient. These investments include commingled funds, hedge funds, common collective trusts, private equity partnerships and real estate partnerships.

For the year ended December 31, 2021, there were no plan assets in the nonpension postretirement benefit plans. For the year ended December 31, 2020, the nonpension postretirement benefit plans held plan assets of $13 million, invested in government debt and corporate bonds categorized as Level 2 in the fair value hierarchy.

Approximately 78% of plan assets are held in plans which are co-sponsored by the Company along with IBM. The allocation of the fair value of co-sponsored plan assets is based on the initial pension assets assumed in connection with establishment of certain Kyndryl legal entities, Company contributions, distributions and market returns.

Retirement-related benefit plan assets are recognized and measured at fair value. Because of the inherent uncertainty of valuations, these fair value measurements may not necessarily reflect the amounts the Company could

realize in current market transactions. The following is a description of the valuation techniques used to measure plan assets at fair value. There were no changes in valuation techniques during the periods presented.

Equity securities and mutual funds: Equity securities are valued at the closing price reported on the stock exchange on which the individual securities are traded. Mutual funds are typically valued based on quoted market prices. These assets are generally classified as Level 1.

Fixed income: Fixed-income securities, other than insurance contracts, are typically valued using the closing price reported on the major market on which the individual securities are traded, if available. Assets fair valued using this methodology are generally classified as Level 2. If market prices are unavailable, the fair value is estimated using pricing models or quoted prices of securities with similar characteristics.

Insurance contracts: Fair value is based on the expected value of the insurance benefits of the insurance contracts. The insurance benefits are assessed using the same interest rate and mortality table used to determine the liability. These assets are generally classified as Level 2.

Cash and short-term investments: Cash includes money market accounts that are valued at their cost plus interest on a daily basis, which approximates fair value. Short-term investments represent securities with original maturities of one year or less. These assets are generally classified as Level 1.

Derivatives assets: Exchange-traded derivatives are valued at the closing price reported on the exchange on which the individual securities are traded. Forward contracts are valued using a mid-close price. Over-the-counter derivatives are valued using pricing models. These models require a variety of inputs, yield curves, credit curves, measures of volatility and foreign exchange rates. Derivative assets are classified as Level 1 or Level 2 depending on availability of quoted market prices.

Investments measured at net asset value: Certain investments are measured at fair value using the net asset value ("NAV") per share (or its equivalent) as a practical expedient. These investments, which may include commingled funds, hedge funds, common collective trusts, private equity partnerships and real estate partnerships, are typically valued using the NAV provided by the administrator of the fund. The NAV is based on the value of the underlying assets owned by the fund, minus liabilities multiplied by the plan's ownership of the investment.

Contributions and Direct Benefit Payments

It is the Company's general practice to fund amounts for pensions sufficient to meet the minimum requirements set forth in applicable employee benefits laws and local tax laws. From time to time, the Company contributes additional amounts as it deems appropriate.

The following table presents the contributions made to the defined benefit pension plan, nonpension postretirement benefit plans, multi-employer plans, defined contribution plans and direct payments made in 2021, 2020 and 2019. The cash contributions to the multi-employer plans represent the annual cost included in the net periodic benefit cost recognized in the Consolidated Income Statement.

	Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Defined benefit plans	$ 25	$ 4	$ 4
Multi-employer plans*	5	7	9
Defined contribution plans	165	194	207
Direct payments	33	19	16
Total	$ 229	$ 225	$ 236

* Multi-employer plans are sponsored by third parties.

Contributions to nonpension postretirement benefit plans were not material for any periods presented.

Prior to September 1, 2021, certain U.S. employees were eligible to participate in the IBM 401(k) Plus Plan, which provided matching contributions up to 6% of eligible pay. On September 1, 2021, employees who participated in the IBM 401(k) Plus Plan were transferred to the Kyndryl 401(k) Plan and eligible to continue to receive matching contributions up to 6% of eligible pay. For all eligible employees hired or rehired on or after September 1, 2021, the Kyndryl 401(k) Plan provides a matching contribution of up to 3% of eligible pay.

The Company estimates contributions to its defined benefit and multi-employer plans in 2022 to be approximately $29 million, the largest of which will be contributed to a defined benefit plan in Spain. This amount generally represents legally mandated minimum contributions.

Financial market performance in 2022 could increase the legally mandated minimum contribution in certain countries that require monthly or daily remeasurement of the funded status. The Company could also elect to contribute more than the legally mandated amount based on market conditions or other factors.

Expected Benefit Payments – Defined Benefit Pension Plans and Nonpension Postretirement Benefit Plans

The following table presents the total expected benefit payments to participants of both the defined benefit pension plans and nonpension postretirement benefit plans.

(Dollars in millions)	Defined Benefit Pension Plans	Nonpension Postretirement Benefit Plans
2022	$ 99	$ —
2023	87	1
2024	87	1
2025	107	1
2026	100	1
2027-2031	592	3

The 2022 expected benefit payments not covered by the respective plan assets represent a component of compensation and benefits, within current liabilities, in the Consolidated Balance Sheet.

NOTE 17. RELATED-PARTY TRANSACTIONS

Related-Party Revenue and Purchases

Kyndryl provides various services to IBM, including those related to hosting data centers and servicing IBM's information technology infrastructure, which are reported as revenue in the Company's Consolidated Income Statement. Revenue generated from these services was $704 million, $645 million and $613 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Kyndryl utilizes various IBM products and services, recognized as costs of services, in the fulfillment of services contracts. Total cost of services recognized from these related-party transactions in the Company's Consolidated Income Statement was $4.0 billion, $3.8 billion and $3.6 billion for the years ended December 31, 2021, 2020 and 2019, respectively. Included in these related-party cost of services were: costs incurred by Kyndryl to provide services to the former Parent for networking and IT services prior to Separation in the amounts of $384 million, $509 million and $484 million for the years ended December 31, 2021, 2020 and 2019, respectively; costs related to the usage of IBM-branded software allocated to Kyndryl by the former Parent prior to Separation in the amounts of $2.8 billion, $2.7 billion and $2.6 billion for the years ended December 31, 2021, 2020 and 2019, respectively; depreciation charges related to IBM hardware allocated to Kyndryl prior to Separation in the amounts of $447 million, $520 million and $538 million for the years ended December 31, 2021, 2020 and 2019, respectively; and costs related to services provided to Kyndryl's customers that were outsourced to IBM post-Separation in the amount of $312 million during the fourth quarter of 2021.

The capital expenditures for purchases of IBM hardware were reflected as payments for property and equipment within the investing section of the Company's Consolidated Statement of Cash Flows in the amounts of $299 million, $504 million and $526 million for the years ended December 31, 2021, 2020 and 2019, respectively. Additionally, as part of the Separation, IBM has committed to provide Kyndryl, at no cost, up to approximately $265 million of upgraded hardware over an expected two-year period. The amounts committed by IBM are reflected within other assets (noncurrent) within the Consolidated Balance Sheet at December 31, 2021. The expected average useful life of the upgraded hardware is approximately five years, and the Company intends to recognize total depreciation approximating $265 million over the useful life, consistent with our depreciation policy.

Acquired Intangible Assets

Within the historical periods presented, the Company has been charged a management fee for the use of certain acquired intangible assets by IBM for acquisitions which were not specific to Kyndryl. The amounts reflected within cost of services on the Consolidated Income Statement for these fees were $26 million, $31 million and $15 million for the years ended December 31, 2021, 2020 and 2019, respectively. The amounts for these fees reflected within Selling, general and administrative expense within the Consolidated Income Statement were $37 million, $49 million and $23 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Allocation of Corporate Expenses

The Consolidated Income Statement, Consolidated Statement of Comprehensive Income (Loss) and Consolidated Statement of Cash Flows include an allocation of general corporate expenses from IBM prior to the Separation. The financial information in these consolidated financial statements does not necessarily include all of the expenses that would have been incurred by Kyndryl had it been a separate, standalone company. It is not practicable to estimate actual costs that would have been incurred had Kyndryl been a standalone company during the periods presented. Allocations for management costs and corporate support services provided to Kyndryl for the years ended December 31, 2021, 2020 and 2019 totaled $1.0 billion, $1.3 billion and $1.2 billion, respectively. These amounts include costs for corporate functions including, but not limited to, senior management, legal, human resources, finance and accounting, treasury, information technology and other shared services. All such amounts have been deemed to have been incurred and settled by Kyndryl in the period in which the costs were recorded and are included in the Net Parent investment. These costs were allocated based on direct usage as applicable, with the remainder allocated on a pro-rata basis of gross profit, headcount, assets or other measures.

The following table presents the components of the allocation of general corporate expenses from IBM.

	For the Year Ended December 31,		
(Dollars in millions)	**2021**	**2020**	**2019**
Selling, general and administrative expense	$ 932	$ 1,220	$ 1,185
Interest expense	46	63	76
Other (income) and expense	10	4	(31)
Total expense and other (income)	$ 989	$ 1,287	$ 1,230

Net Parent Investment

Prior to the Separation, related-party transactions between Kyndryl and IBM were included within Net Parent investment in the Consolidated Balance Sheet as these related-party transactions were not settled in cash. Net Parent investment in the Consolidated Balance Sheet and Consolidated Statement of Changes in Equity represents IBM's historical investment in Kyndryl, the net effect of transactions with and allocations from IBM and Kyndryl's accumulated earnings. Net transfers from IBM are included within Net Parent investment. The components of Net

transfers from IBM and the reconciliation to the corresponding amount presented on the Consolidated Statement of Cash Flows were as follows:

	For the Year Ended December 31,		
(Dollars in millions)	2021	2020	2019
Cash pooling and general financing activities/other	$ (384)	$ (4,167)	$ (4,392)
Allocation of Parent's corporate expenses/other	1,255	1,668	1,610
Related-party sales and purchases	2,440	2,991	2,944
Related-party intangible assets fee	63	80	38
Taxes (including items settled with Parent)	721	299	399
Issuance of common stock and reclassification of net parent investment	(4,095)	—	—
Total Net transfers (to) from Parent per Consolidated Statement of Equity	$ —	$ 872	$ 598
Taxes (including items settled with Parent)	(721)	(299)	(399)
Allocation of Parent's stock-based compensation	(58)	(64)	(51)
Other*	749	(131)	(130)
Total Net transfers (to) from Parent per Consolidated Statement of Cash Flows	$ (30)	$ 377	$ 18

* Approximately $900 million of the net proceeds from the term loan and the sale of the Notes was transferred to IBM in conjunction with the Separation. See Note 11 – Borrowings.

