

As confidentially submitted to the Securities and Exchange Commission on August 31, 2021.
This amendment no. 2 to the draft registration statement has not been publicly filed with the Securities and Exchange Commission and all information herein remains strictly confidential.

File No.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10

GENERAL FORM FOR REGISTRATION OF SECURITIES
Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

Kyndryl Holdings LLC

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

86-1185492

(IRS employer identification number)

**One New Orchard Road
Armonk, New York**

(Address of principal executive offices)

10504

(Zip Code)

914-499-1900

(Registrant's telephone number)

Securities to be registered pursuant to Section 12(b) of the Act:

Title of each class to be so registered	Name of each exchange on which each class is to be registered
Common stock, par value \$0.01 per share	[]

Securities to be registered pursuant to Section 12(g) of the Act: **None.**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

KYNDRYL HOLDINGS LLC
INFORMATION REQUIRED IN REGISTRATION STATEMENT
CROSS-REFERENCE SHEET BETWEEN INFORMATION STATEMENT
AND ITEMS OF FORM 10

This Registration Statement on Form 10 incorporates by reference information contained in the information statement filed herewith as Exhibit 99.1.

Item 1. *Business.*

The information required by this item is contained under the sections of the information statement entitled “Information Statement Summary,” “The Separation and Distribution,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business,” “Certain Relationships and Related Party Transactions” and “Where You Can Find More Information.” Those sections are incorporated herein by reference.

Item 1A. *Risk Factors.*

The information required by this item is contained under the sections of the information statement entitled “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements.” Those sections are incorporated herein by reference.

Item 2. *Financial Information.*

The information required by this item is contained under the sections of the information statement entitled “Capitalization,” “Unaudited Pro Forma Condensed Combined Financial Statements,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Index to Combined Financial Statements” and the financial statements referenced therein. Those sections are incorporated herein by reference.

Item 3. *Properties.*

The information required by this item is contained under the section of the information statement entitled “Business — Properties.” That section is incorporated herein by reference.

Item 4. *Security Ownership of Certain Beneficial Owners and Management.*

The information required by this item is contained under the section of the information statement entitled “Security Ownership of Certain Beneficial Owners and Management.” That section is incorporated herein by reference.

Item 5. *Directors and Executive Officers.*

The information required by this item is contained under the section of the information statement entitled “Management.” That section is incorporated herein by reference.

Item 6. *Executive Compensation.*

The information required by this item is contained under the sections of the information statement entitled “Director Compensation,” “Compensation Discussion and Analysis.” Those sections are incorporated herein by reference.

Item 7. *Certain Relationships and Related Transactions, and Director Independence.*

The information required by this item is contained under the sections of the information statement entitled “Management” and “Certain Relationships and Related Party Transactions.” Those sections are incorporated herein by reference.

Item 8. *Legal Proceedings.*

The information required by this item is contained under the section of the information statement entitled “Business — Legal Proceedings.” That section is incorporated herein by reference.

Item 9. *Market Price of, and Dividends on, the Registrant’s Common Equity and Related Stockholder Matters.*

The information required by this item is contained under the sections of the information statement entitled “Dividend Policy,” “Capitalization,” “The Spin-Off” and “Description of Our Capital Stock.” Those sections are incorporated herein by reference.

Item 10. *Recent Sales of Unregistered Securities.*

The information required by this item is contained under the section of the information statement entitled “Description of Our Capital Stock — Sale of Unregistered Securities.” That section is incorporated herein by reference.

Item 11. *Description of Registrant’s Securities to Be Registered.*

The information required by this item is contained under the sections of the information statement entitled “Dividend Policy,” “The Spin-Off” and “Description of Our Capital Stock.” Those sections are incorporated herein by reference.

Item 12. *Indemnification of Directors and Officers.*

The information required by this item is contained under the section of the information statement entitled “Description of Our Capital Stock — Limitation on Liability of Directors and Indemnification of Directors and Officers.” That section is incorporated herein by reference.

Item 13. *Financial Statements and Supplementary Data.*

The information required by this item is contained under the sections of the information statement entitled “Unaudited Pro Forma Combined Financial Statements,” “Index to Combined Financial Statements” and the financial statements referenced therein. Those sections are incorporated herein by reference.

Item 14. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 15. *Financial Statements and Exhibits.*

(a) *Financial Statements*

The information required by this item is contained under the sections of the information statement entitled “Unaudited Pro Forma Condensed Combined Financial Statements” and “Index to Combined Financial Statements” and the financial statements referenced therein. Those sections are incorporated herein by reference.

(b) Exhibits

The following documents are filed as exhibits hereto:

Exhibit Number	Exhibit Description
2.1	Form of Separation and Distribution Agreement, by and between International Business Machines Corporation and the registrant
3.1	Form of Amended and Restated Certificate of Incorporation of the registrant†
3.2	Form of Amended and Restated Bylaws of the registrant†
10.1	Form of Transition Services Agreement, by and between International Business Machines Corporation and the registrant+
10.2	Form of Tax Matters Agreement, by and between International Business Machines Corporation and the registrant
10.3	Form of Employee Matters Agreement, by and between International Business Machines Corporation and the registrant
10.4	Form of Intellectual Property Agreement, by and between International Business Machines Corporation and Kyndryl, Inc.
10.5	Form of Real Estate Matters Agreement, by and between International Business Machines Corporation and the registrant
10.6	Form of IBM International Client Relationship Agreement, by and between International Business Machines Corporation and Kyndryl, Inc.+
10.7	Form of Kyndryl 2021 Long-Term Performance Plan
10.8	Forms of LTPP equity award agreements for (i) stock options, restricted stock, restricted stock units, cash-settled restricted stock units, SARS and (ii) retention restricted stock unit awards*
10.9	Form of LTPP equity award agreement for performance share units*
10.10	Terms and Conditions of LTPP equity award agreements*
10.11	Offer Letter by and between International Business Machines Corporation and Martin Schroeter, dated January 2, 2021, the LTPP performance share unit award agreement, dated February 1, 2021, and the related terms and conditions document, effective December 15, 2020†
10.12	Offer Letter by and between International Business Machines Corporation and David Wyshner, dated July 23, 2021
10.13	Offer Letter by and between International Business Machines Corporation and Elly Keinan, dated March 1, 2021, the LTPP performance share unit award agreement, dated April 1, 2021, and the related terms and conditions document, effective March 1, 2021, and the Executive Sign-on Repayment Agreement†
10.14	Offer Letter by and between International Business Machines Corporation and Maryjo Charbonnier, dated May 28, 2021, and the Executive Sign-on Repayment Agreement
10.15	LTPP performance share unit award agreement, by and between International Business Machines Corporation and Maryjo Charbonnier, dated April 1, 2021, and the related terms and conditions document, effective March 1, 2021, the LTPP retention restricted stock unit award agreement, dated August 1, 2021, and the related terms and conditions document, effective June 1, 2020*
10.16	Kyndryl Excess Plan*
21.1	Subsidiaries of the registrant*
99.1	Preliminary Information Statement

* To be filed by amendment.

† Previously filed.

+ Certain portions of this exhibit have been redacted pursuant to Item 601(b)(10)(iv) of Regulation S-K. The registrant agrees to furnish supplementally an unredacted copy of the exhibit to the Securities and Exchange Commission upon its request.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

KYNDRYL HOLDINGS LLC

By: _____

Name:

Title:

Date: _____, 2021

SEPARATION AND DISTRIBUTION AGREEMENT

by and between

International Business Machines Corporation

and

Kyndryl Holdings, Inc.

Dated as of [____], 2021

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SEPARATION AND DISTRIBUTION AGREEMENT, dated as of [____], 2021, by and between International Business Machines Corporation, a New York corporation (“Parent”), and Kyndryl Holdings, Inc., a Delaware corporation (“SpinCo”). Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to them in Article I.

R E C I T A L S

WHEREAS, the board of directors of Parent has determined that it is in the best interests of Parent and its stockholders to create a new publicly traded company that will operate the SpinCo Business (as defined below);

WHEREAS, in furtherance of the foregoing, the board of directors of Parent has determined that it is appropriate and desirable to effect the Separation Transactions (as defined below);

WHEREAS, pursuant to the Separation Step Plan (as defined below) and the terms of this Agreement (as defined below), among other things (i) Parent (A) has effected or will effect certain restructuring transactions described in the Separation Step Plan for purposes of aggregating the SpinCo Business in the Parent Group (as defined below) prior to the Distribution (as defined below) (collectively, the “Reorganization”) and in connection therewith (B) will contribute, convey, and otherwise transfer the SpinCo Assets (as defined below) to SpinCo in exchange for (a) the assumption by one or more members of the SpinCo Group (as defined below) of the SpinCo Liabilities (as defined below), (b) the actual or deemed issuance by SpinCo to Parent of SpinCo Common Stock (as defined below) and the issuance by SpinCo to Parent of the SpinCo Holdings Securities (as defined below), and (c) the SpinCo Debt Proceeds Distribution (as defined below) (collectively, the “Contribution”) and (ii) Parent will make the Distribution;

WHEREAS, SpinCo has been incorporated solely for these purposes and has not engaged in activities except in preparation for the Spin-Off (as defined below);

WHEREAS, Parent and SpinCo have prepared, and SpinCo has filed with the Commission (as defined below), the Form 10 (as defined below), which includes the Information Statement (as defined below) and sets forth appropriate disclosure concerning SpinCo and the Distribution;

WHEREAS, Parent and SpinCo intend (i) that the Spin-Off qualify for its Intended Tax Treatment, (ii) that the other Separation Transactions qualify for the applicable Intended Tax Treatment set forth in a Tax Opinion or IRS Ruling (each as defined below) (or if not so described in a Tax Opinion or IRS Ruling, in the Separation Step Plan (as defined below)) and (iii) for this Agreement to constitute a plan of reorganization within the meaning of Sections 1.368-1(c) and 1.368-2(g) of the Treasury Regulations (as defined below) with respect to the Spin-Off referred to in clause (i) and the applicable steps referred to in clause (ii) and a plan of liquidation within the meaning of Section 332 of the Internal Revenue Code of 1986, as amended, with respect to the applicable steps referred to in clause (ii); and

WHEREAS, it is appropriate and desirable to set forth the principal corporate transactions required to effect the Spin-Off and certain other agreements that will govern certain matters relating to the Spin-Off and the relationship of Parent, SpinCo and their respective Subsidiaries following the Distribution.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, the Parties (as defined below), intending to be legally bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

Section 1.01 Definitions. For the purposes of this Agreement, the following terms shall have the following meanings:

“AAA” has the meaning set forth in Section 11.03.

“Action” means any claim, complaint, petition, hearing, charge, demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority or any federal, state, local, foreign or international court or arbitration or mediation tribunal.

“Adversarial Action” means (i) an Action by a member of the Parent Group, on the one hand, against a member of the SpinCo Group, on the other hand, or (ii) an Action by a member of the SpinCo Group, on the one hand, against a member of the Parent Group, on the other hand.

“Affiliate” of any Person means a Person that controls, is controlled by or is under common control with such Person. As used herein, “control” of any entity means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such entity, whether through ownership of voting securities or other interests, by Contract or otherwise; provided, however, that (i) SpinCo and the other members of the SpinCo Group shall not be considered Affiliates of Parent or any of the other members of the Parent Group and (ii) Parent and the other members of the Parent Group shall not be considered Affiliates of SpinCo or any of the other members of the SpinCo Group.

“Agent” means the distribution agent appointed by Parent to distribute to the Record Holders, pursuant to the Distribution, the shares of SpinCo Common Stock held by Parent.

“Agreement” means this Separation and Distribution Agreement, including the Schedules hereto.

“Ancillary Agreements” means the TMA, the EMA, the IPA, the PCLA, the REMA, the TSA, the Reverse TSA and any other instruments, assignments, documents and agreements executed in connection with the implementation of the transactions contemplated by this Agreement (including any Real Estate Separation Document, any Local Transfer Agreement and any other agreement or instrument executed by the members of the Parent Group and the SpinCo Group for the purpose of transferring Assets and Liabilities in order to effect the transactions contemplated hereby, but excluding any agreement entered into between one or more members of the Parent Group, on the one hand, and of the SpinCo Group, on the other, governing commercial relationships between the two Groups following the Distribution Date, including those listed on Schedule I).

“Arbitral Tribunal” has the meaning set forth in Section 11.03(a).

“Assets” means all assets, properties and rights of every kind and nature (including goodwill), wherever located (including in the possession of vendors or other third parties or elsewhere), whether real, personal or mixed, tangible or intangible, or accrued or contingent, in each case whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person, including the following:

- (a) accounting and other books, records and files, whether in paper, microfilm, microfiche, computer tape or disc, magnetic tape, electronic recording or any other form;
- (b) apparatus, computers and other electronic data processing equipment, fixtures, machinery, furniture, office and other equipment, including hardware systems, circuits and other computer and telecommunication assets and equipment, automobiles, trucks, aircraft, rolling stock, vessels, motor vehicles and other transportation equipment, special and general tools, test devices, prototypes and models and other tangible personal property;
- (c) inventories of materials, parts, raw materials, supplies, work-in-process and finished goods and products;
- (d) interests in real property of whatever nature, including buildings, land, structures, improvements and fixtures thereon, and easements and rights-of-way appurtenant thereto, and leasehold interests, whether as owner, mortgagee or holder of a Security Interest in real property, lessor, sublessor, lessee, sublessee or otherwise;
- (e) interests in any capital stock or other equity interests; bonds, notes, debentures or other securities; loans, advances or other extensions of credit or capital contributions; other investments in securities of any Person; and rights as a partner, joint venturer or participant;
- (f) license agreements, leases of personal property, open purchase orders for raw materials, supplies, parts or services, unfilled orders for the manufacture and sale of products and other Contracts and rights arising thereunder;
- (g) deposits, letters of credit, performance bonds and other surety bonds;
- (h) written technical information, data, specifications, research and development information, engineering drawings, operating and maintenance manuals and materials and analyses prepared by consultants and other third parties;
- (i) Intellectual Property, and attorney opinions or reports related thereto concerning freedom-to-practice, technology due diligence and technology landscapes (whether held internally or by external counsel);

(j) Contracts pursuant to which any license, option or similar right relating to Intellectual Property has been granted or the use of Intellectual Property is restricted (excluding, for the avoidance of doubt, contracts terminated pursuant to the terms of this Agreement or any Ancillary Agreement);

(k) websites, databases, content, text, graphics, images, audio, video, data and other copyrightable works or other works of authorship including translations, adaptations, derivations and combinations thereof, in each case to the extent not included in clause (i) of this definition;

(l) cost information, sales and pricing data, customer prospect lists, supplier records, customer and supplier lists, subscriber, customer and vendor data, correspondence and lists, product literature and other advertising and promotional materials, artwork, design, development and manufacturing files, vendor and customer drawings, formulations and specifications, server and traffic logs, quality records and reports and other books, records, studies, surveys, reports, plans, business records and documents, in each case to the extent not included in clause (i) of this definition;

(m) prepaid expenses, trade accounts and other accounts and notes receivable (whether current or non-current);

(n) rights under insurance policies and all rights in the nature of insurance, indemnification or contribution;

(o) licenses (including radio and similar licenses), permits, consents, approvals and authorizations that have been issued by any Governmental Authority and pending applications therefor;

(p) cash, bank accounts, lockboxes and other deposit arrangements;

(q) interest rate, currency, commodity or other swap, collar, cap or other hedging or similar agreements or arrangements; and

(r) goodwill as a going concern and other intangible properties.

“Assumed Actions” has the meaning set forth in Section 6.11(a).

“Business” means the Parent Business or the SpinCo Business, as applicable.

“Cash” means cash, cash equivalents, bank deposits and marketable securities, whether denominated in United States dollars or otherwise.

“Cash Management Arrangements” means all cash management arrangements pursuant to which Parent or its Subsidiaries automatically or manually sweep cash from, or automatically or manually transfer cash to, accounts of SpinCo or any member of the SpinCo Group.

“Commission” means the Securities and Exchange Commission.

“Consents” means any consents, waivers, authorizations, ratifications, permissions, exemptions or approvals from, or notification requirements to, any Person.

“Contract” means any oral or written contract, agreement or other legally binding instrument, including any note, bond, mortgage, deed, indenture, commitment, lease, sublease, license or sublicense or joint venture.

“Contribution” has the meaning set forth in the recitals.

“Credit Support Instruments” has the meaning set forth in Section 3.01(a).

“D&O Policies” has the meaning set forth in Section 8.05.

“Decision on Interim Relief” has the meaning set forth in Section 11.03(d).

“Dispute” has the meaning set forth in Section 11.02.

“Dispute Notice” has the meaning set forth in Section 11.02.

“Distribution” means the distribution by Parent to the Record Holders, on a pro rata basis, of all of the outstanding shares of SpinCo Common Stock held by Parent.

“Distribution Date” means the date, determined by Parent in accordance with Section 5.03, on which the Distribution occurs.

“EMA” means the Employee Matters Agreement dated as of the date of this Agreement by and between Parent and SpinCo.

“Emergency Arbitrator” has the meaning set forth in Section 11.03(d).

“Exchange” means the New York Stock Exchange.

“Exchange Act” means the Securities Exchange Act of 1934, together with the rules and regulations promulgated thereunder.

“Excluded Actions” has the meaning set forth in Section 6.11(b).

“Final Determination” has the meaning set forth in the TMA.

“First Post-Distribution Report” has the meaning set forth in Section 11.12.

“Form 10” means the registration statement on Form 10 filed by SpinCo with the Commission to effect the registration of SpinCo Common Stock pursuant to the Exchange Act in connection with the Distribution, as such registration statement may be amended or supplemented from time to time.

“GAAP” means United States generally accepted accounting principles.

“Governmental Approvals” means any notices, reports or other filings to be given to or made with, or any Consents, registrations or permits to be obtained from, any Governmental Authority.

“Governmental Authority” means any federal, state, local, foreign, international or multinational court, government, quasi-government, department, commission, board, bureau, agency, official or other legislative, judicial, tribunal, commission, regulatory, administrative or governmental authority.

“Group” means either the Parent Group or the SpinCo Group, or both, as the context requires.

“Hazardous Materials” means (i) any natural or artificial substance (whether solid, liquid, gas or other form of matter) that could cause harm to human health through exposure or to the environment, including petroleum, petroleum products and byproducts, asbestos-containing materials, perfluoroalkyl substances, urea formaldehyde foam insulation, carcinogens, endocrine disrupters, lead-based paint, polychlorinated biphenyls, radioactive substances, greenhouse gases and ozone-depleting substances and (ii) any other chemical, material, substance or waste that could result in Liability under, or that is prohibited, limited or regulated by or pursuant to, any HSE Law.

“HSE Law” means any Law or Governmental Approvals, or any standard used by a Governmental Authority pursuant to any Law or Governmental Approvals, relating to (i) pollution, or protection of the environment, natural resources or, with respect to exposure to Hazardous Materials, human health and safety, (ii) the transportation, treatment, storage or Release of, or exposure to, hazardous or toxic materials or (iii) the registration, manufacturing, sale, labeling or distribution of hazardous or toxic materials or products containing such materials.

“HSE Liabilities” means all Liabilities relating to Hazardous Materials or relating to, arising out of or resulting from any applicable HSE Law or Governmental Approvals required or issued thereunder (including in either case any such Liability for corrective actions, removal, remediation or cleanup costs, investigation, monitoring or sampling obligations or costs, response costs, financial assurance obligations or costs, natural resources damages, medical and other costs related to personal injuries, property damage, costs, fines, penalties or other sanctions).

“Indemnifying Party” has the meaning set forth in Section 6.04(a).

“Indemnitee” has the meaning set forth in Section 6.04(a).

“Indemnity Payment” has the meaning set forth in Section 6.04(a).

“Information” means information, whether or not patentable, copyrightable or protectable as a trade secret, in written, oral, electronic or other tangible or intangible forms, stored in any medium now known or yet to be created, including studies, reports, records, books, Contracts, instruments, surveys, analyses, discoveries, ideas, concepts, know-how, techniques, designs, specifications, drawings, blueprints, diagrams, models, prototypes, samples, flow charts, data, computer data, disks, diskettes, tapes, computer programs or other software, marketing plans, customer names, communications (including those by or to attorneys (whether or not subject to the attorney-client privilege)), memos and other materials (including those prepared by attorneys or under their direction (whether or not constituting attorney work product)) and other technical, financial, employee or business information or data, documents, correspondence, materials and files, in each case excluding any Intellectual Property rights therein.

“Information Statement” means the Information Statement sent to the holders of Parent Common Stock in connection with the Distribution, as such Information Statement may be amended from time to time.

“Insurance Proceeds” means those monies:

- (a) received by an insured (or its successor-in-interest) from an insurance carrier;
- (b) paid by an insurance carrier on behalf of the insured (or its successor-in-interest); or
- (c) received (including by way of setoff) from any third party in the nature of insurance, contribution or indemnification in respect of any Liability;

in any such case net of (i) any applicable premium adjustments (including reserves and retrospectively rated premium adjustments), (ii) any costs or expenses incurred in the collection thereof, (iii) any reimbursement obligations under “fronted” or similar insurance policies and (iv) any Taxes resulting from the receipt thereof.

“Intellectual Property” has the meaning set forth in the IPA.

“Intended Tax Treatment” has the meaning set forth in the TMA.

“Intercompany Accounts” has the meaning set forth in Section 2.03(a).

“Intercompany Agreements” has the meaning set forth in Section 2.03(a).

“Intercompany Deeds” means the deeds (or similar instruments) conveying a fee simple interest (or local equivalent) in real property, together with any applicable transfer tax forms and other documents required under applicable Law, (i) delivered by a member of the Parent Group, as grantor, to a member of the SpinCo Group, as grantee, or (ii) delivered by a member of the SpinCo Group, as grantor, to a member of the Parent Group, as grantee, in each case in accordance with the REMA.

“Intercompany Leases” means the real property leases by and between (i) a member of the Parent Group, as lessor, and a member of the SpinCo Group, as lessee, or (ii) a member of the SpinCo Group, as lessor, and a member of the Parent Group, as lessee, in each case in accordance with the REMA.

“Intercompany Subleases” means the real property subleases (i) by and between a member of the Parent Group, as sublessor, and a member of the SpinCo Group, as sublessee or (ii) by and between a member of the SpinCo Group, as sublessor, and a member of the Parent Group, as sublessee (if any), in each case in accordance with the REMA.

“Interim Relief” has the meaning set forth in Section 11.03(d).

“Investigation” means any inquiry, investigation, probe, audit or inspection conducted by a member of the Parent Group or the SpinCo Group.

“IPA” means the Intellectual Property Agreement dated as of the date of this Agreement by and between Parent and Kyndryl, Inc.

“IRS Ruling” has the meaning set forth in the TMA.

“Joint Actions” has the meaning set forth in Section 6.11(c).

“Known Counsel” has the meaning set forth in Section 7.10.

“Law” means any statute, law, regulation, ordinance, rule, judgment, rule of common law, order, decree, Governmental Approval, concession, grant, franchise, license, agreement, directive, guideline, policy, requirement or other governmental restriction or any similar form of decision of, or determination by, or any interpretation or administration of any of the foregoing by, any Governmental Authority, whether now or hereinafter in effect and, in each case, as amended.

“Lease Assignments” means the assignments of real property leases and subleases by and between (i) a member of the Parent Group, as assignor, and a member of the SpinCo Group, as assignee, or (ii) a member of the SpinCo Group, as assignor, and a member of the Parent Group, as assignee (if any) in each case as set forth on Schedule XII under the caption “Lease Assignments.”

“Liabilities” means any and all claims, debts, demands, actions, causes of action, suits, damages, fines, penalties, obligations, prohibitions, accruals, accounts payable, bonds, indemnities and similar obligations, agreements, promises, guarantees, make-whole agreements and similar obligations, and other liabilities and requirements, including all contractual obligations, whether absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, and including those arising under any Law, Action, threatened or contemplated Action or any award of any arbitrator or mediator of any kind, and those arising under any Contract, including those arising under this Agreement or any Ancillary Agreement, in each case, whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person. For the avoidance of doubt, Liabilities shall include attorneys’ fees, the costs and expenses of all assessments, judgments, settlements and compromises, and any and all other costs and expenses whatsoever reasonably incurred in connection with anything contemplated by the preceding sentence (including costs and expenses incurred in investigating, preparing or defending against any such Actions or threatened or contemplated Actions).

“Local Transfer Agreement” means any agreement entered into for the purpose of effecting the Separation Transactions in accordance with the Laws of an applicable jurisdiction, including those set forth on Schedule XX.

“Managing Party” has the meaning set forth in Section 6.11(e).

“Mixed Action” means (x) any Action identified on Schedule XV or (y) any other Action in respect of which an Indemnifying Party may be obligated to provide indemnification pursuant to this Agreement that involves both Parent Assets or Parent Liabilities, on the one hand, and SpinCo Assets or SpinCo Liabilities, on the other hand.

“Negotiation Period” has the meaning set forth in Section 11.02.

“Non-Managing Party” has the meaning set forth in Section 6.11(e).

“PAA” means the Patent Assignment Agreements, entered into by and between Parent and Kyndryl, Inc.

“Parent” has the meaning set forth in the preamble.

“Parent Account” means any bank, brokerage or similar account owned by Parent or any other member of the Parent Group, including the Parent Accounts listed or described on Schedule XI.

“Parent Assets” means (a) all Assets of the Parent Group other than the SpinCo Assets, (b) the Parent Retained Assets, (c) any Assets held by a member of the SpinCo Group that are determined by Parent, in good faith, to be primarily related to or used primarily in connection with the business or operations of the Parent Business (unless otherwise expressly provided in connection with this Agreement or any Ancillary Agreement), (d) all interests in the capital stock of, or other equity interests in, the members of the Parent Group (other than Parent), (e) the rights related to the Parent Portion of any Shared Contract and (f) the Parent IP.

“Parent Business” means the businesses and operations as currently or formerly conducted by Parent and its predecessors and its Subsidiaries other than the SpinCo Business.

“Parent Common Stock” means the common stock, \$0.20 par value per share, of Parent.

“Parent Credit Support Instruments” has the meaning set forth in Section 3.01(a).

“Parent Disclosure Sections” means all information set forth in or omitted from the Form 10 or Information Statement to the extent relating to (a) the Parent Group, (b) the Parent Liabilities, (c) the Parent Assets or (d) the substantive disclosure set forth in the Form 10 relating to Parent’s board of directors’ consideration of the Spin-Off, including the section entitled “Reasons for the Spin-Off.”

“Parent Group” means Parent and each of its Subsidiaries, but excluding any member of the SpinCo Group.

“Parent HSE Liabilities” means any HSE Liability, whether occurring or arising prior to, on or after the Distribution Date, to the extent (a) relating to, arising out of or resulting from (i) any compliance or non-compliance with any HSE Law in connection with the operation of the Parent Business or any Parent Asset, (ii) any Release of any Hazardous Material at, on, under, from or to any real property constituting a Parent Asset, (iii) any Release, transportation, storage, disposal, treatment or recycling (or arrangement for such activities) of Hazardous Material in connection with the operation of the Parent Business or (iv) any alleged personal or property exposure to Hazardous Materials (including those contained in any products currently or formerly manufactured, sold, distributed or marketed) in connection with clauses (i) through (iii) or the operation of the Parent Business or any Parent Asset or (b) otherwise relating to, arising out of or resulting from the Parent Business or Parent Asset.

“Parent Indemnitees” has the meaning set forth in Section 6.02.

“Parent IP” has the meaning set forth in the IPA.

“Parent Liabilities” means, without duplication, the following Liabilities:

(a) all Liabilities of the Parent Group other than SpinCo Liabilities;

(b) all Liabilities to the extent relating to, arising out of or resulting from:

(i) the operation or conduct of the Parent Business as conducted at any time prior to the Distribution (including any such Liability to the extent relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person’s authority), which act or failure to act relates to the Parent Business);

(ii) the operation or conduct of the Parent Business or any other business conducted by Parent or any other member of the Parent Group at any time after the Distribution (including any such Liability to the extent relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person’s authority)); or

(iii) the Parent Assets;

(c) all Liabilities of the Parent Group for accounts payable (including trade payables, employee-related withholding payables), and payables due from the Parent Group relating to or arising out of the Parent Assets, in each case other than any item otherwise covered by clause (c) of the definition of “SpinCo Liabilities”;

(d) the Parent Retained Liabilities;

(e) all Parent HSE Liabilities;

(f) any obligations to the extent relating to, arising out of or resulting from the Parent Portion of any Shared Contract;

(g) any Liabilities to the extent they are determined by Parent, in good faith prior to the Distribution, to relate to, arise out of or result from the business or operations of the Parent Business (unless otherwise expressly provided in this Agreement or any Ancillary Agreement); and

(h) all Liabilities to the extent relating to, arising out of or resulting from any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to the Parent Disclosure Sections.

Notwithstanding the foregoing, the Parent Liabilities shall not include the SpinCo Liabilities.

“Parent Policy Pre-Separation Insurance Claim” means any (a) claim made against the SpinCo Group or Parent Group and reported to the applicable insurer(s) prior to the Distribution Date in respect of an act or omission occurring prior to the Distribution Date that results in a Liability under a “claims-made-based” insurance policy of the Parent Group in effect prior to the Distribution Date or any extended reporting period thereof or (b) Action (whether made prior to, on or following the Distribution Date) in respect of a Liability occurring prior to the Distribution Date under an “occurrence-based” insurance policy of any member of the Parent Group in effect prior to the Distribution Date; provided, that with respect to director’s and officer’s liability, fiduciary liability, employment practice liability, wage and hour, professional errors and omissions or crime insurance policies, no claim made against the SpinCo Group or Parent Group and reported to the applicable insurer(s) after the Distribution Date shall constitute a Parent Policy Pre-Separation Insurance Claim hereunder.

“Parent Portion” has the meaning set forth in Section 2.04(a).

“Parent Retained Assets” means the Assets to be retained by the Parent Group as set forth on Schedule III.

“Parent Retained Liabilities” means the Liabilities to be retained by the Parent Group as set forth on Schedule IV.

“Party” means either party hereto, and “Parties” means both parties hereto.

“PCLA” means the Patent Cross License Agreement dated as of the date of this Agreement by and between Parent and Kyndryl, Inc.

“Person” means an individual, a general or limited partnership, a corporation, an association, a trust, a joint venture, an unincorporated organization, a limited liability company, any other entity and any Governmental Authority.

“Real Estate Separation Documents” means the Intercompany Deeds, the Intercompany Leases, the Intercompany Subleases, the Lease Assignments and the Split Leases (as such term is defined in the REMA).

“Record Date” means the close of business on the date determined by the Parent board of directors as the record date for determining the shares of Parent Common Stock in respect of which shares of SpinCo Common Stock will be distributed pursuant to the Distribution.

“Record Holders” has the meaning set forth in Section 5.01(b).

“Release” means any actual or threatened release, spill, emission, discharge, flow, leaking, pumping, pouring, dumping, injection, deposit, disposal, dispersal, leaching or migration into or through the indoor or outdoor environment.

“REMA” means the Real Estate Matters Agreement dated as of the date of this Agreement by and between Parent and SpinCo.

“Representation Letters” has the meaning set forth in the TMA.

“Representative” has the meaning set forth in Section 7.09(a).

“Reverse TSA” means the Transition Services Agreement dated as of the date of this Agreement between Parent and SpinCo, providing for the provision of certain services to Parent.

“Rules” has the meaning set forth in Section 11.03.

“Security Interest” means any mortgage, security interest, pledge, lien, charge, claim, option, right to acquire, voting or other restriction, right-of-way, covenant, condition, easement, encroachment, restriction on transfer or other encumbrance of any nature whatsoever.

“Separation Step Plan” means the global step plan setting forth the specific transactions undertaken in anticipation and furtherance of the Spin-Off, attached as Schedule II hereto, as subsequently adjusted or revised by the Parties (including to set forth the intended tax treatment of relevant transactions).

“Separation Transactions” means the Contribution, the Distribution and the other transactions contemplated by this Agreement and the Separation Step Plan.

“Shared Contract” means any Contract of any member of either Group with a third party that relates in any material respect to both the SpinCo Business and the Parent Business, in each case that is set forth on Schedule IX.

“Specified Confidential Information” has the meaning set forth in Section 7.09(a).

“Spin-Off” means the Contribution and the Distribution, taken together.

“SpinCo” has the meaning set forth in the preamble.

“SpinCo Account” means any bank, brokerage or similar account owned by SpinCo or any other member of the SpinCo Group, including the SpinCo Accounts listed or described on Schedule X.

“SpinCo Assets” means, without duplication, the following Assets:

(a) all Assets (other than Intellectual Property, Joint Venture Agreements, SpinCo Joint Venture Interests or other equity interests) of Parent and its Subsidiaries that relate exclusively to the SpinCo Business;

(b) all Assets (other than Intellectual Property) held by the SpinCo Group as of immediately before the Distribution; provided that, with respect to Transferred SpinCo Group Members, no Asset will be a SpinCo Asset solely by virtue of this clause (b);

(c) all interests in the capital stock of, or other equity interests in, the members of the SpinCo Group (other than SpinCo) and all other equity, partnership, membership, joint venture and similar interests set forth on Schedule V under the caption "Joint Ventures and Minority Investments";

(d) accounts receivable (other than intercompany accounts receivable between members of the Parent Group and/or any other Affiliate of Parent), inventory and other current assets that relate exclusively to the SpinCo Business;

(e) the Assets listed or described on Schedule VI;

(f) the SpinCo Contracts;

(g) the rights related to the SpinCo Portion of any Shared Contract;

(h) the SpinCo Real Property;

(i) the SpinCo IP;

(j) office equipment, trade fixtures and furnishings located at SpinCo Real Property (in each case excluding any office equipment, trade fixtures and furnishings owned by Persons other than Parent and its Subsidiaries and/or scheduled as excluded property under any Real Estate Separation Document); provided that personal computers and other personal equipment shall be retained by the Group that, following the Distribution, retains the services of the applicable individual who, prior to the Distribution, used such personal computer or other personal equipment;

(k) all claims or rights against any Person, all Actions, judgments or similar rights, all rights under express or implied warranties, all rights of recovery and all rights of setoff of any kind and demands of any nature, in each case whether accrued or contingent, whether in tort, contract or otherwise and whether arising by way of counterclaim or otherwise, in each case exclusively arising from the ownership of any SpinCo Asset; and

(l) all other Assets that are expressly provided by this Agreement or any Ancillary Agreement as Assets to be assigned to or retained by, or allocated to, any member of the SpinCo Group.

Notwithstanding the foregoing, the SpinCo Assets shall not include (i) any Parent Retained Assets or (ii) any Assets that are determined by Parent, in good faith prior to the Distribution, to primarily relate to or to be used primarily in the business or operations of the Parent Business (unless otherwise expressly provided in this Agreement or any Ancillary Agreement); or (iii) any Intellectual Property other than SpinCo IP.

“SpinCo Business” means the business of the Managed Infrastructure Services unit of IBM’s Global Technology Services (GTS) segment, including the Security, Regulatory and Risk Management Services and the Identity Management Services offerings of the Security Services unit of IBM’s Cloud & Cognitive Software segment, but excluding the Public Cloud Platform offering of the Managed Infrastructure Services unit, in each case as such business has been conducted prior to the Distribution.

“SpinCo Common Stock” means the common stock, \$0.01 par value per share, of SpinCo.

“SpinCo Contracts” means the following Contracts to which Parent or any of its Subsidiaries is a party or by which Parent or any of its Subsidiaries or any of their respective Assets is bound, whether or not in writing, in each case, immediately prior to the Distribution, except for any such Contract or part thereof that is expressly contemplated to be assigned to or retained by, or allocated to, any member of the Parent Group pursuant to any provision of this Agreement or any other Ancillary Agreement:

(a) (i) any Contract listed or described on Schedule VI(a)(i) and (ii) any other Contract (other than any joint venture agreement) that relates exclusively to the SpinCo Business;

(b) the SpinCo Joint Venture Agreements; and

(c) any Contract or part thereof that is otherwise expressly contemplated pursuant to this Agreement or any of the other Ancillary Agreements to be assigned to or retained by, or allocated to, any member of the SpinCo Group.

“SpinCo Credit Support Instruments” has the meaning set forth in Section 3.02(a).

“SpinCo Debt Proceeds Distribution” means the distribution by SpinCo to Parent of all or a portion of the net proceeds from SpinCo’s issuance of debt securities and/or incurrence of term loans.

“SpinCo Group” means (a) SpinCo, (b) each Person that will be a Subsidiary of SpinCo immediately prior to the Distribution, including the entities set forth on Schedule V under the caption “Subsidiaries” and (c) each Person that becomes a Subsidiary of SpinCo after the Distribution, including in each case any Person that is merged or consolidated with or into SpinCo or any Subsidiary of SpinCo.

“SpinCo Holdings Securities” means the debt securities issued by SpinCo to Parent.

“SpinCo HSE Liabilities” means any HSE Liability, whether occurring or arising prior to, on or after the Distribution Date, (x) of the SpinCo Group or (y) to the extent (a) relating to, arising out of or resulting from (i) any compliance or non-compliance with any HSE Law in connection with the operation of the SpinCo Business or any SpinCo Real Property, (ii) any Release of any Hazardous Material at, on, under, from or to any SpinCo Real Properties, (iii) any Release, transportation, storage, disposal, treatment or recycling (or arrangement for such activities) of Hazardous Material in connection with the operation of the SpinCo Business or (iv) any exposure to Hazardous Materials with respect to clauses (i) through (iii) or otherwise in connection with the SpinCo Business or any SpinCo Asset or (b) otherwise relating to, arising out of or resulting from the SpinCo Business or any SpinCo Asset.

“SpinCo Indemnitees” has the meaning set forth in Section 6.03.

“SpinCo IP” has the meaning set forth in the IPA.

“SpinCo Joint Venture Agreements” means those Contracts governing the rights and obligations associated with the ownership of the SpinCo Joint Venture Interests.

“SpinCo Joint Venture Interests” means the equity interests in joint ventures identified as SpinCo Joint Venture Interests on Schedule V.

“SpinCo Liabilities” means, without duplication, the following Liabilities:

(a) all Liabilities of the SpinCo Group; provided that, with respect to Transferred SpinCo Group Members, no Liability will be a SpinCo Liability solely by virtue of this clause (a);

(b) all Liabilities to the extent relating to, arising out of or resulting from:

(i) the operation or conduct of the SpinCo Business as conducted at any time prior to the Distribution (including any such Liability to the extent relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person’s authority), which act or failure to act relates to the SpinCo Business);

(ii) the operation or conduct of the SpinCo Business or any other business conducted by SpinCo or any other member of the SpinCo Group at any time after the Distribution (including any such Liability to the extent relating to, arising out of or resulting from any act or failure to act by any director, officer, employee, agent or representative (whether or not such act or failure to act is or was within such Person’s authority)); or

(iii) the SpinCo Assets;

(c) accounts payable (other than intercompany accounts payable between members of the Parent Group and/or any other Affiliate of Parent) and other current Liabilities that relate exclusively to the SpinCo Business;

(d) all SpinCo HSE Liabilities;

(e) the Liabilities listed or described on Schedule VII;

(f) any obligations to the extent arising from the SpinCo Portion of any Shared Contract;

(g) all other Liabilities that are expressly provided by this Agreement or any Ancillary Agreement as Liabilities to be assumed or retained by, or allocated to, any member of the SpinCo Group; and

(h) all Liabilities to the extent relating to, arising out of or resulting from any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in, or incorporated by reference into, the Form 10 and any other documents filed with the Commission in connection with the Spin-Off or as contemplated by this Agreement, other than with respect to the Parent Disclosure Sections.

Notwithstanding the foregoing, the SpinCo Liabilities shall not include any Parent Retained Liabilities.

“SpinCo Portion” has the meaning set forth in Section 2.04(a).

“SpinCo Real Property” means the real property and real property interests identified on Schedule VIII, and any fixtures or appurtenances associated therewith.

“Subsidiary” of any Person means any corporation or other organization, whether incorporated or unincorporated, of which at least a majority of the securities or interests having by the terms thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization, is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries.

“Tax” or “Taxes” has the meaning set forth in the TMA.

“Tax Opinion” has the meaning set forth in the TMA.

“Third-Party Claim” means any written assertion by a Person (including any Governmental Authority) who is not a member of the Parent Group or the SpinCo Group of any claim, or the commencement by any such Person, of any Action, against any member of the Parent Group or the SpinCo Group.

“Third-Party Proceeds” has the meaning set forth in Section 6.04(a).

“TMA” means the Tax Matters Agreement dated as of the date of this Agreement by and between Parent and SpinCo.

“Transferred SpinCo Group Member” means any member of the SpinCo Group that was not formed in connection with the transactions contemplated by this Agreement and the Ancillary Agreements.

“Treasury Regulations” has the meaning set forth in the TMA.

“TSA” means the Transition Services Agreement dated as of the date of this Agreement between Parent and SpinCo, providing for the provision of certain services to SpinCo.

ARTICLE II

THE SEPARATION

Section 2.01 Transfer of Assets and Assumption of Liabilities.

(a) In accordance with, and in the manner contemplated by, the Separation Step Plan and to the extent not effected prior to the date of this Agreement, subject to Section 2.01(d), prior to the Distribution, the Parties shall, and shall cause their respective Group members to, execute such instruments of assignment or transfer and take such other corporate actions as are necessary to:

(i) transfer and convey to one or more members of the SpinCo Group all of the right, title and interest of the Parent Group in, to and under all SpinCo Assets not already owned by the SpinCo Group;

(ii) transfer and convey to one or more members of the Parent Group all of the right, title and interest of the SpinCo Group in, to and under all Parent Assets not already owned by the Parent Group;

(iii) cause one or more members of the SpinCo Group to assume all of the SpinCo Liabilities to the extent such Liabilities would otherwise remain obligations of any member of the Parent Group; and

(iv) cause one or more members of the Parent Group to assume all of the Parent Liabilities to the extent such Liabilities would otherwise remain obligations of any member of the SpinCo Group.

Notwithstanding anything to the contrary, neither Party shall be required to transfer any Information except as required by Article VII, by any Ancillary Agreement or any insurance policies (which are the subject of Article VIII).

(b) In the event that it is discovered in the twelve (12) month period after the Distribution that there was an omission of (i) the transfer or conveyance by SpinCo (or a member of the SpinCo Group) to, or the acceptance or assumption by, Parent (or a member of the Parent Group) of any Parent Asset or Parent Liability, as the case may be or (ii) the transfer or conveyance by Parent (or a member of the Parent Group) to, or the acceptance or assumption by, SpinCo (or a member of the SpinCo Group) of any SpinCo Asset or SpinCo Liability, as the case may be, the Parties shall use reasonable best efforts to promptly effect such transfer, conveyance, acceptance or assumption of such Asset or Liability, as the case may be. Any transfer, conveyance, acceptance or assumption made pursuant to this Section 2.01(b) shall be treated by the Parties for all purposes as if it had occurred prior to the Distribution, except as otherwise required by applicable Law or a Final Determination.