Assignment of Receivables

A portion of Kyndryl's receivables with extended payment terms have historically been assigned to IBM's Global Financing business. These receivables were not recognized on the Company's Consolidated Balance Sheet. The gross amounts of Kyndryl receivables assigned to IBM Global Financing were $1.9 billion, $3.1 billion and $3.0 billion for the years ended December 31, 2021, 2020 and 2019, respectively. The fees and the net gains and losses associated with the assignment of receivables were not material for any of the periods presented. In October 2021, in preparation for the Separation, the Company entered into a Receivables Purchase Agreement with an unaffiliated bank with capacity similar to the amounts historically financed by IBM.

Software Purchase Agreements

In conjunction with the Separation, Kyndryl has agreed to purchase IBM software for internal use and the delivery of services to Kyndryl customers in a pricing arrangement with IBM that extends through 2026, subject to adjustment in certain circumstances, including the termination of customer contracts.

Lease Guarantees

Kyndryl identified 71 lease agreements with third parties with an estimated aggregate lease liability guaranteed by IBM of $181 million.

NOTE 18. SUBSEQUENT EVENTS

On January 27, 2022, the Board of Directors approved a change in the Company's fiscal year from the twelve months beginning January 1 and ending December 31 to the twelve months beginning April 1 and ending March 31. The Company will file a transition report on Form 10-QT for the three-month period ended March 31, 2022, in accordance with SEC rules and regulations. All subsequent fiscal years for the Company will be from April 1 to March 31. The Company is making the fiscal year change on a prospective basis and will not adjust operating results for prior periods.

NOTE 19. REVISION OF PRIOR-PERIOD FINANCIAL STATEMENTS

During the quarter ended March 31, 2022, the Company identified an $87 million over-accrual in its accrued contract costs balance that related to a majority-owned, consolidated joint venture in our Principal Markets segment. This over-accrual was principally built up over the pre-Separation periods of January 1, 2012 to November 3, 2021,

resulting in overstatements of cost of services and accrued contract costs. The Company concluded that such impacts were not material to any prior annual or interim period. The Company further determined that the correction of the over-accrual within the transition period ended March 31, 2022 would be significant to the three-month results, and as a result, it will be revised as an immaterial correction to portions of our consolidated financial statements and as immaterial corrections to prior interim periods in our subsequent Quarterly Reports on Form 10-Q. Because the majority of the over-accrual originated prior to 2019, we reduced the opening balance of accrued contract costs as of January 1, 2019, by $57 million and increased the equity balance by $43 million, which reflects the reduction in accrued contract costs net of taxes. For the periods of January 1, 2019 through December 31, 2021, accrued contract costs and cost of services were further reduced by $30 million in aggregate, which is partially offset by increased tax expense of $8 million. We have also revised impacted amounts within the accompanying notes to the consolidated financial statements, as applicable. The revisions to the accompanying consolidated financial statements are as follows:

Consolidated Income Statement and Statement of Comprehensive Income ($ in millions, except per share amounts)	Year Ended December 31, 2021		
	As Previously Reported	Adjustments	As Revised
Cost of services	$ 16,570	$ (20)	$ 16,550
Total costs and expenses	20,580	(20)	20,560
Income (loss) before income taxes	(1,922)	20	(1,903)
Provision for income taxes	397	5	402
Net income (loss)	(2,319)	15	(2,304)
Foreign currency translation adjustments	198	(5)	194
Other comprehensive income (loss), before tax	329	(5)	324
Other comprehensive income (loss), net of tax	296	(4)	292
Total comprehensive income (loss)	(2,023)	11	(2,013)
Basic earnings (loss) per share	$ (10.35)	$ 0.07	$ (10.28)
Diluted earnings (loss) per share	$ (10.35)	$ 0.07	$ (10.28)

Consolidated Income Statement and Statement of Comprehensive Income ($ in millions, except per share amounts)	Year Ended December 31, 2020		
	As Previously Reported	Adjustments	As Revised
Cost of services	$ 17,143	$ (5)	$ 17,137
Total costs and expenses	21,118	(5)	21,112
Income (loss) before income taxes	(1,766)	5	(1,760)
Provision for income taxes	246	1	247
Net income (loss)	(2,011)	4	(2,007)
Foreign currency translation adjustments	125	4	129
Other comprehensive income (loss), before tax	119	4	123
Other comprehensive income (loss), net of tax	121	4	125
Total comprehensive income (loss)	(1,891)	7	(1,883)
Basic earnings (loss) per share	$ (8.97)	$ 0.02	$ (8.96)
Diluted earnings (loss) per share	$ (8.97)	$ 0.02	$ (8.96)

Consolidated Income Statement and Statement of Comprehensive Income ($ in millions, except per share amounts)	Year Ended December 31, 2019 As Previously Reported	Adjustments	As Revised
Cost of services	$ 17,682	$ (6)	$ 17,676
Total costs and expenses	20,858	(6)	20,852
Income (loss) before income taxes	(579)	6	(573)
Provision for income taxes	364	1	366
Net income (loss)	(943)	4	(939)
Foreign currency translation adjustments	12	(1)	11
Other comprehensive income (loss), before tax	(45)	(1)	(46)
Other comprehensive income (loss), net of tax	(27)	(1)	(28)
Total comprehensive income (loss)	(970)	3	(967)
Basic earnings (loss) per share	$ (4.21)	$ 0.02	$ (4.19)
Diluted earnings (loss) per share	$ (4.21)	$ 0.02	$ (4.19)

Consolidated Balance Sheet and Equity Statement ($ in millions)	At December 31, 2021 As Previously Reported	Adjustments	As Revised
Accrued contract costs	$ 585	$ (87)	$ 498
Total current liabilities	4,544	(87)	4,457
Other liabilities	501	22	522
Total liabilities	10,511	(65)	10,446
Common stock, par value $0.01 per share, and additional paid-in capital (1,000.0 shares authorized, 224.2 shares issued)	4,218	66	4,284
Accumulated other comprehensive income (loss)	(1,143)	(1)	(1,143)
Total stockholders' equity before noncontrolling interests	2,700	65	2,765
Total equity	2,702	65	2,767

Consolidated Balance Sheet and Equity Statement ($ in millions)	At December 31, 2020 As Previously Reported	Adjustments	As Revised
Accrued contract costs	$ 512	$ (72)	$ 440
Total current liabilities	3,910	(72)	3,838
Other liabilities	282	18	300
Total liabilities	6,274	(54)	6,220
Net Parent investment	5,972	51	6,023
Accumulated other comprehensive income (loss)	(1,100)	4	(1,096)
Total stockholders' equity before noncontrolling interests	4,873	54	4,927
Total equity	4,931	54	4,985

Consolidated Equity Statement ($ in millions)	At December 31, 2019 As Previously Reported	Adjustments	As Revised
Net Parent investment	$ 7,112	$ 47	$ 7,159
Accumulated other comprehensive income (loss)	(1,220)	(1)	(1,221)
Total stockholders' equity before noncontrolling interests	5,892	46	5,938
Total equity	5,948	46	5,994

Consolidated Equity Statement ($ in millions)	At January 1, 2019 As Previously Reported	Adjustments	As Revised
Net Parent investment	$ 7,457	$ 43	$ 7,499
Total equity	6,315	43	6,358

Consolidated Statement of Cash Flows ($ in millions)	At December 31, 2021		
	As Previously Reported	Adjustments	As Revised
Cash flows from operating activities:			
Net income (loss)	$ (2,319)	$ 15	$ (2,304)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Taxes (including items settled with Parent)	989	5	994
Other assets and other liabilities	842	(20)	822

Consolidated Statement of Cash Flows ($ in millions)	At December 31, 2020		
	As Previously Reported	Adjustments	As Revised
Cash flows from operating activities:			
Net income (loss)	$ (2,011)	$ 4	$ (2,007)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Taxes (including items settled with Parent)	297	1	299
Other assets and other liabilities	(360)	(5)	(365)

Consolidated Statement of Cash Flows ($ in millions)	At December 31, 2019		
	As Previously Reported	Adjustments	As Revised
Cash flows from operating activities:			
Net income (loss)	$ (943)	$ 4	$ (939)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Taxes (including items settled with Parent)	397	2	399
Other assets and other liabilities	(238)	(6)	(244)

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure:

None.

Controls and Procedures:

The Company's management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There has been no change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) of the Exchange Act) that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

This Annual Report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's independent registered public accounting firm due to an exemption established by the rules of the SEC for newly public companies.

Corporate Information

BOARD OF DIRECTORS

Martin Schroeter *(Chairman)*
Chairman and Chief Executive Officer
Kyndryl Holdings, Inc.

Stephen A. M. Hester *(Lead Independent Director)*
Chairman
easyJet plc

Dominic J. Caruso
Retired Executive Vice President and
Chief Financial Officer
Johnson & Johnson

John D. Harris II
Former Vice President of Business Development
Raytheon Company
Former Chief Executive Officer
Raytheon International, Inc.

Shirley Ann Jackson
President
Rensselaer Polytechnic Institute

Janina Kugel
Former Chief Human Resources Officer and
member of the Managing Board
Siemens AG

Denis Machuel
Chief Executive Officer
The Adecco Group (Effective July 1, 2022)

Rahul N. Merchant
Former Senior Executive Vice President and
Head of Client Services and Technology
TIAA-CREF

Jana Schreuder
Former Executive Vice President and
Chief Operating Officer
Northern Trust Corporation

Howard I. Ungerleider
President and Chief Financial Officer
Dow Inc.

EXECUTIVE OFFICERS

Martin Schroeter, *Chairman and Chief Executive Officer*

David Wyshner, *Chief Financial Officer*

Elly Keinan, *Group President*

Edward Sebold, *General Counsel and Secretary*

Maryjo Charbonnier, *Chief Human Resources Officer*

Vineet Khurana, *Vice President and Controller*

CORPORATE HEADQUARTERS

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INVESTOR RELATIONS

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212.896.2100
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STOCK LISTING

NYSE: KD

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, New York 10017

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company, N.A.
800.962.4284 | ***www.computershare.com***

ANNUAL MEETING OF STOCKHOLDERS

Thursday, July 28, 2022
1:00 p.m. Eastern Daylight Time
www.virtualshareholdermeeting.com/KD2022

AVAILABILITY OF INFORMATION

We make available, free of charge on our website, *www.kyndryl.com*, all of our filings that are made electronically with the SEC, including Forms 10-K, 10-Q and 8-K. Copies of our Annual Report on Form 10-K for the year ended December 31, 2021, including financial statements and schedules thereto, filed with the SEC, are also available without charge to stockholders upon written request addressed to:

Global Head of Investor Relations
Kyndryl Holdings, Inc.
One Vanderbilt Avenue, 15th Floor
New York, New York 10017

This annual report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact included in this report, including statements concerning the Company's plans, objectives, goals, beliefs, business strategies, future events, business condition, results of operations, financial position, business outlook and business trends and other non-historical statements in this report are forward-looking statements. Such forward-looking statements often contain words such as "will," "anticipate," "predict," "project," "contemplate," "plan," "forecast," "estimate," "expect," "intend," "target," "may," "should," "would," "could," "seek," "aim" and other similar words or expressions or the negative thereof or other variations thereon. Such statements are based on management's current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In particular, careful consideration should be given to cautionary statements made under the caption "Risk Factors" in this annual report.

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Skatteetaten

Vår dato	Din/Deres dato	Saksbehandler
25.05.2022	20.04.2022	Lars Waaltorp
800 80 000 Skatteetaten.no	Din/Deres referanse	Telefon 90833418
Org.nr 974761076	Vår referanse 2022/5425923	Postadresse Postboks 9200 Grønland 0134 OSLO

ERNST & YOUNG AS
Postboks 1156 Sentrum
0107 OSLO

Att. Lars Helland

Tillatelse til å utarbeide årsregnskap og årsberetning på engelsk

Vi viser til deres brev av 20. april 2022 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk for følgende selskaper:

Kyndryl Norway AS **org.nr. 926 410 350**
Kyndryl Services AS **org.nr. 914 837 758**

Skattekontoret gir på bakgrunn av en konkret helhetsvurdering de overnevnte selskaper dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk, jf. regnskapsloven § 3-4 tredje ledd. Dispensasjonen gjelder så lenge opplysningene som danner grunnlaget for vedtaket ikke endres vesentlig.

Kopi av dette brevet må sendes til Regnskapsregisteret i Brønnøysund sammen med årsregnskapet. Den regnskapspliktige må selv dokumentere ved dette brev at tillatelse er gitt.

Bakgrunn
Kyndryl Services AS er eid av Kyndryl Norway AS som igjen er eid av et utenlandsk selskap og er en del av et internasjonalt konsern. Selskapene driver virksomhet knyttet til ytelse av informasjonsteknologi-tjenester, samt handel og virksomhet innenfor informasjonsteknologibransjen. Arbeidsspråket i selskapene er hovedsakelig engelsk.

Skattekontorets vurdering
Etter regnskapsloven § 3-4 tredje ledd skal "årsregnskapet og årsberetningen [...] være på norsk. Departementet kan ved [...] enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap mv., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

> "Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig

> prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon."

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til "informative regnskaper for ulike grupper av regnskapsbrukere". Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter skattekontorets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk kan gis, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Det er særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har skattekontoret lagt særlig vekt på at selskapene direkte eller indirekte er eid av et utenlandsk selskap og er en del av et internasjonalt konsern. Videre er det vektlagt at selskapene driver virksomhet i en bransje der alle sentrale aktører behersker og benytter engelsk.

Vennligst oppgi vår referanse ved henvendelse i saken.

Med hilsen

Lars Waaltorp
seniorrådgiver
Brukerdialog, brukerkontakt
Skatteetaten

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer.

To the General Meeting of Kyndryl Norway AS

Independent Auditor's Report

Opinion

We have audited the financial statements of Kyndryl Norway AS (the Company), which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable statutory requirements, and
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The Company's financial statements have been submitted after the expiry of the statutory time limit for preparation of financial statements.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other information accompanying the financial statements otherwise appear to be materially misstated. We are required

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Statsautoriserte revisorer, medlemmer av Den norske Revisorforening og autorisert regnskapsførerselskap

to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable statutory requirements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

For further description of Auditor's Responsibilities for the Audit of the Financial Statements reference is made to: https://revisorforeningen.no/revisjonsberetninger

Oslo, 27 January 2023
PricewaterhouseCoopers AS

Jone Bauge
State Authorised Public Accountant
(This document is signed electronically)

Revisjonsberetning

Signers:

Name	***Method***	***Date***
Bauge, Jone	BANKID_MOBILE	2023-01-27 23:02

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Kyndryl

2021

Annual report

Kyndryl Norway AS

Kyndryl Norway AS
Financial Statements and Independent Auditor's report
For the year ended 31 December 2021

Kyndryl Norway AS

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Kyndryl Norway AS

Board of Directors' report
As at 31 December 2021

During the second half of 2020 IBM announced the intent to divest IBM Global Technology Services creating an independent company. This became a reality in 2021 and on November 4, 2021 Kyndryl was publicly traded on the New York Stock Exchange.
The Kyndryl name is derived from the words Kinship meaning a sharing of characteristics or origins and tendril plant organ specialized to anchor and support vining stems.
Together these elements evoke growth and working together.

The largest IT Managed Services company in the world became a reality with a total number of approx. 90.000 employees across the globe. Kyndryl Norway and it's fully owned subsidiary, Kyndryl Services, has 111 employees in total with offices in Oslo and Bergen. Kyndryl Norway is part of Kyndryl Strategic Market, a collection of smaller countries reporting into the corporate organization.

Transform, design, build and run of critical IT infrastructure are Kyndryls core competencies. The addressable market for Kyndryl will double due to not only focusing on IBM solutions in our portfolio. These opportunities are possible with existing competencies and by building new alliances with a series of hyperscalers of which several were already announced just a few days after becoming independent. Kyndryls main alliance partners are Microsoft, Google Cloud and Amazon Web Services following with Local alliances including Gritera to the benefit of our customers. IBM remains a key partner of Kyndryl as Kyndryl has a deep knowledge in running IBM infrastructure.

COVID-19 continued through-out the year to challenge the way we work. The focus has been on the health and safety of our employees – and executing the daily IT operations of our customers critical infrastructure. COVID-19 has not affected the operation of our data centers and the growth seen in e-commerce has been handled flawlessly.
Our employees have been able to work remotely with IT tools supporting their daily work.

The fiscal year of 2021 is a mix of IBM GTS and Kyndryl Norway. All of the IBM GTS contracts were novated into Kyndryl Norway contracts.

The 2021 full year revenue with the combination of IBM GTS and Kyndryl Norway business was 466,627,030 kroner. The number employees in Kyndryl Norway were 55 at the end of December 2021.

The company provide a contribution pension to all employees in line with the Act relating to the Mandatoty Occupational Pension. The pension scheme complies with applicable requirements.

It has not been tasken out any insurance for the members of the board and the CEO, for their possible liability towards the company and third parties, but they will be indemnified by Kyndryl Corporation in such cases.

Kyndryl Norway – new company with 30 years of experience

Kyndryl is an important part of the critical IT infrastructure for Norway. We run some of the most critical IT systems with Financial Services sector, Public sector, Industrial sector and Media.

Since the announcement of the spin off from IBM in 2021, the senior management team of Kyndryl has worked on building the new Kyndryl as a more flexible and efficient company. Key has been a prime focus on our customers and people in a Flat, Focused and Fast way of working – reducing management layers and complexity.

Our people are key to support the day-to-day activities for our customers and continuous development of our people is important. We have increased focus on acceleration of education and certifications. This will continue in 2022 where we will invest even more in our competencies.

Building new alliances is critical for Kyndryl. By doing so we will be able to enter into new business areas to create new opportunities. We have a long list of strong alliance partners, including Microsoft, Google Cloud, Amazon Cloud Services, SAP just to mention few. We also have new local alliance partners supporting our customers. We believe that with these new alliances we will be in a stronger position enabling us to serve our customers.

Kyndryl Norway AS

Board of Directors' report
As at 31 December 2021

Kyndryl strategy is to be our customers most vital and trusted services partner by:

- Bringing together the best talent, the right technology, insights and operation model to help minimize risk and gain maximum business value from IT.
- Help accelerate their unique business transformation.
- Create frictionless engagement.

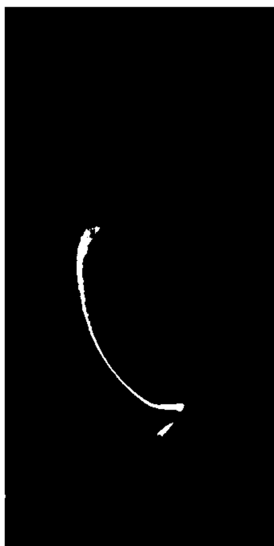
We will create differentiated business value through:

- A Full IT stack perspective with 6 Global practices within Cloud, Infrastructure, Data & AI, Network, Security and Digital Workplace Services to support transformation goals.
- Use of Data/IP driven differentiation with unique offerings and IP from many years of experience.
- Technology from a broad ecosystem with the right technology, integrated from any source.
- Skills & Thought leadership. Mission-critical expertise from focused talent acquisitions, positioning us as employer of choice.
- Predictive efficiency. Platform-enabled automation, optimizing our delivery model.