(c) In the event that it is discovered in the twelve (12) month period after the Distribution that there was a transfer or conveyance (i) by SpinCo (or a member of the SpinCo Group) to, or the acceptance or assumption by, Parent (or a member of the Parent Group) of any SpinCo Asset or SpinCo Liability, as the case may be, or (ii) by Parent (or a member of the Parent Group) to, or the acceptance or assumption by, SpinCo (or a member of the SpinCo Group) of any Parent Asset or Parent Liability, as the case may be, the Parties shall use reasonable best efforts to promptly transfer or convey such Asset or Liability back to the transferring or conveying Party or to rescind any acceptance or assumption of such Asset or Liability, as the case may be. Any transfer or conveyance made or acceptance or assumption rescinded pursuant to this Section 2.01(c) shall be treated by the Parties for all purposes as if such Asset or Liability had never been originally transferred, conveyed, accepted or assumed, as the case may be, except as otherwise required by applicable Law or a Final Determination.

(d) To the extent that any transfer or conveyance of any Asset (other than Shared Contracts, which are governed solely by Section 2.04; or the fee interests (or local equivalent), leasehold interests, subleasehold interests or other real property interests under the Real Estate Separation Documents, which are governed by the REMA); or acceptance or assumption of any Liability (other than Shared Contracts, which are governed solely by Section 2.04; or the fee interests (or local equivalent), leasehold interests, subleasehold interests or other real property interests under the Real Estate Separation Documents, which are governed by the REMA) required by this Agreement to be so transferred, conveyed, accepted or assumed shall not have been completed prior to the Distribution during the 12-month period following the Distribution, the Parties shall use reasonable best efforts to effect such transfer, conveyance, acceptance or assumption as promptly following the Distribution as shall be practicable. Nothing in this Agreement shall be deemed to require the transfer or conveyance of any Assets or the acceptance or assumption of any Liabilities which by their respective terms (or the terms of any Contract relating to such Asset or Liability) or operation of Law cannot be so transferred, conveyed, accepted or assumed; provided, however, that the Parties shall use reasonable best efforts to obtain any necessary Governmental Approvals and other Consents for the transfer, conveyance, acceptance or assumption (as applicable) of all Assets and Liabilities required by this Agreement to be so transferred, conveyed, accepted or assumed; provided, further, that neither Party nor any member of its Group shall be required to contribute capital, pay or grant any consideration or concession in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person in order to cause such Governmental Approval or other Consent to be obtained (other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees, all of which shall be reimbursed by the Party or the member of the Party's Group entitled to such Asset or intended to assume such Liability, as applicable, as promptly as reasonably practicable). In the event that any such transfer, conveyance, acceptance or assumption (as applicable) has not been completed effective as of the Distribution, the Party retaining such Asset or Liability (or the member of the Party's Group retaining such Asset or Liability) shall thereafter hold such Asset for the use and benefit of the Party entitled thereto (at the expense of the Party entitled thereto) and retain such Liability for the account, and at the expense, of the Party by whom such Liability should have been assumed or accepted pursuant to this Agreement, and take such other actions as may be reasonably requested by the Party to which (or to the Group of which) such Asset should have been transferred or conveyed, or by whom (or by the Group of whom) such Liability should have been assumed or accepted, as the case may be, in order to place such Party or the member of its Group, insofar as reasonably possible, in the same position as would have existed had such Asset or Liability been transferred, conveyed, accepted or assumed (as applicable) as and when contemplated by this Agreement, including in respect of possession, use, risk of loss, potential for gain and control over such Asset or Liability, as the case may be. As and when any such Asset or Liability becomes transferable or assumable, as the case may be, each Party shall, and shall cause the members of its Group to, use reasonable best efforts to promptly effect such transfer, conveyance, acceptance or assumption (as applicable). Any transfer, conveyance, acceptance or assumption made pursuant to this Section 2.01(d) shall be treated by the Parties for all purposes as if it had occurred immediately prior to the Distribution, except as otherwise required by applicable Law or a Final Determination.

(e) The Party retaining any Asset or Liability due to the deferral of the transfer and conveyance of such Asset or the deferral of the acceptance and assumption of such Liability pursuant to this Section 2.01 or otherwise shall not be obligated by this Agreement, in connection with this Section 2.01, to expend any money or take any action that would require the expenditure of money unless and to the extent the Party or the member of the Party's Group entitled to receive such Asset or intended to assume such Liability, as applicable, advances or agrees to reimburse it for the applicable expenditures.

(f) Without limiting any other provision hereof, each of Parent and SpinCo will take, and will cause each member of its respective Group to take, such actions as are reasonably necessary to consummate the transactions contemplated by the Separation Step Plan (whether prior to, at or after the Distribution). The Parties agree that the steps described in the Separation Step Plan shall be effected in the order and manner prescribed in the Separation Step Plan.

(g) In the event that Parent determines to seek novation with respect to any SpinCo Liability, SpinCo shall reasonably cooperate with, and shall cause the members of the SpinCo Group to reasonably cooperate with, Parent and the members of the Parent Group (including, where necessary, entering into appropriate instruments of assumption and, where necessary, SpinCo providing parent guarantees in support of the obligations of other members of the SpinCo Group) to cause such novation to be obtained, on terms reasonably acceptable to SpinCo, and to have Parent and the members of the Parent Group released from all liability to third parties arising after the date of such novation and, in the event SpinCo determines to seek novation with respect to any Parent Liability, Parent shall reasonably cooperate with, and shall cause the members of the Parent Group to reasonably cooperate with, SpinCo and the members of the SpinCo Group (including, where necessary, entering into appropriate instruments of assumption and, where necessary, Parent providing parent guarantees in support of the obligations of other members of the Parent Group) to cause such novation to be obtained, on terms reasonably acceptable to Parent, and to have SpinCo and the members of the SpinCo Group released from all liability to third parties arising after the date of such novation; provided that neither Party nor any member of its Group shall be required to contribute capital, pay or grant any consideration or concession in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person in order to cause such novation to be obtained (other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees, all of which shall be reimbursed by the Party or the member of the Party's Group entitled to such Asset or intended to assume such Liability, as applicable, as promptly as reasonably practicable).

Section 2.02 Certain Matters Governed Exclusively by Ancillary Agreements. Each of Parent and SpinCo agrees on behalf of itself and the members of its Group that, except as explicitly provided in this Agreement or any Ancillary Agreement (including clause (l) of the definition of SpinCo Assets and clause (g) of the definition of SpinCo Liabilities), (a) the TMA shall exclusively govern all matters relating to Taxes between such parties (except to the extent that tax matters relating to employee and employee benefits-related matters are addressed in the EMA), (b) the EMA shall exclusively govern the allocation of Assets and Liabilities related to employee and employee compensation and benefits-related matters, including the outstanding awards (equity- and cash-based) under existing equity plans with respect to employees and former employees of members of both the Parent Group and the SpinCo Group (except to the extent that employee compensation and benefits-related reimbursements are addressed in the TSA or the Reverse TSA), (c) the IPA, PAA and other Intellectual Property assignment agreements shall exclusively govern the recordation of the transfers of any registrations or applications of Parent IP and SpinCo IP that is allocated hereunder, as applicable, and the use and licensing of certain Intellectual Property identified therein between members of the Parent Group and members of the SpinCo Group, (d) the PCLA and PAA shall exclusively govern all matters relating to the use and licensing of certain patents identified therein between members of the Parent Group and the SpinCo Group, (e) the TTMA shall exclusively govern all matters relating to the use and licensing of certain trademarks identified therein between members of the Parent Group and the SpinCo Group, (f) the TSA and the Reverse TSA shall exclusively govern all matters relating to the provision of certain services identified therein to be provided by each Party to the other on a transitional basis following the Distribution, and (g) the REMA shall exclusively govern all matters relating to the Real Estate Separation Documents, including the allocation and transfer of interests in real property. Except as set forth in this Section 2.02, in the event and to the extent that there shall be a conflict between the provisions of this Agreement and the provisions of any Ancillary Agreement, the provisions of this Agreement shall control (unless this Agreement or the Ancillary Agreement explicitly provides otherwise).

Section 2.03 Termination of Agreements.

(a) Except as set forth in Section 2.03(b) or Section 2.03(c) or as otherwise provided by the Separation Step Plan, in furtherance of the releases and other provisions of Section 6.01, effective as of the Distribution, SpinCo and each other member of the SpinCo Group, on the one hand, and Parent and each other member of the Parent Group, on the other hand, hereby terminate any and all Contracts, arrangements, commitments and understandings, oral or written between such parties and in existence as of the Distribution Date ("Intercompany Agreements"), including all intercompany accounts payable or accounts receivable in effect or accrued as of the Distribution Date ("Intercompany Accounts"). No such terminated Intercompany Agreement or Intercompany Account (including any provision thereof that purports to survive termination) shall be of any further force or effect after the Distribution Date. Each Party shall, at the reasonable request of the other Party, take, or cause to be taken, such other actions as may be necessary to effect the foregoing. The Parties, on behalf of the members of their respective Groups, hereby waive any advance notice provision or other termination requirements with respect to any Intercompany Agreement.

(b) The provisions of Section 2.03(a) and Section 2.03(c) shall not apply to any of the following Intercompany Agreements or Intercompany Accounts (or to any of the provisions thereof): (i) this Agreement and the Ancillary Agreements (and each other Intercompany Agreement or Intercompany Account expressly contemplated by this Agreement or any Ancillary Agreement to be entered into by either Party or any other member of its Group, including any Real Estate Separation Document and any Local Transfer Agreement or created by any Ancillary Agreement); (ii) any Intercompany Agreements to which any third party is a party, including any Shared Contracts; (iii) any other Intercompany Agreements or Intercompany Accounts created by any Ancillary Agreement or that this Agreement, any Ancillary Agreement or such Intercompany Agreement expressly contemplates will survive the Distribution Date; (iv) any Intercompany Agreement entered into in connection with the transactions contemplated hereby for the purpose of surviving the Distribution and governing commercial matters between Parent Group and the SpinCo Group following the Distribution; and (v) those Intercompany Agreements and Intercompany Accounts set forth on Schedule XII.

(c) In connection with the termination of Intercompany Accounts described in Section 2.03(a), each of Parent and SpinCo shall cause each Intercompany Account between a member of the SpinCo Group, on the one hand, and a member of the Parent Group, on the other hand, outstanding as of the close of business on the business day immediately prior to the date of the Distribution to be settled in the manner provided on Schedule XIX.

(d)

(i) Parent and SpinCo each agree to take, or cause the respective members of their respective Groups to take, prior to the Distribution (or as promptly as reasonably practicable thereafter), all actions necessary to amend all contracts or agreements governing (x) the Parent Accounts so that such Parent Accounts, if linked (whether by automatic withdrawal, automatic deposit or any other authorization to transfer funds from or to, hereinafter “linked”) to any SpinCo Account, are de-linked from such SpinCo Accounts and (y) the SpinCo Accounts so that such SpinCo Accounts, if linked to any Parent Account, are de-linked from such Parent Accounts.

(ii) With respect to any outstanding checks issued by, or payments made by, Parent, SpinCo or any of their respective Subsidiaries prior to the Distribution, such outstanding checks shall be honored from and after the Distribution by the Person or Group owning the account on which the check is drawn, without limiting the ultimate allocation of Liability for such amounts under this Agreement or any Ancillary Agreement.

(iii) As between Parent and SpinCo (and the members of their respective Groups), except to the extent prohibited by applicable Law or a Final Determination, all payments and reimbursements received after the Distribution by either Party (or a member of its Group) to which the other Party (or a member of its Group) is entitled under this Agreement, shall be held by such Party (or the applicable member of its Group) in trust for the use and benefit of the Person entitled thereto and, within sixty (60) days of receipt by such Party (or the applicable member of its Group) of any such payment or reimbursement, such Party shall pay over, or shall cause the applicable member of its Group to pay over to the other Party (or the applicable member of its Group), the amount of such payment or reimbursement without right of setoff unless otherwise determined by Parent and SpinCo (or the applicable members of each of their respective Groups).

Section 2.04 Shared Contracts.

(a) Except as set forth on Schedule IX, the Parties shall, and shall cause the members of their respective Groups to, use their respective reasonable best efforts to work together in an effort to divide, partially assign, modify or replicate (in whole or in part) the respective rights and obligations under and in respect of any Shared Contract, such that (a) a member of the SpinCo Group is the beneficiary of the rights and is responsible for the obligations related to that portion of such Shared Contract relating to the SpinCo Business (the "SpinCo Portion"), which rights shall be a SpinCo Asset and which obligations shall be a SpinCo Liability, and (b) a member of the Parent Group is the beneficiary of the rights and is responsible for the obligations related to such Shared Contract not relating to the SpinCo Business (the "Parent Portion"), which rights shall be a Parent Asset and which obligations shall be a Parent Liability. Nothing in this Agreement shall require the division, partial assignment, modification or replication of a Shared Contract unless and until any necessary Consents are obtained or made, as applicable. If the Parties, or their respective Group members, as applicable, are not able to enter into an arrangement to formally divide, partially assign, modify or replicate such Shared Contract prior to the Distribution as contemplated by the previous sentence, and subject to the other provisions of this Section 2.04, then the Parties shall, and shall cause their respective Group members to, cooperate in any reasonable and permissible arrangement as determined by Parent to provide that, following the Distribution, a member of the SpinCo Group shall receive the interest in the benefits and obligations of the SpinCo Portion under such Shared Contract and a member of the Parent Group shall receive the interest in the benefits and obligations of the Parent Portion under such Shared Contract, it being understood that no Party shall have Liability to the other Party for the failure of any third party to perform its obligations under any such Shared Contract.

(b) Nothing in this Section 2.04 shall require either Party or any member of each of their respective Groups to contribute capital, pay or grant any consideration or concession in any form (including providing any letter of credit, guaranty or other financial accommodation) to any Person (other than reasonable out-of-pocket expenses, attorneys' fees and recording or similar fees, all of which shall be reimbursed by the Party or the member of the Party's Group entitled to such Asset or intended to assume such Liability, as applicable, as promptly as reasonably practicable). For the avoidance of doubt, reasonable out-of-pocket expenses and recording or similar fees shall not include any purchase price, license fee, or other payment or compensation for the procurement of any asset secured to replace an Asset in the course of a Party's obligation under Section 2.04(a).

Section 2.05 Disclaimer of Representations and Warranties. Each of Parent (on behalf of itself and each other member of the Parent Group) and SpinCo (on behalf of itself and each other member of the SpinCo Group) understands and agrees that, except as expressly set forth in this Agreement, any Ancillary Agreement or the Representation Letters, no party to this Agreement, any Ancillary Agreement or any other agreement or document contemplated by this Agreement or any Ancillary Agreement is representing or warranting in any way as to any Assets or Liabilities transferred or assumed as contemplated hereby or thereby, as to the sufficiency of the Assets or Liabilities transferred or assumed hereby or thereby for the conduct and operations of the SpinCo Business or the Parent Business, as applicable, as to any Governmental Approvals or other Consents required in connection therewith or in connection with any past transfers of the Assets or assumptions of the Liabilities, as to the value or freedom from any Security Interests of, or any other matter concerning, any Assets or Liabilities of such party, or as to the absence of any defenses or rights of setoff or freedom from counterclaim with respect to any claim or other Asset, including any accounts receivable, of any such party, or as to the legal sufficiency of any assignment, document or instrument delivered hereunder to convey title to any Asset or thing of value upon the execution, delivery and filing hereof or thereof, and each of Parent (on behalf of itself and each other member of the Parent Group) and SpinCo (on behalf of itself and each other member of the SpinCo Group) has relied only on the representations and warranties expressly contained in Section 11.01(c), in any Ancillary Agreement or the Representation Letters. Except as may expressly be set forth herein or in any Ancillary Agreement, any such Assets are being transferred on an “as is,” “where is” basis and the respective transferees shall bear the economic and legal risks that (a) any conveyance shall prove to be insufficient to vest in the transferee good and marketable title, free and clear of any Security Interest and (b) any necessary Governmental Approvals or other Consents are not obtained or that any requirements of Laws or judgments are not complied with. To the extent any Local Transfer Agreement has included representations, warranties, covenants, indemnities or other provisions inconsistent with the purpose of this Section 2.05, each of SpinCo, on behalf of itself and the SpinCo Group, and Parent, on behalf of itself and the Parent Group, hereby waives and agrees not to enforce such provisions.

Section 2.06 Waiver of Bulk-Sale and Bulk-Transfer Laws. SpinCo hereby waives compliance by each and every member of the Parent Group with the requirements and provisions of any “bulk-sale” or “bulk-transfer” Laws of any jurisdiction that may otherwise be applicable with respect to the transfer or sale of any or all of the SpinCo Assets to any member of the SpinCo Group. Parent hereby waives compliance by each and every member of the SpinCo Group with the requirements and provisions of any “bulk-sale” or “bulk-transfer” Laws of any jurisdiction that may otherwise be applicable with respect to the transfer or sale of any or all of the Parent Assets to any member of the Parent Group.

ARTICLE III

CREDIT SUPPORT

Section 3.01 Replacement of Parent Credit Support.

(a) SpinCo shall use reasonable best efforts to arrange, at its sole cost and expense and effective on or prior to the Distribution Date, the termination or replacement of all guarantees, covenants, indemnities, surety bonds, letters of credit or similar assurances of credit support (“Credit Support Instruments”) provided by, through or on behalf of Parent or any other member of the Parent Group for the benefit of SpinCo or any other member of the SpinCo Group or providing credit support for a SpinCo Contract (“Parent Credit Support Instruments”), with alternate arrangements that do not require any credit support from Parent or any other member of the Parent Group, and shall use reasonable best efforts to obtain from the beneficiaries of such Credit Support Instruments written releases (which in the case of a letter of credit or bank guarantee would be effective upon surrender of the original Parent Credit Support Instrument to the originating bank and such bank’s confirmation to Parent of cancelation thereof) indicating that Parent or such other member of the Parent Group will, effective upon the consummation of the Distribution, have no liability with respect to such Credit Support Instruments, in each case, reasonably satisfactory to Parent.

(b) In furtherance of Section 3.01(a), to the extent required to obtain a removal or release from a Parent Credit Support Instrument, SpinCo or an appropriate member of the SpinCo Group shall execute an agreement substantially in the form of such existing Parent Credit Support Instrument or such other form as is agreed to by the relevant parties to such agreement, except to the extent that such existing Parent Credit Support Instrument contains representations, covenants or other terms or provisions (i) with which SpinCo or the appropriate member of the SpinCo Group would be reasonably unable to comply or (ii) which would be reasonably expected to be breached by SpinCo or the appropriate member of the SpinCo Group.

(c) If SpinCo is unable to obtain, or to cause to be obtained, all releases from Parent Credit Support Instruments pursuant to Sections 3.01(a) and 3.01(b) on or prior to the Distribution, (i) without limiting SpinCo's obligations under Article VI, SpinCo shall cause the relevant member of the SpinCo Group that has assumed the Liability with respect to such Parent Credit Support Instrument to indemnify and hold harmless the guarantor or obligor for any Liability arising out of, resulting from or relating thereto in accordance with the provisions of Article VI and to, as agent or subcontractor for such guarantor or obligor, pay, perform and discharge fully all the obligations or other Liabilities of such guarantor or obligor thereunder and (ii) with respect to such Credit Support Instruments that are in the form of a letter of credit or bank guarantee, SpinCo shall provide Parent with letters of credit or guarantees, in each case issued by a bank reasonably acceptable to Parent, against losses arising from all such Credit Support Instruments or, if Parent agrees in writing, cash collateralize the full amount of any outstanding Credit Support Instrument with respect to which such release has not been obtained and (iii) except as set forth on Schedule XIII, with respect to such Credit Support Instrument, each of Parent and SpinCo, on behalf of themselves and the members of each of their respective Groups, agree, except as otherwise expressly required by the terms of a Contract with a third party in effect as of the Distribution, not to renew or extend the term of, increase its obligations under or transfer to a third Person, any loan, guarantee, lease, sublease, license, Contract or other obligation for which the other Party or any member of the other Party's Group is or may be liable under such Credit Support Instrument unless all obligations of the other Party and the other members of the other Party's Group with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to the other Party.

(d) Notwithstanding anything to the contrary in this Section 3.01, the Parent Credit Support Instruments listed on Schedule XIII shall be addressed in the manner provided on such Schedule XIII.

Section 3.02 Replacement of SpinCo Credit Support.

(a) Parent shall use reasonable best efforts to arrange, at its sole cost and expense and effective on or prior to the Distribution Date, the termination or replacement of all Credit Support Instruments provided by, through or on behalf of SpinCo or any other member of the SpinCo Group for the benefit of Parent or any other member of the Parent Group or providing credit support for a Contract of Parent or its Subsidiary other than a SpinCo Contract ("SpinCo Credit Support Instruments"), with alternate arrangements that do not require any credit support from SpinCo or any other member of the SpinCo Group, and shall use reasonable best efforts to obtain from the beneficiaries of such Credit Support Instruments written releases (which in the case of a letter of credit or bank guarantee would be effective upon surrender of the original SpinCo Credit Support Instrument to the originating bank and such bank's confirmation to SpinCo of cancellation thereof) indicating that SpinCo or such other member of the SpinCo Group will, effective upon the consummation of the Distribution, have no liability with respect to such Credit Support Instruments, in each case reasonably satisfactory to SpinCo.

(b) In furtherance of Section 3.02(a), to the extent required to obtain a removal or release from a SpinCo Credit Support Instrument, Parent or an appropriate member of the Parent Group shall execute an agreement substantially in the form of the existing SpinCo Credit Support Instrument or such other form as is agreed to by the relevant parties to such agreement, except to the extent that such existing SpinCo Credit Support Instrument contains representations, covenants or other terms or provisions (i) with which Parent or the appropriate member of the Parent Group would be reasonably unable to comply or (ii) which would be reasonably expected to be breached by Parent or the appropriate member of the Parent Group.

(c) If Parent is unable to obtain, or to cause to be obtained, all releases from SpinCo Credit Support Instruments pursuant to Sections 3.02(a) and 3.02(b) on or prior to the Distribution, (i) without limiting Parent's obligations under Article VI, Parent shall cause the relevant member of the Parent Group that has assumed the Liability with respect to such Credit Support Instrument to indemnify and hold harmless the guarantor or obligor for any Liability arising from or relating thereto in accordance with the provisions of Article VI and to, as agent or subcontractor for such guarantor or obligor, pay, perform and discharge fully all the obligations or other Liabilities of such guarantor or obligor thereunder, (ii) with respect to such Credit Support Instruments that are in the form of a letter of credit or bank guarantee, Parent shall provide SpinCo with letters of credit or guarantees, in each case issued by a bank reasonably acceptable to SpinCo, against losses arising from all such Credit Support Instruments or, if SpinCo agrees in writing, cash collateralize the full amount of any outstanding Credit Support Instrument with respect to which such release has not been obtained and (iii) except as set forth on Schedule XIV, with respect to such Credit Support Instrument, each of Parent and SpinCo, on behalf of themselves and the members of each of their respective Groups, agree, except as otherwise expressly required by the terms of a Contract with a third party in effect as of the Distribution, not to renew or extend the term of, increase its obligations under or transfer to a third Person, any loan, guarantee, lease, sublease, license, Contract or other obligation for which the other Party or any member of the other Party's Group is or may be liable under such Credit Support Instrument unless all obligations of the other Party and the other members of the other Party's Group with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to the other Party.

(d) Notwithstanding anything to the contrary in this Section 3.02, the SpinCo Credit Support Instruments listed on Schedule XIV shall be addressed in the manner provided on such Schedule XIV.

ARTICLE IV

ACTIONS PENDING THE DISTRIBUTION

Section 4.01 Actions Prior to the Distribution.

(a) Subject to the conditions specified in Section 4.02 and subject to Section 5.03, Parent and SpinCo shall use reasonable best efforts to consummate the Distribution. Such efforts shall include taking the actions specified in this Section 4.01.

(b) Prior to the Distribution, Parent shall mail the Notice of Internet Availability of the Information Statement or the Information Statement to the Record Holders.

(c) SpinCo shall prepare, file with the Commission and use its reasonable best efforts to cause to become effective any registration statements or amendments thereto required to effect the establishment of, or amendments to, any employee benefit and other plans necessary or appropriate in connection with the transactions contemplated by this Agreement or any of the Ancillary Agreements.

(d) Parent and SpinCo shall take all such action as may be necessary or appropriate under the securities or blue sky laws of the states or other political subdivisions of the United States or of other foreign jurisdictions in connection with the Distribution.

(e) SpinCo shall prepare and file, and shall use reasonable best efforts to have approved prior to the Distribution, an application for the listing of the SpinCo Common Stock to be distributed in the Distribution on the Exchange, subject to official notice of distribution.

(f) Prior to the Distribution, Parent, in its capacity as sole stockholder of SpinCo, shall have duly elected to the SpinCo board of directors the individuals listed as members of the SpinCo board of directors in the Information Statement, and such individuals shall be the members of the SpinCo board of directors effective as of immediately after the Distribution; provided, however, that to the extent required by any Law or requirement of the Exchange or any other national securities exchange, as applicable, one independent director shall be appointed by the existing board of directors of SpinCo prior to the date on which "when-issued" trading of the SpinCo Common Stock begins on the Exchange and begin his or her term prior to the Distribution and shall serve on SpinCo's Audit Committee, Compensation Committee and Nominating and Governance Committee.

(g) Prior to the Distribution, Parent shall deliver or cause to be delivered to SpinCo resignations, effective as of immediately after the Distribution, of each individual who will be an employee of any member of the Parent Group after the Distribution and who is an officer or director of any member of the SpinCo Group immediately prior to the Distribution.

(h) Immediately prior to the Distribution, the Amended and Restated Certificate of Incorporation and the Amended and Restated By-laws of SpinCo, each in substantially the form filed as an exhibit to the Form 10, shall be in effect.

(i) Parent and SpinCo shall, subject to Section 5.03, take all reasonable steps necessary and appropriate to cause the conditions set forth in Section 4.02 to be satisfied and to effect the Distribution on the Distribution Date.

(j) Prior to the Distribution, SpinCo shall make capital and other expenditures and operate its cash management, accounts payable and receivables collection systems in the ordinary course of business consistent with prior practice except as required in connection with the transactions contemplated by this Agreement and the Ancillary Agreements.

Section 4.02 Conditions Precedent to Consummation of the Distribution. Subject to Section 5.03, as soon as practicable after the date of this Agreement, the Parties shall use reasonable best efforts to satisfy the following conditions prior to the consummation of the Distribution. The obligations of the Parties to consummate the Distribution shall be conditioned on the satisfaction, or waiver by Parent, of the following conditions:

(a) The board of directors of Parent shall have authorized and approved the Contribution and Distribution and not withdrawn such authorization and approval, and shall have declared the dividend of SpinCo Common Stock to Parent stockholders.

(b) Each Ancillary Agreement shall have been executed by each party to such agreement.

(c) The SpinCo Common Stock shall have been accepted for listing on the Exchange or another national securities exchange approved by Parent, subject to official notice of issuance.

(d) The Commission shall have declared effective the Form 10, no stop order suspending the effectiveness of the Form 10 shall be in effect and no proceedings for that purpose shall be pending before or threatened by the Commission.

(e) Parent shall have received the written opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP, which shall remain in full force and effect, that, subject to the accuracy of and compliance with the relevant Representation Letters, the Distribution will qualify for its Intended Tax Treatment.

(f) The Separation Transactions shall have been completed in accordance with the Separation Step Plan (other than those steps that are expressly contemplated to occur at or after the Distribution).

(g) No order, injunction or decree issued by any Governmental Authority of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the Distribution shall be in effect, and no other event outside the control of Parent shall have occurred, or failed to occur, that prevents the consummation of the Distribution.

(h) No other events or developments shall have occurred prior to the Distribution that, in the judgment of the board of directors of Parent, would result in the Distribution having a material adverse effect on Parent or the stockholders of Parent.

- (i) The actions set forth in Sections 4.01(b), (f), (g) and (h) shall have been completed.

The foregoing conditions are for the sole benefit of Parent and shall not give rise to or create any duty on the part of Parent or the Parent board of directors to waive, or not waive, such conditions or in any way limit the right of Parent to terminate this Agreement as set forth in Article X or alter the consequences of any such termination from those specified in such Article. Any determination made by the Parent board of directors prior to the Distribution concerning the satisfaction or waiver of any or all of the conditions set forth in this Section 4.02 shall be conclusive.

ARTICLE V

THE DISTRIBUTION

Section 5.01 The Distribution.

(a) SpinCo shall cooperate with Parent to accomplish the Distribution and shall, at the direction of Parent, use its reasonable best efforts to promptly take any and all actions necessary or desirable to effect the Distribution. Parent shall select any investment bank or manager in connection with the Distribution, as well as any financial printer, distribution agent and financial, legal, accounting and other advisors for Parent. Parent or SpinCo, as the case may be, will provide, or cause the applicable member of its Group to provide, to the Agent all share certificates and any information required in order to complete the Distribution.

(b) Subject to the terms and conditions set forth in this Agreement, (i) after completion of the Separation Transactions (other than those steps that are expressly contemplated to occur at or after the Distribution) and on or prior to the Distribution Date, for the benefit of and distribution to the holders of Parent Common Stock as of the Record Date ("Record Holders"), Parent will deliver to the Agent all of the issued and outstanding shares of SpinCo Common Stock held by Parent and book-entry authorizations for such shares and (ii) on the Distribution Date, Parent shall instruct the Agent to distribute, by means of a pro rata dividend based on the aggregate number of shares of Parent Common Stock held by each applicable Record Holder, to each Record Holder (or such Record Holder's bank or brokerage firm on such Record Holder's behalf) electronically, by direct registration in book-entry form, the number of shares of SpinCo Common Stock to which such Record Holder is entitled based on a distribution ratio determined by Parent in its sole discretion. The Distribution shall be effective at 5:00 p.m. New York City time on the Distribution Date. On or as soon as practicable after the Distribution Date, the Agent will mail to each Record Holder (or otherwise transmit in accordance with the Agent's regular practices) an account statement indicating the number of shares of SpinCo Common Stock that have been registered in book-entry form in the name of such Record Holder.

Section 5.02 Fractional Shares. Record Holders holding a number of shares of Parent Common Stock on the Record Date that would entitle such holders to receive less than one whole share of SpinCo Common Stock in the Distribution will receive cash in lieu of such fractional share. Fractional shares of SpinCo Common Stock will not be distributed in the Distribution nor credited to book-entry accounts. Parent shall cause the Agent to, as soon as practicable after the date on which “when-issued” trading of the SpinCo Common Stock begins on the Exchange, (a) determine the number of whole shares and fractional shares of SpinCo Common Stock allocable to each Record Holder and (b) aggregate all fractional shares into whole shares and sell the whole shares obtained thereby in open market transactions at then prevailing trading prices on behalf of holders who would otherwise be entitled to fractional share interests. Parent shall cause the Agent to, as soon as practicable after the Distribution Date, distribute to each such holder, or for the benefit of each beneficial owner, such holder’s or owner’s ratable share of the net proceeds of such sale, based upon the average gross selling price per share of SpinCo Common Stock after making appropriate deductions for any amount required to be withheld under applicable Tax Law and less any brokers’ charges, commissions or transfer Taxes. The Agent, in its sole discretion, will determine the timing and method of selling such fractional shares, the selling price of such fractional shares and the broker-dealer through which such fractional shares will be sold; provided, however, that the designated broker-dealer is not an Affiliate of Parent or SpinCo. Neither Parent nor SpinCo will pay any interest on the proceeds from the sale of fractional shares.

Section 5.03 Sole Discretion of Parent. Parent shall, in its sole and absolute discretion, determine the Record Date, the Distribution Date and all terms of the Distribution, including the form, structure and terms of any transactions or offerings to effect the Distribution and the timing of and conditions to the consummation thereof. In addition, and notwithstanding anything to the contrary set forth below, Parent may at any time and from time to time until the Distribution decide to abandon the Distribution or modify or change the terms of the Distribution, including by accelerating or delaying the timing of the consummation of all or part of the Distribution.

ARTICLE VI

MUTUAL RELEASES; INDEMNIFICATION

Section 6.01 Release of Pre-Distribution Claims.

(a) Except as provided in Section 6.01(c) or elsewhere in this Agreement or the Ancillary Agreements effective as of the Distribution, SpinCo does hereby, for itself and each other member of the SpinCo Group, their respective Affiliates, and to the extent it may legally do so, its successors and assigns, and all Persons who at any time on or prior to the Distribution have been stockholders, directors, officers, members, agents or employees of any member of the SpinCo Group (in each case, in their respective capacities as such), remise, release and forever discharge Parent and the other members of the Parent Group, their respective Affiliates, successors and assigns, and all Persons who at any time on or prior to the Distribution have been stockholders, directors, officers, members, agents or employees of any member of the Parent Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all SpinCo Liabilities whatsoever, whether at Law or in equity (including any right of contribution), whether arising under any Contract, by operation of Law or otherwise, existing or arising from any acts or events occurring, or failing to occur, or alleged to have occurred, or to have failed to occur, or any conditions existing or alleged to have existed on or before the Distribution, including in connection with the Spin-Off and all other activities to implement the Spin-Off. The Liabilities addressed by this Section 6.01(a) shall include Parent’s indemnification obligations with respect to Liabilities arising on or before the Distribution Date under Article XI of its Amended and Restated Certificate of Incorporation and Section 6 of Article VI of its Amended and Restated Bylaws, to the extent relating to the SpinCo Business, which for the avoidance of doubt shall constitute SpinCo Liabilities.

(b) Except as provided in Section 6.01(c) or elsewhere in this Agreement or the Ancillary Agreements, effective as of the Distribution, Parent does hereby, for itself and each other member of the Parent Group, their respective Affiliates, and to the extent it may legally do so, its successors and assigns, and all Persons who at any time on or prior to the Distribution have been stockholders, directors, officers, agents or employees of any member of the Parent Group (in each case, in their respective capacities as such), remise, release and forever discharge SpinCo, the other members of the SpinCo Group, their respective Affiliates, successors and assigns, and all Persons who at any time on or prior to the Distribution have been stockholders, directors, officers, agents or employees of any member of the SpinCo Group (in each case, in their respective capacities as such), and their respective heirs, executors, administrators, successors and assigns, from any and all Parent Liabilities whatsoever, whether at Law or in equity (including any right of contribution), whether arising under any Contract, by operation of Law or otherwise, existing or arising from any acts or events occurring, or failing to occur, or alleged to have occurred, or to have failed to occur, or any conditions existing, or alleged to have existed, on or before the Distribution, including in connection with the Spin-Off and all other activities to implement the Spin-Off.

(c) Nothing contained in Section 6.01(a) or (b) shall impair any right of any Person to enforce this Agreement, any Ancillary Agreement or any Intercompany Agreement or Intercompany Account that is specified in Section 2.03(b) not to terminate as of the Distribution, in each case in accordance with its terms. Nothing contained in Section 6.01(a) or (b) shall release:

(i) any Person from any Liability provided in or resulting from any Contract among any members of the Parent Group or the SpinCo Group that is specified in Section 2.03(b) as not to terminate as of the Distribution, or any other Liability specified in such Section 2.03(b) as not to terminate as of the Distribution;

(ii) any Person from any Liability, contingent or otherwise, assumed, transferred, assigned or allocated to the Group of which such Person is a member in accordance with, or any other Liability of any member of any Group under, this Agreement or any Ancillary Agreement;

(iii) any Person from any Liability provided in or resulting from any other Contract or agreement that is entered into after the Distribution between one Party (or a member of such Party's Group), on the one hand, and the other Party (or a member of such Party's Group), on the other hand;

(iv) any Person from any Liability that the Parties may have with respect to indemnification or contribution pursuant to this Agreement or any Ancillary Agreement for claims brought against the Parties, the members of their respective Groups or any of their respective directors, officers, employees or agents, by third Persons, which Liability shall be governed by the provisions of this Article VI or, if applicable, the appropriate provisions of the relevant Ancillary Agreement; or

(v) any Person from any Liability the release of which would result in the release of any Person not otherwise intended to be released pursuant to this Section 6.01.

(d) SpinCo shall not make, and shall not permit any other member of the SpinCo Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification, against Parent or any other member of the Parent Group, or any other Person released pursuant to Section 6.01(a), with respect to any Liabilities released pursuant to Section 6.01(a). Parent shall not make, and shall not permit any other member of the Parent Group to make, any claim or demand, or commence any Action asserting any claim or demand, including any claim of contribution or any indemnification against SpinCo or any other member of the SpinCo Group, or any other Person released pursuant to Section 6.01(b), with respect to any Liabilities released pursuant to Section 6.01(b).

Section 6.02 Indemnification by SpinCo. Subject to Section 6.04, SpinCo shall indemnify, defend and hold harmless Parent, each other member of the Parent Group and each of their respective former and current directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "Parent Indemnitees"), from and against any and all Liabilities of the Parent Indemnitees to the extent relating to, arising out of or resulting from any of the following items (without duplication):

(a) the SpinCo Liabilities, including the failure of SpinCo or any other member of the SpinCo Group or any other Person to pay, perform or otherwise promptly discharge any SpinCo Liability in accordance with its terms;

(b) any breach by SpinCo or any other member of the SpinCo Group of this Agreement, or any Ancillary Agreement, unless such Ancillary Agreement expressly provides for separate indemnification therein (which shall be controlling); and

(c) any breach by SpinCo of any of the representations and warranties made by SpinCo on behalf of itself and the members of the SpinCo Group in Section 11.01(c).

Section 6.03 Indemnification by Parent. Subject to Section 6.04, Parent shall indemnify, defend and hold harmless SpinCo, each other member of the SpinCo Group and each of their respective former and current directors, officers and employees, and each of the heirs, executors, successors and assigns of any of the foregoing (collectively, the "SpinCo Indemnitees"), from and against any and all Liabilities of the SpinCo Indemnitees to the extent relating to, arising out of or resulting from any of the following items (without duplication):

(a) the Parent Liabilities, including the failure of Parent or any other member of the Parent Group, or any other Person, to pay, perform or otherwise promptly discharge any Parent Liability in accordance with its terms;

(b) any breach by Parent or any other member of the Parent Group of this Agreement or any Ancillary Agreement unless such Ancillary Agreement expressly provides for separate indemnification therein (which shall be controlling); and

(c) any breach by Parent of any of the representations and warranties made by Parent on behalf of itself and the members of the Parent Group in Section 11.01(c).

Section 6.04 Indemnification Obligations Net of Insurance Proceeds and Third-Party Proceeds.

(a) The Parties intend that any Liability subject to indemnification or reimbursement pursuant to this Agreement will be net of (i) Insurance Proceeds that actually reduce the amount of, or are paid to the applicable Indemnitee in respect of, such Liability and (ii) other amounts recovered from any third party (net of any out-of-pocket costs or expenses incurred in, or Taxes imposed with respect to, the collection thereof and net of any reimbursements) that actually reduce the amount of, or are paid to the applicable Indemnitee in respect of, such Liability ("Third-Party Proceeds"). Accordingly, the amount that either Party (an "Indemnifying Party") is required to pay to any Person entitled to indemnification or reimbursement pursuant to this Agreement (an "Indemnitee") will be reduced by any Insurance Proceeds or Third-Party Proceeds theretofore actually recovered by or on behalf of the Indemnitee from a third party in respect of the related Liability. If an Indemnitee receives a payment required by this Agreement from an Indemnifying Party in respect of any Liability (an "Indemnity Payment") and subsequently receives Insurance Proceeds or Third-Party Proceeds in respect of such Liability, then the Indemnitee will pay to the Indemnifying Party an amount equal to the excess of the Indemnity Payment received over the amount of the Indemnity Payment that would have been due if such Insurance Proceeds or Third-Party Proceeds had been received, realized or recovered before the Indemnity Payment was made; provided, that for the avoidance of doubt, such amount shall not exceed the amount of the Indemnity Payment.

(b) An insurer that would otherwise be obligated to pay any claim shall not be relieved of the responsibility with respect thereto or have any subrogation rights with respect thereto by virtue of the indemnification provisions hereof, it being expressly understood and agreed that no insurer or any other third party shall be entitled to a "windfall" (*i.e.*, a benefit it would not be entitled to receive in the absence of the indemnification provisions) by virtue of the indemnification provisions hereof. Subject to Section 6.10, each member of the Parent Group and SpinCo Group shall use reasonable best efforts to collect or recover any Insurance Proceeds and any Third-Party Proceeds to which such Person is entitled in connection with any Liability for which such Person seeks indemnification pursuant to this Article VI; provided, however, that such Person's inability to collect or recover any such Insurance Proceeds or Third-Party Proceeds shall not limit the Indemnifying Party's obligations hereunder.

(c) The calculation of any Indemnity Payments required by this Agreement shall be subject to Section 5.2(c) of the TMA.

Section 6.05 Procedures for Indemnification of Third-Party Claims.

(a) If an Indemnitee shall receive notice or otherwise learn of a Third-Party Claim with respect to which an Indemnifying Party may be obligated to provide indemnification to such Indemnitee pursuant to this Agreement (including Article III), such Indemnitee shall give such Indemnifying Party written notice thereof as soon as reasonably practicable, but no later than thirty (30) days after becoming aware of such Third-Party Claim. Any such notice shall describe the Third-Party Claim in reasonable detail and shall include: (i) the basis for, and nature of, such Third-Party Claim, including the facts constituting the basis for such Third-Party Claim; (ii) the estimated amount of losses (to the extent so estimable) that have been or may be sustained by the Indemnitee in connection with such Third-Party Claim; and (iii) copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third-Party Claim; provided, however, that any such notice need only specify such information to the knowledge of the Indemnitee as of the date of such notice and shall not limit or prejudice any of the rights or remedies of any Indemnitee on the basis of any limitations on the information included in such notice, including any such limitations made in good faith to preserve the attorney-client privilege, work product doctrine or any other similar privilege or doctrine. Notwithstanding the foregoing, the failure of any Indemnitee or other Person to give notice as provided in this Section 6.05(a) shall not relieve the related Indemnifying Party of its obligations under this Article VI, except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice in accordance with this Section 6.05(a).

(b) The Indemnifying Party shall have the right, exercisable by written notice to the Indemnitee within thirty (30) calendar days after receipt of notice from an Indemnitee in accordance with Section 6.05(a), to assume and conduct the defense of such Third-Party Claim in accordance with the limits set forth in this Agreement with counsel selected by the Indemnifying Party and reasonably acceptable to the Indemnitee; provided, however, that (x) SpinCo shall not be entitled to control the defense of any Third-Party Claim in respect of a Mixed Action (and, for the avoidance of doubt, Parent shall control any such defense), (y) the Indemnifying Party shall not have the right to control the defense of any Third-Party Claim (i) to the extent such Third-Party Claim seeks criminal penalties or injunctive or other equitable relief (other than any such injunctive or other equitable relief that is solely incidental to the granting of money damages) or (ii) if the Indemnitee has reasonably determined in good faith that the Indemnifying Party controlling such defense will affect the Indemnitee or its Group in a materially adverse manner and (z) if the Indemnitee determines in good faith that the proper defense of the Third Party Claim requires that the election to assume the defense of such claim be made in fewer than thirty (30) days, the Indemnitee may request that such election be made in such shorter period as the Indemnitee may reasonably determine.

(c) If the Indemnifying Party elects not to assume the defense of a Third-Party Claim (or is not permitted to assume the defense of such Third-Party Claim) in accordance with this Agreement, or fails to notify an Indemnitee of its election as provided in Section 6.05(b), such Indemnitee may defend such Third-Party Claim. If the Indemnifying Party elects (and is permitted) to assume the defense of a Third-Party Claim in accordance with the terms of this Agreement, the Indemnitee shall, subject to the terms of this Agreement, cooperate with the Indemnifying Party with respect to the defense of such Third-Party Claim.

(d) If the Indemnifying Party elects (and is permitted) to assume the defense of a Third-Party Claim in accordance with the terms of this Agreement, the Indemnifying Party will not be liable for any additional legal expenses subsequently incurred by the Indemnitee in connection with the defense of the Third-Party Claim; provided, however, that if the Indemnifying Party fails to take reasonable steps necessary to defend diligently such Third-Party Claim, or the nature of such Third-Party Claim changes such that the Indemnifying Party would no longer be entitled to assume the defense of such Third-Party Claim pursuant to Section 6.05(b), the Indemnitee may assume its own defense, and the Indemnifying Party will be liable for all reasonable costs or expenses paid or incurred in connection with such defense. The Indemnifying Party or the Indemnitee, as the case may be, shall have the right to participate in (but, subject to the prior sentence, not control), at its own expense, the defense of any Third-Party Claim that the other is defending as provided in this Agreement. In the event, however, that such Indemnitee reasonably determines that representation by counsel to the Indemnifying Party of both such Indemnifying Party and the Indemnitee could reasonably be expected to present such counsel with a conflict of interest, then the Indemnitee may employ separate counsel to represent or defend it in any such action or proceeding and the Indemnifying Party will pay the reasonable fees and expenses of such counsel.

(e) No Indemnifying Party shall consent to entry of any judgment or enter into any settlement of any Third-Party Claim without the consent of the applicable Indemnitee or Indemnitees (not to be unreasonably withheld, conditioned or delayed); provided, however, that such consent shall not be required if the judgment or settlement: (i) contains no finding or admission of liability with respect to any such Indemnitee or Indemnitees; (ii) involves only monetary relief which the Indemnifying Party has agreed to pay, other than the imposition of *de minimis* equitable relief incidental to the granting of monetary relief; and (iii) includes a full and unconditional release of the Indemnitee or Indemnitees. Notwithstanding the foregoing, the consent of an Indemnitee shall be required for any entry of judgment or settlement if the effect thereof is to permit any injunction, declaratory judgment, other order or other non-monetary relief to be entered, directly or indirectly, against such Indemnitee, other than the imposition of *de minimis* equitable relief incidental to the granting of monetary relief (such consent not to be unreasonably withheld, conditioned or delayed).

(f) Whether or not the Indemnifying Party assumes the defense of a Third-Party Claim, no Indemnitee shall admit any liability with respect to, or settle, compromise or discharge, such Third-Party Claim without the Indemnifying Party's prior written consent (such consent not to be unreasonably withheld, conditioned or delayed).

Section 6.06 Additional Matters.

(a) Any claim on account of a Liability that does not result from a Third-Party Claim shall be asserted by written notice given by the Indemnitee to the related Indemnifying Party. Any failure by an Indemnitee to give notice shall not relieve the Indemnifying Party's indemnification obligations under this Agreement, except to the extent that the Indemnifying Party shall have been actually prejudiced by such failure.

(b) In the event of payment by or on behalf of any Indemnifying Party to any Indemnitee in connection with any Third-Party Claim, such Indemnifying Party shall be subrogated to and shall stand in the place of such Indemnitee as to any events or circumstances in respect of which such Indemnitee may have any right, defense or claim relating to such Third-Party Claim against any claimant or plaintiff asserting such Third-Party Claim or against any other Person. Such Indemnitee shall cooperate with such Indemnifying Party in a reasonable manner, and at the cost and expense of such Indemnifying Party, in prosecuting any subrogated right, defense or claim.

Section 6.07 Remedies Cumulative. The remedies provided in this Article VI shall be cumulative and, subject to the provisions of Section 6.01, Section 6.10, and Article X, shall not preclude assertion by any Indemnitee of any other rights or the seeking of any and all other remedies against any Indemnifying Party.

Section 6.08 Covenant Not to Sue. Each Party hereby covenants and agrees that none of it, the members of such Party's Group or any Person claiming through it shall bring suit or otherwise assert any claim or defense against any Person, including before any court, arbitrator, mediator or administrative agency anywhere in the world, and further (on behalf of itself, the members of such Party's Group, and any other Person claiming through it) waives and releases any claim or defense against any Person, alleging that: (a) the assumption or retention of any SpinCo Liabilities by SpinCo or a member of the SpinCo Group on the terms and conditions set forth in this Agreement or the Ancillary Agreements is unlawful, a breach of a fiduciary or other duty, void, unenforceable, unconscionable, inequitable, or otherwise improper for any reason; (b) the assumption or retention of any Parent Liabilities by Parent or a member of the Parent Group on the terms and conditions set forth in this Agreement or the Ancillary Agreements is unlawful, a breach of a fiduciary or other duty, void, unenforceable, unconscionable, inequitable, or otherwise improper for any reason; or (c) the provisions of this Agreement (including this Article VI) or any Ancillary Agreement are unlawful, a breach of a fiduciary or other duty, void, unenforceable, unconscionable, inequitable, or otherwise improper for any reason.

Section 6.09 Survival of Indemnities. The rights and obligations of each of Parent and SpinCo and their respective Indemnitees under this Article VI shall survive the sale or other transfer by any Party or its Affiliates of any Assets or businesses or the assignment by it of any Liabilities.

Section 6.10 Limitation on Liability. Except as may expressly be set forth in this Agreement or any Ancillary Agreement, none of Parent, SpinCo or any other member of either Group shall in any event have any Liability to the other or to any other member of the other's Group, or to any other Parent Indemnitee or SpinCo Indemnitee, as applicable, under this Agreement for any indirect, special, punitive or consequential damages, whether or not caused by or resulting from negligence or breach of obligations hereunder and whether or not informed of the possibility of the existence of such damages; provided, however, that the provisions of this Section 6.10 shall not limit an Indemnifying Party's indemnification obligations hereunder with respect to any Liability any Indemnitee may have to any third party not affiliated with any member of the Parent Group or the SpinCo Group for any indirect, special, punitive or consequential damages.

Section 6.11 Management of Existing Actions and Investigations. Notwithstanding the procedures set forth in Section 6.05, this Section 6.11 shall govern the management and direction of certain pending Actions and Investigations involving both members of the Parent Group and the SpinCo Group, but shall not alter the allocation of Liabilities set forth in Article II. In the event of any conflict between the provisions of this Section 6.11 and Section 6.05 in respect of an Assumed Action or Excluded Action, the provisions of this shall govern.

(a) From and after the Distribution, the SpinCo Group shall direct the defense or prosecution of any Actions and Investigations described on Schedule XVI (the “Assumed Actions”), including the development and implementation of the legal strategy for each Assumed Action, the filing of any motions, pleadings or briefs, the conduct of discovery and related fact finding, the conduct of any trial, any decision to appeal or not to appeal any decisions, judgment or order, and, subject to Section 6.11(e) below, any decision or consent to a settlement, compromise or discharge of any Assumed Action or any aspect thereof. SpinCo (or the applicable member of the SpinCo Group) is responsible for selecting its own counsel in connection with the conduct and control of the Assumed Action.

(b) From and after the Distribution, the Parent Group shall direct the defense or prosecution of any Actions and Investigations set forth on Schedule XVII (the “Excluded Actions”), including the development and implementation of the legal strategy for each Excluded Action, the filing of any motions, pleadings or briefs, the conduct of discovery and related fact finding, the conduct of any trial, any decision to appeal or not to appeal any decisions, judgment or order, and, subject to Section 6.11(e) below, any decision or consent to a settlement, compromise or discharge of any Excluded Action or any aspect thereof. Parent (or the applicable member of the Parent Group) is responsible for selecting its own counsel in connection with the conduct and control of the Excluded Action.

(c) From and after the Distribution, the Parties shall separately but cooperatively manage any Actions or Investigations set forth on Schedule XVIII (“Joint Actions”). The Parties shall cooperate in good faith and take all reasonable actions to provide for any appropriate joinder or change in named parties to such Joint Actions such that the appropriate member of each Party or Group is party thereto. The Parties shall reasonably cooperate and consult with each other and, to the extent feasible, maintain a joint defense in a manner that would preserve for both Parties and their respective Affiliates any attorney-client privilege, joint defense or other privilege with respect to any Joint Action. Notwithstanding anything to the contrary herein, and except as set forth on Schedule XVIII, the Parties may jointly retain counsel (in which case the cost of counsel shall be shared equally by the Parties) or retain separate counsel (in which case each Party will bear the cost of its separate counsel) with respect to any Joint Action; provided that the Parties shall share equally joint litigation costs but shall, without limiting the indemnification obligations under this Agreement, otherwise bear their own costs, including but not limited to discovery costs. In any Joint Action, each of Parent and SpinCo may pursue separate defenses, claims, counterclaims or settlements to those claims relating solely, to the Parent Business or the SpinCo Business, respectively; provided that each Party shall in good faith make reasonable best efforts to avoid adverse effects on the other Party.

(d) To the maximum extent permitted by applicable Law, the rights to recovery of each Party’s Subsidiaries in respect of any past, present or future Action are hereby delegated to such Party. It is the intent of the Parties that the foregoing delegation shall satisfy any Law requiring such delegation to be effected pursuant to a power of attorney or similar instrument. The Parties and their respective Subsidiaries shall execute such further instruments or documents as may be necessary to effect such delegation.

(e) No Party managing an Action (the “Managing Party”) pursuant to this Section 6.11 shall consent to entry of any judgment or enter into any settlement of any such Action without the prior written consent of the other Party (the “Non-Managing Party”) (not to be unreasonably withheld, conditioned or delayed); provided, however, that such Non-Managing Party, including, in the case of a Joint Action, any co-defendant, shall be required to consent to such entry of judgment or to such settlement that the Managing Party or other co-defendant may recommend with respect to any claim for which such Non-Managing Party (or co-defendant) is the defendant if the judgment or settlement: (i) contains no finding or admission of liability with respect to such Non-Managing Party’s (or co-defendant’s) Group or its applicable related Persons; (ii) involves only monetary relief which the Managing Party or proposing co-defendant has agreed to pay (other than the imposition of *de minimis* equitable relief incidental to the granting of monetary relief); and (iii) includes a full and unconditional release of the Non-Managing Party or co-defendant and its applicable related Persons. Notwithstanding the foregoing, the consent of the Non-Managing Party or co-defendant shall be required for any entry of judgment or settlement if the effect thereof is to permit any injunction, declaratory judgment, other order or other non-monetary relief to be entered, directly or indirectly, against the Non-Managing Party’s Group or its applicable related Persons (other than the imposition of *de minimis* equitable relief incidental to the granting of monetary relief) (such consent not to be unreasonably withheld, conditioned or delayed).

ARTICLE VII

ACCESS TO INFORMATION; PRIVILEGE; CONFIDENTIALITY

Section 7.01 Agreement for Exchange of Information; Archives.

(a) Except in the case of an Adversarial Action or threatened Adversarial Action, and subject to Section 7.01(b), each of Parent and SpinCo, on behalf of its respective Group, shall provide, or cause to be provided, to the other Party, at any time after the Distribution, as soon as reasonably practicable after written request therefor, or by a date certain if required for measuring Parent’s environmental performance pursuant to point (iii) below, any Information relating to time periods on or prior to the Distribution Date in the possession or under the control of such respective Group, which Parent or SpinCo, or any member of its respective Group, as applicable, reasonably needs: (i) to comply with reporting, disclosure, filing or other requirements imposed on Parent or SpinCo, or any member of its respective Group, as applicable (including under applicable securities Laws), by any national securities exchange or any Governmental Authority having jurisdiction over Parent or SpinCo, or any member of its respective Group, as applicable; (ii) for use in any other judicial, regulatory, administrative or other proceeding or Investigation or in order to satisfy audit, accounting, regulatory, litigation or other similar requirements; (iii) for the purpose of measuring Parent’s environmental performance or environmental regulatory compliance prior to the Distribution with such Information being formatted so that it may be accepted by Parent’s software systems (including data such as, but not limited to, energy use, waste generation, Product End-of-Life Management (PELM) - processing of used and end-of-life equipment parts and components, water use and conservation, groundwater quality monitoring and remediation data, air emissions, regulatory inspections and results, data required in support of Parent’s Environmental Management System, liquid storage and handling systems, costs and savings associated with environmental programs, or non-intrusive due diligence); or (iv) to comply with its obligations under this Agreement or any Ancillary Agreement; provided that any request for information pursuant to this Section 7.01 shall be made in good faith and limited to the extent reasonable to satisfy the good faith basis for such request. The receiving Party shall use any Information received pursuant to this Section 7.01(a) solely to the extent reasonably necessary to satisfy the applicable obligations or requirements described in clause (i), (ii), (iii) or (iv) of the immediately preceding sentence.

(b) In the event that either Parent or SpinCo determines that the disclosure of any Information pursuant to Section 7.01(a) could be commercially detrimental, violate any Law or Contract or waive or jeopardize any attorney-client privilege, attorney work product protection or other similar privilege or doctrine, such Party shall not be required to provide access to or furnish such Information to the other Party; provided, however, that both Parent and SpinCo shall take all commercially reasonable measures to permit compliance with Section 7.01(a) in a manner that avoids any such harm or consequence. Both Parent and SpinCo intend that any provision of access to or the furnishing of Information pursuant to this Section 7.01 that would otherwise be within the ambit of any legal privilege is being undertaken because of the Parties' common legal interests and shall not operate as waiver of such privilege.

Section 7.02 Ownership of Information. Any Information owned by one Group that is provided to the requesting Party hereunder shall be deemed to remain the property of the providing Party. Except as specifically set forth herein or in any Ancillary Agreement, nothing herein shall be construed as granting or conferring rights of license or otherwise in any such Information.

Section 7.03 Compensation for Providing Information. Parent and SpinCo shall reimburse each other for the reasonable costs, if any, in complying with a request for Information pursuant to this Article VII (whether or not such Information was a SpinCo Asset or a Parent Asset). Except as may be otherwise specifically provided elsewhere in this Agreement, such costs shall be computed in accordance with SpinCo's or Parent's, as applicable, standard methodology and procedures, but shall not include any markup above actual costs.

Section 7.04 Record Retention. To facilitate the possible exchange of Information pursuant to this Article VII and other provisions of this Agreement, each Party shall use its reasonable best efforts to retain all Information in such Party's possession relating to the other Party or its businesses, Assets or Liabilities, this Agreement or the Ancillary Agreements in accordance with its respective record retention policies applicable to its own Information or such longer period as required by Law, this Agreement or the Ancillary Agreements. Each of Parent and SpinCo shall use their reasonable best efforts to maintain and continue their respective Group's compliance with all "litigation holds" applicable to any Information in its possession for the pendency of the applicable matter.

Section 7.05 Accounting Information. Without limiting the generality of Section 7.01 but subject to Section 7.01(b):

(a) Until the end of the first full fiscal year occurring after the Distribution Date (and for a reasonable period of time afterwards or as required by Law for Parent to prepare consolidated financial statements or complete a financial statement audit for any period during which the financial results of the SpinCo Group were consolidated with those of Parent), SpinCo shall use its reasonable best efforts to enable Parent to meet its timetable for dissemination of its financial statements and to enable Parent's auditors to timely complete their annual audit and quarterly reviews of financial statements. As part of such efforts, to the extent reasonably necessary for the preparation of financial statements or completing an audit or review of financial statements or an audit of internal control over financial reporting, (i) SpinCo shall authorize and direct its auditors to make available to Parent's auditors, within a reasonable time prior to the date of Parent's auditors' opinion or review report, both (x) the personnel who performed or will perform the annual audits and quarterly reviews of SpinCo and (y) work papers to the extent related to such annual audits and quarterly reviews, to enable Parent's auditors to perform any procedures they consider reasonably necessary to take responsibility for the work of SpinCo's auditors as it relates to Parent's auditors' opinion or report and (ii) until all governmental audits are complete, SpinCo shall provide reasonable access during normal business hours for Parent's internal auditors, counsel and other designated representatives to (x) the premises of SpinCo and its Subsidiaries and all Information (and duplicating rights) within the knowledge, possession or control of SpinCo and its Subsidiaries and (y) the officers and employees of SpinCo and its Subsidiaries, so that Parent may conduct reasonable audits relating to the financial statements provided by SpinCo and its Subsidiaries; provided, however, that such access shall not be unreasonably disruptive to the business and affairs of the SpinCo Group; provided, further, that, subject to Section 7.05(b), any request for access pursuant to this Section 7.05(a) shall be made in good faith and limited to the extent reasonable to satisfy the good faith basis for such request.

(b) Until the end of the first full fiscal year occurring after the Distribution Date (and for a reasonable period of time afterwards or as required by Law), Parent shall use its reasonable best efforts to enable SpinCo to meet its timetable for dissemination of its financial statements and to enable SpinCo's auditors to timely complete their annual audit and quarterly reviews of financial statements. As part of such efforts, to the extent reasonably necessary for the preparation of financial statements or completing an audit or review of financial statements or an audit of internal control over financial reporting, (i) Parent shall authorize and direct its auditors to make available to SpinCo's auditors, within a reasonable time prior to the date of SpinCo's auditors' opinion or review report, both (x) the personnel who performed or will perform the annual audits and quarterly reviews of Parent and (y) work papers to the extent related to such annual audits and quarterly reviews, to enable SpinCo's auditors to perform any procedures they consider reasonably necessary to take responsibility for the work of Parent's auditors as it relates to SpinCo's auditors' opinion or report and (ii) until all governmental audits are complete, Parent shall provide reasonable access during normal business hours for SpinCo's internal auditors, counsel and other designated representatives to (x) the premises of Parent and its Subsidiaries and all Information (and duplicating rights) within the knowledge, possession or control of Parent and its Subsidiaries and (y) the officers and employees of Parent and its Subsidiaries, so that SpinCo may conduct reasonable audits relating to the financial statements provided by Parent and its Subsidiaries; provided, however, that such access shall not be unreasonably disruptive to the business and affairs of the Parent Group.

(c) In order to enable the principal executive officer(s) and principal financial officer(s) (as such terms are defined in the rules and regulations of the Commission) of Parent to make any certifications required of them under Section 302 or 906 of the Sarbanes-Oxley Act of 2002, SpinCo shall, within a reasonable period of time following a request from Parent in anticipation of filing such reports, cause its principal executive officer(s) and principal financial officer(s) to provide Parent with certifications of such officers in support of the certifications of Parent's principal executive officer(s) and principal financial officer(s) required under Section 302 or 906 of the Sarbanes-Oxley Act of 2002 with respect to (i) Parent's Quarterly Report on Form 10-Q filed with respect to the fiscal quarter during which the Distribution Date occurs (unless such quarter is Parent's fourth fiscal quarter), (ii) to the extent applicable, each subsequent fiscal quarter through the third fiscal quarter of the year in which the Distribution Date occurs and (iii) Parent's Annual Report on Form 10-K filed with respect to the fiscal year during which the Distribution Date occurs. Such certifications shall be provided in substantially the same form and manner as such SpinCo officers provided prior to the Distribution (reflecting any changes in certifications necessitated by the Spin-Off or any other transactions related thereto) or as otherwise agreed upon between Parent and SpinCo.

Section 7.06 Limitations of Liability.

(a) Each of Parent (on behalf of itself and each other member of the Parent Group) and SpinCo (on behalf of itself and each other member of the SpinCo Group) understands and agrees that neither Party is representing or warranting in any way as to the accuracy or sufficiency of any Information exchanged or disclosed under this Agreement, including any Information that constitutes an estimate or forecast or is based upon an estimate or forecast.

(b) Neither Parent nor SpinCo shall have any Liability to the other Party if any Information is destroyed after reasonable best efforts by SpinCo or Parent, as applicable, to comply with the provisions of Section 7.04.

Section 7.07 Production of Witnesses; Records; Cooperation.

(a) Without limiting any of the rights or obligations of the Parties pursuant to Section 7.01 or Section 7.04, after the Distribution Date, except in the case of an Adversarial Action or threatened or contemplated Adversarial Action, and subject to Section 7.01(b), each of Parent and SpinCo shall use their reasonable best efforts to make available, upon written request: (i) the former, current and future directors, officers, employees, other personnel and agents of the Persons in its respective Group (whether as witnesses or otherwise); and (ii) subject to Section 7.01(b), Information contemplated by Section 7.01(a), in each case to the extent that such Person (giving consideration to business demands of such directors, officers, employees, other personnel and agents) or books, records or other documents may reasonably be required in connection with any Action, Investigation, Commission comment or review or threatened or contemplated Action, Investigation, Commission comment or review (including preparation for any such Action, Commission comment or review) in which either Parent or SpinCo or any Person or Persons in its Group, as applicable, may from time to time be involved, regardless of whether such Action, Investigation, Commission comment or review or threatened or contemplated Action, Investigation, Commission comment or review is a matter with respect to which indemnification may be sought hereunder. The requesting Party shall bear all reasonable out-of-pocket costs and expenses in connection therewith.

(b) Without limiting the foregoing, Parent and SpinCo shall use their reasonable best efforts to cooperate and consult with each other to the extent reasonably necessary with respect to any Actions, Investigations or threatened or contemplated Actions or Investigations (including in connection with preparation for any such Action or Investigation), other than an Adversarial Action or threatened or contemplated Adversarial Action.

(c) The obligation of Parent and SpinCo, pursuant to this Section 7.07, to use their reasonable best efforts to make available former, current and future directors, officers, employees and other personnel and agents or provide witnesses and experts, except in the case of an Adversarial Action or threatened or contemplated Adversarial Action, is intended to be interpreted in a manner so as to facilitate cooperation and shall include the obligation to make available employees and other officers without regard to whether such individual or the employer of such individual could assert a possible business conflict. Without limiting the foregoing, each of Parent and SpinCo agrees that neither it nor any Person or Persons in its respective Group will take any adverse action against any employee of its Group based on such employee's provision of assistance or information to each other pursuant to this Section 7.07.

Section 7.08 Privileged Matters.

(a) Solely for purposes of asserting privileges which may be asserted under applicable law, and without limiting the provisions of Section 7.10: (x) the Parties recognize that legal and other professional services that have been and will be provided prior to the Distribution (whether by outside counsel, in-house counsel or other legal professionals) have been and will be rendered for the collective benefit of Parent and its Subsidiaries (in such capacity) and (y) each of the members of the Parent Group and the SpinCo Group shall be deemed to have been the client in connection with such services with respect to periods prior to the Distribution. The Parties recognize that legal and other professional services will be provided following the Distribution, which services will be rendered solely for the benefit of the Parent Group or the SpinCo Group, as the case may be.

(b) Parent shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any privileged Information that relates solely to the Parent Business or the Distribution and not to the operations of the SpinCo Business, whether or not the privileged Information is in the possession or under the control of any member of the Parent Group or any member of the SpinCo Group. Parent shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any privileged Information that relates solely to any Parent Assets or Parent Liabilities, and not any SpinCo Assets or SpinCo Liabilities, in connection with any Actions that are now pending or may be asserted in the future, whether or not the privileged Information is in the possession or under the control of any member of the Parent Group or any member of the SpinCo Group; and

(c) SpinCo shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any privileged Information that relates solely to the operations of the SpinCo Business and not to the Parent Business or the Distribution, whether or not the privileged Information is in the possession or under the control of any member of the SpinCo Group or any member of the Parent Group. SpinCo shall also be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities in connection with any privileged Information that relates solely to any SpinCo Assets or SpinCo Liabilities and not any Parent Assets or Parent Liabilities in connection with any Actions that are now pending or may be asserted in the future, whether or not the privileged Information is in the possession or under the control of any member of the SpinCo Group or any member of the Parent Group.

(d) Subject to the remaining provisions of this Section 7.08, the Parties agree that Parent shall be entitled, in perpetuity, to control the assertion or waiver of all privileges and immunities not allocated pursuant to Section 7.10 in connection with any Actions, or threatened or contemplated Actions, or other matters that involve both Parties (or one or more members of their respective Groups) and in respect of which both Parties have Liabilities under this Agreement.

(e) If any dispute arises between the Parties or any members of their respective Group regarding whether a privilege or immunity should be waived to protect or advance the interests of either Party or any member of their respective Groups, each Party agrees that it shall: (i) negotiate with the other Party in good faith; (ii) endeavor to minimize any prejudice to the rights of the other Party and the members of its Group; and (iii) not unreasonably withhold, delay or condition consent to any request for waiver by the other Party.

(f) Upon receipt by either Party, or by any member of its respective Group, of any subpoena, discovery or other request (or of written notice that it will receive or has received such subpoena, discovery or other request) that may reasonably be expected to result in the production or disclosure of privileged Information subject to a shared privilege or immunity or as to which the other Party has the sole right hereunder to assert a privilege or immunity, or if either Party obtains knowledge or becomes aware that any of its, or any member of its respective Group's, current or former directors, officers, agents or employees have received any subpoena, discovery or other requests (or have received written notice that they will receive or have received such subpoena, discovery or other requests) that may reasonably be expected to result in the production or disclosure of such privileged Information, such Party shall promptly notify the other Party of the existence of any such subpoena, discovery or other request and shall provide the other Party a reasonable opportunity to review the privileged Information and to assert any rights it or they may have, under this Section 7.08 or otherwise, to prevent the production or disclosure of such privileged Information; provided that if such Party is prohibited by applicable Law from disclosing the existence of such subpoena, discovery or other request, such Party shall provide written notice of such related information for which disclosure is not prohibited by applicable Law and use reasonable best efforts to inform the other Party of any related information such Party reasonably determines is necessary or appropriate for the other Party to be informed of to enable the other Party to review the privileged Information and to assert its rights, under this Section 7.08 or otherwise, to prevent the production or disclosure of such privileged Information.

(g) The Parties agree that their respective rights to any access to Information, witnesses and other Persons, the furnishing of notices and documents and other cooperative efforts between the Parties contemplated by this Agreement, and the transfer of privileged Information between the Parties and members of their respective Groups pursuant to this Agreement, shall not be deemed a waiver of any privilege that has been or may be asserted under this Agreement or otherwise. The Parties further agree that: (i) the exchange by one Party to the other Party of any Information that should not have been exchanged pursuant to the terms of Section 7.09 shall not be deemed to constitute a waiver of any privilege or immunity that has been or may be asserted under this Agreement or otherwise with respect to such privileged Information; and (ii) the Party receiving such privileged Information shall promptly return such privileged Information to the Party who has the right to assert the privilege or immunity.

(a) Each of Parent and SpinCo, on behalf of itself and each Person in its respective Group, shall hold, and cause its respective directors, officers, employees, agents, accountants, subcontractors, counsel and other advisors and representatives (each, a “Representative”) to hold, in strict confidence, not release or disclose and protect with at least the same degree of care, but no less than a reasonable degree of care, that it applies to its own confidential and proprietary information pursuant to policies in effect as of the Distribution Date, all confidential or proprietary Information concerning the Parent Business or the Parent Group (in the case of SpinCo) or the SpinCo Business or the SpinCo Group (in the case of Parent) (other than such Information that also relates to the Business of such first Party or its Group) (such Group’s “Specified Confidential Information”) that is either in its possession (including such Specified Confidential Information in its possession prior to the Distribution) or furnished by the other Group or its respective Representatives at any time pursuant to this Agreement or any Ancillary Agreement, and shall not use any such Specified Confidential Information other than for such purposes as shall be expressly permitted hereunder or thereunder, except, in each case, to the extent that such Specified Confidential Information is: (x) in the public domain through no fault of any member of the Parent Group or the SpinCo Group, as applicable, or any of its respective Representatives; (y) later lawfully acquired from other sources by any of Parent, SpinCo or its respective Group or Representatives, as applicable, which sources are not themselves bound by a confidentiality obligation to the knowledge of any of Parent, SpinCo or Persons in its respective Group, as applicable; or (z) independently generated after the date hereof without reference to any Specified Confidential Information of the Parent Group or the SpinCo Group, as applicable. Notwithstanding the foregoing, each of Parent and SpinCo may release or disclose, or permit to be released or disclosed, any such Specified Confidential Information of the other Group (i) to their respective Representatives who need to know such Specified Confidential Information (who shall be advised of the obligations hereunder with respect to such Specified Confidential Information), (ii) to any nationally recognized statistical rating organization as it reasonably deems necessary, solely for the purpose of obtaining a rating of securities or other debt instruments upon normal terms and conditions, (iii) if such Party or its respective Group is required or compelled to disclose any such Specified Confidential Information by judicial or administrative process or by other requirements of Law or stock exchange rule or is advised by outside counsel in connection with a proceeding brought by a Governmental Authority that is advisable to do so, (iv) as required in connection with any legal or other proceeding by one Party against the other Party or in respect of claims by one Party against the other Party brought in a proceeding, (v) as necessary in order to permit a Party to prepare and disclose its financial statements, tax returns or other required disclosures, (vi) as necessary for a Party to enforce its rights or perform its obligations under this Agreement or any Ancillary Agreement, (vii) to Governmental Authorities in accordance with applicable procurement regulations and contract requirements; provided, however, that, with respect to clause (i) hereof: (a) such Representatives shall keep such Specified Confidential Information confidential and will not disclose such Specified Confidential Information to any other Person and (b) each Party agrees that it is responsible to the other Party for any action or failure to act that would constitute a breach or violation of this Section 7.09(a) by any such Representative; with respect to clause (ii) hereof, the Party whose Specified Confidential Information is being disclosed or released to such rating organization is promptly notified thereof; and, with respect to clauses (iii) and (iv) hereof, that the Person required to disclose such Specified Confidential Information gives the applicable Person prompt and, to the extent reasonably practicable and legally permissible, prior notice of such disclosure and an opportunity to contest such disclosure and shall use reasonable best efforts to cooperate, at the expense of the requesting Person, in seeking any reasonable protective arrangements requested by such Person. In the event that such appropriate protective order or other remedy is not obtained, the Person that is required to disclose such Specified Confidential Information of the other Group shall furnish, or cause to be furnished, only that portion of such Specified Confidential Information that is legally required to be disclosed and shall use reasonable best efforts to ensure that confidential treatment is accorded such Specified Confidential Information.

(b) Each Party acknowledges that it or members of its Group may presently have and, after the Distribution, may gain access to or possession of confidential or proprietary Information of, or legally protected personal Information relating to, third parties: (i) that was received under confidentiality or non-disclosure agreements entered into between such third parties, on the one hand, and the other Party or members of such other Party's Group, on the other hand, prior to the Distribution or (ii) that, as between the two Parties, was originally collected by the other Party or such other Party's Group and that may be subject to and protected by privacy, data protection or other applicable Laws. Each Party agrees that it shall hold, protect and use, and shall cause the members of its Group and its and their respective Representatives to hold, protect and use, in strict confidence the confidential and proprietary Information of, or legally protected personal Information relating to, third parties in accordance with privacy, data protection or other applicable Laws and the terms of any Contracts that were either entered into before the Distribution or affirmative commitments or representations that were made before the Distribution by, between or among the other Party or members of the other Party's Group, on the one hand, and such third parties, on the other hand.

(c) Notwithstanding anything in this Agreement to the contrary, the receiving Party may disclose, disseminate, or use the ideas, concepts, know-how and techniques, in each case that are related to the receiving Party's business activities and that are contained in the disclosing Party's Specified Confidential Information and retained in the unaided memories of the receiving Party's employees who have had access to the disclosing Party's Specified Confidential Information, who have not intentionally memorized such Specified Confidential Information, and in each case without the specific intent to use or disclose such Specified Confidential Information. For the avoidance of doubt, nothing in this Section 7.09(c) grants either Party any right or license in or to any Patents or Copyrights (as each such term is defined in the IPA).

Section 7.10 Conflicts Waiver. Each of the Parties acknowledges, on behalf of itself and each other member of its Group, notwithstanding anything to the contrary contained herein or imposed by operation of law, that Parent has retained Paul, Weiss, Rifkind, Wharton & Garrison LLP and Hogan Lovells International LLP, Hogan Lovells US LLP and their affiliated businesses (collectively, the “Known Counsel”) to act as its counsel in connection with this Agreement, the Ancillary Agreements and the transactions contemplated hereby and thereby. SpinCo hereby agrees on behalf of itself and each member of its Group that, notwithstanding anything to the contrary contained herein or imposed by operation of law, in the event that a dispute (whether or not related to this Agreement, the Ancillary Agreements, or the transactions contemplated hereby and thereby) arises between or among (x) any member of the SpinCo Group, any SpinCo Indemnitee or any of their respective Affiliates, on the one hand, and (y) any member of the Parent Group, any Parent Indemnitee or any of their respective Affiliates, on the other hand, any Known Counsel may represent any member of the Parent Group, any Parent Indemnitee or any of their respective Affiliates in such dispute even though the interests of such Person may be directly adverse to, or conflict with the legal or economic interests of, any Person described in clause (x), and even though such Known Counsel may have represented or provided advice to a Person described in clause (x) in a matter substantially related to such dispute, or may be handling ongoing matters for a Person described in clause (x), and even though such Known Counsel may have or previously have had confidential or privileged information of a Person described in clause (x) that may be related to such dispute, and SpinCo hereby waives, on behalf of itself and each other Person described in clause (x), as applicable, any conflict of interest or claim to confidentiality in connection with such representation by such Known Counsel, and SpinCo hereby agrees, on behalf of itself and each other Person described in clause (x), as applicable, not to seek to disqualify such Known Counsel in connection with such representation. SpinCo, on behalf of itself and each other member of its Group, irrevocably authorizes any Known Counsel to disclose or provide any of its confidential or privileged information existing as of the date hereof to Parent or any other member of Parent’s Group, and to otherwise use or disclose that information in accordance with Parent’s direction. Each of SpinCo and Parent, on behalf of itself and each other member of its Group, agrees to take, and to cause their respective then-Affiliates to take, all steps necessary to implement the intent of this Section 7.10. Each of SpinCo and Parent, on behalf of itself and each other member of its Group, further agrees that each Known Counsel and its respective partners and employees are third-party beneficiaries of this Section 7.10, and may seek to enforce, without limitation, this Section 7.10.

ARTICLE VIII

INSURANCE

Section 8.01 Maintenance of Insurance. Until the Distribution Date, Parent shall (i) cause the members of the SpinCo Group and their respective employees, officers and directors to continue to be covered as insured parties under Parent’s policies of insurance in a manner which is no less favorable than the coverage provided for the Parent Group and (ii) permit the members of the SpinCo Group and their respective employees, officers and directors to submit claims relating to, arising out of or resulting from facts, circumstances, events or matters that occurred prior to the Distribution Date to the extent permitted under such policies. Except as otherwise expressly permitted in this Article VIII, Parent and SpinCo acknowledge that, as of immediately prior to the Distribution Date, Parent intends to take such action as it may deem necessary or desirable to remove the members of the SpinCo Group and their respective employees, officers and directors as insured parties under any policy of insurance issued to any member of the Parent Group by any insurance carrier effective immediately prior to the Distribution Date. Except as provided in Section 8.02, the SpinCo Group will not be entitled on or following the Distribution Date, absent mutual agreement otherwise, to make any claims for insurance thereunder to the extent such claims are based upon facts, circumstances, events or matters occurring on or after the Distribution Date. No member of the Parent Group shall be deemed to have made any representation or warranty as to the availability of any coverage under any such insurance policy.

Section 8.02 Claims under Parent Insurance Policies.

(a) On and after the Distribution Date, the members of each of the Parent Group and the SpinCo Group shall, subject to the terms of this Section 8.02, have the right to assert Parent Policy Pre-Separation Insurance Claims and the members of the SpinCo Group shall have the right to participate with Parent to resolve Parent Policy Pre-Separation Insurance Claims under the applicable Parent insurance policies up to the full extent of the applicable and available limits of liability of such policy. Parent shall have primary control over Parent Policy Pre-Separation Insurance Claims. If a member of the SpinCo Group is unable to assert a Parent Policy Pre-Separation Insurance Claim because it is no longer an “insured” under a Parent insurance policy, then Parent shall, at the written request of SpinCo, to the extent permitted by applicable Law and the terms of such insurance policy and, subject to the terms of this Section 8.02, assert such claim in its own name and deliver the Insurance Proceeds to SpinCo, provided that SpinCo shall bear the out-of-pocket expenses of Parent in asserting such claim (in addition to the obligations of SpinCo in Section 8.02(b)).

(b) With respect to Parent Policy Pre-Separation Insurance Claims, whether or not known or reported on or prior to the Distribution Date, SpinCo shall, or shall cause the applicable member of the SpinCo Group to, report such claims arising from the SpinCo Business as soon as practicable to each of Parent and the applicable insurer(s), and SpinCo shall, or shall cause the applicable member of SpinCo Group to, individually, and not jointly, assume and be responsible (including, upon the request of Parent, by reimbursement to Parent for amounts paid or payable by it) for the out-of-pocket expenses of Parent in asserting such claim and for any reimbursement liability (including any deductible, coinsurance or retention payment or reimbursement obligations under “fronted” or similar policies) related to its portion of the liability, unless otherwise agreed in writing by Parent. Each of Parent and SpinCo shall, and shall cause each member of the Parent Group and SpinCo Group, respectively, to, cooperate with and assist the applicable member of the SpinCo Group and the Parent Group, as applicable, with respect to such claims. The applicable member of the SpinCo Group shall provide to Parent any collateral (or a letter of credit in an amount equal to the value of such collateral) in respect of the reimbursement obligations as may reasonably be requested by the insurers and, upon the request of Parent, any other collateral required by the insurers in respect of insurance policies under which Parent Policy Pre-Separation Insurance Claims may be recoverable based upon Parent’s reasonable estimate of the proportion of the requested collateral attributable to claims that may be made by the SpinCo Group. Parent agrees that Parent Policy Pre-Separation Insurance Claims of members of the SpinCo Group shall receive the same priority as Parent Policy Pre-Separation Insurance Claims of members of the Parent Group and be treated equitably in all respects, including in connection with deductibles, retentions and coinsurance. For the avoidance of doubt, except to the extent expressly set forth in this Section 8.03, following the Distribution the SpinCo Group shall have no rights with respect to Parent insurance policies and, as between the Parent Group and the SpinCo Group, any claims made by the SpinCo Group shall be made against insurance policies of the SpinCo Group.

Section 8.03 Insurance Proceeds. Except as set forth on Schedule XXI, any Insurance Proceeds, net of costs and reimbursements as contemplated by Section 8.02, received by the Parent Group for members of the SpinCo Group or by the SpinCo Group for members of the Parent Group shall be for the benefit, respectively, of the SpinCo Group (in the former case) or the Parent Group (in the latter case). Any Insurance Proceeds, net of costs and reimbursements as contemplated by Section 8.02, received for the benefit of both the Parent Group and the SpinCo Group shall be distributed pro rata based on the respective share of the underlying loss.

Section 8.04 Claims Not Reimbursed. Parent shall not be liable to SpinCo for claims, or portions of claims, not reimbursed by insurers under any policy for any reason, including coinsurance provisions, deductibles, quota share deductibles, self-insured retentions, reimbursement obligations (including under “fronted” or similar insurance policies), bankruptcy or insolvency of any insurance carrier(s), policy limitations or restrictions (including exhaustion of limits), any coverage disputes, any failure to timely file a claim by any member of the Parent Group or any member of the SpinCo Group or any defect in such claim or its processing. Nothing in this Section 8.04 shall be construed to limit or otherwise alter in any way the obligations of the Parties, including those created by this Agreement, by operation of Law or otherwise.

Section 8.05 D&O Policies. On and after the Distribution Date, Parent shall not, and shall cause the members of the Parent Group not to, take any action that would limit the coverage of the individuals who acted as directors or officers of SpinCo (or members of the SpinCo Group) prior to the Distribution Date under any directors and officers liability insurance policies or fiduciary liability insurance policies (collectively, “D&O Policies”) maintained by the members of the Parent Group in respect of claims made prior to the Distribution Date. Parent shall, and shall cause the members of the Parent Group to, reasonably cooperate with the individuals who acted as directors or officers of SpinCo (or members of the SpinCo Group) prior to the Distribution Date in their pursuit of any coverage claims under such D&O Policies made prior to the Distribution Date. Except as provided in this Section 8.05, the Parent Group may, at any time, without liability or obligation to the SpinCo Group, amend, commute, terminate, buy out, extinguish liability under or otherwise modify any “occurrence-based” insurance policy or “claims-made-based” insurance policy (and such claims will be subject to any such amendments, commutations, terminations, buy-outs, extinguishments and modifications); provided, however, that Parent will notify SpinCo of any termination of any insurance policy under which SpinCo is entitled to make claims pursuant to this Article VIII.

ARTICLE IX

FURTHER ASSURANCES

Section 9.01 Further Assurances.

(a) In addition to the actions specifically provided for elsewhere in this Agreement, but subject to the express limitations of this Agreement and of the Ancillary Agreements, each of the Parties shall, subject to Section 5.03, use reasonable best efforts, prior to, on and after the Distribution Date, to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable Laws and agreements to consummate, and make effective, the transactions contemplated by this Agreement.

(b) Without limiting the foregoing, but subject to the express limitations of this Agreement and of the Ancillary Agreements, prior to, on and after the Distribution Date, each Party shall cooperate with the other Party, without any further consideration, but at the expense of the requesting Party: (i) to execute and deliver, or use reasonable best efforts to execute and deliver, or cause to be executed and delivered, all instruments, including any instruments of conveyance, assignment and transfer as such Party may reasonably be requested to execute and deliver by the other Party; (ii) to make, or cause to be made, all filings with, and to obtain, or cause to be obtained, all Consents of any Governmental Authority or any other Person under any permit, license, Contract, indenture or other instrument; (iii) to obtain, or cause to be obtained, any Governmental Approvals or other Consents required to effect the Spin-Off; and (iv) to take, or cause to be taken, all such other actions as such Party may reasonably be requested to take by the other Party from time to time, consistent with the terms of this Agreement and the Ancillary Agreements, in order to effectuate the provisions and purposes of this Agreement, the Ancillary Agreements and any transfers of Assets or assignments and assumptions of Liabilities hereunder and the other transactions contemplated hereby.

(c) On or prior to the Distribution Date, Parent and SpinCo, in their respective capacities as direct and indirect stockholders of their respective Subsidiaries, shall each ratify any actions that are reasonably necessary or desirable to be taken by SpinCo or any other Subsidiary of Parent, as the case may be, to effectuate the transactions contemplated by this Agreement.

(d) Prior to the Distribution, if either Party identifies any commercial or other service that is needed to ensure a smooth and orderly transition of its business in connection with the consummation of the transactions contemplated hereby, and that is not otherwise governed by the provisions of this Agreement or any Ancillary Agreement, the Parties will cooperate in good faith to determine whether there is a mutually acceptable arm's-length basis on which the other Party will provide such service.

ARTICLE X

TERMINATION

Section 10.01 Termination. This Agreement may be terminated by Parent at any time, in its sole discretion, prior to the Distribution.

Section 10.02 Effect of Termination. In the event of any termination of this Agreement prior to the Distribution, neither Party (nor any member of their Group or any of their respective directors or officers) shall have any Liability or further obligation to the other Party or any member of its Group under this Agreement or the Ancillary Agreements.

ARTICLE XI
MISCELLANEOUS

Section 11.01 Counterparts; Entire Agreement; Corporate Power.

(a) This Agreement may be executed in one or more counterparts, all of which counterparts shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each Party and delivered to the other Party. This Agreement may be executed by facsimile or PDF signature and scanned and exchanged by electronic mail, and such facsimile or PDF signature or scanned and exchanged copies shall constitute an original for all purposes.