Kyndryl Inclusion, Diversity, and Equity (ID&E)

At Kyndryl, people are at the center of everything we do, designing, running and managing the most modern, efficient and reliable technology infrastructure for the world's most important organizations. A diverse workforce and inclusive, equitable culture are fundamental to Kyndryl's success. We strive to create workplaces that reflect the communities we serve.
We empower Kyndryls to embed inclusion, diversity and equity in every aspect of our business. We encourage varied perspectives through continuous learning which ignites innovation. These are critical elements that enable our focus on delivering exceptional service for our customers and creating shared success.
We are empathetic and devoted global citizens who strive to make the world better and more inclusive for our customers and our communities. Together, we advance the vital systems that power human progress.

The Kyndryl Way



Inclusion, Diversity and Equity are imperative for Kyndryl to empower inclusive teams and become an employer of choice.

Kyndryl Norway AS

Board of Directors' report
As at 31 December 2021

Inclusion

Diversity

Equity

Inclusion is
the
differences that make each human being unique

Diversity is the
including visible differences such as gender and age, and underlying differences such as thought styles, skills and life experiences

Equity is
to create an environment where everyone has the opportunity to thrive and be successful

Kyndryl Inclusion Networks
Kyndryl Global has launched several projects, the latest initiative being the establishment of Kyndryl Inclusion Networks (KINs). KINs support the activation of The Kyndryl Way culture. We will create 5 Enterprise KINs in 2022: Women, LGBTQ+, People with Disabilities (PwD) / Neurodiversity, Black, Hispanic. KINs who will be organizing to create an engaging and inclusive experience for all.

Kyndryl Norway – Diversity and Equality
All employees in Kyndryl Norway shall have equal career opportunities regardless of gender, ethnicity or disabilities. Women represented by the end of 2021 25,5 % of the total work force.

Salary analysis by gender show that women´s salary in average is 87% of total average salary. For men it´s 104%. The Salary span for women is from 60% to 136% of average salary. For men the span is from 63% to 162% of average salary.

CSR and Citizenship Global

Kyndryl has made a strong commitment to sustainability throughout our operations and supply chain. But as a newly independent company in November 2021, Kyndryl has not conducted a formal and thorough risk assessment on sustainability yet but is in the process of establishing our operational baselines and setting our strategies. Therefore, Kyndryl has not established and identified material risks within human rights and social issues so far. However, as a result of Kyndryl's past attachment to the IBM Group, Kyndryl is aware of inherent risks related to environmental issues and anti-corruption. These risks are due to Kyndryl's energy consumption and the general, potential exposure to unethical business conduct. To address these inherent risks, Kyndryl aspires to acquire green energy whenever possible and to educate all employees within the company's Business Conduct Guideline. Kyndryl has succeeded with these efforts so far.

Since Kyndryl is a newly, independent company, Kyndryl does not have policies but are in the process of establishing policies on human rights, social and labour conditions, environmental conditions and anti-corruption. Kyndryl will establish such policies in 2022 as well as conduct a risks assessment and continue to build on the sustainability program of IBM that Kyndryl historically has been part of.

External Environment
Kyndryl Norway does not cause any harm to the environment or health.

Future Prospects
Kyndryl Norway will, together with its customers, grow the SO business in the Norwegian market.

Kyndryl Norway AS

Board of Directors' report
As at 31 December 2021

Financial risks and use of financial instruments

Part of the cost that Kyndryl incurs is charged in a foreign currency. The majority of Kyndryl clients are invoiced in a local currency.

Profit & Financial Positions

The company had a revenue of KNOK 466,627, with a loss of KNOK 10,923 in 2021. The equity is in total NOK 377,121 at the end of 2021 after a capital injection of KNOK 168,000 during ther year.

Cash Flow Analysis

The net cash flow used in operational activities for the company is KNOK (226,589), used in investing activities KNOK (41,909) and for financing activities KNOK 251,425 in 2021. Major reason for this is that the company in 2021 increased the payables with KNOK 56,542, but at the same time the current receivables increased with KNOK 234,863.

Equity

The Board proposes not to pay any dividend.

Continued Operations and Going concern

The company has a net loss of KNOK 10,923 for 2021. Kyndryl Norway has long term delivery contracts with customers in Norway and current operations are expected to continue in the years to come. The annual accounts have therefore been submitted under the going concern assumption.

Oslo, 27/01 2023
Board of Directors of Kyndryl Norway AS

e-Signed by Arne Johan Naeprud

e-Signed by Emil Stampe

Arne Johan Næprud (Chairman of the Board)	Xavier Ducasse (Managing director)	Emil Stampe (Member of the board)

e-Signed by Xavier Ducasse

e-Signed by Karin Kaldvansvik Silnes

Karin Kaldvansvik Silnes
(Member of the board)

Kyndryl Norway AS

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2021

	Notes	01-01-2021 - 31-12-2021 NOK'000
Revenue from contract with customers	5	466,627
Cost of providing services		(457,349)
Cost of financing		(21)
Gross profit		**9,257**
Selling, general and administrative expense	6,7	(22,787)
Release of impairment losses on financial and contract assets	6	767
Operating loss		**(12,763)**
Finance income	8	61
Finance costs	9	(1,278)
Loss before income tax		**(13,980)**
Income tax credit	10	3,057
Loss for the year		**(10,923)**
Total comprehensive expense for the year		**(10,923)**

Kyndryl Norway AS

Statement of Financial Position
As at 31 December 2021

	Notes	31-12-2021 NOK'000	01-01-2021 NOK'000
Current assets			
Cash and cash equivalents		15,927	33,000
Trade and other receivables	11,19	348,496	124,439
Prepayments and other current assets	12	12,558	11,005
Total current assets		**376,981**	**168,444**
Non-current assets			
Prepayments and Other non-current assets	12	8,944	6,819
Property, plant and equipment	13	147,805	155,311
Investment in subsidiaries	14	85,538	85,538
Deferred tax assets	15	36,335	33,279
Right of use assets	25	11,989	0
Total non-current assets		**290,611**	**280,947**
Total assets		**667,592**	**449,391**
Current liabilities			
Loans and borrowings	19	86,038	0
Trade and other payables	16	143,872	200,414
Deferred income	17	12,236	7,740
Other liabilities	18	28,495	13,594
Lease payables current	25	14,712	0
Total current liabilities		**285,353**	**221,748**
Non-current liabilities			
Deferred income	17	5,118	7,902
Total non-current liabilities		**5,118**	**7,902**
Total liabilities		**290,471**	**229,650**
Net assets		**377,121**	**219,741**

Kyndryl Norway AS

Statement of Financial Position
As at 31 December 2021

	Notes	31-12-2021 NOK'000	01-01-2021 NOK'000
Issued capital and reserves			
Share capital	20	16,400	14,909
Share premium	21	190,241	23,732
Additional paid in capital	22	181,100	181,100
Other reserves	23	304	0
Retained earnings		(10,924)	0
Total equity		**377,121**	**219,741**

The financial statements were approved by the directors and authorised for issue on January 27 2023.

e-Signed by Arne Johan Naeprud

e-Signed by Emil Stampe

Arne Johan Næprud
(Chairman of the Board)

Xavier Ducasse
(Managing director)

Emil Stampe
(Member of the board)

e-Signed by Xavier Ducasse

e-Signed by Karin Kaldvansvik Silnes

Karin Kaldvansvik Silnes
(Member of the board)

This document is signed electronically.

The notes on pages 11 to 36 form part of these financial statements.

Kyndryl Norway AS

Statement of Changes in Equity
For the year ended 31 December 2021

	Share capital NOK'000	Share Premium NOK'000	Other reserves NOK'000	Additional paid-in capital NOK'000	Retained earnings NOK'000	Total equity NOK'000
At 1 January 2021	**14,909**	**23,732**	**0**	**181,100**	**0**	**219,741**
Share capital issued during the financial year (note 20)	1,491	166,509	0	0	0	168,000
Profit for the financial year	0	0	0	0	(10,924)	(10,924)
Share based payments reserve for the year (note 23)	0	0	304	0	0	304
At 31 December 2021	**16,400**	**190,241**	**304**	**181,100**	**(10,924)**	**377,121**

The notes on pages 11 to 36 form part of these financial statements.

Kyndryl Norway AS

Statement of Cash Flows
For the year ended 31 December 2021

	Notes	2021 NOK'000
Profit for the year		**(10,924)**
Adjustments for:		
Finance income	8	(61)
Finance cost	9	1,278
Income taxes	10	(3,057)
Release of impairment losses on financial and contract assets	6	767
Depreciation charges on property, plant and equipment	13	51,792
Depreciation of right-of-use assets	25	12,999
Share based payment reserve created	23	304
Changes in operating assets and liabilities:		
Increase in trade and other receivables		(234,863)
Decrease in trade and other payables		(56,542)
Increase in other assets		(3,677)
Increase in other liabilities		16,612
Cash generated from operations		**(225,372)**
Interest received	8	61
Interest paid	9	(1,278)
Net cash flow used in operating activities		**(226,589)**
Cash flows from investing activities		
Purchase of property, plant and equipment	13	(43,222)
Proceeds from sale of property, plant and equipment	13	1,313
Net cash flow used in investing activities		**(41,909)**
Cash flows from financing activities		
Repayment of principal in lease liabilities	25	(2,613)
Drawdown of loans due to related parties	19,24	86,038
Capital contribution	20,21	168,000
Net cash flow from financing activities		**251,425**
Net decrease in cash and cash equivalents		(17,073)
Cash and cash equivalents at beginning of year		33,000
Cash and cash equivalents at end of year		**15,927**

The notes on pages 11 to 36 form part of these financial statements.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

1. Statement of compliance, basis of preparation, and significant accounting policies

General information
Kyndryl Norway AS (the 'Company') is a limited Company incorporated in Norway as on 1st January 2021 with its registered office at Sundtkvartalet Lakkegata 53, 0187 Oslo, Norway. The financial statements can be obtained at the registered office in Norway.