(b) This Agreement, the Ancillary Agreements and the Appendices, Exhibits and Schedules hereto and thereto contain the entire agreement between the Parties with respect to the subject matter hereof and supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter, and there are no agreements or understandings between the Parties with respect to the subject matter hereof other than those set forth or referred to herein or therein. In the event of conflict or inconsistency between the provisions of this Agreement or any Ancillary Agreement, on the one hand, and the provisions of any Local Transfer Agreement (including any provision of a Local Transfer Agreement providing for dispute resolution mechanisms inconsistent with those provided herein), on the other hand, the provisions of this Agreement and any such Ancillary Agreement shall prevail and remain in full force and effect. Each Party hereto shall, and shall cause each of its Subsidiaries to, implement the provisions of and the transactions contemplated by the Local Transfer Agreement in accordance with the immediately preceding sentence.

(c) Parent represents on behalf of itself and each other member of the Parent Group, and SpinCo represents on behalf of itself and each other member of the SpinCo Group, as follows:

(i) each such Person has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform each of this Agreement and each Ancillary Agreement to which it is a party and to consummate the transactions contemplated hereby and thereby; and

(ii) this Agreement and each Ancillary Agreement to which it is a party has been (or, in the case of any Ancillary Agreement, will be on or prior to the Distribution Date) duly executed and delivered by it and constitutes, or will constitute, a valid and binding agreement of it enforceable in accordance with the terms thereof.

Section 11.02 Negotiation. In the event of any claim, controversy, demand or request for relief of any kind arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, validity or breach of this Agreement or any Ancillary Agreement (unless such Ancillary Agreement expressly provides that disputes thereunder will not be subject to the resolution procedures set forth in this Article XI) or otherwise arising out of or related to this Agreement or any such Ancillary Agreement or the transactions contemplated hereby or thereby, including any Action based on contract, tort, equity, statute, regulation or constitution (collectively, "Disputes"), the Party raising the Dispute shall give written notice of the Dispute (a "Dispute Notice"), and the general counsels of the Parties (or such other individuals designated by the respective general counsels) and/or the executive officers designated by the Parties shall negotiate for a reasonable period of time to settle such Dispute; provided, that such reasonable period shall not, unless otherwise agreed by the Parties in writing, exceed ninety (90) days (the "Negotiation Period") from the time of receipt of the Dispute Notice; provided, further, that in the event of any arbitration in accordance with Section 11.03 hereof, (x) the Parties shall not assert the defenses of statute of limitations, laches or any other defense, in each such case based on the passage of time during the Negotiation Period, and (y) any contractual time period or deadline under this Agreement or any Ancillary Agreement relating to such Dispute occurring after the Dispute Notice is received shall not be deemed to have passed until such Arbitration has been resolved.

Section 11.03 Arbitration. If the Dispute has not been resolved for any reason after the Negotiation Period, such Dispute may be submitted by either Party to final and binding arbitration administered in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA") then in effect (the "Rules"), except as modified herein.

(a) The arbitration shall be conducted by a three-member arbitral tribunal (the "Arbitral Tribunal"). The claimant shall nominate one arbitrator in accordance with the Rules, and the respondent shall nominate one arbitrator in accordance with the Rules within twenty-one days (21) after the appointment of the first arbitrator. The third arbitrator, who shall serve as chair of the Arbitral Tribunal, shall be jointly nominated by the two party-nominated arbitrators within twenty-one (21) days of the confirmation of the appointment of the second arbitrator. If any arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA in accordance with the listing, striking and ranking procedure in the Rules. With respect to any disputes relating to HSE Liabilities, the arbitrators shall be attorneys with experience in HSE Laws or technical or scientific experts whose work relates to environmental science, remediation or pollution control issues, as appropriate to the specific disputes.

(b) The arbitration shall be held, and the award shall be rendered, in New York, New York, in the English language.

(c) For the avoidance of doubt, by submitting their Dispute to arbitration under the Rules, the Parties expressly agree that all issues of arbitrability, including all issues concerning the propriety and timeliness of the commencement of the arbitration, the jurisdiction of the Arbitral Tribunal (including the scope of this agreement to arbitrate and the extent to which a Dispute is within that scope), and the procedural conditions for arbitration, shall be finally and solely determined by the Arbitral Tribunal.

(d) Without derogating from Section 11.03(e) below, the Arbitral Tribunal shall have the full authority to grant any pre-arbitral injunction, pre-arbitral attachment, interim or conservatory measure or other order in aid of arbitration proceedings (“Interim Relief”). The Parties shall exclusively submit any application for Interim Relief to only: (A) the Arbitral Tribunal; or (B) prior to the constitution of the Arbitral Tribunal, an emergency arbitrator appointed in the manner provided for in the Rules (the “Emergency Arbitrator”). Any Interim Relief so issued shall, to the extent permitted by applicable Law, be deemed a final arbitration award for purposes of enforceability, and, moreover, shall also be deemed a term and condition of this Agreement subject to specific performance in Section 11.04 below. The foregoing procedures shall constitute the exclusive means of seeking Interim Relief, provided, however, that (i) the Arbitral Tribunal shall have the power to continue, review, vacate or modify any Interim Relief granted by an Emergency Arbitrator; and (ii) in the event an Emergency Arbitrator or the Arbitral Tribunal issues an order granting, denying or otherwise addressing Interim Relief (a “Decision on Interim Relief”), any Party may apply to enforce or require specific performance of such Decision on Interim Relief in any court of competent jurisdiction.

(e) The Arbitral Tribunal shall have the power to grant any remedy or relief that is in accordance with the terms of this Agreement or the applicable Ancillary Agreement, including specific performance and temporary or final injunctive relief, provided, however, that the Arbitral Tribunal shall have no authority or power to limit, expand, alter, amend, modify, revoke or suspend any condition or provision of this Agreement or any Ancillary Agreement, nor any right or power to award punitive, exemplary, enhanced or treble damages.

(f) The Arbitral Tribunal shall have the power to allocate the costs and fees of the arbitration, including reasonable attorneys’ fees and costs as well as those costs and fees addressed in the Rules, between the Parties in the manner it deems fit.

(g) Arbitration under this Article XI shall be the sole and exclusive remedy for any Dispute, and any award rendered thereby shall be final and binding upon the Parties as from the date rendered. Judgment on the award rendered by the Arbitral Tribunal may be entered in any state or federal court within the state of Delaware (which the parties hereby agree have jurisdiction over them to enforce any such award) and any other court having jurisdiction thereof, including any court having jurisdiction over the relevant Party or its Assets.

Section 11.04 Specific Performance. Subject to Section 11.02 and Section 11.03, except as provided below, in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement, the affected Party shall have the right to specific performance, declaratory relief and injunctive or other equitable relief (on a permanent, emergency, temporary, preliminary or interim basis) of its rights under this Agreement, in addition to any and all other rights and remedies at Law or in equity, and all such rights and remedies shall be cumulative. The other Party shall not oppose the granting of such relief on the basis that money damages are an adequate remedy. The Parties agree that the remedies at Law for any breach or threatened breach hereof, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at Law would be adequate is waived. Any requirements for the securing or posting of any bond or similar security with such remedy are waived. For the avoidance of doubt, the rights pursuant to this Section 11.04 shall be pursued in arbitration under Section 11.03.

Section 11.05 Treatment of Arbitration. The Parties agree that any arbitration hereunder shall be kept confidential, and that the existence of the proceeding and all of its elements (including any pleadings, briefs or other documents or evidence submitted or exchanged, any testimony or other oral submissions, and any awards) shall be deemed confidential, and shall not be disclosed beyond the Arbitral Tribunal, the Parties, their counsel, and any Person necessary to the conduct of the proceeding, except as and to the extent required by law and to defend or pursue any legal right. In the event any Party makes application to any court in connection with this Section 11.05 (including any proceedings to enforce a final award or any Interim Relief), that party shall take all steps reasonably within its power to cause such application, and any exhibits (including copies of any award or decisions of the Arbitral Tribunal or Emergency Arbitrator) to be filed under seal, shall oppose any challenge by any third party to such sealing, and shall give the other Party immediate notice of such challenge.

Section 11.06 Continuity of Service and Performance. Unless otherwise agreed in writing, the Parties shall continue to provide services and honor all other commitments under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of Section 11.02, Section 11.03, Section 11.04 or Section 11.05 with respect to all matters not subject to such dispute resolution.

Section 11.07 Governing Law. This Agreement and any disputes relating to, arising out of or resulting from this Agreement, including to its execution, performance, or enforcement, shall be governed by, and construed in accordance with, the Laws of the State of Delaware, regardless of the Laws that might otherwise govern under applicable principles of conflicts of Laws thereof.

Section 11.08 Assignability. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of Law or otherwise by either Party without the prior written consent of the other Party. Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the Parties and their respective successors and assigns. Notwithstanding the foregoing, if any Party to this Agreement (or any of its successors or permitted assigns) (a) shall enter into a consolidation or merger transaction in which such Party is not the surviving entity and the surviving entity acquires or assumes all or substantially all of such Party's Assets or (b) shall transfer all or substantially all of such Party's Assets to any Person, then, in each such case, the assigning Party (or its successors or permitted assigns, as applicable) shall ensure that the assignee or successor-in-interest expressly assumes in writing all of the obligations of the assigning Party under this Agreement, and the assigning Party shall not be required to seek consent, but shall provide written notice and evidence of such assignment, assumption or succession to the non-assigning Party. No assignment permitted by this Section 11.08 shall release the assigning Party from liability for the full performance of its obligations under this Agreement.

Section 11.09 Third-Party Beneficiaries. Except as expressly set forth in Section 7.10 and for the indemnification rights under this Agreement of any Parent Indemnitee or SpinCo Indemnitee in his, her or its respective capacities as such, (a) the provisions of this Agreement are solely for the benefit of the Parties hereto and are not intended to confer upon any Person except the Parties hereto any rights or remedies hereunder and (b) there are no third-party beneficiaries of this Agreement and this Agreement shall not provide any third person with any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement.

Section 11.10 Notices. All notices or other communications under this Agreement shall be in writing and shall be deemed to be duly given (a) when delivered in person, (b) on the date received, if sent by a nationally recognized delivery or courier service, (c) upon written confirmation of receipt after transmittal by electronic mail or (d) upon the earlier of confirmed receipt or the fifth (5th) business day following the date of mailing if sent by registered or certified mail, return receipt requested, postage prepaid and addressed as follows:

If to Parent, to:

International Business Machines Corporation
One New Orchard Road
Armonk, NY 10504
Attn: General Manager, Corporate Development and Strategy

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Attn: Scott A. Barshay
Steven J. Williams
Laura C. Turano
Email: sbarshay@paulweiss.com
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If to SpinCo, to:

Kyndryl Holdings, Inc.
One Vanderbilt Avenue, 15th Floor
New York, NY 10017
Attn: Thom Hagen

Either Party may, by notice to the other Party, change the address and identity of the Person to which such notices and copies of such notices are to be given. Each Party agrees that nothing in this Agreement shall affect the other Party's right to serve process in any other manner permitted by Law (including pursuant to the rules for foreign service of process authorized by the Hague Convention).

Section 11.11 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court or arbitrator of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances, or in jurisdictions other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon any such determination, any such provision, to the extent determined to be invalid, void or unenforceable, shall be deemed replaced by a provision that such court determines is valid and enforceable and that comes closest to expressing the intention of the invalid, void or unenforceable provision.

Section 11.12 Publicity. Each of Parent and SpinCo shall consult with the other and shall, subject to the requirements of Section 7.09, provide the other Party the opportunity to review and comment upon any press releases or other public statements in connection with the Spin-Off or any of the other transactions contemplated hereby and any filings with any Governmental Authority or national securities exchange with respect thereto, in each case prior to the issuance or filing thereof, as applicable (including the Information Statement, the Parties' respective Current Reports on Form 8-K to be filed on the Distribution Date, the Parties' respective Quarterly Reports on Form 10-Q filed with respect to the fiscal quarter during which the Distribution Date occurs, or if such quarter is the fourth fiscal quarter, the Parties' respective Annual Reports on Form 10-K filed with respect to the fiscal year during which the Distribution Date occurs (each such Quarterly Report on Form 10-Q or Annual Report on Form 10-K, a "First Post-Distribution Report")). Each Party's obligations pursuant to this Section 11.12 shall terminate on the date on which such Party's First Post-Distribution Report is filed with the Commission.

Section 11.13 Expenses. Except as set forth on Schedule XXII, as otherwise expressly provided in this Agreement or in any Ancillary Agreement, (a) all third-party fees, costs and expenses incurred by either the Parent Group or the SpinCo Group in connection with effecting the Spin-Off prior to or on the Distribution Date (but excluding, for the avoidance of doubt, any financing fees or interest payable in respect of any indebtedness incurred by SpinCo in connection with the Spin-Off), will be borne and paid by Parent and (b) all third-party fees, costs and expenses incurred by either the Parent Group or the SpinCo Group in connection with effecting the Spin-Off following the Distribution Date, will be borne and paid by the Party incurring such fee, cost or expense. For the avoidance of doubt, this Section 11.13 shall not affect each Party's responsibility to indemnify Parent Liabilities or SpinCo Liabilities, as applicable, arising from the transactions contemplated by the Distribution.

Section 11.14 Headings. The article, section and paragraph headings contained in this Agreement, including in the table of contents of this Agreement, are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 11.15 Survival of Covenants. Except as expressly set forth in this Agreement, the covenants in this Agreement and the Liabilities for the breach of any obligations in this Agreement shall survive the Spin-Off and shall remain in full force and effect.

Section 11.16 Waivers of Default. No failure or delay of any Party (or the applicable member of its Group) in exercising any right or remedy under this Agreement or any Ancillary Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power. Waiver by any Party of any default by the other Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default.

Section 11.17 Amendments. No provisions of this Agreement shall be deemed waived, amended, supplemented or modified by any Party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of each Party.

Section 11.18 Interpretation. Words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other gender as the context requires. The terms “hereof,” “herein,” “herewith” and words of similar import, unless otherwise stated, shall be construed to refer to this Agreement as a whole (including all of the schedules hereto) and not to any particular provision of this Agreement. Article, Section or Schedule references are to the articles, sections and schedules of or to this Agreement unless otherwise specified. Any capitalized terms used in any Schedule to this Agreement or to any Ancillary Agreement but not otherwise defined therein shall have the meaning as defined in this Agreement or the Ancillary Agreement to which such Schedule is attached, as applicable. Any definition of or reference to any agreement, instrument or other document herein (including any reference herein to this Agreement) shall, unless otherwise stated, be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth therein, including in Section 11.17 above). The word “including” and words of similar import when used in this Agreement shall mean “including, without limitation,” unless the context otherwise requires or unless otherwise specified. The word “or” shall not be exclusive. The word “extent” in the phrase “to the extent” shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply “if.” All references to “\$” or dollar amounts are to the lawful currency of the United States of America. References herein to any Law shall be deemed to refer to such law as amended, reenacted, supplemented or superseded in whole or in part and in effect from time to time and also to all rules and regulations promulgated thereunder. In the event that an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any provisions hereof.

IN WITNESS WHEREOF, the Parties have caused this Separation and Distribution Agreement to be executed as of the date first noted above by their duly authorized representatives.

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: _____
Name:
Title:

KYNDRYL HOLDINGS, INC.

By: _____
Name:
Title:

[Signature Page to Separation and Distribution Agreement]

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH NOT MATERIAL AND WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED. [***] INDICATES THAT INFORMATION HAS BEEN REDACTED.

TRANSITION SERVICES AGREEMENT

by and between

INTERNATIONAL BUSINESS MACHINES CORPORATION

and

KYNDRYL, INC.

Dated as of [●], 2021

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Exhibits

Exhibit 1 – Excluded Services

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Schedules

Schedule 1 – Initial List of TSA Documents

TRANSITION SERVICES AGREEMENT (this “TSA”), dated as of [●], 2021 (the “Effective Date”), by and between **International Business Machines Corporation**, a New York corporation (“IBM” or “Seller”), and **Kyndryl, Inc.**, a Delaware corporation (“Buyer”) (each a Party and, collectively, the “Parties”).

RECITALS

WHEREAS, the board of directors of IBM have determined that it is in the best interests of IBM and its stockholders to create a new publicly traded company to operate the SpinCo Business (as defined in the Separation Agreement);

WHEREAS, in furtherance of the foregoing, Seller and Buyer have entered into a Separation and Distribution Agreement, dated as of [____], 2021 (the “Separation Agreement”); and

WHEREAS, Seller and Buyer contemplate that Seller and its Affiliates shall provide certain transition services to Buyer and its Affiliates.

NOW, THEREFORE, in consideration of the premises set forth above and the respective covenants, agreements, representations and warranties hereinafter set forth, Buyer and Seller hereby agree as follows:

Article I Definitions

1.1 **Defined Terms**. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in Article 1 of the Separation Agreement.

Article II Services and Deliverables

2.1 **Service Descriptions**. Seller and its Affiliates will provide to Buyer and its Affiliates such services (the “Services”) and materials (the “Deliverables”) as are described in the service descriptions (each, a “Service Description Attachment” or “SDA”), which are attachments to this TSA that describe the Services and Deliverables to be provided. The Services and Deliverables will be provided and accepted in accordance with the terms and conditions set forth herein and in the applicable SDA. The Services do not include any of the items set forth on Exhibit 1, Excluded Services, to this TSA.

2.2 **Copyrights**. Unless specified otherwise in an SDA, Seller will own the copyright in any Deliverables created as part of the Services and Seller will grant to Buyer a nonexclusive, worldwide, paid-up license to use, execute, reproduce, and display copies of the Deliverables. Buyer agrees to reproduce the copyright notice and any other legend of ownership on any copies of Deliverables. Seller will deliver the Deliverables, if any, as set forth in the applicable SDA.

2.3 **TSA Documents**. Additional terms, as applicable, may be included within documents called “TSA Documents.” TSA Documents are incorporated into this TSA by reference (an initial list of TSA Documents is attached as Schedule 1 to this TSA). For the purposes of this TSA, each SDA, change authorization, addendum and amendment, will function as a TSA Document, provided such SDA, change authorization, addendum or amendment is fully executed by the Parties. In order to be effective, a TSA Document must be approved and executed by both Parties. Notwithstanding the foregoing, any SDA, change authorization, addendum or amendment listed on Schedule 1 to this TSA on the Effective Date shall be deemed to be executed concurrently with the execution of this TSA. If there is a conflict among the terms of this TSA and any TSA Document, the terms of such TSA Document prevail over those of this TSA.

2.4 **Standard of Performance.** All Services shall be provided on a basis consistent in all material respects with Seller's practice and service commitments immediately prior to the Effective Date except as set forth in an SDA or, if not heretofore provided by Seller, shall be provided in a commercially reasonable manner and on a timely basis. Seller shall perform the Services with at least the same level of skill, quality, care, timeliness, and cost-effectiveness as performed by Seller immediately prior to the Effective Date. Except as may be set forth herein or in a SDA, Seller and Buyer shall agree on any substantial changes in the Services prior to implementation of such changes.

2.5 **Materials and Access.** Buyer shall make available on a timely basis to Seller and any applicable service providers, and hereby grants a non-exclusive, worldwide, royalty-free license with respect thereto, such information and materials required by Seller to enable Seller or such service provider, as applicable, to provide the Services. Buyer shall provide Seller, or its applicable service provider, reasonable access to the premises of Buyer (including the systems, software and networks located therein), to the extent necessary to permit Seller to provide the Services.

2.6 **Control Environment.** The Parties will define the control environment related to the Services. Seller will perform the Services in accordance with Seller's policies and procedures, except as specifically required otherwise herein or as modified in an SDA. If required by Buyer, the Parties will develop reasonable and mutually agreed upon procedures to test the processes used by Seller to perform the Services by Seller on behalf of Buyer, in order to support Buyer's audit and Sarbanes-Oxley management assertion requirements. These agreed upon procedures shall be performed by Buyer's third party designated accounting firm, at Buyer's sole cost and expense, and a report shall be delivered to both Parties on a timeline that is reasonable and acceptable to both Parties.

2.7 **Local Agreements.** Where it is determined by Seller that an Affiliate of Seller is required to invoice Buyer or one of its Affiliates for fees for the Services and associated Indirect Taxes, the Parties shall enter into one or more Local Agreement(s), forms of which are attached hereto as Exhibit 3 (Local Settlement) and Exhibit 4 (Global Settlement), which will incorporate by reference this TSA and any relevant TSA Document without modification. Buyer or its Affiliate shall make payments according to the terms of the applicable Local Agreement(s).

Article III Migration and Migration Support

3.1 **Mitigate Dependency.** Buyer shall use commercially reasonable efforts to reduce or eliminate Buyer's and its Affiliates' dependency on the Services and Seller agrees to use commercially reasonable efforts to support and assist the Buyer in that migration process including, to the extent set forth in an SDA, assisting Buyer in developing of cloned systems, processes, or service environments to assist Buyer to migrate to other service providers.

3.2 **Migration Plan.** The Parties will jointly develop a proposed migration plan for the Services (the “Migration Plan”). Unless otherwise mutually agreed, the Migration Plan will include: (a) a draft schedule of migration steps (which shall include data, skill and knowledge transfer to Buyer), (b) the timing of completion for each migration step, and (c) the responsibilities of Seller and Buyer and any third-party service provider, with the objective of completing the separation within the term of this TSA. Each Party will bear its own costs in connection with the creation of the Migration Plan. The Parties recognize that the Migration Plan will serve only as guidance on the Parties’ migration efforts and will not commit either Party to specific migration activities.

3.3 **Implementing Migration Plan.** Each Party will perform the migration steps for which it is responsible and pursuant to the schedule mutually agreed to under the Migration Plan and Seller will provide Buyer with commercially reasonable assistance in the implementation of the Migration Plan and will use commercially reasonable efforts to cooperate with Buyer’s reasonable requests as they relate thereto. Buyer will bear (and will reimburse Seller for) the costs of such cooperation and assistance by Seller, unless otherwise agreed in writing in the Migration Plan.

Article IV Interruption of Services

4.1 **Suspension of Services.** Seller may suspend, revoke or limit Buyer’s use of a Service if Seller determines that Buyer has breached any of its material obligations under this TSA or any TSA Document or that Buyer’s actions or failures to act have caused or will cause, in Seller’s reasonable judgment, a security breach or violation of any Law; provided that such breach or such actions or failures to act that have caused or will cause a breach are not successfully remedied within sixty (60) days from notice of such breach or violation. If the cause of the suspension, revocation, or limitation can reasonably be remedied, Seller will provide notice of the actions Buyer must take to reinstate the Service. If Buyer fails to take such actions within sixty (60) days, Seller may terminate the Service.

4.2 **Scheduled Maintenance.** Scheduled maintenance for applicable Services will be agreed upon and set forth in the applicable SDA. In the event of emergency maintenance or other unplanned disruption that impacts the Services, Seller will notify Buyer as soon as reasonably practicable. Seller may suspend Services for any scheduled maintenance set forth in the applicable SDA or emergency maintenance.

4.3 **Interruption.** In the event of any interruption of Service allowed under Sections 4.1 or 4.2, Seller’s obligations for the affected Service, and Buyer’s obligation to pay for the affected Service, are postponed for the time the performance is suspended or delayed due to such interruption.

Article V Personnel; Project Managers; Joint Steering Committee

5.1 **Subcontractors.** Upon Buyer’s prior written consent on a Service-by-Service basis (not to be unreasonably withheld, conditioned or delayed), and only for Services that Seller intends to be materially outsourced, to the extent consistent with Seller’s practices during the 180 days immediately prior to its entry into the Separation Agreement, Seller may engage subcontractors to provide or assist in providing the Services; provided, however, that Seller remains responsible for the fulfillment of all of its obligations under this TSA and for the performance of the Services.

5.2 **Access and Use of Facilities.** Seller will ensure that all personnel of Seller, its Affiliates and any subcontractors having access to Buyer's or its Affiliates' premises in connection with the performance or delivery of a Service will comply with all reasonable applicable security guidelines (including physical security, network access, internet security, confidentiality and personal data security guidelines, policies, standards and similar requirements) of Buyer and its Affiliates, which guidelines shall have been communicated in writing and in advance by Buyer to Seller.

5.3 **Personnel.** Buyer and Seller:

- (a) are independent contractors and this TSA does not create an agency, partnership or joint venture relationship between Buyer and Seller or Seller personnel. Neither Party assumes any liability or responsibility for the other Party's personnel;
- (b) agree to provide, to the extent necessary and required by applicable law, (i) confirmation that their respective personnel have requisite work authorizations, and (ii) for export evaluation purposes, confirm country of origin;
- (c) agree that each Party has the right to refuse to accept the other Party's personnel made available to perform Services hereunder and may request the removal of the other Party's personnel from assignment under this TSA for any lawful reason in such Party's sole and reasonable discretion;
- (d) will ensure that their respective personnel assigned to work hereunder will not use the other Party's confidential information that such Party may be exposed to or have access to while working pursuant to this TSA and will not share such information or disclose it by publication or otherwise to any other person during the term of this TSA and for a period of three (3) years thereafter, except as required by law;
- (e) shall instruct their personnel that employment related issues should be brought forward to their respective companies;
- (f) shall remain responsible for the day to day supervision, control, terms and conditions, hiring, verification of eligibility to work, discipline, performance management, termination, counseling, scheduling, compensation, benefits and other activities, withholdings, health and safety of their respect personnel, and shall ensure their respective personnel do not seek to obtain the same from the other Party. To avoid any confusion, Buyer remains the employer of Buyer personnel and Seller remains the employer of Seller personnel at all times. Further, this TSA does not create an employment relationship between Buyer, Seller and their respective personnel; and

(g) are responsible for the actions and inactions of their respective personnel, including compliance with the requirements of this TSA.

5.4 **Project Managers.** Each Party will designate a person called its “Project Manager” who will be the focal point for communications relative to this TSA and will have the authority to act on behalf of such Party regarding this TSA. The responsibilities of each Party’s Project Manager include:

- (a) manage its personnel and responsibilities for this TSA;
- (b) serve as the interface between the other Party and all of its departments participating in this TSA;
- (c) communicate and confirm any changes with the other Party’s Project Manager;
- (d) participate in status meetings;
- (e) obtain and provide information, data, and decisions within a reasonable time after the other Party’s request, unless a specific time for delivery is otherwise agreed;
- (f) help resolve issues and escalate issues within its organization, as necessary; and
- (g) review with the other Party’s Project Manager any invoice, entitlement or billing issues.

5.5 **Joint Steering Committee.** No later than ten (10) business days after the Distribution Date, the Parties will establish a joint steering committee (the “Joint Steering Committee”) to weekly (or such other duration as may be agreed to by the Parties):

- (a) review the status of, discuss, manage, and perform (or caused to be performed) the tasks required to provide the Services and the tasks required to migrate any Services;
- (b) review and seek agreement with respect to matters associated with employees providing the Services;
- (c) review plans to phase out or migrate any Services;
- (d) review resolution of any outstanding unresolved issues under this TSA;
- (e) review and address performance deficiencies;
- (f) review amendments, issues, Migration Plans, Service interruptions and any other issues which may arise under this TSA;
- (g) prepare and review periodic budgets for the Services;
- (h) review and seek agreement with respect to any change request or additional services proposed for an SDA or to be incorporated into this TSA;

- (i) discuss any third-party contractors for which approval is sought;
- (j) review any actual or potential non-compliance with applicable data privacy Laws as related to the Services, and if necessary, make amendments to this TSA as necessary to address such actual or potential non-compliance;
- (k) review, discuss, and seek resolution of any disputes or disagreements with respect to the foregoing; and
- (l) perform such other functions as appropriate to further the intents and purposes of this TSA. Approval of TSA Documents, Migration Plans, Service interruptions and any other issues which may arise under this TSA will be addressed by the Joint Steering Committee.

Article VI Fees and Taxes

6.1 **Fees.** The fees for the Services and, if applicable, the Deliverables will be specified in the SDAs. The amounts payable for the Services will be based on one or more of the following types of fees: one-time setup, recurring, third-party licenses, time and materials, fixed price. To the extent expressly set forth in an SDA or this TSA, additional out-of-pocket fees may apply, such as travel-related expenses. The SDAs will specify payment amounts and, if applicable, the process for approving and reimbursing expenses. Invoices will reference the TSA and the applicable SDA. Seller will deliver to Buyer an invoice at the beginning of each month for Services provided to Buyer during the preceding month. Buyer agrees to pay all applicable fees that are accurate and specified by Seller on the invoice, including any applicable late payment fees. Certain fees may be billed by an Affiliate of Seller pursuant to a Local Agreement.

6.2 **Payment Terms.** Unless specified otherwise in an SDA or Local Agreement, amounts payable hereunder will be paid in U.S. Dollars. [***] Payments not made within the time required hereunder may be subject to late fees as set forth in the applicable invoice. Seller's delay in providing an invoice shall not relieve Buyer of its obligation to pay the fees and/or Taxes described in the invoice. Neither Party may set-off, or attempt to set-off, any payments due to the other Party under this TSA or any TSA Documents by any amounts the first Party may owe the other under any other agreements between the Parties. If either Party disputes an amount due, such Party will pay the total amount due when payable, inclusive of any disputed amount, and the Parties will resolve such dispute in accordance with Section 12.3 (Dispute Resolution). In the event of any failure to pay any amount when due by either Party or its Affiliates under this TSA or any TSA Document (such party, the "Non-Paying Party"), the other party (the "Other Party") (or its Affiliates) shall be entitled to suspend payment, without prior notice or demand of any kind, of up to an equivalent amount due from such Other Party or its Affiliates to the Non-Paying Party under this TSA or the TSA Documents until such time as the Non-Paying Party or its Affiliates shall have paid all amounts due to the Other Party (including any interest or late fees). Payments so suspended by the Other Party or its Affiliates shall not be subject to any interest, late fees or similar charges.

6.3 **Taxes.** All fees referred to in this TSA are expressed as exclusive of all applicable value added, indirect, goods and services, consumption, sales, use, revenue, excise, stamp and personal property Taxes or any similar levies, imposts, duties, charges, surcharges or contributions, in each case imposed, collected or assessed by, or payable to, a Tax authority ("Indirect Taxes"). If any Indirect Taxes are payable by Seller or an Affiliate of Seller in relation to any Services, Deliverables, goods, services or other supplies made under or in connection with this TSA or any TSA Document, including the provisioning and fulfilment of such supplies:

(a) Seller or its applicable Affiliate will properly add the applicable Indirect Taxes to any fees payable;

(b) Seller or its applicable Affiliate will include the applicable Indirect Taxes on its invoices to Buyer in accordance with applicable Laws, and issue an invoice or other billing documentation to Buyer that complies with applicable Tax Laws; and

(c) Buyer or its applicable Affiliate will pay or reimburse the amounts of such Indirect Taxes to Seller or its applicable Affiliate on or before the payment date of the applicable invoice.

In the event that any Indirect Tax is assessed on the provision of any of the goods and services, the Parties shall work together to segregate the charges under this agreement into two (2) separate streams, (i) those for taxable goods and services; and (ii) those for nontaxable goods and services. In the event that local laws or regulations could require Seller to register for Indirect Taxes in overseas countries, Buyer agrees to execute local agreements with Seller's local affiliates in the applicable overseas country where Seller makes supplies under this TSA and/or Buyer or Buyer's affiliate receives the supplies. Buyer may designate which Buyer entity (namely, Buyer or a local Buyer affiliate) shall execute the local service agreement with the local Seller affiliate.

6.4 **Reimbursement or Indemnity.** If Seller or any of its Affiliates is entitled to payment of any costs or expenses by way of reimbursement or indemnity, Seller or its applicable Affiliate will add any Indirect Taxes that Seller or its applicable Affiliate is unable to recover on the aforementioned costs or expenses, to the payment due from Buyer.

6.5 **Tax Exemption Certificates.** To the extent that Seller and Buyer agree that no Indirect Tax is chargeable by Seller or its applicable Affiliate on any Services, Deliverables, goods, services or other supplies, the Parties will provide one another with all necessary exemption certificates as may be provided under applicable Law to evidence the non-charging of Indirect Taxes.

6.6 **Withholding.** In the event that any withholding or deduction for or on account of tax is required under any law or regulation of any governmental entity or authority, domestic or foreign to be made by Buyer in respect of any charge, Buyer will pay the charge to Seller net of the required withholding or deduction and shall account for the amount so deducted or withheld to the relevant tax authority. Buyer will supply to Seller evidence to the reasonable satisfaction of Seller that Buyer has accounted to the relevant tax authority for the amount withheld or deducted and will provide all such reasonable assistance as may be requested by Seller in recovering the amount withheld or deducted. In the event that a double taxation treaty applies which provides for a reduced withholding tax rate (including a complete exemption from withholding tax), Buyer shall take all reasonable steps to ensure that such reduced withholding is applied.

6.7 **Tax Collection.** Buyer agrees to collect and remit, and to cause its Affiliates to collect and remit, Taxes imposed, collected or assessed by, or payable to, any Tax authority in connection with this TSA or the TSA Documents or the transactions contemplated thereby, to the extent required by applicable Laws or where applicable Laws provide for Buyer or any of its Affiliates to account for Taxes on the supply if Seller is not registered for Taxes in Buyer's country. Buyer agrees to indemnify and hold harmless Seller and its Affiliates and their respective officers, directors, employees and agents, against all liabilities, damages, losses, costs and expenses if Buyer fails to pay timely all Taxes due on Seller's supply to Buyer in accordance with such Laws. In the event that local laws or regulations could require the IBM contracting entity to register for Indirect Taxes in any overseas jurisdiction/jurisdictions, Buyer and IBM will discuss an alternative charge construct, or appropriate next steps. For the avoidance of doubt, nothing in this clause shall be construed to imply that either Party is a general tax advisor to the other Party.

6.8 **Parties' Other Tax Obligations.** Except as otherwise provided, each Party shall be responsible for any personal property Taxes on property it owns or leases, for franchise and privilege Taxes on its business and for Taxes based on its net income.

Article VII Representations and Warranties

7.1 **Seller Infrastructure.** In the event Buyer, or its employees, agents, contractors, or others acting for or on behalf of Buyer, utilizes any Seller facilities, networks or Seller materials (collectively, the "Seller Infrastructure") pursuant to any SDA, Buyer will comply with all applicable Seller policies and requirements regarding the use of such Seller Infrastructure that are disclosed to Buyer, including the execution of documents as may reasonably be requested by Seller (e.g., Computer Use and Security Measures Agreement). As used above, "networks" include those IT systems, platforms, applications, networks, and the like that Seller uses or otherwise relies upon for or in connection with its business, including those located on or accessible through Seller's intranet (i.e., behind Seller's firewall), the Internet, or otherwise.

7.2 **Warranty.** Seller warrants that it will perform the Services using reasonable care and skill, according to its current description contained in the applicable SDA. Buyer agrees to provide timely written notice of any failure to comply with this warranty so that Seller can take corrective action. Deliverables are provided AS IS without warranties of any kind.

7.3 **Warranty Disclaimer.** The warranty set forth in this Section is the exclusive warranty from Seller relating to the Services and replaces all other such warranties, including the implied warranties or conditions of satisfactory quality, merchantability, non-infringement, and fitness for a particular purpose. SELLER PROVIDES DELIVERABLES WITHOUT WARRANTIES OF ANY KIND. NOTWITHSTANDING THE FOREGOING, NOTHING IN THIS TSA OR ANY TSA DOCUMENT ENTERED IN CONNECTION HERewith SHALL MODIFY OR AMEND SELLER'S OR ITS AFFILIATES' REPRESENTATIONS AND WARRANTIES SET FORTH IN ANY OTHER AGREEMENT BETWEEN THE PARTIES.

Article VIII Indemnification; Limitation on Liability

8.1 Indemnification.

(a) Buyer shall indemnify, defend and hold harmless Seller from and against any and all third party claims, losses, damages and liabilities incurred by Seller or any of its Affiliates to the extent relating to, arising out of or resulting from any Services or Deliverables provided by Seller or any of its Affiliates, except to the extent resulting from Seller's or Affiliates' (i) breach of this TSA or (ii) gross negligence or willful misconduct in providing the Services or Deliverables.

(b) Seller shall indemnify, defend and hold harmless Buyer from and against any and all third party claims, losses, damages and liabilities incurred by Buyer or any of its Affiliates to the extent resulting from Seller's or Affiliates' (i) breach of this TSA or (ii) gross negligence or willful misconduct in providing the Services or Deliverables.

8.2 **Indemnification Procedures.** The provisions of Section 6.05 of the Separation Agreement shall govern claims for indemnification under this TSA, provided that, for purposes of this Section 8.2, in the event of any conflict between the provisions of Section 6.05 of the Separation Agreement and this Article 8, the provisions of this TSA shall control.

8.3 **Other Indemnification Obligations Unaffected.** For the avoidance of doubt, this Article 8 applies solely to the specific matters and activities covered by this TSA (and not to matters specifically covered by the Separation Agreement or the other Ancillary Agreements).

8.4 **Limitation on Liability.** Seller, and Seller's service providers' and Affiliates', entire liability to the other for all claims related to this TSA and the TSA Documents will not exceed the amount of any actual direct damages incurred by Seller up to the amounts paid or payable (if recurring fees, up to 12 months' fees apply) for the Service and/or Deliverable that is subject of the claim, regardless of the basis of the claim. Except as otherwise provided herein, no Party, and no Party's service providers, subcontractors or Affiliates, will be liable for (a) loss of or damage to data or (b) special, incidental, exemplary, indirect, or economic consequential damages, or lost profits, business, value, revenue, impairment of goodwill, or anticipated savings. The following amounts, if a Party is legally liable for them, are not subject to the limitations in the preceding two sentences: (i) damages for bodily injury (including death); (ii) damages to real property and tangible personal property; (iii) Buyer's obligation to make payment of undisputed fees to Seller for Services performed and/or Deliverables delivered in compliance with the terms of this TSA; (iv) damages arising from Buyer's violation of Seller policies or requirements regarding Buyer's use of Seller Infrastructure and (v) damages that cannot be limited under applicable Law. Without limiting the rights under section 11.04 of the Separation Agreement, the provisions of Section 8.1 shall, to the maximum extent permitted by applicable Law, be the Parties' and their Affiliates' sole and exclusive remedy with respect to all claims, whether arising from statute, principle of common or civil law, principles of strict liability, tort, contract or otherwise under or relating to this TSA or any TSA Document.

Article IX Term and Termination

9.1 **Termination for Convenience.** Buyer may terminate an SDA (in whole or in part), provided however, that any partial termination of an SDA shall require mutual agreement by Buyer and Seller.

9.2 **Termination for Breach.** Either Party may terminate this TSA or any TSA Document in the event the other Party fails to remedy a material breach within thirty (30) days of its receipt of written notice. In the event Seller terminates this TSA or any TSA Document for any reason, Seller shall provide Buyer, at Buyer's expense, with commercially reasonable assistance to transfer or migrate any Services performed under the TSA or a TSA document to a third party

9.3 **Survival.** Any terms of this TSA which by their nature extend beyond its expiration or termination remain in effect until fulfilled and apply to respective successors and assignees.

9.4 **Termination upon Expiration.** The term of this TSA shall continue until the earlier of (i) all of the outstanding SDAs either expire or are terminated, and (ii) the 2nd anniversary of the Effective Date. On the occurrence of such expirations and/or terminations, this TSA shall automatically terminate without further notice. Notwithstanding anything to the contrary, in no event shall any Services or SDAs be extended to a date past the second (2nd) anniversary of the Effective Date.

Article X Compliance with Law

Each Party is responsible for complying with Laws applicable to its business, such as data protection Laws and import, export and economic sanction Laws, including those of the United States that prohibit or restrict the export, re-export, or transfer of products, technology, services or data, directly or indirectly, to or for certain countries, end uses or end users. If any provision of this TSA or any TSA Document is invalid or unenforceable, the remaining provisions remain in full force and effect. The United Nations Convention on Contracts for the International Sale of Goods does not apply to transactions under this TSA.

Article XI Data Processing

If, and to the extent, the European General Data Protection Regulation (EU/2016/679) (GDPR); or any other data protection laws identified at <http://www.ibm.com/dpa/dpl> apply to personal data processed by Seller under an SDA, Seller's Data Processing Addendum at <http://ibm.com/dpa> and any applicable Data Processing Addendum exhibit(s) attached to this TSA will apply and prevail over any conflicting terms in this TSA or the TSA Documents.

Seller and its Affiliates, and their contractors and subprocessors, may, in connection with the performance of this TSA or any TSA Document wherever they do business, store and otherwise process business contact information ("BCI") of Buyer, its personnel and authorized users, for example, name, business telephone, address, email and user IDs, for business dealings with them. Where notice to or consent by the individuals is required for such processing, Buyer will notify and obtain such consent.

The Seller Privacy Statement at <https://www.IBM.com/privacy> provides additional details with respect to BCI.

Article XII General

12.1 **Trademarks.** Neither Party grants the other the right to use its trademarks, trade names, or other designations in any promotion or publication without prior written consent.

12.2 **Confidential Information.** The exchange of any confidential information pursuant to this TSA will be governed by the Agreement for the Exchange of Confidential Information dated [●], by and between Seller and Buyer.

12.3 **Dispute Resolution.** In the event of any claim, controversy, demand or request for relief of any kind arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, validity or breach of this TSA or otherwise arising out of or related to this TSA or the transactions contemplated hereby or thereby, including any Action based on contract, tort, equity, statute, regulation or constitution (collectively, “Disputes”), the Party raising the Dispute shall give written notice of the Dispute (a “Dispute Notice”), and the general counsels of the Parties (or such other individuals designated by the respective general counsels) and/or the executive officers designated by the Parties shall negotiate for a reasonable period of time to settle such Dispute; provided, that such reasonable period shall not, unless otherwise agreed by the Parties in writing, exceed ninety (90) days (the “Negotiation Period”) from the time of receipt of the Dispute Notice; provided, further, that in the event of any arbitration in accordance with Section 12.13 hereof, (x) the Parties shall not assert the defenses of statute of limitations, laches or any other defense, in each such case based on the passage of time during the Negotiation Period, and (y) any contractual time period or deadline under this TSA relating to such Dispute occurring after the Dispute Notice is received shall not be deemed to have passed until such Arbitration has been resolved. As used in this Section 12.3, “Action” means any claim, complaint, petition, hearing, charge, demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority or any federal, state, local, foreign or international arbitration or mediation tribunal; and “Governmental Authority” means any federal, state, local, foreign, international or multinational court, government, quasi-government, department, commission, board, bureau, agency, official or other legislative, judicial, tribunal, commission, regulatory, administrative or governmental authority.

12.4 **No Third Party Beneficiaries, Statute of Limitations.** No right or cause of action for any third party is created by this TSA or any transaction hereunder. Neither Party will bring a legal action arising out of or related to this TSA more than two years after the cause of action arose.

12.5 **Assignment.** Neither Party may assign this TSA, in whole or in part, without the prior written consent of the other; any attempt to assign without consent is void. Notwithstanding the foregoing, assignment of Seller’s rights to receive payments or assignment by Seller in conjunction with the sale of the portion of Seller’s business that provides Services or Deliverables under this TSA or the TSA Documents is not restricted.

12.6 **Independent Contractors.** Each Party is an independent contractor, and each Party is responsible for the supervision, direction and control of its respective personnel.

12.7 **No Agency.** Neither Party may represent or act on behalf of the other, unless otherwise agreed to in writing.

12.8 **Waivers.** An effective waiver under this TSA must be in writing and signed by the Party waiving its right. A waiver by either Party of any instance of the other Party's noncompliance with any obligation or responsibility under this TSA will not be deemed a waiver of subsequent instances.