During the year the Company's immediate and ultimate parent undertaking was changed from International Business Machines Corporation to Kyndryl Holdings Inc., a Company registered in the United States of America.

The Company is a result of demerger from International Business Machines AS (IBM). The demerger took place on September 1st 2021, effective retrospective from January 1st 2021. Refer note 26 Demerger for more details.

The closing balances for 2020 are taken as opening of January 1st 2021 for the demerged business. Since this is a demerger of a portion of IBMs business in 2020, it is not possible to establish a accurate Statement of Profit or Loss and Other Comprehensive Income of the demerged business for that period.

Basis of preparation
These financial statements have been prepared on a historical cost basis, and in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'), and interpretations issued by International Financial Reporting Interpretations Committee ('IFRIC').

The principal accounting policies adopted in the preparation of the financial statements are set out below. These financial statements for the year ended 31 December 2021 are the first the Company has prepared in accordance with IFRS. The preparation of financial statements in compliance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements are disclosed in the notes to these financial statements.

The financial statements have been prepared on a going concern basis. The company's financial statements are presented in Norwegian krone (NOK) and all values are rounded to the nearest thousand (NOK'000s) except when otherwise indicated.

1.1 Consolidation

Kyndryl Norway AS applied for an consolidation exemption that has been approved on the basis that the companies are consolidated on a higher level.

1.2 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.

Revenue is recognized 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 recognized will not occur when the uncertainty associated

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

1. Statement of compliance, basis of preparation, and significant accounting policies *(continued)*

1.2 Revenue recognition *(continued)*

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. Changes in estimates of variable consideration are included in the disclosure on note 4.

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 recognizes 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 recognized 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 recognized 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 recognized 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 recognized based on progress towards completion of the performance obligation using a cost-to-cost measure of progress (i.e., percentage-of-completion (POC) method of accounting). Revenue is recognized 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

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Notes to the Financial Statements
For the year ended 31 December 2021

1. **Statement of compliance, basis of preparation, and significant accounting policies *(continued)***

1.2 Revenue recognition *(continued)*

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. 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.

1.3 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.

1.4 Finance costs

Finance costs represent mainly interest on bank overdrafts and short-term borrowings determined using the effective interest method.

1.5 Selling, General and Administrative expenses

Selling, general, and administrative expenses are recognised in the Statement of profit or loss and other comprehensive income 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.

1.6 Taxation

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

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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Notes to the Financial Statements
For the year ended 31 December 2021

1. Statement of compliance, basis of preparation, and significant accounting policies *(continued)*

1.6 Taxation

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.

Deferred tax is calculated at the tax rates that have been enacted and that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, 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.

1.7 Leases

The Company conducts business as a lessee. In its ordinary course of business, the Company enters into leases as a lessee for property, plant and equipment.

When procuring goods or services, or upon entering into a contract with its customers, the Company determines whether an arrangement contains a lease at its inception. As part of that evaluation, the Company considers whether there is an implicitly or explicitly identified asset in the arrangement and whether the Company, as the lessee, or the customer, if the Company is the lessor, has the right to control that asset.

The Company determines whether there is a right to control the use of the asset by assessing its rights, as the lessee, or the customer's rights, if the Company is the lessor, to obtain substantially all of the economic benefits from the use of the identified asset and the right to direct the use of the identified asset. If there is either an explicit or embedded lease within a contract and the Company is the lessor, the Company determines the classification of the lease (e.g., finance or operating lease) at the lease inception date.

The Company as lessee
When the Company is the lessee, all leases with a term of more than 12 months are recognised as ROU assets and associated lease liabilities in the Statement of Financial Position. The lease liabilities are measured at the lease inception date and determined using the present value of the lease payments not yet paid and the Company's incremental borrowing rate, which approximates the rate at which the Company would borrow, on a secured basis, in the country where the lease was executed. The interest rate implicit in the lease is generally not determinable in transactions where the Company is the lessee. The ROU asset equals the lease liability adjusted for any IDCs, prepaid and accrued rent and lease incentives. Fixed and in-substance fixed payments are included in the recognition of ROU assets and lease liabilities, however, variable lease payments, other than those based on a rate or index, are recognised in the Statement of Profit or Loss and Other Comprehensive Income in the period in which the obligation for those payments is incurred. The Company's variable lease payments generally relate to payments tied to various indexes and payments above a contractual minimum fixed payment. Real estate leases commonly require variable lease payments to reflect market changes, inflation and cost of property maintenance. In addition, vehicle leases

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Notes to the Financial Statements
For the year ended 31 December 2021

1. Statement of compliance, basis of preparation, and significant accounting policies *(continued)*

1.7 Leases *(continued)*

may contain variable lease payments for excess mileage adjustments. The lease agreements do not impose any covenants on the Company.

ROU assets represent the Company's right to control the underlying assets under lease, and the lease liability is the obligation to make the lease payments related to the underlying assets under lease.

ROU assets are generally amortised on a straight-line basis over the lease term with the interest expense on the lease liability recorded using the effective interest method. The amortisation and interest expense are recorded separately in the Statement of Profit or Loss and Other Comprehensive Income. The Company has elected to not recognise leases with a lease term of less than 12 months in the Statement of Financial Position, including those acquired in a business combination, and lease costs for those short-term leases are recognised on a straight-line basis over the lease term in the Statement of Profit or Loss and Other Comprehensive Income. For all asset classes, the Company has elected the lessee practical expedient to combine lease and non-lease components (e.g. maintenance services) and account for the combined unit as a single lease component.

1.8 Property, plant and equipment

Property, plant and equipment held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost less any accumulated depreciation and accumulated impairment losses.

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 over their estimated useful lives, using the straight-line method. The estimated useful lives used in the calculation of depreciation and amortisation are as follows:

Leasehold improvements	-	Over the period of the lease
Furniture & Fixtures	-	5-15 years
Equipment	-	1.5-7.5 years

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 or loss for the period.

1.9 Financial instruments

Financial assets and financial liabilities are recognised initially at fair value, plus or minus directly attributable transaction costs (except financial instruments measured at FVTPL), in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Such assets and liabilities are subsequently measured at amortised cost or fair value, depending on the measurement classification. Financial assets held at fair value through profit and loss are initially recognised at fair value and transaction costs are expensed. Trade receivables are measured at their transaction price.

In determining the fair value of its financial instruments, the Company uses a variety of methods and assumptions that are based on market conditions and risks existing at each reporting date. For the majority of financial instruments, standard market conventions and techniques such as discounted cash flow analysis, estimated selling price less estimated cost to completion and sale, are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realised.

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Notes to the Financial Statements
For the year ended 31 December 2021

1. Statement of compliance, basis of preparation, and significant accounting policies *(continued)*

1.9 Financial instruments *(continued)*

Categories of financial instruments
The Company considers the following to be its classes of financial assets: trade and other receivables; finance receivables (customer loans); receivables from related parties. The following financial liabilities are presented as separate classes of financial liabilities: trade and other payables and payables to related parties.

Financial assets – classification and subsequent measurement – measurement categories
The Company classifies financial assets in the following measurement categories: FVTPL and AC. The classification and subsequent measurement of debt financial assets depends on: (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Debt Financial assets – classification and subsequent measurement – business model
The business model reflects how the Company manages the assets in order to generate cash flows – whether the Company's objective is: (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows",) or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither of (i) and (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

Business model is determined for a Company of assets (on a portfolio level) based on all relevant evidence about the activities that the Company undertakes to achieve the objective set out for the portfolio available at the date of the assessment. Factors considered by the Company in determining the business model include the purpose and composition of a portfolio, past experience on how the cash flows for the respective assets were collected, how risks are assessed and managed, how the assets' performance is assessed and how managers are compensated. Refer to Note 2 for critical judgements applied by the Company in determining the business models for its financial assets.

Financial assets at amortised cost
Financial assets at amortised cost are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. These assets are measured at amortised cost if the business model is to hold the assets in order to collect contractual cash flows and the related cash flows are solely payments of principal and interest. Financial assets at amortised cost include cash and cash equivalents, trade and other receivables and finance receivables.

Trade and other receivables
Trade and other receivables are recognized initially at fair value and are subsequently measured at AC using the effective interest method in line with business model Hold to collect.

Finance receivables
Finance receivables are recognized initially at fair value and are subsequently carried at AC using the effective interest method in line with business model Hold to collect and SPPI assessment. Finance receivables with remaining maturity longer than 12 months are classified as non-current and those receivables with remaining maturity shorter than 12 months are classified current.

Cash and cash equivalents
Cash and cash equivalents include deposits held at call with banks and short-term deposits with related parties that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL. Features mandated solely by legislation, such as the bail-in legislation in certain countries, do not have an impact on the SPPI test.

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Notes to the Financial Statements
For the year ended 31 December 2021

1. Statement of compliance, basis of preparation, and significant accounting policies *(continued)*

1.9 Financial instruments *(continued)*

Financial asset at fair value through profit and loss
Financial assets are measured at fair value through profit and loss if the assets that are either designated as trading or if the assets do not meet the measurement and classification criteria for 'Hold to collect' or 'Hold to collect and sell' or the related cash flows are not solely payments of principal and interest.

Derecognition of financial assets
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities – classification
Financial liabilities are classified into the following specified categories: financial liabilities 'at fair value through profit or loss' (FVTPL) and financial liabilities measured at 'amortised cost'. The classification depends on the nature and purpose of the financial liabilities and is determined at the time of initial recognition. Company do not have financial liabilities measured at FVTPL.

Financial liabilities are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods or services or on acquisition of financial and other non-current assets. Amounts (excluding intercompany payables) are unsecured and usually settled on standard commercial trade terms.

Financial liabilities at amortised cost
Trade and other payables, and loans and borrowings are initially measured at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition. Financial instruments held at amortised cost include 'trade and other payables' (excluding 'other payables', 'accrued expenses' and 'social security and other taxes'), and 'payables to related parties'.

Trade and other payables
Trade and other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods or services. Amounts are unsecured and usually settled on standard commercial trade terms. Trade and other payables are initially measured at fair value. Trade and other payables are subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities
The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

Debt and equity instruments
Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends
Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments or component parts of compound instrument.

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Notes to the Financial Statements
For the year ended 31 December 2021

1. **Statement of compliance, basis of preparation, and significant accounting policies *(continued)***

1.9 Financial instruments *(continued)*

Impairment of financial assets
IFRS 9 requires an assessment of expected credit losses (ECL) for evaluating whether assets carried at amortised cost are impaired.

The Company measures ECL and recognises Net impairment losses on financial and contract assets at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. Debt instruments measured at AC and contract assets are presented in the statement of financial position net of the allowance for ECL

Trade and other receivables and Contract Assets
Expected credit losses for trade receivables, amount due from related parties and contract assets are estimated using the simplified approach of lifetime ECL based on a combination of write-off history, aging analysis, known troubled accounts and macroeconomic factors affecting trade customers. These simplifications eliminate the need to calculate the 12-month ECL and to assess when a significant increase in credit risk has occurred, as required under a three-stage approach.

Due to practical reasons the Company has decided to calculate only lifetime ECL and not 12-month ECL as it was impracticable to derive point-in-time probabilities of default. The Company therefore used current probabilities of default for lifetime ECL. The identified impairment loss was immaterial.

1.10 Business combination under common control

Business combination under common control are accounted for using the predecessor value accounting method.

The assets and liabilities acquired as a part of business combination are recorded at book value as in the books of transferor. The excess purchase consideration paid over the book value of net assets acquired is debited to the merger reserve within equity.

2. **New and amended standards adopted by the Company**

The Company applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

- **Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**
  The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients:
  - A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
  - Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
  - Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

  These amendments had no impact on the consolidated financial statements of the Company. The Company intends to use the practical expedients in future periods if they become applicable.

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Notes to the Financial Statements
For the year ended 31 December 2021

2. **New and amended standards adopted by the Company *(continued)***

- **Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16**
  On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases

  Effect on Financial Statements or Other Significant Matters– The guidance had no material impact on the Company's financial statements.

  The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

- **Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16 (continued)**

  The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021.

  However, the Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

3. **New standards and amendment to standards and interpretations issued but not yet effective**

   Certain new standards and amendments to standards and interpretations have been published that are not mandatory for 31 December 2020 and have not been early adopted by the Company.

- **Definition of Accounting Estimates - Amendments to IAS 8**
  In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

  The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

  The amendments are not expected to have a material impact on the Company.

- **Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2**
  In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

  The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

  The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

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Notes to the Financial Statements
For the year ended 31 December 2021

4. Significant accounting estimates and assumptions

The application of accounting standards and policies requires the Company to make estimates and assumptions about future events that directly affect its reported financial condition and operating performance. The accounting estimates and assumptions discussed are those that the Company considers to be most critical to its financial statements. An accounting estimate is considered critical if both (a) the nature of estimates or assumptions is material due to the level of subjectivity and judgement involved, and (b) the impact within a reasonable range of outcomes of the estimates and assumptions is material to the Company's financial condition or operating performance.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect amounts that are reported in the financial statements and accompanying disclosures. Estimates are made for the following, among others: revenue, costs to complete service contracts, taxes, pension assumptions, valuation of assets, allowance for credit losses and other matters. These estimates are based on management's best knowledge of current events, historical experience, actions that the Company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances, including in 2021, the macroeconomic impacts of the COVID-19 pandemic.

Revenue recognition
Application of the various accounting principles in IFRS related to the measurement and recognition of revenue requires that the Company to make judgements and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting. Other significant judgements include determining whether the Company or a reseller is acting as the principal in a transaction and whether separate contracts are 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, volume discounts, service-level penalties, and performance bonuses. The Company considers various factors when making these judgements, including a review of specific transactions, the creditworthiness of the customers, historical experience and market and economic conditions.

Costs to Complete Service Contracts
The Company enters into numerous service contracts through its services businesses. During the contractual period, revenue, cost and profits may be impacted by estimates of the ultimate profitability of each contract.

The Company performs ongoing profitability analyses of its services contracts in order to determine whether the latest estimates 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. Key factors reviewed by the Company to estimate the future costs to complete each contract are future labour costs, future product costs and expected productivity efficiencies.

Deferred tax assets
Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future crystallisation of the underlying temporary differences can be deducted. An assessment of future profits is prepared based on current market and economic conditions, and an estimate of future market and economic conditions. Factors that could result in actual future profits being lower than estimated future profits relate to significant changes in the economy, or a significant change in the economic health of a particular customer or industry segment that represents a concentration in the Company's customer base.

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Notes to the Financial Statements
For the year ended 31 December 2021

5. Revenue

Company's revenue represents the net amounts received and receivable arising from services provided and it is entirely coming from contracts with customers.

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

	Home NOK'000
2021	
Revenue from contracts with customers - Services	466,627
	466,627

Refer note 11 for loss allowance provided for trade and other receivables.

	2021 NOK'000
Deferred income	
Balances at the beginning of year	15,642
Revenue recognised that was included in the deferred income balance at the beginning of the year	(3,743)
Increases due to cash received, excluding amounts recognised as revenue during the year	5,455
Transfer to receivables	0
Balance at the end of the year	**17,354**

Remaining Performance Obligations

The remaining performance obligation disclosure provides the aggregate amount of the transaction price yet to be recognized as of the end of the reporting period and an explanation as to when the Company expects to recognize these amounts in revenue. It is intended to be a statement of overall work under contract that has not yet been performed and does not include contracts in which the customer is not committed, such as certain as-a-Service, governmental, term software license and services offerings. The customer is not considered committed when they are able to terminate for convenience without payment of a substantive penalty. The disclosure includes estimates of variable consideration, except when the variable consideration is a sales-based or usage-based royalty promised in exchange for a license of intellectual property. Additionally, as a practical expedient, the Company does not include contracts that have an original duration of one year or less. Remaining performance obligation estimates are subject to change and are affected by several factors, including terminations, changes in the scope of contracts, periodic revalidations, adjustment for revenue that has not materialized and adjustments for currency.

At December 31, 2021, the aggregate amount of the transaction price allocated to the remaining performance obligations related to customer contracts that are unsatisfied or partially unsatisfied was NOK Nil.

Deferred Costs	2021 NOK'000
Deferred costs to fulfil a contract:	
Deferred setup costs	13,726
	13,726

Of the total, NOK 4,782 thousand is current and NOK 8,944 thousand is noncurrent.

The amount of total deferred costs amortized during the year was NOK nil. There were no material impairment losses incurred during the period.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

6. Expense by nature

The Company incurred the following costs and expenses:

	2021
	NOK'000
Cost of providing services	457,349
Employee benefit expenses (note 7)	102,149
Royalties	242
Release of impairment of trade and other receivables	(767)
Statutory audit fees*	380
Other audit fees*	1,621
Non-audit fees*	28
Depreciation charges on property, plant and equipment	51,792
Depreciation of right-of-use assets	12,999

* The above audit services are wholly attributable to statutory audit services provided by PWC.

7. Employee expenses

	2021
	NOK'000
Wages and salaries	86,316
Social security costs	9,111
Defined contribution plans	4,004
Share based payments	304
Other social costs	2,414
	102,149

The average monthly number of employees during the year was made up as follows:

	2021
	No.
Number of services staff	55

The pension plan is a Defined Contribution plan within the requirements in OTP-law. 7% of salary up to 7,1G and 10% for salary between 7,1G and 12G. Disabiliy pensjon is covered by an insurance agreement.

8. Finance income

	2021
	NOK'000
Interest on loans to other group undertakings	61

Interest on amounts owed by fellow subsidiary undertakings are charged at variable rates based on NIBOR.

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Notes to the Financial Statements
For the year ended 31 December 2021

9. Finance costs

	2021
	NOK'000
Interest on loans from group undertakings	34
Other interest cost	1,244
	1,278

Interest on amounts owed by fellow subsidiary undertakings are charged at variable rates based on NIBOR.

10. Income tax expense

(a) Analysis of credit in the year

In respect of the year

	2021
	NOK'000
Current tax	0
Deferred tax (note 15)	(3,057)
Income tax credit	**(3,057)**

(b) Factors affecting current tax credit

	2021
	NOK'000
Loss before income tax	**(13,980)**
Tax at domestic income tax rate 22% (2020 22%)	(3,076)
Effects of:	
Expenses not deductible for tax purposes	19
Total income tax credit (note 10(a))	**(3,057)**

11. Trade and other receivables

	2021
	NOK'000
Current	
Trade receivables at amortized cost	36,672
Due from related parties	307,123
Other receivables	4,701
	348,496
Less:	
Loss allowance	0
	348,496

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

11. Trade and other receivables *(continued)*

The average credit period on sales of goods is 0 to 30 days. No interest is charged on the trade receivables for the first 30 days from the date of the invoice. Thereafter, interest is charged at market rates on the outstanding balance.

Due to the short-term nature of the receivables, the carrying amounts approximate to the fair values.

In determining the recoverability of trade and other receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The directors believe that there is no credit provision required.

Included in trade and other receivable balance are receivables with a carrying amount of NOK 7,865 thousand which are past due at the reporting date but not impaired. The Company considers that the amounts are still fully recoverable.

Aging of past due but not impaired trade receivables:

	NOK'000
Not due	574
0 - 30 days	28,233
31 - 60 days	7,756
61 - 90 days	109
	36,672

In determining the recoverability of trade and other receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, the directors believe that there is no credit provision required.

The balances for the year 2020 are not available to the company due to the demerger.