12.9 **Approvals.** Where approval, acceptance, consent or similar action by either Party is required under this TSA, such action will not be unreasonably delayed or withheld.

12.10 **Third Parties.** Buyer shall cooperate with Seller in the process to procure rights from third parties necessary for Seller to provide the Services, such as rights to use third party software for the benefit of Buyer. This cooperation may include entering into separate agreements with the third parties. Buyer shall be responsible for any fees payable to these third parties. Seller shall provide Buyer advance notice of any such fees, which shall then be invoiced under the applicable SDA(s). For the avoidance of doubt, the rights listed in and related to this Section 12.10 are solely related to Seller performing the Services.

12.11 **Force Majeure.** Neither Party is responsible or liable for failure to fulfill any obligations for thirty (30) days due to war, fire, explosion, flood, strike, epidemics, pandemics and other public health conditions (including COVID-19), act of governmental authority, act of God, act of terror or other similar event beyond the reasonable control of such Party (each a "**force majeure event**"), provided the affected Party (a) promptly and timely notifies the other Party stating the date and extent of such failure or delay and the cause thereof and continues to use commercially reasonable efforts to perform notwithstanding the force majeure event and (b) will promptly begin performing its obligations on cessation of such force majeure event; provided, however, that until the force majeure event has been cured and the affected Services have been restored to the levels required by this TSA, Seller shall prorate the fees to account for the period of time during which a reduced level of Services were provided.

12.12 **Cooperation.** Without limiting any obligation expressly set forth in this TSA or a TSA Document, Seller and Buyer each hereby agrees to reasonably co-operate in good faith with one another to make effective the transactions contemplated by this TSA and the TSA Documents.

12.13 [Intentionally Left Blank]

12.14 **Governing Law.** All matters arising from or relating in any manner to the subject matter of this TSA shall be interpreted, and the rights and liabilities of the Parties determined, in accordance with the Laws of the State of New York applicable to agreements executed, delivered, and performed within such State, without regard to the principles of conflicts of laws thereof.

12.15 **Binding Arbitration.** If any Disputes have not been resolved for any reason after the Negotiation Period set forth in Section 12.3, then to the fullest extent permitted by applicable law such Dispute may be submitted by either Party to final and binding arbitration administered in accordance with the Commercial Arbitration Rules of the American Arbitration Association (“AAA”) then in effect (the “Rules”), except as modified herein.

(a) The arbitration shall be conducted by a three-member arbitral tribunal (the “Arbitral Tribunal”). The claimant shall nominate one arbitrator in accordance with the Rules, and the respondent shall nominate one arbitrator in accordance with the Rules within twenty-one days (21) after the appointment of the first arbitrator. The third arbitrator, who shall serve as chair of the Arbitral Tribunal, shall be jointly nominated by the two party-nominated arbitrators within twenty-one (21) days of the confirmation of the appointment of the second arbitrator. If any arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA in accordance with the listing, striking and ranking procedure in the Rules.

(b) The arbitration shall be held, and the award shall be rendered, in New York, New York, in the English language.

(c) For the avoidance of doubt, by submitting their Dispute to arbitration under the Rules, the Parties expressly agree that all issues of arbitrability, including all issues concerning the propriety and timeliness of the commencement of the arbitration, the jurisdiction of the Arbitral Tribunal (Including the scope of this agreement to arbitrate and the extent to which a Dispute is within that scope), and the procedural conditions for arbitration, shall be finally and solely determined by the Arbitral Tribunal.

(d) Without derogating from Section 12.15(e) below, the Arbitral Tribunal shall have the full authority to grant any pre-arbitral injunction, pre-arbitral attachment, interim or conservatory measure or other order in aid of arbitration proceedings (“Interim Relief”). The Parties shall exclusively submit any application for Interim Relief to only: (A) the Arbitral Tribunal; or (B) prior to the constitution of the Arbitral Tribunal, an emergency arbitrator appointed in the manner provided for in the Rules (the “Emergency Arbitrator”). Any Interim Relief so issued shall, to the extent permitted by applicable Law, be deemed a final arbitration award for purposes of enforceability. The foregoing procedures shall constitute the exclusive means of seeking Interim Relief, provided, however, that the Arbitral Tribunal shall have the power to continue, review, vacate or modify any Interim Relief granted by an Emergency Arbitrator.

(e) The Arbitral Tribunal shall have the power to grant any remedy or relief that is in accordance with the terms of this TSA, including temporary or final injunctive relief, provided, however, that the Arbitral Tribunal shall have no authority or power to limit, expand, alter, amend, modify, revoke or suspend any condition or provision of this TSA, nor any right or power to award punitive, exemplary, enhanced or treble damages.

(f) The Arbitral Tribunal shall have the power to allocate the costs and fees of the arbitration, including reasonable attorneys' fees and costs as well as those costs and fees addressed in the Rules, between the Parties in the manner it deems fit.

(g) Arbitration under this Section 12.15 shall be the sole and exclusive remedy for any Dispute, and any award rendered thereby shall be final and binding upon the Parties as from the date rendered. Judgment on the award rendered by the Arbitral Tribunal may be entered in any court having jurisdiction thereof, including any court having jurisdiction over the relevant Party.

(h) The Parties agree that any arbitration hereunder shall be kept confidential, and that the existence of the proceeding and all of its elements (including any pleadings, briefs or other documents or evidence submitted or exchanged, any testimony or other oral submissions, and any awards) shall be deemed confidential, and shall not be disclosed beyond the Arbitral Tribunal, the Parties, their counsel, and any person necessary to the conduct of the proceeding, except as and to the extent required by law and to defend or pursue any legal right. In the event any Party makes application to any court in connection with this Section 12.15 (h) (including any proceedings to enforce a final award or any Interim Relief), that party shall take all steps reasonably within its power to cause such application, and any exhibits (including copies of any award or decisions of the Arbitral Tribunal or Emergency Arbitrator) to be filed under seal, shall oppose any challenge by any third party to such sealing, and shall give the other Party immediate notice of such challenge.

(i) Unless otherwise agreed in writing, the Parties shall continue to provide Services and honor all other commitments under this TSA during the course of dispute resolution pursuant to Section 12.03 with respect to all matters not subject to such dispute resolution.

12.16 **Notices.** Any notice required or permitted under this TSA shall be in writing sent to the following representatives:

(a) if to Seller, to:

International Business Machines Corporation

P.O. Box 41, North Harbour
Portsmouth
Hampshire, PO6 3AU
United Kingdom

Attention: Jason Hughes

with a copy (which shall not constitute notice) to:

International Business Machines Corporation

75 Binney Street
Cambridge, MA 02412

Attention: Peter Anderson

(b) if to Buyer, to:

Kyndryl, Inc.
One Vanderbilt Avenue
15th Floor
New York, NY. 10017

Attention: Thomas Hagen

with a copy (which shall not constitute notice) to:

Kyndryl, Inc.

Attention: [●]
Email: [●]

Each Party shall promptly notify the other if its representative changes. Notices will be effective upon receipt as demonstrated by reliable confirmation. The Parties consent to the use of electronic means and facsimile transmissions to send and receive communications and notices in connection with the business relationship arising out of this TSA, and such communications are acceptable as a signed writing.

12.17 **Counterparts.** Each Party accepts the terms of this TSA and the TSA Documents referenced in Section 2.3 by signing the TSA (including by digital or other electronic means) in one or more counterparts, each of which will be deemed to be an original and all of which when taken together will constitute the same agreement. Any copy of this TSA made by reliable means (for example, photocopy or facsimile) is considered an original.

12.18 **Entire Agreement.** This TSA and the TSA Documents contain the entire agreement and understanding between the Parties thereto with respect to the subject matter thereof and supersede all prior agreements and understandings relating to such subject matter.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, the Parties have caused this TSA to be executed by their duly authorized signatories as of the Effective Date.

INTERNATIONAL BUSINESS MACHINES CORPORATION

By _____
Authorized signature

Name:

Title:

IN WITNESS WHEREOF, the Parties have caused this TSA to be executed by their duly authorized signatories as of the Effective Date.

KYNDRYL, INC.

By _____
Authorized signature

Name: [●]

Title: [●]

TAX MATTERS AGREEMENT

by and between

INTERNATIONAL BUSINESS MACHINES CORPORATION

and

KYNDRYL HOLDINGS, INC.

Dated as of [●], 2021

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Schedule A - Specified Matters

Schedule B - Transactions

TAX MATTERS AGREEMENT

This TAX MATTERS AGREEMENT (including the Schedules hereto, this "Agreement"), is entered into as of [●], 2021 between International Business Machines Corporation, a New York corporation ("Parent"), and Kyndryl Holdings, Inc., a Delaware corporation ("SpinCo") and, together with Parent, the "Parties").

R E C I T A L S

WHEREAS, the board of directors of Parent has determined that it is appropriate, desirable and in the best interests of Parent and its stockholders to separate the Parent Business from the SpinCo Business in the manner described in the Separation and Distribution Agreement, dated as of [●], between the Parties (such agreement, the "Separation Agreement" and such separation the "Separation") and, following the Separation, to undertake the Distribution;

WHEREAS, SpinCo has been incorporated for these purposes and has not engaged in activities except those incidental to its formation and in preparation for the Distribution;

WHEREAS, Parent has effected certain restructuring transactions described in the Separation Step Plan for the purpose of aggregating the SpinCo Business in the Parent Group prior to the Distribution (collectively, the "Reorganization") and in connection therewith, shall undertake the Contribution pursuant to which, SpinCo shall (i) issue to Parent shares of SpinCo Common Stock, (ii) issue to Parent units of SpinCo Holdings Securities and (iii) pay to Parent the SpinCo Debt Proceeds Distribution;

WHEREAS, Parent intends to effect the Spin-Off Transaction in a transaction that is intended to qualify as tax-free for U.S. federal income tax purposes under Sections 368(a)(1)(D), 355 and 361(c) of the Code;

WHEREAS, certain members of the Parent Group, on the one hand, and certain members of the SpinCo Group, on the other hand, file certain Tax Returns on a consolidated, combined or unitary basis for certain federal, state, local and non-U.S. Tax purposes; and

WHEREAS, the Parties desire to (a) provide for the payment of Tax Liabilities and entitlement to refunds thereof, allocate responsibility for, and cooperation in, the filing of Tax Returns, and provide for certain other matters relating to Taxes and (b) set forth certain covenants and indemnities relating to the preservation of the Intended Tax Treatment of the Transactions.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I - DEFINITIONS

1.1 General. For the purposes of this Agreement, the following terms shall have the following meanings:

“Accounting Firm” shall have the meaning set forth in Section 9.1.

“Active Business” shall mean any business relied on to satisfy (i) the active trade or business requirement of Section 355(b) of the Code (taking into account Section 355(b)(3) of the Code) or (ii) the continuity of business enterprise requirements under Treasury Regulations Section 1.355-3 and Treasury Regulations Section 1.368-1(d), to the extent identified as such in the Tax Materials.

“Adjustment” shall mean an adjustment of any item of income, gain, loss, deduction, credit or any other item affecting Taxes of a taxpayer pursuant to a Final Determination.

“Affiliate” shall have the meaning set forth in the Separation Agreement.

“Agreement” shall have the meaning set forth in the preamble hereto.

“Ancillary Agreements” shall have the meaning set forth in the Separation Agreement.

“Business Day” shall have the meaning set forth in the Separation Agreement.

“Capital Stock” shall mean classes or series of capital stock of a Person, including (i) common stock, (ii) all options, warrants and other rights to acquire such capital stock and (iii) all instruments properly treated as stock in such Person for U.S. federal income tax purposes.

“Chosen Court Claim” shall have the meaning set forth in Section 9.5.

“Chosen Courts” shall have the meaning set forth in Section 9.5.

“Code” shall mean the U.S. Internal Revenue Code of 1986.

“Controlling Party” shall mean, with respect to a Tax Contest, the Party entitled to control such Tax Contest pursuant to Section 6.2, Section 6.3 or Section 6.4.

“Contribution” shall have the meaning set forth in the Separation Agreement.

“Debt-for-Debt Exchange” shall have the meaning set forth in the definition of Intended Tax Treatment herein.

“Dispute” shall have the meaning set forth in Section 9.2.

“Distribution” shall have the meaning set forth in the Separation Agreement.

“Distribution Date” shall have the meaning set forth in the Separation Agreement.

“Distribution Taxes” shall mean any Taxes incurred solely as a result of the failure of any of the Transactions to qualify for the Intended Tax Treatment of such Transaction.

“Due Date” shall mean (a) with respect to a Tax Return, the date (taking into account all valid extensions) on which such Tax Return is required to be filed under applicable Tax Law and (b) with respect to a payment of Taxes, the date on which such payment is required to be made, which shall in any case be no later than the payment date required to avoid the incurrence of interest, penalties and additions to Tax.

“EMA” shall have the meaning set forth in the Separation Agreement.

“Employment Tax” shall mean those Liabilities (as defined in the Separation Agreement) for Taxes which are allocable pursuant to the provisions of the EMA.

“Final Determination” shall mean the final resolution of any Tax Liability, which resolution may be for a specific issue or adjustment or for a Tax Period, (a) by IRS Form 870 or 870-AD (or any successor forms thereto), on the date of acceptance by or on behalf of the taxpayer, or by a comparable form under the Laws of a state, local or non-U.S. taxing jurisdiction, except that a Form 870 or 870-AD or comparable form shall not constitute a Final Determination to the extent that it reserves (whether by its terms or by operation of Law) the right of the taxpayer to file a claim for Refund or the right of the Taxing Authority to assert a further deficiency in respect of such issue or adjustment or for such Tax Period (as the case may be); (b) by a decision, judgment, decree or other order by a court of competent jurisdiction, which has become final and unappealable; (c) by a closing agreement or accepted offer in compromise under Section 7121 or Section 7122 of the Code, or a comparable agreement under the Laws of a state, local or non-U.S. taxing jurisdiction; (d) by any allowance of a Refund, but only after the expiration of all periods during which such Refund may be recovered (including by way of offset) by the jurisdiction imposing such Tax; (e) by a final settlement resulting from a competent authority proceeding or determination; or (f) by any other final disposition, including by reason of the expiration of the applicable statute of limitations or by mutual agreement of the parties.

“Gain Recognition Agreement” shall mean any agreement to recognize gain that is described in Treasury Regulations Section 1.367(a)-8 (i) which is entered into in connection with the Transactions and (ii) to which any member of the Parent Group or the SpinCo Group is a party.

“Group” shall mean either the Parent Group or the SpinCo Group, as the context requires.

“Indemnifying Party” shall have the meaning set forth in Section 5.2.

“Indemnitee” shall have the meaning set forth in Section 5.2.

“Intended Tax Treatment” shall mean (x) the qualification of (i) the Contribution (and Parent’s receipt or deemed receipt of the SpinCo Common Stock, SpinCo Holdings Securities and SpinCo Debt Proceeds Distribution in connection therewith) and the Distribution, taken together, as a reorganization described in Sections 368(a)(1)(D) and 355(a) of the Code, with each of Parent and SpinCo being a party to the reorganization, in which no income or gain is recognized by Parent, SpinCo, the Parent Group, the SpinCo Group or the holders of Parent Common Stock pursuant to Sections 355, 361 and 1032 of the Code, other than intercompany items or excess loss accounts taken into account pursuant to the Treasury Regulations promulgated pursuant to Section 1502 of the Code, (ii) the Distribution as a transaction in which the stock distributed thereby is “qualified property” for purposes of Sections 355(c) and 361(c) of the Code (and neither Section 355(d) nor Section 355(e) of the Code causes such stock to be treated as other than “qualified property” for such purposes) and (iii) any transfer, following the Distribution, by Parent of SpinCo Holdings Securities to Parent creditors in satisfaction of certain Parent third-party debt (any such transfer, a “Debt-for-Debt Exchange”) within [●] of the Distribution as a transfer of “qualified property” to creditors of Parent in connection with the reorganization within the meaning of Section 361(c) of the Code and (y) the qualification of (i) each of the Transactions described on Schedule B attached hereto as either a “distribution” under Section 355 of the Code or as a “reorganization” under Sections 368(a), 361 and 355 of the Code, as applicable, and (ii) any other Transaction (or combination of Transactions) undertaken pursuant to the Separation Step Plan for tax-free treatment (including mitigation or minimization of Tax) under applicable Tax Law, as determined by Parent in its reasonable discretion and in accordance with the Separation Step Plan. The term “Intended Tax Treatment” will, as applicable, also include the qualification of each transaction described in clauses (x) and (y) above under comparable provisions of state or local Tax Law, or, in the case of clause (y)(ii), non-U.S. Tax Law.

“IRS” shall mean the United States Internal Revenue Service or any successor thereto, including, but not limited to its agents, representatives, and attorneys.

“IRS Ruling” shall mean any U.S. federal income tax ruling and any supplements thereto issued to Parent by the IRS in connection with the Transactions.

“IRS Ruling Request” shall mean the letter filed by Parent with the IRS requesting a ruling regarding certain tax consequences of the Transactions and any amendment or supplement to such ruling request letter.

“Joint Return” shall mean any Tax Return that includes, by election or otherwise, one or more members of the Parent Group together with one or members of the SpinCo Group.

“Law” shall have the meaning set forth in the Separation Agreement.

“Negotiation Period” shall have the meaning set forth in Section 9.1.

“Non-Controlling Party” shall mean, with respect to a Tax Contest, the Party that is not entitled to control such Tax Contest pursuant to Section 6.2, Section 6.3 or Section 6.4.

“Non-U.S. Tax” shall mean any Tax imposed by any non-U.S. country or any possession of the United States, or by any political subdivision of any non-U.S. country or United States possession.

“Notified Action” shall have the meaning set forth in Section 4.3(a).

“Parent” shall have the meaning set forth in the preamble hereto.

“Parent Business” shall have the meaning set forth in the Separation Agreement.

“Parent Common Stock” shall have the meaning set forth in the Separation Agreement.

“Parent Group” shall have the meaning set forth in the Separation Agreement.

“Parent Separate Return” shall mean any Tax Return of or including any member of the Parent Group (including any consolidated, combined, or unitary return) that does not include any member of the SpinCo Group.

“Parties” shall have the meaning set forth in the preamble hereto.

“Past Practices” shall have the meaning set forth in Section 3.5.

“Person” shall have the meaning set forth in the Separation Agreement.

“Post-Distribution Period” shall mean any Tax Period (or portion thereof) beginning after the Distribution Date, including for the avoidance of doubt, the portion of any Straddle Period with respect to the Distribution Date beginning after the Distribution Date.

“Post-Distribution Ruling” shall have the meaning set forth in Section 4.2(c).

“Pre-Distribution Period” shall mean any Tax Period (or portion thereof) ending on or before the Distribution Date, including for the avoidance of doubt, the portion of any Straddle Period with respect to the Distribution Date ending at the end of the day on the Distribution Date.

“Preparing Party” shall have the meaning set forth in Section 3.3.

“Privilege” shall mean any privilege that may be asserted under applicable Law, including, any privilege arising under or relating to the attorney-client relationship (including the attorney-client and work product privileges), the accountant-client privilege and any privilege relating to internal evaluation processes.

“Prohibited Acts” shall mean any act or failure to act by SpinCo described in Section 4.2(a) or Section 4.2(b) (regardless of whether the conditions set forth in Section 4.2(c) are satisfied).

“Proposed Acquisition Transaction” shall mean a transaction or series of transactions (or any agreement, understanding or arrangement within the meaning of Section 355(e) of the Code and Treasury Regulations Section 1.355-7, or any other regulations promulgated thereunder, to enter into a transaction or series of transactions), whether such transaction is supported by SpinCo management or shareholders, is a hostile acquisition, or otherwise, as a result of which SpinCo (or any successor thereto) would merge or consolidate with any other Person or as a result of which one or more Persons would (directly or indirectly) acquire, or have the right to acquire, from SpinCo (or any successor thereto) and/or one or more holders of SpinCo Capital Stock, respectively, any amount of stock of SpinCo, that would, when combined with any other direct or indirect changes in ownership of the stock of SpinCo pertinent for purposes of Section 355(e) of the Code and the Treasury Regulations promulgated thereunder, comprise forty percent (40%) or more of (i) the value of all outstanding shares of SpinCo as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series, or (ii) the total combined voting power of all outstanding shares of voting stock of SpinCo as of the date of such transaction, or in the case of a series of transactions, the date of the last transaction of such series. Notwithstanding the foregoing, a Proposed Acquisition Transaction shall not include (i) the adoption by SpinCo of a customary shareholder rights plan or (ii) issuances by SpinCo that satisfy Safe Harbor VIII (relating to acquisitions in connection with a person’s performance of services) or Safe Harbor IX (relating to acquisitions by a retirement plan of an employer) of Treasury Regulations Section 1.355-7(d). For purposes of determining whether a transaction constitutes an indirect acquisition, any recapitalization resulting in a shift of voting power or any redemption of shares of stock shall be treated as an indirect acquisition of shares of stock by the non-exchanging shareholders. This definition and the application thereof are intended to monitor compliance with Section 355(e) of the Code and the Treasury Regulations promulgated thereunder and shall be interpreted accordingly. Any clarification of, or change in, the statute or regulations promulgated under Section 355(e) of the Code shall be incorporated in this definition and its interpretation.

“Refund” shall mean any refund, reimbursement, offset, credit or other similar benefit in respect of Taxes (including any overpayment of Taxes that can be refunded or, alternatively, applied against other Taxes payable), including any interest paid on or with respect to such refund of Taxes; provided, however, that the amount of any refund of Taxes shall be net of any costs and expenses (including Taxes imposed by any Taxing Authority) related to, or attributable to, the receipt of or accrual of such refund (including any Taxes imposed by way of withholding or offset).

“Reorganization” shall have the meaning set forth in the recitals hereto.

“Representation Letters” shall mean the representation letters of officers of Parent and/or SpinCo provided to any Law or accounting firm in connection with any Tax Opinion issued in connection with the Transactions.

“Responsible Party” shall mean, with respect to any Tax Return, the Party having responsibility for preparing and filing such Tax Return pursuant to this Agreement.

“Restricted Period” shall mean the period beginning on the Distribution Date and ending on the two (2)-year anniversary of the day after the Distribution Date.

“Reviewing Party” shall have the meaning set forth in Section 3.3.

“Section 4.2(b)(v) Acquisition Transaction” shall have the meaning set forth in Section 4.2(b)(v).

“Separate Return” shall mean a Parent Separate Return or a SpinCo Separate Return, as the case may be.

“Separation” shall have the meaning set forth in the recitals hereto.

“Separation Agreement” shall have the meaning set forth in the recitals hereto.

“Separation Step Plan” shall mean have the meaning set forth in the Separation Agreement.

“Spin-Off Transaction” shall mean the Contribution, the Distribution and any Debt-for-Debt Exchange, taken together.

“SpinCo” shall have the meaning set forth in the preamble hereto.

“SpinCo Business” shall have the meaning set forth in the Separation Agreement.

“SpinCo Capital Stock” means the Capital Stock of SpinCo, including the SpinCo Common Stock.

“SpinCo Common Stock” shall have the meaning set forth in the Separation Agreement.

“SpinCo Debt Proceeds Distribution” shall have the meaning set forth in the Separation Agreement.

“SpinCo Disqualifying Action” shall mean (a) any action (or the failure to take any action) by any member of the SpinCo Group after the Distribution (including entering into any agreement, understanding or arrangement or any negotiations with respect to any transaction or series of transactions), (b) any event (or series of events) after the Distribution involving the SpinCo Capital Stock or any stock or assets of any member of the SpinCo Group or (c) any breach by any member of the SpinCo Group after the Distribution of any representation, warranty or covenant made by them in this Agreement, that, in each case, would adversely affect, jeopardize or prevent the Intended Tax Treatment; provided, however, that the term “SpinCo Disqualifying Action” shall not include any action required by the Separation Agreement or any Ancillary Agreement (other than this Agreement) or that is undertaken pursuant to the Separation or the Distribution.

“SpinCo Group” shall have the meaning set forth in the Separation Agreement.

“SpinCo Holdings Securities” shall have the meaning set forth in the Separation Agreement.

“SpinCo Separate Return” shall mean any Tax Return of or including any member of the SpinCo Group (including any consolidated, combined, or unitary return) that does not include any member of the Parent Group.

“State Tax” shall mean any Tax imposed by any State of the United States or by any political subdivision of any such State.

“Straddle Period” shall mean any Tax Period beginning on or before the Distribution Date and ending after the Distribution Date.

“Subsidiary” shall have the meaning set forth in the Separation Agreement.

“Tax” or “Taxes” shall mean (i) all taxes, charges, fees, duties, levies, imposts, rates or other assessments or charges of any kind imposed by any Taxing Authority, including, without limitation, income, gross income, gross receipts, profits, employment, estimated, excise, severance, stamp, occupation, premium, windfall profits, environmental, custom duties, property, sales, use, license, lease, capital stock, transfer, import, export, franchise, registration, payroll, withholding, social security, workers’ compensation, unemployment, disability, ad valorem, service, value-added, alternative or add-on minimum, estimated, unclaimed property or escheat, or other taxes, whether disputed or not, and including any fee, assessment, duty, or other charge in the nature of or in lieu of any tax, and including any interest, penalties, charges or additions to tax or additional amounts in respect of the foregoing, (ii) liability for the payment of any amount of the type described in clause (i) above arising as a result of being (or having been) a member of any group or being (or having been) included or required to be included in any Tax Return related thereto and (iii) liability for the payment of any amount of the type described in clause (i) or (ii) above as a result of any express or implied obligation to indemnify or otherwise assume or succeed to the liability of any other Person. For the avoidance of doubt, Tax includes any increase in Tax as a result of a Final Determination.

“Tax Advisor” shall mean a U.S. Tax counsel or other Tax advisor of recognized national standing acceptable to Parent, in its sole discretion.

“Tax Advisor Dispute” shall have the meaning set forth in Section 9.1.

“Tax Advisor Dispute Notice” shall have the meaning set forth in Section 9.1.

“Tax Attribute” shall mean net operating losses, capital losses, research and experimentation credit carryovers, investment tax credit carryovers, earnings and profits, foreign tax credit carryovers, overall foreign losses, overall domestic losses, previously taxed earnings and profits, separate limitation losses and any other losses, deductions, credits or other comparable items that could affect a Tax Liability for a past or future Tax Period.

“Tax Benefit” shall mean any reduction in Taxes paid or payable actually realized by a Person as a result of any loss, deduction, Refund, credit, offset or other Tax Item. For purposes of this Agreement, the amount of any Tax Benefit actually realized by a Person as a result of any such Tax Item shall be determined on a “with and without basis” as the excess of (a) the hypothetical liability of such Person for the relevant Tax for the relevant Tax Period, calculated as if such Tax Item had not been utilized but with all other facts unchanged, over (b) the actual liability of such Person for such Tax for such Tax Period, calculated taking into account such Tax Item (and, for this purpose, treating a Refund as a reduction in Tax Liability).

“Tax Contest” shall have the meaning set forth in Section 6.1.

“Tax Item” shall mean any item of income, gain, loss, deduction, or credit.

“Tax Law” shall mean the law of any Taxing Authority or political subdivision thereof relating to any Tax.

“Tax Liability” shall mean any liability or obligation for Taxes.

“Tax Materials” shall have the meaning set forth in Section 4.1(a).

“Tax Matter” shall have the meaning set forth in Section 7.1(a).

“Tax Opinion” shall mean any written opinion of any Law or accounting firm, regarding certain tax consequences of certain transactions executed as part of the Transactions.

“Tax Period” shall mean, with respect to any Tax, the period for which the Tax is reported or required to be reported as provided under the Code or other applicable Tax Law.

“Tax Records” shall have the meaning set forth in Section 8.1.

“Tax Related Losses” shall mean, with respect to any Taxes, (i) all accounting, legal and other professional fees, and court costs incurred in connection with such Taxes, as well as any other out-of-pocket costs incurred in connection with such Taxes and (ii) all costs, expenses and damages associated with stockholder litigation or controversies and any amount paid by Parent (or any of its Affiliates) or SpinCo (or any of its Affiliates) in respect of the liability of shareholders, whether paid to shareholders or to the IRS or any other Taxing Authority, in each case, resulting from the failure of any of the Transactions to qualify for the Intended Tax Treatment or the defense against any challenge by the IRS or any other Taxing Authority to the Intended Tax Treatment of any Transaction, even if such Transaction ultimately is determined to so qualify.

“Tax Return” shall mean any return, report, certificate, form or similar statement or document (including any related supporting information or schedule attached thereto and any information return, amended tax return, claim for refund or declaration of estimated tax) supplied to or filed with, or required to be supplied to or filed with, a Taxing Authority, or any bill for or notice related to ad valorem or other similar Taxes received from a Taxing Authority, in each case, in connection with the determination, assessment or collection of any Tax or the administration of any laws, regulations or administrative requirements relating to any Tax.

“Taxing Authority” shall mean any governmental authority or any subdivision, agency, commission or entity thereof or any quasi-governmental or private body having jurisdiction over the assessment, determination, collection or imposition of any Tax (including the IRS).

“Transaction Related Tax Contest” shall mean any Tax Contest in which the IRS, another Taxing Authority or any other party asserts a position that could reasonably be expected to (a) adversely affect, jeopardize or prevent (i) the Intended Tax Treatment of the Spin-Off Transaction or (ii) the Intended Tax Treatment of any other Transaction as set forth in a Tax Opinion or an IRS Ruling (or, if not set forth in a Tax Opinions or an IRS Ruling, in the Separation Step Plan) or (b) otherwise affect the amount of Taxes imposed with respect to any of the Transactions, as determined in each case by Parent, in its discretion.

“Transaction Taxes” shall mean all Taxes (including Taxes imposed on any member of the Parent Group under Sections 951 or 951A of the Code) imposed on or with respect to the Transactions other than any Taxes resulting from the failure of any of the Transactions to qualify for the Intended Tax Treatment.

“Transactions” shall mean the Separation (including the Reorganization and the Contribution), the Distribution, any Debt-for-Debt Exchange and any related transactions.

“Treasury Regulations” shall mean the regulations promulgated from time to time under the Code as in effect for the relevant Tax Period.

“Unqualified Tax Opinion” shall mean an unqualified “will” opinion of a Tax Advisor, and on which Parent may rely, to the effect that a transaction will not affect the Intended Tax Treatment or otherwise cause any Transaction to fail to qualify for the Intended Tax Treatment; provided, that, any tax opinion obtained in connection with a proposed acquisition of SpinCo Capital Stock entered into during the Restricted Period shall not qualify as an Unqualified Tax Opinion unless such tax opinion concludes that such proposed acquisition will not be treated as “part of a plan (or series of related transactions),” within the meaning of Section 355(e) of the Code and the Treasury Regulations promulgated thereunder, that includes the Distribution; provided, further, that any such opinion must assume that the Contribution and the Distribution, taken together, would have qualified for the Intended Tax Treatment if the transaction in question did not occur.

ARTICLE II – PAYMENTS AND TAX REFUNDS

2.1 Responsibility for SpinCo Group Taxes. Except as otherwise expressly provided in this Agreement:

(a) Parent shall be responsible for all Taxes (i) of the SpinCo Group for any Pre-Distribution Period; provided, that, in the case of any Straddle Period, only to the extent allocated to Parent pursuant to Section 2.3; (ii) imposed under Treasury Regulations Section 1.1502-6 or under any comparable or similar provision of state, local or non-U.S. Law on any member of the SpinCo Group solely as a result of such company being a member of a consolidated, combined, affiliated or unitary group with, or as a successor to, any member of the Parent Group during any Tax Period; or (iii) imposed on any member of the SpinCo Group for any Pre-Distribution Period as a result of any express or implied obligation to indemnify any other Person, or any successor or transferee liability; provided, that, solely for purposes of this Section 2.1(a), “SpinCo Group” shall not include any Person that becomes a Subsidiary of SpinCo after the Distribution.

(b) SpinCo shall be responsible for all Taxes of the SpinCo Group which are not the responsibility of Parent pursuant to Section 2.1(a) (including Taxes for Post-Distribution Periods of any member of the SpinCo Group).

2.2 Transaction Taxes. Notwithstanding anything to the contrary in Section 2.1, Parent shall pay and be responsible for any Transaction Taxes, as determined by Parent in its reasonable discretion.

2.3 Allocation of Taxes.

(a) If any member of a Group is permitted but not required under applicable U.S. federal, state, local or non-U.S. Tax Law to treat the Distribution Date as the last day of a Tax Period with respect to any member of the SpinCo Group, then the Parties and their Affiliates shall treat such day as the last day of the applicable Tax Period under such applicable Law, and shall file any elections necessary or appropriate for such treatment; provided, that, for the avoidance of doubt, this Section 2.3 shall not be construed to require Parent to change its taxable year or treat the Distribution Date as the last day of a Tax Period of any member of the Parent Group.

(b) Any transactions occurring, or actions taken, on the Distribution Date but after the Distribution outside the ordinary course of business by, or with respect to, any member of the SpinCo Group shall be deemed subject to the “next day rule” of Treasury Regulations Section 1.1502-76(b)(1)(ii)(B) (and under any comparable or similar provision under state, local or non-U.S. Laws or regulations; provided, that, if there is no comparable or similar provision under state, local or non-U.S. Laws or regulations, then the transaction will be deemed subject to the “next day rule” of Treasury Regulations Section 1.1502-76(b)(1)(ii)(B)) and as such shall for purposes of this Agreement be treated (and consistently reported by the Parties and their Affiliates) as occurring in a Post-Distribution Period of the SpinCo Group, as appropriate.

(c) Any Taxes for a Straddle Period with respect to the SpinCo Group (or entities in which any member of the SpinCo Group has an ownership interest) shall, for purposes of this Agreement, be allocated between the portion of the period ending on and including the Distribution Date and the portion of the period beginning after the Distribution Date by means of a closing of the books and records of the SpinCo Group as of the close of business on the Distribution Date; provided, that, (i) Parent may elect to allocate Tax Items (other than any extraordinary Tax Items) ratably in the month in which the Distribution occurs (and if Parent so elects, SpinCo shall so elect) as described in Treasury Regulations Section 1.1502-76(b)(2) (iii) and corresponding provisions of state, local, and non-U.S. Law; (ii) whenever it is necessary to determine the liability for Taxes of a United States shareholder (within the meaning of Section 951(b) of the Code) of a controlled foreign corporation (within the meaning of Section 957 of the Code) attributable to amounts included in the income of such United States shareholder under Section 951 of the Code for the taxable year or period of such controlled foreign corporation that begins on or before and ends after the Distribution Date, the determination of liability for any such Taxes shall be made by assuming that the taxable year or period of the controlled foreign corporation consisted of two (2) taxable years or periods, one which ended at the close of the Distribution Date and the other of which began at the beginning of the day following the Distribution Date and relevant items of income, gain, deduction, loss or credit of the controlled foreign corporation shall be allocated between such two (2) taxable years or periods on a closing of the books basis by assuming that the books of the controlled foreign corporation were closed at the close of the Distribution Date; provided, however, that Subpart F income (within the meaning of Section 952 of the Code) of the controlled foreign corporation shall be determined without regard to Section 952(c) of the Code; and (iii) subject to clauses (i) and (ii), exemptions, allowances or deductions that are calculated on an annual basis, and not on a closing of the books method (including depreciation and amortization deductions) shall be allocated between the period ending on and including the Distribution Date and the period beginning after the Distribution Date based on the number of days for the portion of the Straddle Period ending on and including the Distribution Date, on the one hand, and the number of days for the portion of the Straddle Period beginning after the Distribution Date, on the other hand. The foregoing provisions in this Section 2.3(c) shall be applied as determined by Parent in its reasonable discretion.

2.4 Allocation of Employment Taxes. Liability for Employment Taxes and any related Tax Benefits shall be determined pursuant to the EMA.

2.5 Tax Refunds.

(a) Parent shall be entitled to all Refunds related to Taxes the liability for which is allocated to Parent pursuant to this Agreement (taking into account Section 2.3(b) and Section 2.3(c)). SpinCo shall be entitled to all Refunds related to Taxes the liability for which is allocated to SpinCo pursuant to this Agreement (taking into account Section 2.3(b) and Section 2.3(c)).

(b) SpinCo shall pay to Parent any Refund received by SpinCo or any member of the SpinCo Group that is allocable to Parent pursuant to this Section 2.5 no later than thirty (30) Business Days after the receipt of such Refund. Parent shall pay to SpinCo any Refund received by Parent or any member of the Parent Group that is allocable to SpinCo pursuant to this Section 2.5 no later than thirty (30) Business Days after the receipt of such Refund. For purposes of this Section 2.5, any Refund that arises as a result of an offset, credit, or other similar benefit in respect of Taxes other than a receipt of cash shall be deemed to be received on the earlier of (i) the date on which a Tax Return is filed claiming such offset, credit, or other similar benefit and (ii) the date on which payment of the Tax which would have otherwise been paid absent such offset, credit, or other similar benefit is due (determined without taking into account any applicable extensions).

2.6 Tax Benefits. If Parent determines, in its reasonable discretion, that: (i) one Party is responsible for a Tax pursuant to this Agreement or under applicable Law and (ii) the other Party is entitled to a Tax Benefit relating to such Tax, then the Party entitled to such Tax Benefit shall pay to the Party responsible for such Tax the amount of the Tax Benefit, as determined by Parent in its reasonable discretion.

2.7 Prior Agreements. Except as set forth in this Agreement and in consideration of the mutual indemnities and other obligations of this Agreement, any and all prior Tax sharing or allocation agreements or practices between any member of the Parent Group and any member of the SpinCo Group shall be terminated with respect to the SpinCo Group and the Parent Group as of the Distribution Date. No member of either the SpinCo Group or the Parent Group shall have any continuing rights or obligations under any such agreement.

2.8 Specified Matters. Notwithstanding anything to the contrary in this Article II, the matters specified in Schedule A shall in addition be subject to the provisions of Schedule A, which shall govern in the event of any conflict between the provisions of Schedule A and this Article II.

ARTICLE III – PREPARATION AND FILING OF TAX RETURNS

3.1 Parent’s Responsibility. Parent shall prepare and file when due (taking into account any applicable extensions), or shall cause to be prepared and filed, all Joint Returns, all Tax Returns pursuant to which there is a claim to group relief by one or more members of the SpinCo Group in respect of losses generated by one or more members of the Parent Group, and all Parent Separate Returns, including any amendments to such Tax Returns.

3.2 SpinCo’s Responsibility. SpinCo shall prepare and file when due (taking into account any applicable extensions), or shall cause to be prepared and filed, all Tax Returns, including any amended Tax Returns, required to be filed by or with respect to members of the SpinCo Group other than those Tax Returns which Parent is required to prepare and file under Section 3.1. The Tax Returns required to be prepared and filed by SpinCo under this Section 3.2 shall include any SpinCo Separate Returns and any amended SpinCo Separate Returns. For the avoidance of doubt, SpinCo shall prepare any transfer pricing documentation required to be prepared with respect to a Tax Return required to be prepared and filed under this Section 3.2 and Parent shall be entitled to review and comment on any such transfer pricing documentation in a manner consistent with Section 3.3.

3.3 Right to Review Tax Returns. To the extent that the positions taken on any Tax Return would reasonably be expected to materially adversely affect the Tax position of the Party other than the Party that is required to prepare and file any such Tax Return pursuant to Section 3.1 or Section 3.2 (the “Reviewing Party”), as determined by Parent in its reasonable discretion, the Party required to prepare and file such Tax Return (the “Preparing Party”) shall prepare the portions of such Tax Return that relates to the business of the Reviewing Party (the Parent Business or the SpinCo Business, as the case may be), shall provide a draft of such portion of such Tax Return to the Reviewing Party for its review and comment at least thirty (30) days prior to the Due Date for such Tax Return, and shall consider in good faith any comments with respect to items that would reasonably be expected to materially adversely affect the Tax position of the Reviewing Party.

3.4 Cooperation. The Parties shall provide, and shall cause their Affiliates to provide, assistance and cooperation to one another in accordance with Article VII with respect to the preparation and filing of Tax Returns, including providing information required to be provided under Article VIII. Notwithstanding anything to the contrary in this Agreement, Parent shall not be required to disclose to SpinCo any consolidated, combined, unitary or other similar Joint Return of which a member of the Parent Group is the common parent or any information related to such a Joint Return other than information relating solely to the SpinCo Group; provided, that, Parent shall provide such additional information that is reasonably required in order for SpinCo to determine the Taxes attributable to the SpinCo Business. If an amended Separate Return for State Taxes for which SpinCo is responsible under this Article III is required to be filed as a result of an amendment made to a Joint Return for U.S. federal income taxes pursuant to an audit Adjustment, then the Parties shall cooperate to ensure that such amended Separate Return can be prepared and filed in a manner that preserves confidential information including through the use of third party preparers.

3.5 Tax Reporting Practices. Except as provided in Section 3.6, any Tax Return for any Pre-Distribution Period or Straddle Period, to the extent it relates to members of the SpinCo Group, shall be prepared in accordance with practices, accounting methods, elections, conventions, transfer pricing and Tax positions used with respect to the Tax Return in question for periods prior to the Distribution (“Past Practices”), and, in the case of any item the treatment of which is not addressed by Past Practices, in accordance with generally acceptable Tax accounting practices. Notwithstanding the foregoing, for any Tax Return described in the preceding sentence, (i) a Party will not be required to follow Past Practices with either the written consent of the other Party (not to be unreasonably withheld, delayed or conditioned) or a “more likely than not” (or stronger) level opinion from a Tax Advisor that reporting in accordance with Past Practices is not correct and (ii) Parent shall have the right to determine which entities will be included in any consolidated, combined, affiliated or unitary Tax Return that it is responsible for filing.

3.6 Reporting of Separation.

(a) The Tax treatment of any step in or portion of the Transactions shall be reported on each applicable Tax Return consistently with the Intended Tax Treatment, taking into account the jurisdiction in which such Tax Returns are filed.

(b) If Parent determines, in its sole discretion, that a protective election under Section 336(e) of the Code shall be made with respect to the Distribution, SpinCo agrees to take any such action that is necessary to effect such election, including any corresponding election with respect to any of its Subsidiaries, as determined by Parent. If such a protective election is made, this Agreement shall be amended in such a manner as is determined by Parent in its reasonable discretion to compensate Parent for any Tax Benefits realized by SpinCo as a result of such election.

3.7 Payment of Taxes.

(a) With respect to any Tax Return required to be filed pursuant to this Agreement, the Responsible Party shall remit or cause to be remitted to the applicable Taxing Authority in a timely manner any Taxes due in respect of any such Tax Return.

(b) In the case of any Tax Return for which the Party that is not the Responsible Party is obligated pursuant to this Agreement to pay all or a portion of the Taxes reported as due on such Tax Return, the Responsible Party shall notify the other Party, in writing, of its obligation to pay such Taxes and, in reasonably sufficient detail, its calculation of the amount due by such other Party and the Party receiving such notice shall pay such amount to the Responsible Party upon the later of thirty (30) Business Days prior to the Due Date for such payment and thirty (30) Business Days after the receipt of such notice.