12. Prepayment and other assets

	2021 NOK'000
Current	
Deferred costs	4,782
Prepayments	7,777
	12,559
Non-current	
Deferred costs	8,944
	8,944

For 2020, the comparable specification is not available due to demerger.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

13. Property, plant and equipment

	Leasehold Improvements NOK'000	Buildings NOK'000	Furniture & Fixtures NOK'000	Work In Progress NOK'000	Equipment NOK'000	Total NOK'000
Cost						
At 1 January 2021	8,809	598	28,962	0	296,222	334,591
Additions	0	0	0	271	42,951	43,222
Disposals	0	0	0	0	(8,287)	(8,287)
In-transit	0	0	0	0	2,539	2,539
Reclassification, transfers, other	0	0	(3)	0	(12,728)	(12,731)
At 31 December 2021	**8,809**	**598**	**28,959**	**271**	**320,697**	**359,334**
Accumulated depreciation						
At 1 January 2021	(2,992)	(311)	(8,439)	0	(167,538)	(179,280)
Additions	(869)	(16)	(3,513)	0	(47,394)	(51,792)
Disposals	0	0	0	0	6,978	6,978
Reclassification, transfers, other	0	0	0	0	12,565	12,565
At 31 December 2021	**(3,861)**	**(327)**	**(11,952)**	0	**(195,389)**	**(211,529)**
Net book value						
At 31 December 2021	**4,948**	**271**	**17,007**	**271**	**125,308**	**147,805**
At 31 December 2020	**5,817**	**287**	**20,523**	**0**	**128,684**	**155,311**

14. Investment in subsidiaries

	2021 Shares in subsidiary undertaking
Cost	
At 1 January 2021	85,538
Additions	0
At 31 December 2021	**85,538**
Provision for impairment	
At 1 January and 31 December 2021	**0**
Net book value	
At 31 December 2021	**85,538**

The entity has an investment in Kyndryl Services AS whose registered address is Lakkegata 53, 0187 Oslo, acquiring 100% ownership of that entity.

Kyndryl Norway AS applied for an consolidation exemption that has been approved on the basis that the companies are consolidated on a higher level.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

15. Deferred tax assets

Movement in the deferred tax asset

	Property, plant and equipment NOK'000	Taxed provisions NOK'000	Other NOK'000	Total NOK'000
At 1 January 2021	32,183	1,096	0	33,279
(Charged) /credited to the profit or loss	(3,566)	3,563	3,060	3,057
At 31 December 2021	**28,617**	**4,659**	**3,060**	**36,336**

Included in the deferred tax asset is NOK 31,677 thousand that is expected to be recovered after more than 12 months. The recognition of deferred tax assets is determined by reference to the Company's estimate of recoverability based on models to forecast future taxable profits.

16. Trade and other payables

	2021 NOK'000
Current	
Due to related parties (note 24)	113,370
Trade payables	30,502
	143,872

Amounts are settled on standard commercial trade terms. Generally, no interest is charged on the trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

For 2020, the comparable specification is not available due to demerger.

17. Deferred income

	2021 NOK'000	2020 NOK'000
Current	12,236	7,740
Non-current	5,118	7,902
	17,354	**15,642**

18. Other liabilities

	2021 NOK'000
Current	
Employee liabilities	12,494
Other liabilities	16,001
	28,495

For 2020, the comparable specification is not available due to demerger.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

19. Financial instruments

Financial risk management
The Company is exposed of financial risks as a result of its operations that include the effects of market prices and foreign exchange risk. The Company has a strong risk management programme in place aligned to the worldwide programme of the Company's ultimate parent Company, Kyndryl Holdings Inc..

Capital risk management
The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The capital structure of the Company consists of debt to related parties disclosed in Note 23, and equity attributable to equity holders of the parent, comprising issued capital and retained earnings as disclosed in the statement of changes in equity. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability, and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

	2021 NOK'000	2020 NOK'000
Financial assets		
Financial assets at amortized cost		
Interest bearing		
Cash and cash equivalents	15,927	33,000
Non-interest bearing		
Trade receivables with external and related parties	348,496	23,459
	364,423	**56,459**
Financial liabilities		
Financial liabilities at amortized cost		
Interest bearing		
Loans and borrowings	86,038	0
Non-interest bearing		
Trade and other payables (note 16)	143,872	200,414
	229,910	**200,414**

Amounts payable to related parties are unsecured.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

19. Financial instruments *(continued)*

Financial risk management objectives
Kyndryl's corporate treasury function provides funding and risk management services to the Norway Company of companies. Risk management services are provided through the monitoring and management of financial risks relating to the operations of the Company through internal risk reports addressing market risk (including currency risk and interest rate risk), credit risk, liquidity risk, and cash flow interest rate risk. This includes performing sensitivity analysis on market risks to determine the effect of change in foreign exchange and currency rates on the Company's financial performance and position.
Credit risk management
Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company carries out credit checks on potential customers before contracts are entered into. This information is supplied by independent rating agencies where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate the major customers. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management team annually. Cash balances are held with the Kyndryl Treasury Centre and with Kyndryl AS/Nordea Bank, which the directors assess as having high credit ratings.

The Company has significant concentration of credit risk. The maximum exposure to credit risk for the top debtor represents 100% of the Company's trade and finance receivables.

The following types of financial assets are subject impairment criteria for expected credit losses:

(a) Trade and other receivables

The Company applies the simplified approach in measuring expected credit losses which uses lifetime expected credit loss allowance for trade receivables. To measure the expected credit losses they are grouped based on shared risk characteristics. Trade receivables expected loss rates are determined using internal rating of customer, country.

The following table represents the analysis for trade receivables for credit risk exposure. The gross carrying amount also represents the maximum exposure to credit risk for these assets:

31 December 2021	Current-365 days NOK'000	>365 days NOK'000	Specific reserves NOK'000	Total gross Carrying amount NOK'000
Expected loss rate	0%	0%	0%	
Trade Receivables	36,672	0	0	**36,672**
Due from related parties	307,123	0	0	**307,123**
Other receivables	4,701	0	0	**4,701**
Loss Allowance	0	0	0	**0**

Trade receivables are entirely related to customer rated at GMRG 5+ (satisfactory credit risk).
The gross carrying amount represents the maximum exposure to credit risk for financing receivables.

The following represents the loss allowance for trade receivables as of 31 December 2021 which reconciles to the opening loss allowance as follows:

	2021 NOK'000
1 January	**767**
Increase / (decrease) in loss allowance	(767)
31 December	**0**

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

19 Financial instruments *(continued)*

Interest rate risk management
The Company is funded by the Kyndryl Treasury Centre in Ireland and Kyndryl AS. As the Company invests or borrows cash balances, it operates in either a receivable or payable position. Interest is paid or earned on the daily balance using the variable one-month interest rate as the base.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the Categories of financial instruments table in this note.

The Company performs sensitivity analysis to determine the effects from exposure to interest rate risk. For financial assets and liabilities exposed to interest rate risk, the analysis is prepared assuming the balances at the reporting date were outstanding for the whole year.

At the reporting date, if interest rates had been 50 basis point higher/lower and all other variables were held constant, the Company's net profit would increase/decrease by NOK 80,000. This is mainly attributable to the Company's exposure to interest rates on its variable rate cash deposits.

Liquidity risk management
The Company is funded internally by the Kyndryl Treasury Centre in Ireland. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities through its agreements with the Treasury Centre.

The following table details the Company's remaining contractual maturity for its financial liabilities and financial assets. The table below have been drawn up based on the undiscounted contractual cash flows of the financial liabilities and financial assets. The contractual maturity is based on the earliest date on which the Company may be required to pay/be paid.

Liquidity table

	< 1 year	1-5 years	> 5 years	Total
2021	**NOK'000**	**NOK'000**	**NOK'000**	**NOK'000**
Financial liabilities				
Loans and borrowings	86,038	0	0	86,038
Trade and other payables (note 16)	143,872	0	0	143,872
	229,910	**0**	**0**	**229,910**
2020				
Financial liabilities				
Trade and other payables (Note 16)	200,414	0	0	200,414
	200,414	**0**	**0**	**200,414**

Fair value of financial instruments
The fair values of financial assets and financial liabilities are determined as follows:

- Financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- Other financial assets and financial liabilities, excluding derivative financial instruments, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management consider that the carrying amount of financial assets and financial liabilities in the financial statements approximate their fair values. There are no financial assets and/or liabilities that were already

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

recognised at fair value through profit and loss.

19. Financial instruments *(continued)*

Loans and borrowings amounting to NOK 86,038 thousands (2020: 0) are from group undertakings (note 24).

Below is the table showing movement analysis for the year:

	NOK'000
Balance as on 1st January 2021	**0**
Drawdown during the year	86,038
Balance as on 31st December 2021	**86,038**

20. Share capital and shareholder information

	No. of shares	Face value	2021 NOK'000
Authorised, issued and fully paid shares			
Balance as on 1 January	1,490,946	10	14,909
Share issued during the year	1,490,946	1	1,491
Balance as on 31 December	**1,490,946**	**11**	**16,400**

All shares have equal rights.

Shareholder information
During the year the Company's immediate and ultimate parent undertaking was changed from International Business Machines Corporation to Kyndryl Holdings Inc., a Company registered in the United States of America. Kyndryl Norway AS is a 100% owned subsidiary of Kyndryl 1 BV, Netherlands.

During the year, there has been an increase in the nominal value of 1,490,946 shares by NOK 1 from NOK 10 per share to NOK 11 per share for KNOK 168,000 including a premium of KNOK 166,509.

21. Share premium account

The share premium account includes all amounts paid over the nominal value of shares.

	2021 NOK'000
Balance as on 1 January	23,732
Premium arising on issue of equity shares	166,509
Balance as on 31 December	**190,241**

During the year there has been an increase in the nominal value of 1,490,946 shares by NOK 1 from NOK 10 per share to NOK 11 per share for KNOK 168,000 including a premium of KNOK 166,509.

22. Additional paid in capital

During the previous year, the company has infused additional paid in capital amounting to KNOK 181,100.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

23. Other reserves

The following table presents stock-based compensation cost which is included in net income (loss).