(c) With respect to any estimated Taxes, the Party that is or will be the Responsible Party with respect to any Tax Return that will reflect (or otherwise give credit for) such estimated Taxes shall remit or cause to be remitted to the applicable Taxing Authority in a timely manner any estimated Taxes due. In the case of any estimated Taxes for which the Party that is not the Responsible Party is obligated pursuant to this Agreement to pay all or a portion of the Taxes that will be reported as due on any Tax Return that will reflect (or otherwise give credit for) such estimated Taxes, the Responsible Party shall notify the other Party, in writing, of its obligation to pay such estimated Taxes and, in reasonably sufficient detail, its calculation of the amount due by such other Party and the Party receiving such notice shall pay such amount to the Responsible Party upon the later of thirty (30) Business Days prior to the Due Date for such payment and thirty (30) Business Days after the receipt of such notice.

3.8 Amended Returns and Carrybacks.

(a) SpinCo shall not, and shall not permit any member of the SpinCo Group to, file or allow to be filed any request for an Adjustment for any Pre-Distribution Period without the prior written consent of Parent, such consent to be exercised in Parent's sole discretion.

(b) SpinCo shall, and shall cause each member of the SpinCo Group to, make any available elections to waive the right to carry back any Tax Attribute from a Post-Distribution Period to a Pre-Distribution Period.

(c) SpinCo shall not, and shall cause each member of the SpinCo Group not to, without the prior written consent of Parent, make any affirmative election to carry back any Tax Attribute from a Post-Distribution Period to a Pre-Distribution Period, including by filing a claim for a refund or making any other filing with any Taxing Authority with respect to such carryback, such consent to be exercised in Parent's sole discretion.

(d) Receipt of consent by SpinCo or a member of the SpinCo Group from Parent pursuant to the provisions of this Section 3.8 shall not limit or modify SpinCo's continuing indemnification obligation pursuant to Article V.

3.9 Tax Attributes. Parent shall in good faith advise SpinCo in writing of the amount (if any) of any Tax Attributes, which Parent determines, in its sole discretion, shall be allocated or apportioned to the SpinCo Group under applicable Law. SpinCo and all members of the SpinCo Group shall prepare all Tax Returns in accordance with such written notice. SpinCo agrees that it shall not dispute Parent's determination of Tax Attributes. For the avoidance of doubt, Parent shall not be required in order to comply with this Section 3.9 to create or cause to be created any books and records or reports or other documents based thereon (including, without limitation, "earnings & profits studies," "basis studies" or similar determinations) that it does not maintain or prepare in the ordinary course of business.

3.10 Gain Recognition Agreements. SpinCo will not take any action (including the sale or disposition of any stock, securities or other assets), or permit its Affiliates to take any such action, and SpinCo will not fail to take any action, or permit its Affiliates to fail to take any action, that would cause Parent or any of its Affiliates or SpinCo or any of its Affiliates to recognize gain under any Gain Recognition Agreement.

3.11 Specified Matters. Notwithstanding anything to the contrary in this Article III, the matters specified in Schedule A shall in addition be subject to the provisions of Schedule A, which shall govern in the event of any conflict between the provisions of Schedule A and this Article III.

ARTICLE IV – INTENDED TAX TREATMENT OF THE DISTRIBUTION

4.1 Representations and Warranties.

(a) Parent, on behalf of itself and all other members of the Parent Group, hereby represents and warrants that (i) it has examined the IRS Ruling Request, the Tax Opinions, the Representation Letters and any other materials delivered or deliverable in connection with the issuance of any IRS Ruling and the rendering of the Tax Opinions, in each case, as they exist as of the date hereof (collectively, the “Tax Materials”) and (ii) the facts presented and representations made therein, to the extent descriptive of or otherwise relating to Parent or any member of the Parent Group or the Parent Business, were at the time presented or represented and from such time until and including the Distribution Date, true, correct and complete in all material respects. Parent, on behalf of itself and all other members of the Parent Group, hereby confirms and agrees to comply with any and all covenants and agreements in the Tax Materials applicable to Parent or any member of the Parent Group or the Parent Business.

(b) SpinCo, on behalf of itself and all other members of the SpinCo Group, hereby represents and warrants that (i) it has examined the Tax Materials and (ii) the facts presented and representations made therein, to the extent descriptive of or otherwise relating to SpinCo or any member of the SpinCo Group or the SpinCo Business, were or will be, at the time presented or represented and from such time until and including the Distribution Date, true, correct and complete in all material respects. SpinCo, on behalf of itself and all other members of the SpinCo Group, hereby confirms and agrees to comply with any and all covenants and agreements in the Tax Materials applicable to SpinCo or any member of the SpinCo Group or the SpinCo Business.

(c) Each of Parent, on behalf of itself and all other members of the Parent Group, and SpinCo, on behalf of itself and all other members of the SpinCo Group, represents and warrants that it knows of no fact (after due inquiry) that may cause the Tax treatment of any of the Transactions to be other than the Intended Tax Treatment.

(d) Each of Parent, on behalf of itself and all other members of the Parent Group, and SpinCo, on behalf of itself and all other members of the SpinCo Group, represents and warrants that it has no plan or intent to take any action which is inconsistent with any statements or representations made in the Tax Materials.

4.2 Restrictions Relating to the Distribution.

(a) SpinCo, on behalf of itself and all other members of the SpinCo Group, hereby covenants and agrees that no member of the SpinCo Group will take, fail to take, or permit to be taken: (i) any action where such action or failure to act would be inconsistent with or cause to be untrue any statement, information, covenant or representation in the Tax Materials or (ii) any action which constitutes a SpinCo Disqualifying Action.

(b) During the Restricted Period, SpinCo:

(i) shall continue and cause to be continued and not approve or allow, or enter into any agreement, understanding or arrangement with respect to, the discontinuance, cessation, or sale or other transfer (to an Affiliate or otherwise) of, or a material change in or sale of the material assets of, any Active Business, other than sales in the ordinary course of business;

(ii) shall not voluntarily dissolve or liquidate or partially liquidate itself, approve or allow any liquidation, or partial liquidation of any of its Affiliates (including any action that is a liquidation for U.S. federal income tax purposes), or enter into any agreement, understanding or arrangement with respect to the foregoing;

(iii) shall not (1) enter into any Proposed Acquisition Transaction or, to the extent SpinCo has the right or ability to prevent or prohibit any Proposed Acquisition Transaction, permit any Proposed Acquisition Transaction to occur, (2) redeem or otherwise repurchase (directly or through an Affiliate) any stock, or rights to acquire stock, except to the extent such repurchases satisfy Section 4.05(1)(b) of Revenue Procedure 96-30 (as in effect prior to the amendment of such Revenue Procedure by Revenue Procedure 2003-48), (3) amend its certificate of incorporation (or other organizational documents), issue a new class of non-voting stock, or take any other action, whether through a stockholder vote or otherwise, affecting the relative voting rights of its Capital Stock (including through the conversion of any Capital Stock into another class of Capital Stock), (4) merge or consolidate with any other Person or allow any of its Affiliates to merge or consolidate with any other Person or (5) take any other action or actions (including any action or transaction that would be reasonably likely to be inconsistent with any representation made in the Tax Materials) which in the aggregate would, when combined with any other direct or indirect changes in ownership of SpinCo Capital Stock pertinent for purposes of Section 355(e) of the Code, have the effect of causing or permitting one or more Persons (whether or not acting in concert) to acquire directly or indirectly stock representing a forty percent (40%) or greater interest in SpinCo or would reasonably be expected to result in a failure to preserve, achieve or maintain the Intended Tax Treatment, or enter into any agreement, understanding or arrangement with respect to any of the foregoing;

(iv) shall not and shall not permit any member of the SpinCo Group, to sell, transfer or otherwise dispose of (including in any transaction treated for U.S. federal income tax purposes as a sale, transfer or disposition) assets (including any shares of Capital Stock of a Subsidiary) that, in the aggregate, constitute more than twenty percent (20%) of the consolidated gross assets of SpinCo or the SpinCo Group, or enter into (or permit any member of the SpinCo Group to enter into) any agreement, understanding or arrangement with respect to the foregoing. The foregoing sentence shall not apply to (1) sales, transfers or dispositions of assets in the ordinary course of business, (2) any cash paid to acquire assets from an unrelated Person in an arm's-length transaction, (3) any assets transferred to a Person that is disregarded as an entity separate from the transferor for U.S. federal income tax purposes or (4) any mandatory or optional repayment (or pre-payment) of any indebtedness of SpinCo or any member of the SpinCo Group. The percentages of gross assets or consolidated gross assets of SpinCo or the SpinCo Group, as the case may be, sold, transferred or otherwise disposed of, shall be based on the fair market value of the gross assets of SpinCo and the members of the SpinCo Group as of the Distribution Date. For purposes of this Section 4.2(b)(iv), a merger of SpinCo or one of its Subsidiaries with and into any Person that is not a wholly owned Subsidiary of SpinCo shall constitute a disposition of all of the assets of SpinCo or such Subsidiary;

(v) shall, if any member of the SpinCo Group proposes to enter into any transaction or series of transactions that is not a Proposed Acquisition Transaction but would be a Proposed Acquisition Transaction if the percentage reflected in the definition of Proposed Acquisition Transaction were thirty percent (30%) instead of forty percent (40%) (a “Section 4.2(b)(v) Acquisition Transaction”) or, to the extent SpinCo has the right or ability to prevent or prohibit any Section 4.2(b)(v) Acquisition Transaction, proposes to permit any Section 4.2(b)(v) Acquisition Transaction to occur, in each case, provide Parent, no later than ten (10) Business Days following the signing of any written agreement with respect to the Section 4.2(b)(v) Acquisition Transaction, a written description of such transaction (including the type and amount of stock of SpinCo to be issued in such transaction) and a certificate of the board of directors of SpinCo to the effect that the Section 4.2(b)(v) Acquisition Transaction is not a Proposed Acquisition Transaction; and

(vi) shall not cause or permit any member of the SpinCo Group that was a “distributing corporation” or a “controlled corporation” (within the meaning of Section 355(b) of the Code) in any Transaction other than the Distribution to take any action or enter into any transaction described in clauses (2), (3), (4) or (5) of Section 4.2(b)(iii) or in Section 4.2(b)(iv) (in each case, substituting references therein to “SpinCo”, the “SpinCo Group” and “SpinCo Capital Stock” with references to the relevant corporation, the relevant corporation and its Subsidiaries and the Capital Stock of such corporation, respectively).

(c) Notwithstanding the restrictions imposed by Section 4.2(b), SpinCo or a member of the SpinCo Group may take any of the actions or transactions described therein if (i) SpinCo shall have requested that Parent obtain a private letter ruling (including a supplemental ruling, if applicable) from the IRS (a “Post-Distribution Ruling”) in accordance with Section 4.3(b) to the effect that such transaction will not affect the Intended Tax Treatment, and Parent shall have received such a Post-Distribution Ruling and shall have notified SpinCo in writing that Parent has determined that such Post-Distribution Ruling is in form and substance satisfactory to Parent in its sole and absolute discretion or (ii) both (A) SpinCo obtains an Unqualified Tax Opinion with respect thereto and (B) Parent notifies SpinCo in writing that Parent has determined that such Unqualified Tax Opinion is in form and substance satisfactory to Parent in its sole and absolute discretion. Parent’s evaluation of a Post-Distribution Ruling or an Unqualified Tax Opinion may consider, among other factors, the appropriateness of any underlying assumptions, representations and covenants made in connection with such ruling or opinion as well as any other factors, circumstances, considerations or concerns that Parent determines in its sole and absolute discretion are relevant. SpinCo shall bear all costs and expenses of securing any such Post-Distribution Ruling or Unqualified Tax Opinion and shall, as set forth in Section 4.3(b) below, reimburse Parent for all reasonable out-of-pocket expenses that Parent or any of its Affiliates may incur in good faith in seeking to obtain or evaluate any such Post-Distribution Ruling or Unqualified Tax Opinion. None of the obtaining of a Post-Distribution Ruling, the delivery of an Unqualified Tax Opinion or Parent’s waiver of SpinCo’s obligation to deliver a Post-Distribution Ruling or an Unqualified Tax Opinion shall limit or modify SpinCo’s continuing indemnification obligation pursuant to Article V.

4.3 Additional Procedures Regarding Post-Distribution Rulings and Unqualified Tax Opinions.

(a) If SpinCo determines that it desires to take one of the actions described in Section 4.2(b) (a “Notified Action”), SpinCo shall notify Parent of this fact in writing.

(b) Post-Distribution Rulings or Unqualified Tax Opinions at SpinCo’s Request. Unless Parent shall have waived the requirement to obtain such Post-Distribution Ruling or Unqualified Tax Opinion, upon the reasonable request of SpinCo pursuant to Section 4.2(c)(i), Parent shall use commercially reasonable efforts in cooperating with SpinCo and in seeking to obtain, as expeditiously as possible, a Post-Distribution Ruling from the IRS (and/or any other applicable Taxing Authority) or an Unqualified Tax Opinion for the purpose of permitting SpinCo to take the Notified Action, subject in all respects to the provisions of Section 4.2. Notwithstanding the foregoing, Parent shall not be required to file or cooperate in the filing of any request for a Post-Distribution Ruling under this Section 4.3(b) unless SpinCo represents that (A) it has reviewed such request for a Post-Distribution Ruling, and (B) all statements, information and representations relating to any member of the SpinCo Group contained in such request for a Post-Distribution Ruling are (subject to any qualifications therein) true, correct and complete. SpinCo shall reimburse Parent for all reasonable costs and expenses, including out-of-pocket expenses and expenses relating to the utilization of Parent personnel, incurred by the Parent Group in obtaining a Post-Distribution Ruling or Unqualified Tax Opinion requested by SpinCo within thirty (30) Business Days after receiving an invoice from Parent therefor.

(c) Post-Distribution Rulings or Unqualified Tax Opinions at Parent’s Request. Parent shall have the right to obtain a Post-Distribution Ruling or an Unqualified Tax Opinion at any time in its sole and absolute discretion. If Parent determines to obtain a Post-Distribution Ruling or an Unqualified Tax Opinion, SpinCo shall (and shall cause each Affiliate of SpinCo to) cooperate with Parent and take any and all actions reasonably requested by Parent in connection with obtaining the Post-Distribution Ruling or Unqualified Tax Opinion (including, without limitation, by making any representation or covenant or providing any materials or information requested by the IRS, any other applicable Taxing Authority or a Tax Advisor; provided, that, SpinCo shall not be required to make (or cause any Affiliate of SpinCo to make) any representation or covenant that is inconsistent with historical facts or as to future matters or events over which matters or events it has no control). Parent shall reimburse SpinCo for all reasonable costs and expenses, including out-of-pocket expenses and expenses relating to the utilization of SpinCo personnel, incurred by the Parent Group in connection with such cooperation within thirty (30) Business Days after receiving an invoice from SpinCo therefor.

(d) Parent shall have sole and exclusive control over the process of obtaining any Post-Distribution Ruling, and only Parent shall be permitted to apply for a Post-Distribution Ruling. In connection with obtaining a Post-Distribution Ruling, Parent shall (A) keep SpinCo informed in a timely manner of all material actions taken or proposed to be taken by Parent in connection therewith; (B) (1) reasonably in advance of the submission of any request for any Post-Distribution Ruling provide SpinCo with a draft copy thereof, (2) reasonably consider SpinCo comments on such draft copy, and (3) provide SpinCo with a final copy of such Post-Distribution Ruling; and (C) provide SpinCo with notice reasonably in advance of, and SpinCo shall have the right to attend, any formally scheduled meetings with the IRS or other applicable Taxing Authority (subject to the approval of the IRS or such Taxing Authority) that relate to such Post-Distribution Ruling. Neither SpinCo nor any Affiliate of SpinCo directly or indirectly controlled by SpinCo shall seek any guidance from the IRS or any other Taxing Authority (whether written, oral or otherwise) at any time concerning the Transactions (including the impact of any transaction on the Transactions).

(e) Any Post-Distribution Ruling or Unqualified Tax Opinion obtained in accordance with Section 4.2(c) and Section 4.3 shall be deemed included in the definition of Tax Materials from and after the obtaining thereof for all purposes of this Agreement.

ARTICLE V – INDEMNITY OBLIGATIONS

5.1 Indemnity Obligations.

(a) Parent shall indemnify and hold harmless SpinCo from and against, and will reimburse SpinCo for, (i) all liability for Taxes allocated to Parent pursuant to Article II, (ii) all Taxes and Tax Related Losses to the extent arising out of, based upon, or relating or attributable to any breach of or inaccuracy in, or failure to perform, as applicable, any representation, covenant or obligation of any member of the Parent Group pursuant to this Agreement and (iii) the amount of any Refund received by any member of the Parent Group that is allocated to SpinCo pursuant to Section 2.5(a).

(b) Without regard to whether a Post-Distribution Ruling or an Unqualified Tax Opinion may have been provided or whether any action is permitted or consented to hereunder and notwithstanding anything to the contrary in this Agreement, SpinCo shall indemnify and hold harmless Parent from and against, and will reimburse Parent for, (i) all liability for Taxes allocated to SpinCo pursuant to Article II, (ii) all Taxes and Tax Related Losses arising out of, based upon, or relating or attributable to any breach of or inaccuracy in, or failure to perform, as applicable, any representation, covenant or obligation of any member of the SpinCo Group pursuant to this Agreement, (iii) the amount of any Refund received by any member of the SpinCo Group that is allocated to Parent pursuant to Section 2.5(a) and (iv) any Distribution Taxes and Tax Related Losses attributable to a Prohibited Act, or otherwise attributable to a SpinCo Disqualifying Action (regardless of whether the conditions set forth in Section 4.2(c) are satisfied). To the extent that any Tax or Tax Related Loss is subject to indemnity pursuant to both Section 5.1(a) and Section 5.1(b), responsibility for such Tax or Tax Related Loss shall be shared by Parent and SpinCo according to relative fault as determined by Parent in its reasonable discretion.

5.2 Indemnification Payments.

(a) Except as otherwise provided in this Agreement, if either Party (the “Indemnitee”) is required to pay to a Taxing Authority a Tax or to another Person a payment in respect of a Tax or Tax Related Loss that the other Party (the “Indemnifying Party”) is liable for under this Agreement, including as the result of a Final Determination, the Indemnitee shall notify the Indemnifying Party, in writing, of its obligation to pay such Tax or Tax Related Loss and, in reasonably sufficient detail, its calculation of the amount due by such Indemnifying Party to the Indemnitee. The Indemnifying Party shall pay such amount, including any Tax Related Losses, to the Indemnitee no later than the later of (i) thirty (30) Business Days prior to the Due Date for such payment to the applicable Taxing Authority or (ii) thirty (30) Business Days after the receipt of notice from the other Party.

(b) If, as a result of any change or redetermination, any amount previously allocated to and borne by one Party pursuant to the provisions of Article II is thereafter allocated to the other Party, then, no later than thirty (30) Business Days after such change or redetermination, such other Party shall pay to such Party the amount previously borne by such Party which is allocated to such other Party as a result of such change or redetermination.

(c) If a Party incurs a Tax Liability as a result of its receipt of a payment pursuant to this Agreement or the Separation Agreement, such payment shall be appropriately adjusted so that the amount of such payment, reduced by the amount of all Taxes payable with respect to the receipt thereof (but taking into account all correlative Tax Benefits resulting from the payment of such Taxes), shall equal the amount of the payment which the Party receiving such payment would otherwise be entitled to receive.

5.3 Payment Mechanics.

(a) All payments under this Agreement shall be made by Parent directly to SpinCo and by SpinCo directly to Parent; provided, however, that if the Parties mutually agree with respect to any such indemnification payment, any member of the Parent Group, on the one hand, may make such indemnification payment to any member of the SpinCo Group, on the other hand, and vice versa. All indemnification payments shall be treated in the manner described in Section 5.4.

(b) In the case of any payment of Taxes made by a Responsible Party or Indemnitee pursuant to this Agreement for which such Responsible Party or Indemnitee, as the case may be, has received a payment from the other Party, such Responsible Party or Indemnitee shall provide to the other Party a copy of any official government receipt received with respect to the payment of such Taxes to the applicable Taxing Authority (or, if no such official governmental receipts are available, executed bank payment forms or other reasonable evidence of payment).

5.4 Treatment of Payments. The Parties agree that any payment made among the Parties pursuant to this Agreement shall be treated, to the extent permitted by Law, for all U.S. federal income tax purposes as either (i) a non-taxable contribution by Parent to SpinCo or (ii) a distribution by SpinCo to Parent, and, with respect to any payment made among the Parties pursuant to this Agreement after the Distribution, such payment shall be treated as having been made immediately prior to the Distribution. Notwithstanding the foregoing, Parent shall notify SpinCo if it determines that any payment made pursuant to this Agreement is to be treated, for any Tax purposes, as a payment made by one Party acting as an agent of one of such Party's Subsidiaries to the other Party acting as an agent of one of such other Party's Subsidiaries, and the Parties agree to treat any such payment accordingly.

ARTICLE VI – TAX CONTESTS

6.1 Notice. Each Party shall notify the other Party in writing within ten (10) days after receipt by such Party or any member of its Group of a written communication from any Taxing Authority with respect to any pending or threatened audit, claim, dispute, suit, action, proposed assessment or other proceeding (a “Tax Contest”) concerning any Taxes for which the other Party may be liable pursuant to this Agreement, and thereafter shall promptly forward or make available to such Party copies of notices and communications relating to such Tax Contest.

6.2 Separate Returns.

(a) In the case of any Tax Contest with respect to any Separate Return other than a Separate Return in respect of a Straddle Period, the Party having the liability for the Tax pursuant to Article II hereof shall have the sole responsibility and right to control the prosecution of such Tax Contest, including the exclusive right to communicate with agents of the applicable Taxing Authority and to control, resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of such Tax Contest.

(b) In the case of any Tax Contest with respect to any Separate Return in respect of a Straddle Period, the Party having the greatest amount at risk pursuant to Section 2.3(c), as determined by Parent in its reasonable discretion, shall have the responsibility and right to control the prosecution of such Tax Contest; provided, that, the other Party shall have the right to participate, at its own expense, and the controlling Party shall not have the right to resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted or assessed in connection with or as a result of such Tax Contest without the consent of the other Party, not to be unreasonably withheld, delayed or conditioned.

6.3 Joint Return. In the case of any Tax Contest with respect to any Joint Return, Parent shall have the sole responsibility and right to control the prosecution of such Tax Contest, including the exclusive right to communicate with agents of the applicable Taxing Authority and to control, resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted, or assessed in connection with or as a result of such Tax Contest. Notwithstanding the foregoing, to the extent a portion of any such Tax Contest with respect to a Joint Return with respect to Non-U.S. Taxes relates to a matter which was customarily controlled by a member of the SpinCo Group, as determined by Parent in its sole discretion, then Parent may elect that SpinCo shall be responsible for conduct of such portion of such Tax Contest and any expenses related thereto, including expenses relating to supporting transfer pricing analysis.

6.4 Transaction Related Tax Contests. Notwithstanding anything to the contrary in Section 6.2 or Section 6.3, in the case of any Transaction Related Tax Contest, Parent shall have the sole responsibility and right to control the prosecution of such Tax Contest, including the exclusive right to communicate with agents of the applicable Taxing Authority and to control, resolve, settle or agree to any deficiency, claim or adjustment proposed, asserted, or assessed in connection with or as a result of such Tax Contest. Notwithstanding anything to the contrary in Section 6.6, the final determination of the positions taken, including with respect to settlement or other disposition, in any Transaction Related Tax Contest shall be made in the sole discretion of Parent and shall be final and not subject to the dispute resolution provisions of Section 9.1 or Section 9.2 of this Agreement or Section 11.02, Section 11.03 or Section 11.05 of the Separation Agreement.

6.5 Obligation of Continued Notice. During the pendency of any Tax Contest or threatened Tax Contest, each of the Parties shall provide prompt notice to the other Party of any written communication received by it or a member of its respective Group from a Taxing Authority regarding any Tax Contest for which it is indemnified by the other Party hereunder or for which it may be required to indemnify the other Party hereunder. Such notice shall attach copies of the pertinent portion of any written communication from a Taxing Authority and contain factual information (to the extent known) describing any asserted Tax Liability in reasonable detail and shall be accompanied by copies of any notice and other documents received from any Taxing Authority in respect of any such matters. Such notice shall be provided in a reasonably timely fashion; provided, however, that in the event that timely notice is not provided, a Party shall be relieved of its obligation to indemnify the other Party only to the extent that such delay results in actual increased costs or actual prejudice to such other Party.

6.6 Settlement Rights.

(a) Unless waived by the Parties in writing, in connection with any potential adjustment in a Tax Contest as a result of which adjustment the Non-Controlling Party may reasonably be expected to become liable to make any indemnification payment to the Controlling Party under this Agreement: (i) the Controlling Party shall keep the Non-Controlling Party informed in a timely manner of all actions taken or proposed to be taken by the Controlling Party with respect to such potential adjustment in such Tax Contest; (ii) the Controlling Party shall timely provide the Non-Controlling Party with copies of any correspondence or filings submitted to any Taxing Authority or judicial authority in connection with such potential adjustment in such Tax Contest; and (iii) the Controlling Party shall defend such Tax Contest diligently and in good faith. The failure of the Controlling Party to take any action specified in the preceding sentence with respect to the Non-Controlling Party shall not relieve the Non-Controlling Party of any liability and/or obligation which it may have to the Controlling Party under this Agreement, and in no event shall such failure relieve the Non-Controlling Party from any other liability or obligation which it may have to the Controlling Party.

(b) Consistent Treatment. Unless and until there has been a Final Determination to the contrary, each Party agrees not to take any position on any Tax Return, in connection with any Tax Contest or otherwise that is inconsistent with (i) the treatment of payments between the Parent Group and the SpinCo Group as set forth in Section 5.4, (ii) the Tax Materials or (iii) the Intended Tax Treatment.

ARTICLE VII – COOPERATION

7.1 General.

(a) Each Party shall fully cooperate, and shall cause all members of such Party's Group to fully cooperate, with all reasonable requests in writing from the other Party, or from an agent, representative or advisor to such Party, in connection with the preparation and filing of any Tax Return, claims for Refunds, the conduct of any Tax Contest, and calculations of amounts required to be paid pursuant to this Agreement, in each case, related or attributable to or arising in connection with Taxes of either Party or any member of either Party's Group covered by this Agreement or otherwise relating to the SpinCo Business for any Pre-Distribution Period and the establishment of any reserve required in connection with any financial reporting (a "Tax Matter"). Such cooperation shall include making available, upon reasonable notice, all information and documents in their possession relating to the other Party and its respective Affiliates as provided in this Article VII and Article VIII. Each Party shall make its employees, advisors and facilities available, without charge, on a reasonable and mutually convenient basis in connection with the foregoing matters in a manner that does not interfere with the ordinary business operations of such Party. The Parties shall use commercially reasonable efforts to provide any information or documentation requested by the other Party in a manner that permits the other Party (or its Affiliates) to comply with Tax Return filing deadlines or other applicable timing requirements.

(b) Any information or documents provided under this Section 7.1 shall be kept confidential by the Party receiving the information or documents, except as may otherwise be necessary in connection with the filing of Tax Returns or in connection with any Tax Contest. Notwithstanding any other provision of this Agreement or any other agreement, (i) no Party or any of its Affiliates shall be required to provide another Party or any Affiliate thereof or any other Person access to or copies of any information or procedures (including the proceedings of any Tax Contest) other than information or procedures that reasonably relate to the Taxes (including any Taxes for which the first Party is liable under this Agreement), business or assets of the first Party or any of its Affiliates or are necessary to prepare Tax Returns for which the first Party is responsible for preparing the applicable Tax Return in accordance with the terms of this Agreement and (ii) in no event shall any Party or its Affiliates be required to provide another Party, any of its Affiliates or any other Person access to or copies of any information if such action could reasonably be expected to result in the waiver of any Privilege. In addition, in the event that a Party determines that the provision of any information to another Party or any of its Affiliates could be commercially detrimental, violate any Law or agreement or waive any Privilege, the first Party shall use reasonable best efforts to permit compliance with its obligations under this Section 7.1 in a manner that avoids any such harm or consequence.

7.2 Return Information. SpinCo and Parent acknowledge that time is of the essence in relation to any request for information, assistance or cooperation made by Parent or SpinCo pursuant to Section 7.1 or this Section 7.2. Each Party shall provide to the other Parties information and documents relating to its Group reasonably required by the other Parties to prepare Tax Returns. Any information or documents a Party responsible for preparing a Tax Return in accordance with the terms of this Agreement requires to prepare such Tax Returns shall be provided in such form as such Party reasonably requests and in sufficient time for such Party to prepare such Tax Returns on a timely basis.

ARTICLE VIII – RETENTION OF RECORDS; ACCESS

8.1 Retention of Records. For so long as the contents thereof may become material in the administration of any matter under applicable Tax Law, but in any event until the later of (i) sixty (60) days after the expiration of any applicable statutes of limitation (including any waivers or extensions thereof) and (ii) twenty (20) years after the Distribution Date, the Parties shall retain records, documents, accounting data and other information (including computer data) necessary for the preparation and filing of all Tax Returns (collectively, "Tax Records") in respect of Taxes of any member of either the Parent Group or the SpinCo Group for any Pre-Distribution Period or Post-Distribution Period or for any Tax Contests relating to such Tax Returns. At any time after the Distribution Date when the Parent Group proposes to destroy any Tax Records, Parent shall first notify SpinCo in writing at least sixty (60) days prior to the destruction of such Tax Records and the SpinCo Group shall be entitled to receive such records or documents proposed to be destroyed. At any time after the Distribution Date when the SpinCo Group proposes to destroy any Tax Records, SpinCo shall first notify Parent in writing at least sixty (60) days prior to the destruction of such Tax Records and the Parent Group shall be entitled to receive such records or documents proposed to be destroyed. The Parties will notify each other in writing of any waivers or extensions of the applicable statute of limitations that may affect the period for which the foregoing records or other documents must be retained.

8.2 Access to Tax Records. The Parties and their respective Affiliates shall make available to each other for inspection and copying during normal business hours upon reasonable notice all Tax Records (including, for the avoidance of doubt, any pertinent underlying data accessed or stored on any computer program or information technology system) in their possession and shall permit the other Party and its Affiliates, authorized agents and representatives and any representative of a Taxing Authority or other Tax auditor direct access, during normal business hours upon reasonable notice to any computer program or information technology system used to access or store any Tax Records, in each case to the extent reasonably required by the other Party in connection with the preparation of Tax Returns or financial accounting statements, audits, litigation or the resolution of items pursuant to this Agreement. The Party seeking access to the records of the other Party shall bear all costs and expenses associated with such access, including any professional fees.

ARTICLE IX – DISPUTE RESOLUTION

9.1 Tax Disputes. Subject to Section 9.3, Section 9.4 and Section 9.5, this Section 9.1 shall govern the resolution of any dispute between the Parties as to any matter covered by this Agreement that primarily relates to the interpretation of Tax Law, as determined by Parent in its reasonable discretion (a “Tax Advisor Dispute”). The Party raising the Tax Advisor Dispute shall give written notice of the Tax Advisor Dispute (a “Tax Advisor Dispute Notice”), and the general counsels of the Parties (or such other individuals designated by the respective general counsels) and/or the executive officers designated by the Parties shall negotiate for a reasonable period of time to settle such Tax Advisor Dispute; provided, that, such reasonable period shall not, unless otherwise agreed by the Parties in writing, exceed thirty (30) days (the “Negotiation Period”) from the time of receipt of the Tax Advisor Dispute Notice; provided, further, that (x) the Parties shall not assert the defenses of statute of limitations, laches or any other defense, in each such case based on the passage of time during the Negotiation Period, and (y) any contractual time period or deadline under this Agreement relating to such Tax Advisor Dispute occurring after the Tax Advisor Dispute Notice is received shall not be deemed to have passed until the procedures described in this Section 9.1 have been resolved. If the Tax Advisor Dispute has not been resolved for any reason after the Negotiation Period, the Parties shall appoint a nationally recognized independent public accounting firm (the “Accounting Firm”) to resolve such dispute. In the event that the Parties are unable to agree on an Accounting Firm, the accounting firm principally responsible for auditing SpinCo’s financial statements in connection with its filings under the securities laws and the accounting firm principally responsible for auditing Parent’s financial statements in connection with its filings under the securities laws shall agree on and appoint the Accounting Firm. In this regard, the Accounting Firm shall make determinations with respect to the Tax Advisor Dispute based solely on representations made by Parent, SpinCo and their respective representatives, and not by independent review, and shall function only as an expert and not as an arbitrator and shall be required to make a determination in favor of one Party only. The Parties shall require the Accounting Firm to resolve all Tax Advisor Disputes no later than thirty (30) days after the submission of such Tax Advisor Dispute to the Accounting Firm, but in no event later than the Due Date of Taxes or the filing of the applicable Tax Return, if applicable, and agree that all decisions by the Accounting Firm with respect thereto shall be final and conclusive and binding on the Parties. The Accounting Firm shall resolve all Tax Advisor Dispute in a manner consistent with this Agreement and, to the extent not inconsistent with this Agreement, in a manner consistent with the Past Practices of Parent and its Subsidiaries, except as otherwise required by applicable Law. The Parties shall require the Accounting Firm to render all determinations in writing and to set forth, in reasonable detail, the basis for such determination. The fees and expenses of the Accounting Firm shall be borne equally by the Parties, and the parties agree to waive any objection to the naming of the Accounting Firm or the determination of the Accounting Firm based on actual or alleged conflicts of interest.

9.2 Legal Disputes. Subject to Section 9.1, Section 9.3, Section 9.4 and Section 9.5, in the event of any claim, controversy, demand or request for relief of any kind arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, validity or breach of this Agreement or otherwise arising out of or related to this Agreement (a “Dispute”), then the Party raising the Dispute shall give written notice of the Dispute, and the Parties shall work together in good faith to resolve any such Dispute within thirty (30) days of such notice. If any Dispute is not so resolved, then a senior executive of each Party shall, in good faith, attempt to resolve any such Dispute within the following thirty (30) days of the referral of the matter to the senior executives. If no resolution is reached with respect to any such Dispute, the Dispute shall be resolved in accordance with the procedures contained in Section 11.03, Section 11.04 and Section 11.05 of the Separation Agreement.

9.3 Injunctive Relief. Nothing in this Article IX shall prevent Parent from seeking injunctive relief to enforce the procedures provided for in Section 9.1 if any delay resulting from the efforts to resolve the Tax Advisor Dispute through the Accounting Firm could result in serious and irreparable injury to Parent. Notwithstanding anything to the contrary in this Agreement or the Separation Agreement (or any Ancillary Agreement), Parent and SpinCo are the only members of their respective Groups entitled to commence a dispute resolution procedure under this Agreement, and each of Parent and SpinCo will cause its respective Group members not to commence any dispute resolution procedure other than through Parent or SpinCo, as applicable, as provided in this Article IX.

9.4 Specific Performance. Notwithstanding anything to the contrary in this Agreement or the Separation Agreement (or any Ancillary Agreement), in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of Section 4.1(b), Section 4.2(a) or Section 4.2(b) by SpinCo, Parent shall have the right, without first pursuing the procedures provided for in Section 9.1 and Section 9.2, to specific performance, declaratory relief and injunctive or other equitable relief (on a permanent, emergency, temporary, preliminary or interim basis) of its rights under this Agreement, in addition to any and all other rights and remedies at Law or in equity, and all such rights and remedies shall be cumulative. SpinCo shall not oppose the granting of such relief on the basis that money damages are an adequate remedy. SpinCo agrees that the remedies at Law for any breach or threatened breach hereof, including monetary damages, are inadequate compensation for any loss, and waives any defense in any action by Parent for specific performance that a remedy at Law would be adequate. SpinCo also waives any requirements that Parent secure or post any bond or similar security with respect to such remedy.

9.5 Venue for Injunctive Relief and Specific Performance Claims by Parent. Notwithstanding anything to the contrary in this Agreement or the Separation Agreement (or any Ancillary Agreement), Parent may bring any claim for specific performance, declaratory relief and injunctive or other equitable relief (on a permanent, emergency, temporary, preliminary or interim basis) under Section 9.3 or Section 9.4 of this Agreement (a “Chosen Court Claim”) either (a) pursuant to the procedures contained in Section 11.03, Section 11.04 and Section 11.05 of the Separation Agreement or (b) at Parent’s sole discretion, in the Delaware Court of Chancery (or, if the Delaware Court of Chancery shall be unavailable, any Delaware State court or the federal court sitting in the State of Delaware) (the “Chosen Courts”). SpinCo irrevocably consents and agrees, on behalf of itself and each SpinCo Group member, to the jurisdiction, forum and venue of the Chosen Courts for a Chosen Court Claim, and agrees that it shall not assert, and shall hereby waive, any claim or right or defense that it is not subject to the jurisdiction of the Chosen Courts, that the venue is improper, that the forum is inconvenient, that the Chosen Court Claim should instead be arbitrated by agreement of the Parent or operation of law, or any similar objection, claim or argument.

ARTICLE X – MISCELLANEOUS PROVISIONS

10.1 Conflicting Agreements. In the event and to the extent that there shall be a conflict between the provisions of this Agreement and the provisions of the Separation Agreement, this Agreement shall control with respect to the subject matter thereof.

10.2 Interest on Late Payments. With respect to any payment between the Parties pursuant to this Agreement not made by the due date set forth in this Agreement for such payment, the outstanding amount will accrue interest at a rate per annum equal to the rate in effect for underpayments under Section 6621 of the Code from such due date to and including the payment date.

10.3 Counterparts. This Agreement may be executed in one or more counterparts, all of which counterparts shall be considered one and the same agreement. This Agreement may be executed by facsimile or PDF signature and scanned and exchanged by electronic mail, and such facsimile or PDF signature or scanned and exchanged copies shall constitute an original for all purposes.

10.4 Successors. This Agreement shall be binding on and inure to the benefit of any successor by merger, acquisition of assets or otherwise, to any of the parties hereto, to the same extent as if such successor had been an original party to this Agreement.

10.5 Application to Present and Future Subsidiaries. This Agreement is being entered into by Parent and SpinCo on behalf of themselves and the members of their respective Group. This Agreement shall constitute a direct obligation of each such Party and shall be deemed to have been readopted and affirmed on behalf of any entity that becomes a Subsidiary of Parent or SpinCo in the future.

10.6 Governing Law. This Agreement and any disputes relating to, arising out of or resulting from this Agreement, including to its execution, performance, or enforcement, shall be governed by and construed in accordance with, the Laws of the State of Delaware, regardless of the Laws that might otherwise govern under applicable principles of conflicts of Laws thereof.

10.7 Assignability. Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of Law or otherwise by either Party without the prior written consent of the other Party. Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the Parties and their respective successors and assigns. Notwithstanding the foregoing, if any Party to this Agreement (or any of its successors or permitted assigns) (a) shall enter into a consolidation or merger transaction in which such Party is not the surviving entity and the surviving entity acquires or assumes all or substantially all of such Party's assets or (b) shall transfer all or substantially all of such Party's assets to any Person, then, in each such case, the assigning Party (or its successors or permitted assigns, as applicable) shall ensure that the assignee or successor-in-interest expressly assumes in writing all of the obligations of the assigning Party under this Agreement, and the assigning Party shall not be required to seek consent, but shall provide written notice and evidence of such assignment, assumption or succession to the non-assigning Party. No assignment permitted by this Section 10.7 shall release the assigning Party from liability for the full performance of its obligations under this Agreement.

10.8 Further Assurances. Subject to the provisions hereof, the Parties hereto shall make, execute, acknowledge and deliver, or cause to be made, executed, acknowledged and delivered, such other instruments and documents, and take or do, or cause to be taken or done, all such other actions and all things reasonably necessary, proper or advisable under applicable Laws and agreements to effectuate the provisions and purposes of this Agreement and to consummate and make effective the transactions contemplated hereby.

10.9 Survival. Notwithstanding anything to the contrary in this Agreement, all representations, covenants and obligations contained in this Agreement shall survive until the expiration of the applicable statute of limitations with respect to any such matter (including extensions thereof).

10.10 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court or arbitrator of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances, or in jurisdictions other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon any such determination, any such provision, to the extent determined to be invalid, void or unenforceable, shall be deemed replaced by a provision that such court determines is valid and enforceable and that comes closest to expressing the intention of the invalid, void or unenforceable provision.

10.11 Amendments. No provisions of this Agreement shall be deemed waived, amended, supplemented or modified by any Party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of each Party. Any decision by any Party to waive or to not waive any provision of this Agreement is in such Party's sole and absolute discretion.

10.12 Headings. The article, section and paragraph headings contained in this Agreement, including in the table of contents of this Agreement, are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

10.13 Waivers of Default. No failure or delay of any Party (or the applicable member of its Group) in exercising any right or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power. Waiver by any Party of any default by the other Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default.

10.14 Continuity of Service and Performance. Unless otherwise agreed in writing, the Parties shall continue to provide services and honor all other commitments under this Agreement during the course of dispute resolution pursuant to the provisions of Article IX with respect to all matters not subject to such dispute resolution.

10.15 Notices. All notices or other communications under this Agreement shall be in writing and shall be deemed to be duly given (a) when delivered in person, (b) on the date received, if sent by a nationally recognized delivery or courier service, (c) upon written confirmation of receipt after transmittal by electronic mail or (d) upon the earlier of confirmed receipt or the fifth (5th) business day following the date of mailing if sent by registered or certified mail, return receipt requested, postage prepaid and addressed as follows:

If to Parent, to:

International Business Machines Corporation
One New Orchard Road
Armonk, NY 10504
Attn: General Manager, Corporate Development and Strategy

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Attn: Jeffrey B. Samuels
Scott A. Barshay
Steven J. Williams
Laura C. Turano
Email: jsamuels@paulweiss.com
sbarshay@paulweiss.com
swilliams@paulweiss.com
lturano@paulweiss.com

If to SpinCo, to:

Kyndryl Holdings, Inc.
One Vanderbilt Avenue, 15th Floor
New York, NY 10017

Either Party may, by notice to the other Party, change the address and identity of the Person to which such notices and copies of such notices are to be given. Each Party agrees that nothing in this Agreement shall affect any other Party's right to serve process in any other manner permitted by Law (including pursuant to the rules for foreign service of process authorized by the Hague Convention).

10.16 Interpretation. Words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other gender as the context requires. The terms "hereof," "herein," "herewith" and words of similar import, unless otherwise stated, shall be construed to refer to this Agreement as a whole (including all of the schedules hereto) and not to any particular provision of this Agreement. Article, Section or Schedule references are to the articles, sections and schedules of or to this Agreement unless otherwise specified. Any capitalized terms used in this Agreement but not otherwise defined therein shall have the meaning as defined in the Separation Agreement. Any definition of or reference to any agreement, instrument or other document herein (including any reference herein to this Agreement) shall, unless otherwise stated, be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth therein, including in Section 10.11). The word "including" and words of similar import when used in this Agreement shall mean "including, without limitation," unless the context otherwise requires or unless otherwise specified. The word "or" shall not be exclusive. The word "extent" in the phrase "to the extent" shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply "if." All references to "\$" or dollar amounts are to the lawful currency of the United States of America. References herein to any Law shall be deemed to refer to such law as amended, reenacted, supplemented or superseded in whole or in part and in effect from time to time and also to all rules and regulations promulgated thereunder. In the event that an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any provisions hereof.

10.17 Distribution Date. This Agreement shall become effective only upon the Distribution Date.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Parties have caused this Tax Matters Agreement to be executed as of the date first noted above by their duly authorized representatives.

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: _____
Name:
Title:

KYNDRYL HOLDINGS, INC.

By: _____
Name:
Title:

[Tax Matters Agreement Signature Page]

EMPLOYEE MATTERS AGREEMENT

By and Between

INTERNATIONAL BUSINESS MACHINES CORPORATION

and

KYNDRYL HOLDINGS, INC.

Dated as of [●], 2021

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EMPLOYEE MATTERS AGREEMENT (this “Agreement”), dated as of [●], 2021, by and between International Business Machines Corporation, a New York corporation (“Parent”), and Kyndryl Holdings, Inc., a Delaware corporation (“SpinCo” and, together with Parent, the “Parties”).

R E C I T A L S:

WHEREAS, the Parties have entered into the Separation and Distribution Agreement (the “Separation Agreement”), dated as of [●], 2021, pursuant to which Parent intends to effect the Distribution; and

WHEREAS, the Parties wish to set forth their agreements as to certain matters regarding employment, compensation and employee benefits.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, the Parties, intending to be legally bound, hereby agree as follows:

**ARTICLE 1
DEFINITIONS**

Section 1.01. Definitions. For purposes of this Agreement, the following terms shall have the following meanings. All capitalized terms used but not defined herein shall have the meanings assigned to them in the Separation Agreement unless otherwise indicated.

“Aggregate Pre-Transfer Date Contributions” has the meaning set forth in Section 7.07.

“Aggregate Pre-Transfer Date Disbursements” has the meaning set forth in Section 7.07.

“Applicable 401(k) Date” has the meaning set forth in Section 10.01.

“Automatic Transfer Employees” means those Transferring Employees whose employment transfers by operation of Law (including the Transfer Regulations) in connection with the transfer of a business or part of a business.

“Benefit Plan” means any plan, program, policy, agreement, arrangement or understanding that is an employment, consulting, deferred compensation, executive compensation, incentive bonus or other bonus, employee pension, profit sharing, savings, retirement, supplemental retirement, stock option, stock purchase, stock appreciation right, restricted stock, restricted stock unit, deferred stock unit, other equity-based compensation, severance pay, retention, change in control, salary continuation, life, death benefit, health, hospitalization, workers’ compensation, sick leave, vacation pay, disability or accident insurance or other employee compensation or benefit plan, program, policy, agreement, arrangement or understanding, including any “employee benefit plan” (as defined in Section 3(3) of ERISA, whether or not subject to ERISA), sponsored or maintained by an entity or to which such entity is a party.

“Blue Sky Employee” means any individual who is or was employed by, or provides or provided services to, Modis or any of its Affiliates, and who has applied for reinstatement in his or her jobs with the Parent Group, and which claims are still pending as of the Local Transfer Date.

“Closing Plan Year” means the calendar year in which the Distribution occurs.

“COBRA” means the U.S. Consolidated Omnibus Budget Reconciliation Act of 1985, as amended from time to time, and any applicable similar state or local Laws.

“Code” means the U.S. Internal Revenue Code of 1986, as amended.

“Collective Bargaining Agreements” has the meaning set forth in Section 2.07.

“Continuing Retiree Medical Jurisdictions” means Argentina, Austria, Belgium, Portugal, Taiwan and Turkey.

“Delayed Transfer Date” has the meaning set forth in Section 2.03.

“Delayed Transfer Employee” means any Transferring Employee whose employment cannot transfer to Parent or SpinCo or their Subsidiaries as of the Local Transfer Date, whether due to (a) legal or regulatory requirements, (b) the timing for obtaining the relevant consent or release in order to transfer a SpinCo Contract to SpinCo in accordance with the Separation Agreement if SpinCo is prohibited from performing the services associated with such SpinCo Contract prior to the transfer of such contract, (c) the need to obtain any required approval from any works council or other labor authority or Governmental Authority prior to transferring the employment of such Transferring Employee, (d) providing services to the SpinCo Group under the TSA and whose employment is intended by Parent to transfer to the SpinCo Group following the completion of the applicable TSA service, (e) providing services to the Parent Group under the TSA and whose employment is intended by Parent to transfer to the Parent Group following the completion of the applicable TSA service, and with respect to such Delayed Transfer Employees described in clauses (d) and (e), the Parties shall use commercially reasonable efforts to ensure that such Delayed Transfer Employees become employed by the Destination Employer as soon as practicable following the completion of the applicable TSA service or (f) such other circumstance as Parent and SpinCo shall mutually agree.

“Destination Employer” means, with respect to a Transferring Employee, (a) a member of the SpinCo Group or (b) a member of the Parent Group, in either case, to which such Transferring Employee transfers as of the Local Transfer Date or Delayed Transfer Date.

“Eligible Retiree Medical Employees” means, with respect to each relevant jurisdiction other than the Continuing Retiree Medical Jurisdictions, each SpinCo Employee who, immediately prior to the Local Transfer Date, is eligible to participate in Parent’s post-retirement health and life insurance plans and has satisfied the eligibility criteria to receive benefits under such plans as in effect on the Local Transfer Date and, with respect to SpinCo Employees located in the United States, any such individual who, as of the Local Transfer Date, is eligible for the “Bridge Leave Program” under Parent’s Personal Pension Plan, completes a bridge to retirement under such program and, on or before the last date of such bridge to retirement, satisfies the eligibility criteria to receive benefits under Parent’s U.S. post-retirement health and life insurance plans.

“Employment Taxes” means all fees, Taxes, social insurance payments and similar contributions to a Governmental Authority or a fund of a Governmental Authority with respect to wages or other compensation of an employee or other service provider.

“ERISA” means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time.

“Former Parent Employee” means a former employee of any member of the Parent Group or the SpinCo Group, any of their respective members or any of their respective predecessors, in each case, prior to the Local Transfer Date, who is not a Former SpinCo Employee.

“Former SpinCo Employee” means each individual who (a) as of the Local Transfer Date, is not employed by any member of the Parent Group or the SpinCo Group, any of their respective members or any of their respective predecessors, and (b) as of immediately prior to such individual’s termination of employment, (x) was employed by a member of the SpinCo Group or (y) would have been a SpinCo Employee pursuant to clause (a), (b) or (c) of the definition of SpinCo Employee, or as otherwise reasonably determined by Parent.

“Insured Transferee Defined Benefit Plan” means a defined benefit pension plan sponsored or maintained by the SpinCo Group that is assuming Liabilities that relate to benefits accrued prior to the applicable Non-U.S. DB Transfer Date by SpinCo Employees under an Insured Transferor Defined Benefit Plan.

“Insured Transferor Defined Benefit Plan” means any defined benefit pension plan sponsored or maintained by the Parent Group for the benefit of employees principally employed in the jurisdictions designated as such on Schedule 9.02.

“Local Agreement” means an agreement describing the implementation of the matters described in this Agreement (including, without limitation, matters regarding employment, compensation and employee benefits) with respect to Parent Employees, Former Parent Employees, SpinCo Employees and Former SpinCo Employees in a specified jurisdiction in accordance with applicable Law in the custom of the applicable jurisdiction.

“Local Transfer Date” means, as applicable, the earliest of (a) the applicable scheduled “transfer of employment” (or ToE) date on which transfers of employment occurred for the SpinCo Employees in the applicable jurisdiction, (b) the date prior to the Distribution Date on which an individual became a SpinCo Employee and (c) the date with respect to a SpinCo Employee otherwise determined by Parent. For the avoidance of doubt, the Local Transfer Date may not be the same for every SpinCo Employee located in a single jurisdiction.

“Non-Transferor Defined Benefit Plan” means any defined benefit pension plan of the Parent Group maintained for employees who are principally employed outside the United States and that is not an Insured Transferor Defined Benefit Plan, Subsidiary Defined Benefit Plan, Transferor Defined Benefit Plan or Unfunded Transferor Defined Benefit Plan.

“Non-U.S. DB Transfer Date” means the Local Transfer Date or such other date as agreed to between Parent and SpinCo, which need not be the same for each plan; provided that, except with respect to any Transferor Defined Benefit Plan in Germany and the Netherlands, the Non-U.S. DB Transfer Date shall not occur later than the first anniversary of the Distribution Date.

“Non-U.S. DC Plan” has the meaning set forth in Section 10.05.

“Non-U.S. Employees” has the meaning set forth in Section 14.01.

“Offering Period” has the meaning set forth in the Parent ESPP.

“Parent 401(k) Plan” has the meaning set forth in Section 10.01.

“Parent Benefit Plan” means any Benefit Plan sponsored, maintained or, unless such Benefit Plan is exclusively sponsored or maintained by a member of the SpinCo Group, contributed to by any member of the Parent Group or to which any member of the Parent Group is a party.

“Parent Compensation Committee” means the Executive Compensation and Management Resources Committee of Parent or such other committee designated by the Parent Board to administer the Parent Equity Plans.

“Parent Employee” means (a) each individual who is an employee of any member of the Parent Group as of immediately prior to or on the Local Transfer Date, including any such individual who is not actively at work due to a leave of absence (including vacation, holiday, illness, injury and short-term and long-term disability) from which such employee is permitted to return to active employment in accordance with the Parent Group’s personnel policies, as in effect from time to time, or applicable Law, (b) each individual who becomes an active employee of any member of the Parent Group following the Local Transfer Date but, in each case of clauses (a) and (b), excluding any SpinCo Employee or Former SpinCo Employee, and (c) each individual who is intended by Parent to be a Parent Employee.

“Parent Equity Award Ratio” means the quotient obtained by dividing (a) the Parent Pre-Separation Stock Value by (b) the Parent Post-Separation Stock Value, carried out to six decimal places.

“Parent Equity Awards” means the Parent Options, Parent Restricted Stock Units and Parent Performance Share Units.

“Parent Equity Plans” means the Parent 1997 Long-Term Performance Plan, the Parent 1999 Long-Term Performance Plan, the Parent 2001 Long-Term Performance Plan, the Parent PWCC Acquisition Long-Term Performance Plan and the Parent Red Hat Acquisition Long-Term Performance Plan, each as amended from time to time, and any other stock option or stock incentive compensation plan or arrangement, including any equity award agreement, that is a Parent Benefit Plan or is a plan of an entity acquired by Parent, in each case, as in effect as of the time relevant to the applicable provision of this Agreement.

“Parent ESPP” means the Parent 2014 Employees Stock Purchase Plan.

“Parent Individual Agreement” means any individual (a) employment contract or offer letter, (b) retention, severance or change in control agreement, (c) expatriate (including any international assignee) contract or agreement (including agreements and obligations regarding repatriation, relocation or equalization of Taxes and living standards in the host country) or (d) other agreement containing restrictive covenants (including confidentiality, non-competition and non-solicitation provisions) between a member of a Group, on the one hand, and (i) a Parent Employee or (ii) a Former Parent Employee, on the other hand, as in effect immediately prior to the Local Transfer Date.

“Parent LTD Plan” means any long-term disability insurance plan that is a Parent Benefit Plan.

“Parent Nonqualified Deferred Compensation Plans” means the Amended and Restated Parent Excess 401(k) Plus Plan (f/k/a the Parent Executive Deferred Compensation Plan) and the Deferred Compensation and Equity Award Plan, each as amended from time to time, and any other nonqualified deferred compensation plan or arrangement (including individual arrangements) that is a Parent Benefit Plan, as in effect as of the time relevant to the applicable provision of this Agreement.

“Parent Option” means an option to purchase Parent Common Stock that is outstanding as of immediately prior to the Distribution under any of the Parent Equity Plans.

“Parent Performance Share Unit” means a performance share unit award relating to Parent Common Stock that is outstanding as of immediately prior to the Distribution under any of the Parent Equity Plans.

“Parent Post-Separation Stock Value” means the opening per share price of Parent Common Stock on the New York Stock Exchange on the first trading day that occurs immediately following the Distribution Date.

“Parent Pre-Separation Stock Value” means the closing per share price of Parent Common Stock trading “regular way with due bills” on the New York Stock Exchange on the last trading day that occurs on or prior to the Distribution Date.

“Parent Reverse Transfer Defined Benefit Plan” means a defined benefit pension plan sponsored or maintained by the Parent Group that is assuming Liabilities that relate to benefits accrued prior to the applicable Subsidiary DB Transfer Date under a Reverse Transfer Defined Benefit Plan.

“Parent Reimbursement Account Plan” has the meaning set forth in Section 7.07.

“Parent Restricted Stock Award” means a restricted stock award relating to Parent Common Stock that is outstanding as of immediately prior to the Distribution under any of the Parent Equity Plans.

“Parent Restricted Stock Unit” means a restricted stock unit or retention restricted stock unit award relating to Parent Common Stock that is outstanding as of immediately prior to the Distribution under any of the Parent Equity Plans.

“Parent U.S. Pension Plan” has the meaning set forth in Section 9.01.

“Parent Welfare Plan” means each Welfare Plan that is a Parent Benefit Plan.

“Participating Transferor Defined Benefit Plans” means any Transferor Defined Benefit Plan in the jurisdictions designated as such on Schedule 9.02.

“Pension Asset Transfer Date” has the meaning set forth in Section 9.02(c)(i).

“Performance Share Unit Conversion Amount” means the number of shares of Parent Common Stock to which a Parent Performance Share Unit relates immediately prior to the Distribution Date assuming (i) for Parent Performance Share Units related to performance periods that began prior to January 1, 2021, actual achievement of the relevant performance goals as of immediately prior to the Distribution as determined by the Parent Compensation Committee, or (ii) for Parent Performance Share Units related to the 2021 to 2023 performance period, target-level achievement of the relevant performance goals.

“Pre-Transfer Service” has the meaning set forth in Section 4.02.

“Retained LTD Employee” means each applicable employee of the SpinCo Group who is identified by Parent as a Retained LTD Employee, in a Local Agreement or otherwise.

“Retention Bonus Programs” means retention bonus programs for the benefit of SpinCo Employees, including any individual agreement entered into with any SpinCo Employee.

“Reverse Transfer Defined Benefit Plan” means any Subsidiary Defined Benefit Plan designated as such on Schedule 9.02.

“Specified Period” shall mean the period set forth on Schedule 1.01.

“SpinCo 401(k) Plan” has the meaning set forth in Section 10.01.

“SpinCo Award Agreement” has the meaning set forth in Section 13.01.

“SpinCo Benefit Plan” means any Benefit Plan sponsored, maintained or, unless such Benefit Plan is exclusively sponsored or maintained by a member of the Parent Group, contributed to by any member of the SpinCo Group or to which any member of the SpinCo Group is a party.

“SpinCo Employee” means (a) each individual who is an employee of any member of the SpinCo Group as of immediately prior to or on the Local Transfer Date, including any individual who is not actively at work due to a leave of absence (including vacation, holiday, illness, injury and short-term disability, and any SpinCo LTD Employee, but excluding any Retained LTD Employee) from which such employee is permitted to return to active employment in accordance with the Parent Group’s or SpinCo Group’s personnel policies, as in effect from time to time, or applicable Law, (b) each individual who becomes an active employee of the SpinCo Group following the Local Transfer Date but, in each case of clauses (a) and (b), excluding any Former SpinCo Employee, (c) each individual listed on Schedule 1.01(a) or listed in a Local Agreement as a SpinCo Employee and (d) each individual who is intended by Parent to be a SpinCo Employee; provided, however, that, unless otherwise required by applicable Law, each individual listed on Schedule 1.01(b) or listed in a Local Agreement as a Parent Employee shall be a Parent Employee for all purposes of this Agreement.

“SpinCo Equity Award Ratio” means the quotient obtained by dividing (a) the Parent Pre-Separation Stock Value by (b) the SpinCo Stock Value, carried out to six decimal places.

“SpinCo Equity Incentive Plan” has the meaning set forth in Section 13.01.

“SpinCo Incentive Payments” has the meaning set forth in Section 3.01.

“SpinCo Individual Agreement” means any individual (a) employment contract or offer letter, (b) retention, severance or change in control agreement, (c) expatriate (including any international assignee) contract or agreement (including agreements and obligations regarding repatriation, relocation or equalization of Taxes and living standards in the host country) or (d) other agreement containing restrictive covenants (including confidentiality, non-competition and non-solicitation provisions) between a member of a Group, on the one hand, and (i) a SpinCo Employee or (ii) a Former SpinCo Employee, on the other hand, in each case, as in effect immediately prior to the Distribution Date.

“SpinCo LTD Employee” means each applicable employee of the SpinCo Group who, as of immediately prior to the Local Transfer Date, is receiving long-term disability benefits under the Parent LTD Plan and who is not a Retained LTD Employee.

“SpinCo Nonqualified Deferred Compensation Plans” has the meaning set forth in Section 11.01.

“SpinCo Option” means an option to purchase SpinCo Common Stock.

“SpinCo Reimbursement Account Plan” has the meaning set forth in Section 7.07.

“SpinCo Restricted Stock Award” means a restricted stock award relating to SpinCo Common Stock.

“SpinCo Restricted Stock Unit” means a restricted stock unit or retention restricted stock award relating to SpinCo Common Stock.

“SpinCo Retiree Medical Plans” has the meaning set forth in Section 7.09.

“SpinCo Stock Value” means the opening per share price of SpinCo Common Stock on the New York Stock Exchange on the first trading day that occurs immediately following the Distribution Date.

“SpinCo Welfare Plans” has the meaning set forth in Section 7.01.

“Subsidiary DB Transfer Date” has the meaning set forth in Section 9.02(b)(i).

“Subsidiary Defined Benefit Plan” means any defined benefit pension plan sponsored or maintained solely by the subsidiaries designated as such on Schedule 9.02.

“Taxes” shall have the meaning set forth in the Tax Matters Agreement dated as of the date of this Agreement by and between Parent and SpinCo.

“Transfer Regulations” means the European Council Directive of March 12, 2001 (2001/23/EC), relating to the safeguarding of employees’ rights in the event of transfers of undertakings, businesses or parts of businesses and any legislation implementing such Directive, or any other similar Law where there are SpinCo Employees.

“Transferee Defined Benefit Plan” means a defined benefit pension plan sponsored or maintained by the SpinCo Group that is assuming Liabilities that relate to benefits accrued prior to the applicable Non-U.S. DB Transfer Date by SpinCo Employees under a Transferor Defined Benefit Plan.

“Transferor Defined Benefit Plan” means any defined benefit pension plan sponsored or maintained by the Parent Group for the benefit of employees principally employed in the jurisdictions designated as such on Schedule 9.02.

“Transferring Employee” means (a) each SpinCo Employee who transfers to a member of the SpinCo Group and (b) each Parent Employee who transfers to a member of the Parent Group.

“TSA” means the Transition Services Agreement dated as of the date of this Agreement by and between Parent and SpinCo.

“Unfunded Transferee Defined Benefit Plan” means a defined benefit pension plan sponsored or maintained by the SpinCo Group that is assuming Liabilities that relate to benefits accrued prior to the applicable Non-U.S. DB Transfer Date by SpinCo Employees under an Unfunded Transferor Defined Benefit Plan.

“Unfunded Transferor Defined Benefit Plan” means any defined benefit pension plan sponsored or maintained by the Parent Group for the benefit of SpinCo Employees principally employed in the jurisdictions designated as such on Schedule 9.02.

“U.S. GAAP” means United States generally accepted accounting principles.

“WARN Act” means the Worker Adjustment and Retraining Notification Act of 1988, as amended, and any applicable similar state or local Laws.

“Welfare Plan” means each Benefit Plan that provides life insurance, health care, dental care, accidental death and dismemberment insurance, disability, severance, vacation or other group welfare or fringe benefits.

“Welfare Plan Date” has the meaning set forth in Section 7.01.

“Workers’ Compensation Claim Date” has the meaning set forth in Section 7.03.

“Workers’ Compensation Event” means the event, injury, illness or condition giving rise to a workers’ compensation claim with respect to a SpinCo Employee or Former SpinCo Employee.

ARTICLE 2 GENERAL PRINCIPLES

Section 2.01. SpinCo Employees. Except as provided in Section 2.03, all SpinCo Employees shall continue to be employees of the SpinCo Group immediately following the Local Transfer Date. Except as required by applicable Law, the Parties agree that none of the transactions contemplated by the Separation Agreement or any of the Ancillary Agreements, including this Agreement, shall cause any SpinCo Employee or Former SpinCo Employee to be deemed to have incurred an involuntary termination of employment or to be eligible to receive severance benefits solely as a result of the transfers of employment contemplated by this Agreement or the Distribution.

Section 2.02. Prepositioning of Transferring Employees. Effective no later than the Local Transfer Date or Delayed Transfer Date, and except as otherwise agreed by the Parties or as provided in Section 2.03, the applicable members of the SpinCo Group and the Parent Group shall have taken such actions as are necessary to ensure that (i) each SpinCo Employee is employed by a member of the SpinCo Group and (ii) each Parent Employee is employed by a member of the Parent Group. Each of the Parties agrees to execute, and to seek to have the applicable employees execute, such documentation, if any, as may be necessary to reflect such assignment and/or transfer.

Section 2.03. Delayed Transfer Employees. With respect to each Delayed Transfer Employee, the Parties shall use commercially reasonable efforts to ensure that (a) such Delayed Transfer Employee becomes employed by the Destination Employer at the earliest time permitted by the applicable transfer restriction (the "Delayed Transfer Date") and (b) the Destination Employer receives the benefit of such Delayed Transfer Employee's services from and after the Local Transfer Date, including under the TSA or by entering into an employee leasing or similar arrangement. From and after the commencement of a Delayed Transfer Employee's employment with the Destination Employer, such Delayed Transfer Employee shall be treated for all purposes of this Agreement, including Section 4.02, as if such Delayed Transfer Employee commenced employment with the Destination Employer as of the Local Transfer Date as contemplated by Section 2.01. Notwithstanding the foregoing, the Destination Employer shall reimburse the other Party and its Subsidiaries and Affiliates for any Liabilities of such other Party and its Subsidiaries and Affiliates arising with respect to the Delayed Transfer Employees.

Section 2.04. Work Visas. If any SpinCo Employee requires a visa, work permit, employment pass or other approval for his or her employment with the Destination Employer, the Parties shall use commercially reasonable efforts to see that any necessary visa, permit, employment pass or other approval has been obtained on or prior to the Local Transfer Date or Delayed Transfer Date.

Section 2.05. Employment of SpinCo Employees.

(a) Effective upon the Local Transfer Date or Delayed Transfer Date, as applicable, SpinCo agrees that it shall, or shall cause the applicable member of the SpinCo Group to, until the end of the Specified Period, employ each SpinCo Employee (i) in an equivalent position (including, without limitation, in terms of job duties and functions as well as status as a regular employee or fixed-term hire), (ii) at a location that is within a reasonable proximity (i.e., no more than forty (40) miles) to the location worked at prior to the Local Transfer Date or Delayed Transfer Date or, in the case of a SpinCo Employee who works remotely, SpinCo shall provide such resources as will enable such individual to maintain such arrangement, (iii) at the same or higher base salary and eligibility for the same or higher additional earnings opportunity (i.e., variable pay/bonus and/or commissions and/or equity and equity-based compensation) and (iv) with other benefit plans and arrangements (including medical, dental, life insurance, post-retirement health and life insurance, disability, a separation practice or policy and other welfare benefits and qualified and nonqualified retirement plans) or the cash equivalent, that are comparable in the aggregate to those provided to such SpinCo Employee by Parent or any member of the Parent Group on the Local Transfer Date or Delayed Transfer Date. If SpinCo and Parent dispute any matter under this Agreement, and any such dispute is not resolved to the satisfaction of SpinCo and Parent within five (5) days of notification of the dispute by one Party to the other Party, a vice president (or higher-level executive) of each Party shall endeavor to resolve the dispute during the five (5)-day period that follows the end of such five (5)-day period. If any such dispute remains unresolved at the end of such subsequent five (5)-day period, either Party may elect to have the terms submitted for arbitration by an independent consultant or actuary mutually acceptable to SpinCo and Parent to determine whether the terms are satisfied. The determination of such consultant or actuary shall be conclusive, final and binding and have the force and effect of an arbitral award. The fees and expenses of such independent consultant or actuary shall be shared equally by the Parties.

(b) Automatic Transfer Employees shall not be terminated upon the Local Transfer Date or Delayed Transfer Date, as applicable; rather, such employees and the rights, powers, duties, liabilities and obligations of the current employer with respect to such employees in respect of the terms of employment with the employees in force immediately before the Local Transfer Date or Delayed Transfer Date, as applicable, shall be transferred to the applicable member of the SpinCo Group but only to the extent required by, and only then in accordance with, applicable Law. To the extent required by the Transfer Regulations and applicable Law, SpinCo shall maintain for a period, if any, not less than that provided for by applicable Law the same terms and conditions of employment that relate to the SpinCo Employees as of immediately prior to the Local Transfer Date or Delayed Transfer Date; provided, however, that if the period required by applicable Law for any such SpinCo Employee expires prior to the expiration of the period provided for in Section 2.05(a), then SpinCo shall, and shall cause the SpinCo Group to, comply with this Section 2.05(b) for a period commencing on the expiration of the period required by applicable Law and ending on the expiration of the period required under Section 2.05(a).

(c) In addition to the provisions set forth in Section 2.05(a) and (b), with respect to the SpinCo Employees who are not subject to a mandatory transfer in accordance with the Transfer Regulations and whose employment will not automatically continue with the SpinCo Group after the Local Transfer Date or Delayed Transfer Date or otherwise in connection with the Separation Agreement and Ancillary Agreements, except as specifically provided in the applicable Local Agreement, the applicable member of the SpinCo Group shall offer employment to, or continue the employment of, such SpinCo Employees as of the Local Transfer Date or Delayed Transfer Date under their previous terms and conditions of employment (except for their physical work location), but only to the extent that (i) such SpinCo Employees are located in a jurisdiction in which the Transfer Regulations are applicable and (ii) such terms and conditions of employment are required to be provided pursuant to the Transfer Regulations to SpinCo Employees in such jurisdiction whose employment contracts are subject to transfer pursuant to the Transfer Regulations.

Section 2.06. Individual Agreements. Effective as of no later than the Local Transfer Date or Delayed Transfer Date, SpinCo and Parent, as applicable, shall assign, or cause an applicable member of the respective Parent Group or SpinCo Group to assign, (a) the SpinCo Individual Agreements to a member of the SpinCo Group and SpinCo shall agree, or cause an applicable member of the SpinCo Group to agree, to accept and be bound by the provisions of the SpinCo Individual Agreements and (b) the Parent Individual Agreements to a member of the Parent Group and Parent shall agree or cause an applicable member of the Parent Group to accept and be bound by the provisions of the Parent Individual Agreements; provided, however, that to the extent that assignment of any such agreement is not permitted by the terms of such agreement or by applicable Law, effective as of the Local Transfer Date or Delayed Transfer Date, each member of the SpinCo Group (in the case of each SpinCo Individual Agreement) or the Parent Group (in the case of each Parent Individual Agreement) shall be considered to be a successor to each member of the SpinCo Group or Parent Group, as applicable, for purposes of, and a third-party beneficiary with respect to, such agreement, such that each member of the SpinCo Group or Parent Group, as applicable, shall enjoy all of the rights and benefits under such agreement (including rights and benefits as a third-party beneficiary) as well as assume the potential associated liabilities, with respect to the business operations of the SpinCo Group or Parent Group, as applicable; provided, further, that in no event shall any Party be permitted to enforce (i) any SpinCo Individual Agreement (including any agreement containing non-competition or non-solicitation covenants) against a SpinCo Employee for action taken in such individual's capacity as a SpinCo Employee other than on behalf of the SpinCo Group as requested by the SpinCo Group in its capacity as a third-party beneficiary and (ii) any Parent Individual Agreement (including any agreement containing non-competition or non-solicitation covenants) against a Parent Employee for action taken in such individual's capacity as a Parent Employee other than on behalf of the Parent Group as requested by the Parent Group in its capacity as a third-party beneficiary; provided, further, that with respect to any SpinCo Employee or Former SpinCo Employee who was employed by a member of the Parent Group within twenty-four (24) months prior to the Distribution Date, Parent shall retain the right to enforce, and shall be a third-party beneficiary with respect to, any non-competition covenant as applied to the business of the Parent Group contained in any SpinCo Individual Agreement against such SpinCo Employee for a period of twenty-four (24) months after the Distribution Date.

Section 2.07. Collectively Bargained Employees. All provisions contained in this Agreement providing for the treatment of compensation and benefits in connection with the Distribution shall apply equally to each employee who is covered by a collective bargaining, works council or other labor union agreement, contract or labor arrangement (collectively, "Collective Bargaining Agreements"), except to the extent that any such agreement specifically provides for the terms, conditions, compensation or benefits contemplated by such provision and, in each such case, such agreement shall apply rather than the terms of this Agreement.

Section 2.08. Collective Bargaining Agreements. As of the Local Transfer Date, SpinCo shall, and shall cause the members of the SpinCo Group, as appropriate, to (a) adopt and assume each Collective Bargaining Agreement covering any of the SpinCo Employees in such jurisdiction immediately prior to the Local Transfer Date, subject to any agreed-upon changes required by the transition of such Collective Bargaining Agreement to the applicable member of the SpinCo Group or by applicable Law, (b) unless otherwise provided in this Agreement, assume and honor any obligations of the Parent Group under any Collective Bargaining Agreements as such obligations relate to SpinCo Employees and Former SpinCo Employees and (c) recognize the works councils, labor unions and other employee representatives that are parties to such Collective Bargaining Agreements, and the Parent Group shall have no further liability thereunder with respect to the SpinCo Employees and Former SpinCo Employees; provided that any compensation or benefits that were, prior to the Local Transfer Date, provided to SpinCo Employees in such jurisdiction under the Collective Bargaining Agreements through the Parent Benefit Plans shall, to the extent that such compensation and benefits are still required to be provided under the Collective Bargaining Agreements on and after the Local Transfer Date, be provided as mutually agreed with such works councils, labor unions and other employee representatives through the SpinCo Benefit Plans as set forth in this Agreement.

Section 2.09. Liabilities Generally. From and after the Local Transfer Date or such other date agreed by Parent and SpinCo, except as expressly provided in this Agreement, in each applicable jurisdiction (a) SpinCo and the SpinCo Group shall assume or retain, as applicable, and SpinCo hereby agrees to pay, perform, fulfill and discharge, in due course in full, and be solely responsible for, all Liabilities with respect to the employment or termination of employment of all SpinCo Employees, Former SpinCo Employees, their dependents and beneficiaries and other service providers and all other Liabilities expressly assigned to SpinCo or any member of the SpinCo Group under this Agreement and (b) Parent and the Parent Group shall assume or retain, as applicable, and Parent hereby agrees to pay, perform, fulfill and discharge, in due course in full, and be solely responsible for, all Liabilities with respect to the employment or termination of employment of all Parent Employees, Former Parent Employees, their dependents and beneficiaries and other service providers and all other Liabilities expressly assigned to Parent or any member of the Parent Group under this Agreement. To the extent that this Agreement does not address particular Liabilities under any Benefit Plan and the Parties later determine that they should be allocated in connection with the Distribution, the Parties shall agree in good faith on the allocation, taking into account the handling of comparable Liabilities under this Agreement. For the avoidance of doubt, it is the intent of the Parties that, as between Parent and SpinCo, the provisions of this Section 2.09 with respect to the allocation of the Liabilities described in this Section 2.09 shall apply notwithstanding the terms of any Local Agreement or the application of local Law. Notwithstanding anything in this Agreement or any Local Agreement to the contrary, the SpinCo Group shall assume and hereby agrees to pay, perform, fulfill and discharge, in due course in full, and be solely responsible for, all Liabilities with respect to Blue Sky Employees.

Section 2.10. Benefit Plans. Except as otherwise explicitly provided in this Agreement or as may otherwise be provided in accordance with the TSA, as of the Local Transfer Date or such other date agreed by Parent and SpinCo, each SpinCo Employee (and each of his or her respective dependents and beneficiaries) in the applicable jurisdiction shall cease active participation in, and each applicable member of the SpinCo Group shall cease to be a participating employer in, all Parent Benefit Plans, and as of no later than such time, SpinCo shall, or shall cause the applicable member of the SpinCo Group to, have in effect such corresponding SpinCo Benefit Plans as are necessary to comply with its obligations pursuant to this Agreement. Effective upon the Local Transfer Date or such other date agreed by Parent and SpinCo, except as otherwise explicitly provided in this Agreement or a Local Agreement, (a) SpinCo shall, or shall cause one of the members of the SpinCo Group to, retain, pay, perform, fulfill and discharge, in due course in full, and be solely responsible for, all Liabilities arising out of or relating to all SpinCo Benefit Plans, taking into account a corresponding assumption of Liabilities by the SpinCo Benefit Plans with respect to SpinCo Employees and Former SpinCo Employees that were originally the Liabilities of the corresponding Parent Benefit Plan with respect to periods prior to the Local Transfer Date, and (b) Parent shall, or shall cause one or more members of the Parent Group to, retain, pay, perform, fulfill and discharge, in due course in full, and be solely responsible for, all Liabilities arising out of or relating to all Parent Benefit Plans, taking into account the SpinCo Benefit Plan's assumption of Liabilities with respect to SpinCo Employees and Former SpinCo Employees that were originally the Liabilities of the corresponding Parent Benefit Plan with respect to periods prior to the Local Transfer Date. All assets held in trust to fund the Parent Benefit Plans and all insurance policies funding the Parent Benefit Plans shall be Parent Assets, except to the extent explicitly provided otherwise in this Agreement or a Local Agreement.

Section 2.11. Payroll Services. Except as may otherwise be provided in accordance with a Local Agreement or the TSA, on and after the Local Transfer Date or such other date agreed by Parent and SpinCo, the applicable members of the SpinCo Group shall be solely responsible for all payroll services, Tax withholding and reporting obligations, and associated government audit assessments and receivables with respect to the SpinCo Employees and Former SpinCo Employees in the applicable jurisdiction.

Section 2.12. No Change in Control. The Parties hereto agree that none of the transactions contemplated by the Separation Agreement or any of the Ancillary Agreements, including this Agreement, constitutes a “change in control,” “change of control” or transaction having a similar name, as applicable, within the meaning of any Parent Benefit Plan or SpinCo Benefit Plan.

Section 2.13. Inadvertent Transfers. If Parent determines following the Local Transfer Date that an individual whom Parent intended to be a Parent Employee or a SpinCo Employee has inadvertently become employed by the SpinCo Group or the Parent Group, respectively, the Parties shall cooperate in good faith and take such actions as may be reasonably necessary in order to cause the employment of such individual to be promptly transferred to a member of the Parent Group or the SpinCo Group, as applicable, as intended by Parent, and such individual shall be treated for all purposes of this Agreement, including Section 4.02, as if such individual commenced employment with the intended Destination Employer as of the Local Transfer Date of the jurisdiction in which the individual is employed.

Section 2.14. Non-Solicit; No Hire. Except as otherwise agreed by the Parties, for a period beginning on the Distribution Date and ending two (2) years following the Distribution Date, (a) SpinCo and the SpinCo Group shall not solicit for employment or hire (as an employee, consultant or otherwise) any Parent Employee who (i) was employed by Parent or a member of the Parent Group as of the applicable Local Transfer Date or (ii) became an employee of a member of the Parent Group following the Local Transfer Date and was involved in commercial contracts (including a TSA) with the SpinCo Group, and (b) Parent and the Parent Group shall not solicit for employment or hire (as an employee, consultant or otherwise) any (i) SpinCo Employee who was employed by a member of the SpinCo Group as of the Local Transfer Date, (ii) SpinCo Employee who became an employee of the SpinCo Group following the Local Transfer Date and was involved in commercial contracts (including a TSA) with the Parent Group or (iii) Former SpinCo Employee who rejected an offer from the SpinCo Group, objected to an automatic transfer to the SpinCo Group or who terminated employment with the Parent Group before receiving an offer letter or transfer letter from the SpinCo Group, in each case, subject to applicable Law. Notwithstanding any of the foregoing provisions of this Section 2.14 to the contrary, (A) Parent and the Parent Group shall not be restricted from soliciting for employment or hiring (as an employee, consultant or otherwise) any SpinCo Employee that was terminated by the SpinCo Group in accordance with the exceptions to the covenant not to sever SpinCo Employees described in Section 2.15 and (B) the Parties shall not be restricted from soliciting for employment or hiring (as an employee, consultant or otherwise) any SpinCo Employee or Parent Employee, as applicable, who was terminated from employment with the applicable Party as a result of a resource action that was not a result of such employee rejecting an offer from the SpinCo Group. This Section 2.14 is not intended to restrict an individual’s right of employment, nor does it restrict general, customary employment advertisements and recruiting efforts. Rather, it restricts targeted solicitation of such employees of the other Party. Employees of either Party may pursue employment opportunities with the other Party on their own initiative. If a final and non-appealable judicial determination is made that any provision of this Section 2.14 constitutes an unreasonable or otherwise unenforceable restriction with respect to any particular jurisdiction, the provisions of this Section 2.14 will not be rendered void but will be deemed to be modified solely with respect to the applicable jurisdiction to the minimum extent necessary to remain in force and effect for the greatest period and to the greatest extent that such court determines constitutes a reasonable restriction under the circumstances.

Section 2.15. Termination of SpinCo Employees. SpinCo and the SpinCo Group shall not sever a SpinCo Employee transferred pursuant to this Agreement for a period of one (1) year following the Distribution Date; provided, however, that nothing contained in this Agreement shall be construed in any way to limit or prevent the SpinCo Group from terminating any SpinCo Employee (a) transferred pursuant to this Agreement at any time for “cause” or for reasons related to poor performance or conditions of employment; (b) who received a notice of termination from the Parent Group prior to the Local Transfer Date; (c) who (i) is 100% dedicated to a SpinCo Contract with a third party that is terminated by the third party, or in the event of a breach of the SpinCo Contract by the third party, or (ii) is less than 100% dedicated to such a terminated SpinCo Contract with a third party, but only to reflect a proportionate reduction in the number of SpinCo Employees who service such SpinCo Contract that is approximately commensurate to the aggregate reduction in resource requirements under such SpinCo Contract; provided that this clause (c) shall not apply with respect to any SpinCo Employee located in Europe or any other jurisdiction in which a mandatory transfer of employment occurs; or (d) who is already covered by a termination protection covenant pursuant to another agreement or arrangement with the SpinCo Group as of the Local Transfer Date or under applicable Law.

ARTICLE 3 NON-EQUITY INCENTIVES

Section 3.01. SpinCo Employee Incentives. On and after the Local Transfer Date, the SpinCo Group shall assume and be solely responsible for all Liabilities with respect to any annual bonus or other cash-based incentive awards under any Benefit Plan to any SpinCo Employee or Former SpinCo Employee in the applicable jurisdiction, including, for the avoidance of doubt, any such awards with respect to the Parent fiscal year ending prior to the Distribution (the “SpinCo Incentive Payments”). The SpinCo Group shall be responsible for determining the amounts of all SpinCo Incentive Payments that have not been determined prior to the Local Transfer Date, including the extent to which established performance criteria (as interpreted by SpinCo, in its sole discretion) have been met, and shall pay all SpinCo Incentive Payments no later than the times provided for under the applicable Benefit Plan. For the avoidance of doubt, any determinations made prior to the Distribution regarding the amounts of any SpinCo Incentive Payments shall be subject to Parent’s prior written approval.

Section 3.02. Retention Bonus Programs. On and after the Local Transfer Date, the SpinCo Group shall assume and be solely responsible for all Liabilities with respect to any amounts owed to a SpinCo Employee under the Retention Bonus Programs, and shall pay all amounts under the Retention Bonus Programs no later than the times provided for under the applicable Retention Bonus Programs. For the avoidance of doubt, any determinations made prior to the Distribution regarding the amounts of any payments under the Retention Bonus Programs shall be subject to Parent’s prior written approval.

ARTICLE 4
SERVICE CREDIT

Section 4.01. Parent Benefit Plans. Except as may otherwise be provided in accordance with the TSA or as required by applicable Law or the terms of the applicable Parent Benefit Plan, service of SpinCo Employees and Former SpinCo Employees in each applicable jurisdiction on and after the Local Transfer Date, or such other date agreed by Parent and SpinCo, with any member of the SpinCo Group or any other employer, as applicable, other than any member of the Parent Group, shall not be taken into account for any purpose under any Parent Benefit Plan.

Section 4.02. SpinCo Benefit Plans. From and after the Local Transfer Date, SpinCo shall, and shall cause the applicable member of the SpinCo Group to, give each SpinCo Employee full credit for all purposes (including for purposes of eligibility to participate, level of benefits, early retirement eligibility and early retirement subsidies, vacation days and other paid time off, severance or separation benefits, vesting and benefit accrual) under any Benefit Plans, Collective Bargaining Agreements and employment-related entitlements (including under any applicable pension, 401(k), savings, medical, dental, life insurance, vacation, long-service leave or other leave entitlements, post-retirement health and life insurance, termination indemnity, notice period, severance or separation pay plans) provided, sponsored, maintained or contributed to by any member of the SpinCo Group for such SpinCo Employee's service with any member of the SpinCo Group or the Parent Group, and with any predecessor employer, prior to the Local Transfer Date to the same extent recognized by the Parent Group ("Pre-Transfer Service"), except to the extent such credit would result in the duplication of benefits for the same period of service. Notwithstanding the foregoing, to the extent permitted under applicable Law, the SpinCo Group shall not be required to provide credit for such service for benefit accrual purposes under any SpinCo Benefit Plan that is a defined benefit pension plan unless such plan has assumed any assets and/or liabilities pursuant to this Agreement, a Local Agreement or applicable Law relating to benefits accrued by such SpinCo Employee under a Parent Benefit Plan that is a defined benefit pension plan. The SpinCo Group shall recognize each SpinCo Employee's Pre-Transfer Service for any additional benefit introduced by SpinCo after the Local Transfer Date that is based on length or duration of employment.

Section 4.03. No Expansion of Participation. Unless otherwise expressly provided in this Agreement, as otherwise determined or agreed to by the Parties, as required by applicable Law or as explicitly set forth in a SpinCo Benefit Plan, each SpinCo Employee shall be entitled to participate in a given SpinCo Benefit Plan only to the extent that such SpinCo Employee was entitled to participate in the corresponding Parent Benefit Plan as in effect immediately prior to the Local Transfer Date, with it being the intent of the Parties that this Agreement does not result in any expansion of the number of SpinCo Employees participating or the participation rights therein that they had prior to the Local Transfer Date.

**ARTICLE 5
SEVERANCE**

Section 5.01. Severance. The SpinCo Group shall be solely responsible for all Liabilities, including all statutory or common law severance or other separation benefits, any contractual or other termination indemnity, any retirement indemnity, any severance or separation benefits or any other legally or contractually mandated payments (including any compensation or benefits payable during a termination notice period and any payments pursuant to a judgment of a court having jurisdiction over the parties) relating to the termination or alleged termination of any SpinCo Employee's or Former SpinCo Employee's employment, whether occurring prior to, on or after the Local Transfer Date. For the avoidance of doubt, such Liabilities shall include any employer-paid portion of any Employment Taxes and shall be treated as Liabilities of SpinCo and the SpinCo Group. For the avoidance of doubt, in the event of any conflict between the provisions of this Section 5.01 and Article 9, the provisions of this Section 5.01 shall control.

**ARTICLE 6
WARN ACT**

Section 6.01. WARN Act. SpinCo shall provide any required notice under the WARN Act, and otherwise comply with the WARN Act, in each case, with respect to any "plant closing" or "mass layoff" (as defined in the WARN Act) or group termination or similar event occurring on and after 11:59 p.m. on the Local Transfer Date, and SpinCo shall not take any action after the Local Transfer Date that would cause any terminations of employment of any SpinCo Employees that occur before 11:59 p.m. on the Local Transfer Date to constitute a "plant closing" or "mass layoff" or group termination, or to create any liability or penalty to Parent under Law.