	2021
	NOK'000
Cost of providing services	16
Selling, general & administrative expense	288
Pre-tax stock-based compensation cost	304
Income tax benefits	0
Stock-based compensation cost, net of tax	**304**
Expense arising from equity-settled awards , pre-tax	304
Pre-tax stock-based compensation cost	**304**

The Company measured the fair value of the awards immediately prior to and subsequent to the modification and concluded that 21,000 of incremental fair value was provided to award holders.

Kyndryl issued 3,000 unvested equity-based awards to the Company's employees in connection with the modification at the time of the Spin-off.

The following table summarizes RSU , market-conditioned performance award and stock option activities:

	RSUs	**Market-Conditioned Performance Awards**
	Number of units (in thousands)	**Number of units (in thousands)**
Balance at January 12, 2021 (date of incorporation)	0	0
Awards transferred from IBM on September 1, 2021	3	0
Awards granted	0	0
Awards vested	0	0
Awards expired	0	0
Awards cancelled / forfeited	0	0
Balance at December 31, 2021	**3**	**0**
Exercisable at December 31, 2021	0	0

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

23. Other reserves (continued)

The following table lists the inputs to the models used for the three types of share-based payments for the year ended December 31, 2021.

	2021 Market-Conditioned Performance Awards	2021 Stock Options
Weighted average fair values at measurement date	137.97	0.00
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	157.86	0.00
Model used	Monte Carlo	Black-Scholes

24. Related party transactions

Related parties include parent companies, entities under common control ('Company undertakings'), subsidiaries and key management personnel. The Company enters into transactions with related parties in the ordinary course of business for the purchase or sale of services provided to and from related parties.

During the year the Company's immediate and ultimate parent undertaking was changed from International Business Machines Corporation to Kyndryl Holdings Inc., a Company registered in the United States of America which holds 100% of the shares.

The Company's ultimate parent undertaking and controlling party is Kyndryl Holdings Inc which is incorporated in the United States of America and is the parent undertaking of the smallest and largest Company to consolidate these financial statements.

Copies of the financial statements of this undertaking may be obtained from Kyndryl Holdings Inc. 1 Vanderbilt Ave 15TH Floor New York, NY 10017 United States.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

24. Related party transactions (continued)

The following transactions were carried out with related parties:

Class of related party	Transaction type	2021 NOK'000
Other group undertaking	Rendering of services to	301,731
	Demerger	(323)
	Cost of services rendered to	(299,881)
	Cost of financing	(21)
	Business service fee	109,958
	Stock options reallocation	(628)
	Interest paid	(34)
	Interest received	61
	Equity cash awards	(578)
	Other fees	(1,556)
Immediate parent	Rendering of services to	1,374
	Cost of services rendered to	(10,470)

Details of the amounts of receivable from and payable to related parties are set out below:

Borrowings from related parties

	2021 NOK'000
Other group undertakings	**86,038**

Receivables from related parties

	2021 NOK'000
Immediate parent	258,887
Other group undertakings	48,236
	307,123

Payables to related parties

	2021 NOK'000
Other group undertakings	**113,370**

The amounts outstanding on these balances are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the current or prior year for bad or doubtful debts in respect of the amounts owed by related parties.

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

24. Related party transactions (continued)

Key management compensation

The total remuneration of members of key management in respect of services to the Company was as follows:

	2021
	NOK'000
Short term employee benefits	3,407
Share based payments	0
	3,407

Key management personnel are defined as directors of the Company. No remuneration or fee is provided to the directors of the Company in respect of their role as a director. The remuneration of key management personnel is provided in respect of their roles in managing the affairs of the Company and related Norwegian companies under the common control of Kyndryl Holdings Inc. The remuneration of key management personnel is determined with regard to the performance of individuals and market trends.

Remuneration of Managing Director and Board of Directors' members

	2021	
	Managing Director NOK '000	Board of Directors NOK '000
Short term employee benefits	3,407	0
Pension	0	0
	3,407	**0**

25. Leases

The statement of financial position and statement of profit or loss and other comprehensive income show the following amounts relating to leases (company as lessee):

	Carrying Amount	Depreciation
	31 Dec 2021 NOK '000	31 Dec 2021 NOK '000
Right of use Assets		
Equipment	11,989	12,999
Total	**11,989**	**12,999**

There were no additions to the right-of-use assets during the 2021 financial year.

At the reporting date, the Company had outstanding commitments for future lease payments under non-cancellable finance leases:

	Carrying Amount As at 31 Dec 2021 NOK '000
Lease liability:	**14,712**
Current	14,712
Non-current	0

Kyndryl Norway AS

Notes to the Financial Statements
For the year ended 31 December 2021

25. Leases (continued)

Variable lease costs not included in the measurement of lease liabilities amounted to Nil NOK. Total cash payments arising from lease transactions totalled 2,613 thousand NOK for the year.

26. Retirement benefit obligations

The pension plan is a Defined Contribution plan. 7% of salary up to 7,1 G and 10% for salary between 7,1G and 12G. Disabiliy pensjon is covered by an insurance agreement .

27. Demerger

In October 2021, the Board of Directors of International Business Machines Corporation ("IBM" or "Parent") 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 reorganization following which it became the holder, directly or through its subsidiaries, of the Kyndryl Businesses. On November 3, 2021, the Separation was achieved through the Parent's pro rata distribution of 80.1% of the shares of common stock of Kyndryl to holders of the Parent's common stock as of the close of business on the record date of October 25, 2021. The Parent retained 19.9% of the shares of the Company's common stock. The Parent's stockholders of record received one share of the Company's common stock for every five shares of the Parent's common stock.

On 1 September 2021, IBM AS transferred the "Managed Infrastructure Services" (MIS) included all shares of IBM Services AS (Kyndryl Services AS) to IBM Ocean Norway AS (Kyndryl Norway AS). The demerger was completed with continuity for tax and accounting purposes from 1 January 2021. Kyndryl Norway AS' share capital was increased with NOK 14,909,460 and 1,490,946 new shares with par value NOK 10. Total par value was issued with NOK 25.95 per share. Total share capital amount to NOK 38,611,600 included premium of NOK 23,732,140. Total additional paid in capital was increased with NOK 181,100,364.

These financial statements for the year ended 31 December 2021 are the first the Company has prepared in accordance with IFRS.

28. Guarantees

The Company has 2 bank guarantees for the year ended 31 December 2021 in respect of Employee tax for an amount of 6,000 thousand NOK with no end date and another one for the office rent in Bergen for an amount of 1,236 thousand NOK expiring on 31 December 2022.

29. Events after the balance sheet date

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

Kyndryl Norway AS

Appendix

For the Year Ended 31 December 2021

Appendix: Abbreviations

Abbreviations used in this publication are set out below:

AC	Amortised cost
AFP	Avtalefestet pensjon (pension plan)
EAD	Exposure at default
ECL	Expected credit loss
FMV	Fair market value
FVOCI	(Financial assets/liabilities at) fair value through other comprehensive income
FVTPL	(Financial assets/liabilities at) fair value through profit or loss
GRMG	Global Risk Management Group
IASB	International Accounting Standards Board
IDC	Initial direct costs
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
LGD	Loss given default
NIBOR	Norwegian Interbank Offered Rate
PD	Probability of default
ROU	Right-of-use
SICR	Significant increase in credit risk
SO	Strategic Outsourcing
SPPI	Solely Payments of Principal and Interest
SSP	Standalone selling price

Skatteetaten

Vår dato	Din/Deres dato	Saksbehandler
09.01.2023	13.06.2022	Lars Waaltorp
800 80 000	Din/Deres referanse	Telefon
Skatteetaten.no		90833418
Org.nr	Vår referanse	Postadresse
974761076	2022/5555932	Postboks 9200 Grønland 0134 OSLO

ERNST & YOUNG AS
Postboks 1156 Sentrum
0107 OSLO

Att. Lise Moe Hinna

Fritak for konsernregnskapsplikt Kyndryl Norway AS, org.nr. 926 410 350

Vi viser til deres brev av 13. juni 2022 og telefonsamtale 22. desember 2022 hvor dere søker om fritak fra plikten til å utarbeide konsernregnskap for Kyndryl Norway AS.

Skattekontoret finner med hjemmel i regnskapsloven § 3-7 fjerde ledd å kunne gi tillatelse til at det gjøres unntak for konsernregnskapsplikten for Kyndryl Norway AS. Dispensasjonen gjelder så lenge opplysningene som danner grunnlaget for vedtaket ikke endres vesentlig.

Kopi av dette brev må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet mv. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Bakgrunn
Kyndryl Norway AS er morselskap i et underkonsern, hvor Kyndryl Holdings Inc. er det ultimate morselskapet og er hjemmehørende i USA. Konsernregnskap utarbeides av Kyndryl Holdings Inc. på engelsk språk etter US GAAP, hvor Kyndryl Norway AS med datterselskaper er omfattet.

Skattekontorets vurdering
Det forutsettes at Kyndryl Holdings Inc. utarbeider konsernregnskap som omfatter den regnskapspliktige og dennes datterselskaper. Det legges til grunn at dette konsernregnskapet er utarbeidet i samsvar med US GAAP og at kravene i regnskapsloven § 3-7 med forskrifter for øvrig følges. Bestemmelsene i regnskapsloven kapittel 8 gjelder tilsvarende for dette konsernregnskapet.

Når det gjelder hvilket språk morselskapet skal utarbeide konsernregnskapet på, vises det til forskrift av 7. september 2006 nr. 1062 til utfylling og gjennomføring mv. av regnskapsloven. Det følger av § 3-7-1 at konsernregnskapet foruten å være på norsk, kan være på svensk, dansk eller engelsk.

Skattekontoret gir etter en konkret helhetsvurdering tillatelse til at det gjøres unntak for konsernregnskapsplikten.

Vennligst oppgi vår referanse ved henvendelse i saken.

Med hilsen

Lars Waaltorp
seniorrådgiver
Brukerdialog, brukerkontakt
Skatteetaten

Dokumentet er elektronisk godkjent og har derfor ikke håndskrevne signaturer.