**ARTICLE 7
CERTAIN WELFARE BENEFIT PLAN MATTERS;
WORKERS' COMPENSATION CLAIMS**

Section 7.01. SpinCo Welfare Plans. Without limiting the generality of Section 2.10, effective as of the Local Transfer Date or such other date as agreed to between Parent and SpinCo, which need not be the same for each Welfare Plan (such applicable date, the "Welfare Plan Date"), the SpinCo Group shall establish Welfare Plans (collectively, the "SpinCo Welfare Plans") to provide welfare benefits to the SpinCo Employees (and their dependents and beneficiaries) in each applicable jurisdiction and, as of the applicable Welfare Plan Date, each SpinCo Employee (and his or her dependents and beneficiaries) shall cease active participation in the corresponding Parent Welfare Plan. For the avoidance of doubt, for purposes of this Article 7, the term "SpinCo Employee" shall be deemed to include each Former SpinCo Employee who was receiving welfare benefits in connection with his or her termination of employment from a member of the Parent Group or the SpinCo Group as of the applicable Welfare Plan Date.

Section 7.02. Allocation of Welfare Benefit Claims. (a) The members of the Parent Group shall retain and be solely responsible for all Liabilities in accordance with the applicable Parent Welfare Plan for all reimbursement claims (such as medical and dental claims) and for all non-reimbursement claims (such as life insurance claims), in each case, as incurred and reported by SpinCo Employees and Former SpinCo Employees (and each of their respective dependents and beneficiaries) under such plans prior to the applicable Welfare Plan Date and (b) the members of the SpinCo Group shall retain and be solely responsible for (i) all Liabilities in accordance with the applicable Parent Welfare Plan for all reimbursement claims (such as medical and dental claims) and for all non-reimbursement claims (such as life insurance claims), in each case, that were incurred by SpinCo Employees and Former SpinCo Employees (and each of their respective dependents and beneficiaries) under such plans prior to the applicable Welfare Plan Date but not yet reported as of the applicable Welfare Plan Date and (ii) all Liabilities in accordance with the SpinCo Welfare Plans for all reimbursement claims (such as medical and dental claims) and for all non-reimbursement claims (such as life insurance claims), in each case, as incurred by SpinCo Employees and Former SpinCo Employees (and each of their respective dependents and beneficiaries) on or after the applicable Welfare Plan Date; provided that SpinCo shall reimburse Parent for Liabilities incurred under clause (a) between the Local Transfer Date and the applicable Welfare Plan Date. For purposes of this Section 7.02, a benefit claim shall be deemed to be incurred as follows: (i) for health, dental, vision, employee assistance program and prescription drug benefits (including in respect of any hospital admission), upon the provision of such services, materials or supplies and (ii) for life, accidental death and dismemberment, and business travel accident insurance benefits, upon the death, cessation of employment or other event by Parent giving rise to such benefits.

Section 7.03. 6055/6056 Reporting. The SpinCo Group shall comply with the reporting obligations under Section 6056 of the Code (Reporting of Offers of Coverage) with respect to SpinCo Employees and Former SpinCo Employees for the Closing Plan Year (including while SpinCo was owned by Parent) and periods after the Local Transfer Date, for which SpinCo has a reporting obligation; provided that the Parent Group shall be responsible for complying with all reporting obligations with respect to the year prior to the Closing Plan Year. In this regard, the SpinCo Group shall be solely responsible for distributing IRS Form 1095-C to applicable individuals and filing IRS Forms 1094-C and 1095-C with the IRS, all according to the applicable rules and regulations governing such forms. SpinCo shall also be solely responsible for ensuring that the SpinCo Group complies with the reporting obligations under Section 6055 of the Code (Reporting of Enrollment in Minimum Essential Coverage) with respect to all SpinCo Employees and Former SpinCo Employees who are enrolled in a self-insured medical plan under the Parent Welfare Plan. SpinCo may meet this obligation either through IRS Forms 1094-C and 1095-C or IRS Forms 1094-B and 1095-B, all in accordance with applicable rules and regulations.

Section 7.04. Credit for Benefits. The SpinCo Group shall (a) waive for each SpinCo Employee and Former SpinCo Employee and his or her dependents, each waiting period provision, payment requirement to avoid a waiting period, preexisting condition limitation, actively at work requirement and any other restriction that would prevent immediate or full participation under the SpinCo Welfare Plan (or was previously satisfied by) such SpinCo Employee or Former SpinCo Employee to the extent that such waiting period, preexisting condition limitation, actively at work requirement or other restriction would not have been applicable to such SpinCo Employee or Former SpinCo Employee under the terms of the applicable Parent Benefit Plan immediately prior to the Local Transfer Date and (b) give full credit under the SpinCo Welfare Plans applicable to each SpinCo Employee and Former SpinCo Employee and his or her dependents, for all out-of-pocket expenses, including co-payments and deductibles, satisfied prior to the Local Transfer Date in the Closing Plan Year, and for any lifetime maximums, as if there had been a single continuous employer.

Section 7.05. Workers' Compensation Claims. In the case of any workers' compensation claim of any SpinCo Employee or Former SpinCo Employee in respect of his or her employment with the Parent Group or the SpinCo Group, such claim shall be covered (a) by the SpinCo Group's workers' compensation coverage for the applicable jurisdiction if the claim relating to the Workers' Compensation Event is submitted after the date on which SpinCo has established workers' compensation coverage (the "Workers' Compensation Claim Date") and (b) by the Parent Group's workers' compensation coverage if the claim relating to the Workers' Compensation Event is submitted prior to the Workers' Compensation Claim Date; provided that SpinCo shall reimburse Parent for Liabilities actually incurred by the Parent Group under clause (b).

Section 7.06. COBRA. If a SpinCo Employee or Former SpinCo Employee (or his or her eligible dependents) was receiving, prior to the applicable Welfare Plan Date, or is eligible to receive, on or following the applicable Welfare Plan Date, continuation health coverage pursuant to COBRA, the SpinCo Group and the SpinCo Welfare Plans shall be solely responsible for all Liabilities to such employee (or his or her eligible dependents) in respect of COBRA. The SpinCo Group shall indemnify, defend and hold harmless the members of the Parent Group from and against any and all Liabilities relating to, arising out of or resulting from COBRA provided by the SpinCo Group, or the failure of the SpinCo Group to meet its COBRA obligations, to SpinCo Employees, Former SpinCo Employees and their respective eligible dependents.

Section 7.07. Flexible Spending Accounts. Effective as of the applicable Welfare Plan Date, the SpinCo Group shall have established a health care and dependent care reimbursement account plan (the "SpinCo Reimbursement Account Plan") with features that are comparable to those contained in the relevant health care and dependent care reimbursement account plan sponsored and maintained by Parent (the "Parent Reimbursement Account Plan"). With respect to applicable SpinCo Employees and Former SpinCo Employees, effective as of the applicable Welfare Plan Date, the SpinCo Group shall assume and be solely responsible for administering all reimbursement claims of SpinCo Employees and Former SpinCo Employees with respect to the plan year in which the applicable Welfare Plan Date occurs, whether arising before, on or after the applicable Welfare Plan Date, under the SpinCo Reimbursement Account Plan and, for the avoidance of doubt, on and after the applicable Welfare Plan Date, no additional claims shall be reimbursed with respect to SpinCo Employees and Former SpinCo Employees under the Parent Reimbursement Account Plan. Parent shall, as soon as practicable following the applicable Welfare Plan Date, determine (a) the sum of all contributions to the Parent Reimbursement Account Plan made with respect to such plan year by or on behalf of all SpinCo Employees and Former SpinCo Employees, as a whole, prior to the applicable Welfare Plan Date (the "Aggregate Pre-Transfer Date Contributions") and (b) the sum of all claims incurred in such plan year and paid by the Parent Reimbursement Account Plan with respect to such SpinCo Employees and Former SpinCo Employees, as a whole, prior to the applicable Welfare Plan Date (the "Aggregate Pre-Transfer Date Disbursements"). If the Aggregate Pre-Transfer Date Contributions exceed the Aggregate Pre-Transfer Date Disbursements, Parent shall, as soon as practicable following Parent's determination of the Aggregate Pre-Transfer Date Contributions and Aggregate Pre-Transfer Date Disbursements, transfer to SpinCo an amount in cash equal to such difference. If the Aggregate Pre-Transfer Date Disbursements exceed the Aggregate Pre-Transfer Date Contributions, SpinCo shall, upon Parent's reasonable request and the presentation of such substantiating documentation as SpinCo shall reasonably request, transfer to Parent an amount in cash equal to such difference.

Section 7.08. Continuation of Elections. With respect to applicable SpinCo Employees, as of the applicable Welfare Plan Date, the SpinCo Group shall cause the SpinCo Welfare Plans to recognize and maintain all elections and designations (including, without limitation, all coverage and contribution elections and beneficiary designations) made by SpinCo Employees under, or with respect to, the Parent Welfare Plans and apply such elections and designations under the SpinCo Welfare Plans for the remainder of the period or periods for which such elections or designations are by their original terms applicable, to the extent that such elections or designations are available under the corresponding SpinCo Welfare Plan. As of the applicable Welfare Plan Date, the SpinCo Group shall cause any SpinCo Welfare Plan that constitutes a cafeteria plan under Section 125 of the Code to recognize and give effect to all non-elective employer contributions payable and paid toward coverage of a SpinCo Employee under the corresponding Parent Welfare Plan that constitutes a cafeteria plan under Section 125 of the Code for the applicable cafeteria plan year.

Section 7.09. Post-Retirement Health and Life Insurance. The Parent Group agrees to allow its Eligible Retiree Medical Employees to participate in, and receive benefits from, the Parent Group's applicable post-retirement health and life insurance plans upon their eligibility to enroll, unless otherwise required by applicable Law; provided that nothing herein shall prohibit Parent or any member of the Parent Group from amending, modifying or terminating such plans or prevent the application of any such amendment, modification or termination to any Eligible Retiree Medical Employee. With respect to any SpinCo Employees and Former SpinCo Employees in the Continuing Retiree Medical Jurisdictions who, immediately prior to the Local Transfer Date, are eligible to participate in the Parent Group's post-retirement health and life insurance plans and have satisfied the eligibility criteria to receive benefits under such plans as in effect on the Local Transfer Date, the SpinCo Group shall establish, as of the applicable Welfare Plan Date, a SpinCo Benefit Plan that provides post-retirement health and life insurance benefits that are comparable to the applicable Parent Benefit Plan (the "SpinCo Retiree Medical Plans"), and SpinCo and the members of the SpinCo Group shall assume and be solely responsible for all Liabilities in accordance with the SpinCo Retiree Medical Plans with respect to all such SpinCo Employees and Former SpinCo Employees in the Continuing Retiree Medical Jurisdictions.

ARTICLE 8 LONG-TERM DISABILITY EMPLOYEES

Section 8.01. SpinCo LTD Employees. Except as otherwise specifically provided in this Agreement, as required by applicable Law or as agreed to between Parent and SpinCo, on and after the Local Transfer Date, the SpinCo LTD Employees shall be deemed to be employees of the SpinCo Group for all purposes of this Agreement.

Section 8.02. Retained LTD Employees. Except as otherwise specifically provided in this Agreement and subject to Section 8.03, on and after the Distribution, the Retained LTD Employees shall be deemed to be employees of the Parent Group for purposes of this Agreement, including participation in the Parent LTD Plans. Notwithstanding the foregoing, SpinCo shall reimburse Parent for any Liabilities of the Parent Group arising with respect to the Retained LTD Employees.

Section 8.03. Return to Work. To the extent required by applicable Parent Group or SpinCo Group policies, as in effect from time to time, or applicable Law, SpinCo shall, or shall cause the applicable member of the SpinCo Group to, employ any SpinCo LTD Employee or Retained LTD Employee at such time, if any, as such SpinCo LTD Employee or Retained LTD Employee is ready to return to active employment, and, with respect to any Retained LTD Employee, from and after such time, such employee shall no longer be deemed an employee of the Parent Group and shall be deemed a SpinCo Employee for purposes of this Agreement; provided that, if such SpinCo LTD Employee or Retained LTD Employee presents himself or herself for active employment and is not employed by a member of the SpinCo Group due to applicable SpinCo Group policies, and if such SpinCo LTD Employee's or Retained LTD Employee's employment is terminated by a member of the Parent Group within a reasonable time thereafter, SpinCo shall indemnify the Parent Group for all Liabilities incurred in connection with such termination. Notwithstanding the foregoing, SpinCo or the applicable member of the SpinCo Group shall only be required to employ a Retained LTD Employee in accordance with this Section 8.03 if such Retained LTD Employee is ready to return to active employment within one (1) year following the Distribution Date or such greater period as required by applicable Law.

ARTICLE 9
DEFINED BENEFIT PENSION PLANS

Section 9.01. U.S. Pension Plans. Except as otherwise provided in any of Parent's tax-qualified or nonqualified defined benefit pension plans maintained for employees principally employed in the United States (each, a "Parent U.S. Pension Plan"), as of the Local Transfer Date or such other date as agreed to between Parent and SpinCo, each SpinCo Employee shall cease active participation in the relevant Parent U.S. Pension Plan, and service performed for, and compensation earned from, any employer, other than the Parent Group, and, to the extent service is recognized under the relevant Parent U.S. Pension Plan, their predecessors, shall not be taken into account for any purpose under the Parent U.S. Pension Plans. Prior to the Local Transfer Date, Parent shall provide SpinCo with a list of SpinCo Employees and Former SpinCo Employees who are participants in the nonqualified Parent U.S. Pension Plans. Upon and following the Local Transfer Date, if a SpinCo Employee on such list terminates employment with the SpinCo Group, SpinCo shall, or shall cause a member of the SpinCo Group to, provide written notice to Parent of such employee's termination of employment within twenty (20) days of such employee's termination of employment; provided that following the Distribution Date, SpinCo or the applicable member of the SpinCo Group shall only be required to provide such notice with respect to SpinCo Employees who participate in a nonqualified Parent U.S. Pension Plan. Notwithstanding the foregoing, SpinCo shall be liable and solely responsible, and shall reimburse Parent, for any Liabilities of the Parent Group arising with respect to the Parent U.S. Pension Plans as a result of any failure by a member of the SpinCo Group to provide proper notice of an employment termination that results in the inability of Parent to administer the Parent U.S. Pension Plans in compliance with Section 409A of the Code to the extent applicable with respect to any SpinCo Employee or Former SpinCo Employee who participated thereunder.

Section 9.02. Non-U.S. Pension Plans.

(a) Non-Transferor Defined Benefit Plans. Except as set forth in any Local Agreement and, in any case, with respect to each Non-Transferor Defined Benefit Plan, the Parent Group shall retain or shall cause to be retained all Assets and Liabilities under such plan (and, to the extent applicable, under the insurance company contracts maintained to fund such plan) and shall make payments to SpinCo Employees and Former SpinCo Employees with vested rights thereunder in accordance with the terms of such plan and applicable Law; provided that unvested rights thereunder shall be treated in accordance with the terms of such plan and applicable Law. Except as otherwise provided in any Non-Transferor Defined Benefit Plan, as of the Local Transfer Date or such other date as agreed to between Parent and SpinCo, each SpinCo Employee shall cease active participation in the relevant Non-Transferor Defined Benefit Plan, and service performed for, and compensation earned from, any employer, other than the Parent Group, and, to the extent service is recognized under the relevant Non-Transferor Defined Benefit Plan, their predecessors, shall not be taken into account for any purpose under the Non-Transferor Defined Benefit Plans.

(b) Subsidiary Defined Benefit Plans.

(i) Assumption of Subsidiary Defined Benefit Plans. Except to the extent set forth in Section 9.02(b)(ii), with respect to the Subsidiary Defined Benefit Plans, as of the Local Transfer Date or such other date as agreed to between Parent and SpinCo (the "Subsidiary DB Transfer Date"), the SpinCo Group shall assume and retain all Assets and Liabilities under such plan (and, to the extent applicable, under the insurance company contracts maintained to fund such plan) and shall make payments to SpinCo Employees and Former SpinCo Employees with vested rights thereunder (and unvested rights thereunder to the extent such rights vest) in accordance with the terms of such plan and applicable Law.

(ii) Establishment of Parent Reverse Transfer Defined Benefit Plans. Effective as of the applicable Subsidiary DB Transfer Date, in connection with the transfer of Assets and Liabilities to a Parent Reverse Transfer Defined Benefit Plan from a Subsidiary Defined Benefit Plan that is a Reverse Transfer Defined Benefit Plan, the Parent Group shall establish a trust or other vehicle to accept such transfer of pension Assets that relate to Parent Employees, Former Parent Employees, and to the extent specified on Schedule 9.02, Former SpinCo Employees, unless the Parent Group is prohibited from establishing a trust or other vehicle under applicable Law or the transfer of such Assets to a trust or other vehicle would result in adverse Tax consequences to a substantial portion of the Parent Employees, Former Parent Employees or, if applicable, Former SpinCo Employees, in each case, who participated in the relevant Reverse Transfer Defined Benefit Plan immediately prior to the Subsidiary DB Transfer Date. As soon as practicable following the applicable Subsidiary DB Transfer Date, but in any event no later than the later of (1) 30 days following the date that the trust or other vehicle that will accept the transferred Assets with respect to the applicable Reverse Transfer Defined Benefit Plan has been established or designated (unless no such trust or other vehicle is required) and (2) 30 days following the earliest date permitted by applicable Law, the SpinCo Group shall cause each Reverse Transfer Defined Benefit Plan to transfer (A) the Liabilities of the Parent Reverse Transfer Defined Benefit Plan with respect to the Parent Employees, Former Parent Employees and, if applicable, Former SpinCo Employees and (B) pension Assets (including, to the extent applicable, any insurance company contracts maintained to fund such plan) having a value sufficient to satisfy any requirements under applicable Law from such Reverse Transfer Defined Benefit Plan to the trust or other vehicle established or designated with respect to the applicable Parent Reverse Transfer Defined Benefit Plan or, where no trust or other vehicle exists, provide payment of an equivalent amount to Parent or the applicable member of the Parent Group; provided that if there is no such requirement under applicable Law, the applicable Reverse Transfer Defined Benefit Plan shall transfer to the Parent Reverse Transfer Defined Benefit Plan an aggregate amount of pension Assets that bears the same proportion as (x) the aggregate amount of Liabilities of such Reverse Transfer Defined Benefit that relate to Parent Employees, Former Parent Employees and, if applicable, Former SpinCo Employees relative to (y) the aggregate amount of all Liabilities of such Reverse Transfer Defined Benefit, in each case, as determined in accordance with U.S. GAAP.

(c) Transferor Defined Benefit Plans.

(i) Establishment of Transferee Defined Benefit Plans. Without limiting the generality of Section 2.11, effective as of the applicable Non-U.S. DB Transfer Date, in connection with the transfer of Assets and Liabilities from a Transferor Defined Benefit Plan to a Transferee Defined Benefit Plan, the SpinCo Group shall establish a trust or other vehicle to accept such transfer of pension Assets, unless the SpinCo Group is prohibited from establishing a trust or other vehicle under applicable Law or the transfer of such Assets to a trust or other vehicle would result in adverse Tax consequences to a substantial portion of the SpinCo Employees who participated in the relevant Transferor Defined Benefit Plan immediately prior to the applicable Closing Date. As soon as practicable following the applicable Non-U.S. DB Transfer Date, but in any event no later than the later of (1) 30 days following the date that the trust or other vehicle that will accept the transferred Assets with respect to the applicable Transferee Defined Benefit Plan has been established or designated (unless no such trust or other vehicle is required) and (2) 30 days following the earliest date permitted by applicable Law (the "Pension Asset Transfer Date"), the Parent Group shall cause each Transferor Defined Benefit Plan to transfer pension Assets (including, to the extent applicable, any insurance company contracts maintained to fund such plan) that have been allocated to SpinCo in accordance with clause (b)(2) below (as adjusted for appreciation or depreciation that occurs after the Local Transfer Date but prior to the Pension Asset Transfer Date) or such greater value sufficient to satisfy any requirements under applicable Law from such Transferor Defined Benefit Plan, to the trust or other vehicle established or designated with respect to the applicable Transferee Defined Benefit Plan or, where no trust or other vehicle exists, provide payment of an equivalent amount to SpinCo or the applicable member of the SpinCo Group. In all events in which a transfer is made by the Parent Group or any Transferor Defined Benefit Plan to a Transferee Defined Benefit Plan, the SpinCo Group shall not take any direct or indirect action to cause a reversion of pension Assets for a period of five years following the applicable Non-U.S. DB Transfer Date. At all times following the applicable Non-U.S. DB Transfer Date, the SpinCo Group shall not take any action to reduce any benefits accrued under any Transferor Defined Benefit Plan prior to the applicable Non-U.S. DB Transfer Date.

(ii) Assets and Liabilities of Transferor Defined Benefit Plans. With respect to each Transferor Defined Benefit Plan, the Parent Group shall, or shall cause the applicable Transferor Defined Benefit Plan to, (1) as of the Local Transfer Date, allocate the aggregate pension Liabilities that relate to SpinCo Employees to the SpinCo Group and the aggregate pension Liabilities that relate to all other participants to the Parent Group, in each case, as determined in accordance with U.S. GAAP, (2) as of the Local Transfer Date, allocate the pension Assets to the SpinCo Group or the Parent Group, as applicable, as required by applicable Law; provided that if there is no such requirement under applicable Law, the applicable Transferor Defined Benefit Plan shall allocate to the SpinCo Group or the Parent Group, as applicable, an aggregate amount of pension Assets that bears the same proportion to the aggregate amount of Liabilities of such Transferor Defined Benefit Plan that are allocated to such Party pursuant to clause (1) of this Section 9.02(c)(ii), (3) retain the pension Assets and Liabilities for accrued benefits under such Transferor Defined Benefit Plan with respect to the SpinCo Employees through the applicable Non-U.S. DB Transfer Date and (4) manage the pension Assets for accrued benefits under such Transferor Defined Benefit Plan with respect to the SpinCo Employees through such Non-U.S. DB Transfer Date; provided that nothing herein shall be deemed to prohibit or restrict the Parent Group from amending or terminating the applicable Transferor Defined Benefit Plan. SpinCo agrees that as of the Local Transfer Date, SpinCo or a member of the SpinCo Group shall be solely responsible for the Liabilities allocated to the SpinCo Group pursuant to clause (1) of this Section 9.02(c)(ii).

(iii) Continued Participation in Participating Transferor Defined Benefit Plans. With respect to each Participating Transferor Defined Benefit Plan, the Parent Group shall, or shall cause the applicable Participating Transferor Defined Benefit Plan to, (A) permit the applicable member of the SpinCo Group to become a participating employer and (B) permit the SpinCo Employees to continue to participate in such Transferor Defined Benefit Plan in accordance with its terms; provided that nothing herein shall be deemed to prohibit or restrict the Parent Group from amending or terminating the applicable Transferor Defined Benefit Plan. Notwithstanding the foregoing, prior to the applicable Non-U.S. DB Transfer Date, the SpinCo Group shall timely make all contributions to the applicable Transferor Defined Benefit Plan that are required to be made by the SpinCo Group pursuant to the terms of such Transferor Defined Benefit Plan and its most recent actuarial valuation, this Agreement, any Local Funding Agreement and applicable Law.

(iv) Pension-Related Indemnification. In the event that the Non-U.S. DB Transfer Date occurs after the applicable Local Transfer Date with respect to any country, the SpinCo Group shall indemnify, defend and hold harmless the members of the Parent Group and the applicable Transferor Defined Benefit Plan from and against any and all Liabilities relating to, arising out of or resulting from such arrangement, including, without limitation, (1) the administrative costs and expenses incurred by the Parent Group or the Transferor Defined Benefit Plan relating to each SpinCo Employee's participation in the Transferor Defined Benefit Plan after the applicable Local Transfer Date, (2) other Liabilities incurred by the Parent Group or the Transferor Defined Benefit Plan as a result of the Parent Group permitting the SpinCo Employees to participate in the Transferor Defined Benefit Plan after the applicable Local Transfer Date, (3) Liabilities incurred by the Parent Group or the Transferor Defined Benefit Plan as a result of the termination of employment of, or changes to the employment terms of, any SpinCo Employee by the SpinCo Group after the applicable Local Transfer Date and (4) in the event that any transaction contemplated by such arrangement requires the consent of any SpinCo Employee, any payments or benefits that the Parent Group makes or provides to such SpinCo Employee in order to obtain such consent, as reasonably determined by the Parent Group after consultation with the SpinCo Group.

(d) Insured Transferor Defined Benefit Plans. Without limiting the generality of Section 2.11, effective as of the applicable Non-U.S. DB Transfer Date, in connection with the transfer of Liabilities from an Insured Transferor Defined Benefit Plan to an Insured Transferee Defined Benefit Plan, the SpinCo Group shall (1) establish an Insured Transferee Defined Benefit Plan to administer the Liabilities of the applicable Insured Transferor Defined Benefit Plan and (2) execute insurance contracts with a reputable insurance company to fund the Liabilities assumed by such Insured Transferee Defined Benefit Plan and pay the benefits to the applicable SpinCo Employees, which contracts shall be effective no later than the applicable Non-U.S. DB Transfer Date; provided, however, in lieu of the SpinCo Group executing an insurance contract described in this Section 9.02(d), (2), the Parent Group may, in its discretion, assign insurance contracts to the SpinCo Group in respect of Liabilities assumed by such Insured Transferee Defined Benefit Plan. As of the applicable Non-U.S. DB Transfer Date, the Parent Group shall cause each Insured Transferor Defined Benefit Plan to transfer the Liabilities of the Insured Transferor Defined Benefit Plan with respect to the SpinCo Employees to the applicable Insured Transferee Defined Benefit Plan.

(e) Unfunded Transferor Defined Benefit Plans. Without limiting the generality of Section 2.11, effective as of the applicable Non-U.S. DB Transfer Date, in connection with the transfer of Liabilities from an Unfunded Transferor Defined Benefit Plan to an Unfunded Transferee Defined Benefit Plan, the SpinCo Group shall establish an Unfunded Transferee Defined Benefit Plan to administer the Liabilities of the applicable Unfunded Transferor Defined Benefit Plan and pay the benefits to the applicable SpinCo Employees. As of the applicable Non-U.S. DB Transfer Date, the Parent Group shall cause each Unfunded Transferor Defined Benefit Plan to transfer the Liabilities of the Unfunded Transferor Defined Benefit Plan with respect to the SpinCo Employees to the applicable Unfunded Transferee Defined Benefit Plan.

(f) Acknowledgments of Pension Liabilities. Following the completion of the transfer of Assets and/or Liabilities from a Transferor Defined Benefit Plan to a Transferee Defined Benefit Plan, from an Insured Transferor Defined Benefit Plan to an Insured Transferee Defined Benefit Plan and from a Unfunded Transferor Defined Benefit Plan to an Unfunded Transferee Defined Benefit Plan, and the transfer of a Subsidiary Defined Benefit Plan to the SpinCo Group as provided in this Section 9.02, the Parent Group shall have no further Liability (either under this Agreement or otherwise) to provide the SpinCo Employees (or Former SpinCo Employees for the Subsidiary Defined Benefit Plans, other than the applicable Reverse Transfer Defined Benefit Plans) who participated in such plan with benefits under a Transferor Defined Benefit Plan, Insured Transferor Defined Benefit Plan, Unfunded Transferor Defined Benefit Plan or Subsidiary Defined Benefit Plan, and the SpinCo Group shall be solely responsible for all Liabilities with respect to any amounts owed to a SpinCo Employee (or Former SpinCo Employees for the Subsidiary Defined Benefit Plans, other than the applicable Reverse Transfer Defined Benefit Plans) under such plans. For the avoidance of doubt, the Parent Group shall retain all Assets and Liabilities under any defined benefit pension plans covering SpinCo Employees or Former SpinCo Employees, except as expressly provided in Sections 9.02(b) through (e).

(g) No Reduction in Benefits. At all times following the applicable Non-U.S. DB Transfer Date, the SpinCo Group shall not take any action to reduce any benefits accrued under any Subsidiary Defined Benefit Plan, Transferor Defined Benefit Plan, Insured Transferor Defined Benefit Plan or Unfunded Transferor Defined Benefit Plan prior to the applicable Non-U.S. DB Transfer Date.

ARTICLE 10 DEFINED CONTRIBUTION PLANS

Section 10.01. SpinCo 401(k) Plan. Effective as of the Local Transfer Date or such other date as agreed to between Parent and SpinCo, which need not be the same for each retirement plan (the "Applicable 401(k) Date"), SpinCo or the applicable member of the SpinCo Group shall establish a defined contribution plan that includes a qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code (the "SpinCo 401(k) Plan") providing benefits to the SpinCo Employees participating in any qualified cash or deferred arrangement within the meaning of Section 401(k) of the Code sponsored by any member of the Parent Group (collectively, the "Parent 401(k) Plan") as of the Local Transfer Date; provided, however, that SpinCo or the applicable member of the SpinCo Group shall not be required to provide SpinCo Employees with an option to invest in SpinCo Common Stock under the SpinCo 401(k) Plan.

Section 10.02. 401(k) Plan Rollovers. SpinCo or the applicable member of the SpinCo Group shall permit each SpinCo Employee and Former SpinCo Employee participating in the Parent 401(k) Plan to effect, and SpinCo or the applicable member of the SpinCo Group shall cause the SpinCo 401(k) Plan to accept, in accordance with applicable Law, a "direct rollover" (within the meaning of Section 401(a)(31) of the Code) of his or her account balances (including earnings thereon through the date of transfer and promissory notes evidencing all outstanding loans in accordance with the terms of the SpinCo 401(k) Plan) under the Parent 401(k) Plan if such rollover to the SpinCo 401(k) Plan is elected in accordance with applicable Law by such SpinCo Employee and Former SpinCo Employee, subject to each of Parent's and SpinCo's reasonable satisfaction that the Parent 401(k) Plan or the SpinCo 401(k) Plan, as applicable, is in compliance with all applicable Laws and that such plan continues to satisfy the requirements for a qualified plan under Section 401(a) of the Code and that the trust that forms a part of such plan is exempt from Tax under Section 501(a) of the Code. Upon completion of a direct rollover of a SpinCo Employee's and Former SpinCo Employee's account balances, as described in this Section 10.02, SpinCo, the SpinCo Group and the SpinCo 401(k) Plan shall be solely responsible for all benefits relating to past service of such SpinCo Employee and Former SpinCo Employee, as applicable, and none of Parent, the Parent Group and the Parent 401(k) Plan shall have any liability whatsoever with respect to such benefits.

Section 10.03. Employer 401(k) Plan Contributions. The Parent Group shall remain responsible for making all employer contributions under the Parent 401(k) Plan with respect to any SpinCo Employees or Former SpinCo Employees relating to periods prior to the Applicable 401(k) Date. In the event that the Applicable 401(k) Date occurs after the Local Transfer Date, SpinCo shall reimburse Parent for any employer contributions made under this Section 10.03 with respect to any SpinCo Employees or Former SpinCo Employees relating to the period beginning on the Local Transfer Date and ending on the Applicable 401(k) Date. On and after the Applicable 401(k) Date, the SpinCo Group shall be solely responsible for all employer contributions under the SpinCo 401(k) Plan with respect to any SpinCo Employees or Former SpinCo Employees.

Section 10.04. Limitation of Liability. For the avoidance of doubt, Parent shall have no responsibility for any failure of SpinCo to properly administer the SpinCo 401(k) Plan in accordance with its terms and applicable Law, including any failure to properly administer the accounts of SpinCo Employees and their respective beneficiaries, including accounts transferred over in accordance with Section 10.02, in such SpinCo 401(k) Plan.

Section 10.05. Non-U.S. Defined Contribution Plans. The treatment of each Parent Benefit Plan that is a defined contribution plan for the benefit of employees outside of the United States and in which any SpinCo Employee or Former SpinCo Employee participates (each, a “Non-U.S. DC Plan”) shall be governed by the applicable Local Agreement; provided that if a Local Agreement does not address the treatment of an applicable Non-U.S. DC Plan, then Parent and SpinCo shall use commercially reasonable efforts to cause such Non-U.S. DC Plan to be treated in a manner that is consistent with applicable Law and, to the extent practicable, the general principles of this Article 10.

ARTICLE 11
NONQUALIFIED DEFERRED COMPENSATION

Section 11.01. SpinCo Nonqualified Deferred Compensation Plans. Notwithstanding Section 2.09 or any other provision of this Agreement to the contrary, following the Local Transfer Date, the Parent Group shall retain sponsorship of the Parent Nonqualified Deferred Compensation Plans and all assets and Liabilities arising out of or relating to the Parent Nonqualified Deferred Compensation Plans. Without limiting the generality of Section 2.10, effective as of the Distribution Date or such other date as agreed to between Parent and SpinCo, SpinCo shall establish a new nonqualified deferred compensation plan (or plans) sponsored by SpinCo (together, the "SpinCo Nonqualified Deferred Compensation Plans"). The SpinCo Nonqualified Deferred Compensation Plans shall honor all deferral elections by SpinCo Employees for the plan year in which the Distribution occurs, and for the 2021 plan year, the SpinCo Nonqualified Deferred Compensation Plans shall also honor terms and conditions that are substantially similar to the terms and conditions of the corresponding Parent Nonqualified Deferred Compensation Plan (including matching and automatic employer contributions). The Parties hereto agree that none of the transactions contemplated by the Separation Agreement or any of the Ancillary Agreements, including this Agreement, will trigger a payment or distribution of compensation under the Parent Nonqualified Deferred Compensation Plans or the SpinCo Nonqualified Deferred Compensation Plans to any SpinCo Employee or Former SpinCo Employee (and their respective beneficiaries) and, consequently, that the payment or distribution of any compensation to which any SpinCo Employee or Former SpinCo Employee (and their respective beneficiaries) is entitled under the Parent Nonqualified Deferred Compensation Plans will occur upon the time or times provided for under the applicable Parent Nonqualified Deferred Compensation Plans and such SpinCo Employee's or Former SpinCo Employee's deferral elections. Without limiting the generality of Section 4.01 and subject to Section 17.09, Parent and SpinCo shall use commercially reasonable efforts to cooperate in administering the Parent Nonqualified Deferred Compensation Plans for purposes of satisfying any obligations relating to the participation of any SpinCo Employee or Former SpinCo Employee, including by exchanging any necessary participant records and engaging recordkeepers, administrators, providers, insurers and other third parties. Prior to the Local Transfer Date, Parent shall provide SpinCo with a list of SpinCo Employees and Former SpinCo Employees who are participants in the Parent Nonqualified Deferred Compensation Plans. If a SpinCo Employee on such list terminates employment with the SpinCo Group, SpinCo shall, or shall cause a member of the SpinCo Group to, provide written notice to Parent of such employee's termination of employment within twenty (20) days of such employee's termination of employment. Notwithstanding the foregoing, SpinCo shall be liable and solely responsible, and shall reimburse Parent, for any Liabilities of the Parent Group arising with respect to the Parent Nonqualified Deferred Compensation Plans as a result of any failure by a member of the SpinCo Group to provide proper notice of an employment termination that results in the inability of Parent to administer the Parent Nonqualified Deferred Compensation Plans in compliance with Section 409A of the Code with respect to any SpinCo Employee or Former SpinCo Employee who participated thereunder. For the avoidance of doubt, each SpinCo Nonqualified Deferred Compensation Plan shall be a SpinCo Benefit Plan.

Section 11.02. No Transfer of Assets. Except as required by applicable Law, nothing in this Agreement shall require any member of the Parent Group or the Parent Nonqualified Deferred Compensation Plans to transfer assets or reserves with respect to the Parent Nonqualified Deferred Compensation Plans to any member of the SpinCo Group or the SpinCo Nonqualified Deferred Compensation Plans.

Section 11.03. Employer Nonqualified Deferred Compensation Plan Contributions. The Parent Group shall remain responsible for making all employer contributions under the Parent Nonqualified Deferred Compensation Plans with respect to any SpinCo Employees or Former SpinCo Employees relating to periods prior to the Distribution Date. SpinCo shall reimburse Parent for any employer contributions made under this Section 11.03 under the Parent Nonqualified Deferred Compensation Plans with respect to any SpinCo Employees or Former SpinCo Employees relating to the period beginning on the Local Transfer Date and ending on the Distribution Date. Any such contributions that are unvested as of the Local Transfer Date shall continue to vest in accordance with their terms. On and after the Local Transfer Date, the SpinCo Group shall be responsible for all employer contributions under the Parent Nonqualified Deferred Compensation Plans and SpinCo Nonqualified Deferred Compensation Plans with respect to any SpinCo Employees or Former SpinCo Employees.

Section 11.04. Limitation of Liability. Parent shall have no responsibility for any failure of the SpinCo Group to properly administer the SpinCo Nonqualified Deferred Compensation Plans in accordance with their terms and applicable Law, including any failure to properly administer the accounts of SpinCo Employees or Former SpinCo Employees and their respective beneficiaries in such SpinCo Nonqualified Deferred Compensation Plans.

ARTICLE 12 ACCRUED LEAVE

Section 12.01. Vacation, Holidays, Annual Leave and Other Leaves. On the Local Transfer Date, the SpinCo Group shall assume and be solely responsible for all Liabilities for vacation, holiday, annual leave and/or other leave accruals and benefits with respect to each SpinCo Employee. In addition, (a) for purposes of determining the number of vacation, holiday, annual leave or other leave days to which such employee shall be entitled following the Local Transfer Date, SpinCo and the applicable members of the SpinCo Group shall assume and honor all such days accrued or earned but not yet taken by such employee, if any, as of the Local Transfer Date and (b) to the extent that such employee is entitled under any applicable Law or any policy of his or her respective employer that is a member of the Parent Group, as the case may be, to be paid for any vacation, holiday, annual leave or other leave days accrued or earned but not yet taken by such employee as of the Local Transfer Date, the SpinCo Group shall assume and be solely responsible for the Liability to pay for such days.

ARTICLE 13 EQUITY COMPENSATION

Section 13.01. SpinCo Equity Incentive Plan. Prior to the Distribution, Parent shall cause SpinCo to adopt an equity incentive plan or program, to be effective immediately prior to the Distribution (the "SpinCo Equity Incentive Plan"), and Parent shall approve the SpinCo Equity Incentive Plan and forms of award agreements for use thereunder (the "SpinCo Award Agreement") as the sole stockholder of SpinCo.

Section 13.02. Treatment of Outstanding Parent Equity Awards. The Parties shall, and shall cause their respective Subsidiaries to, use commercially reasonable efforts to take all actions necessary or appropriate so that each outstanding Parent Equity Award granted under any Parent Equity Plan shall be adjusted as set forth in this Section 13.02 as of immediately prior to the Distribution.

(a) Parent Restricted Stock Units Held by Parent Employees, Former Parent Employees or Former SpinCo Employees. Each Parent Restricted Stock Unit held by a Parent Employee, Former Parent Employee or Former SpinCo Employee that is outstanding as of immediately prior to the Distribution Date shall be subject to the same terms and conditions after the Distribution Date as the terms and conditions applicable to such Parent Restricted Stock Unit immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date, the number of shares of Parent Common Stock to which such Parent Restricted Stock Unit relates shall be equal to the product, rounded up to the nearest whole number of shares, obtained by multiplying (i) the number of shares of Parent Common Stock to which such Parent Restricted Stock Unit related immediately prior to the Distribution Date by (ii) the Parent Equity Award Ratio.

(b) Parent Restricted Stock Units Held by SpinCo Employees. Each Parent Restricted Stock Unit held by a SpinCo Employee that is outstanding as of immediately prior to the Distribution Date shall be converted into a SpinCo Restricted Stock Unit and shall otherwise be subject to the same terms and conditions (including the applicable vesting schedule) after the Distribution Date as the terms and conditions applicable to such Parent Restricted Stock Unit immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date, the number of shares of SpinCo Common Stock to which such SpinCo Restricted Stock Unit relates shall be equal to the product, rounded up to the nearest whole number of shares, obtained by multiplying (i) the number of shares of Parent Common Stock to which such Parent Restricted Stock Unit related immediately prior to the Distribution Date by (ii) the SpinCo Equity Award Ratio.

(c) Parent Performance Share Units Held by Parent Employees, Former Parent Employees or Former SpinCo Employees. Each Parent Performance Share Unit held by a Parent Employee, Former Parent Employee or Former SpinCo Employee that is outstanding as of immediately prior to the Distribution Date shall be subject to the same terms and conditions (including the applicable vesting schedule and any performance conditions) after the Distribution Date as the terms and conditions applicable to such Parent Performance Share Unit immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date (i) the target number of shares of Parent Common Stock to which such Parent Performance Share Unit relates shall be equal to the product, rounded up to the nearest whole number of shares, obtained by multiplying (A) the target number of shares of Parent Common Stock to which such Parent Performance Share Unit related immediately prior to the Distribution Date by (B) the Parent Equity Award Ratio; and (ii) the performance conditions applicable to each such Parent Performance Share Unit may be equitably adjusted, as determined by the Parent Compensation Committee, to reflect the Distribution.

(d) Parent Performance Share Units Held by SpinCo Employees. Each Parent Performance Share Unit held by a SpinCo Employee that is outstanding as of immediately prior to the Distribution Date shall be converted into a SpinCo Restricted Stock Unit subject solely to time-based vesting conditions and subject to the same terms and conditions (including the applicable vesting schedule, but not any performance conditions) after the Distribution Date as the terms and conditions applicable to such Parent Performance Share Unit immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date the number of shares of SpinCo Common Stock to which such SpinCo Restricted Stock Unit relates shall be equal to the product, rounded up to the nearest whole number of shares, obtained by multiplying (i) the applicable Performance Share Unit Conversion Amount by (ii) the SpinCo Equity Award Ratio.

(e) Parent Options Held by Parent Employees, Former Parent Employees or Former SpinCo Employees. Each Parent Option, whether vested or unvested, held by a Parent Employee, Former Parent Employee or Former SpinCo Employee that is outstanding and unexercised as of immediately prior to the Distribution Date shall be subject to the same terms and conditions after the Distribution Date as the terms and conditions applicable to such Parent Option immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date: (i) the number of shares of Parent Common Stock subject to such Parent Option shall be equal to the product, rounded down to the nearest whole number of shares, obtained by multiplying (A) the number of shares of Parent Common Stock subject to such Parent Option immediately prior to the Distribution Date by (B) the Parent Equity Award Ratio; and (ii) the per share exercise price of such Parent Option shall be equal to the quotient, rounded up to the nearest whole cent, obtained by dividing (A) the per share exercise price of such Parent Option immediately prior to the Distribution Date by (B) the Parent Equity Award Ratio.

(f) Parent Options Held by SpinCo Employees. Each Parent Option, whether vested or unvested, held by a SpinCo Employee that is outstanding as of immediately prior to the Distribution Date shall be converted into a SpinCo Option, and shall otherwise be subject to the same terms and conditions (including the applicable vesting schedule) after the Distribution Date as the terms and conditions applicable to such Parent Option immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date: (i) the number of shares of SpinCo Common Stock subject to such SpinCo Option shall be equal to the product, rounded down to the nearest whole number of shares, obtained by multiplying (A) the number of shares of Parent Common Stock subject to such Parent Option immediately prior to the Distribution Date by (B) the SpinCo Equity Award Ratio; and (ii) the per share exercise price of such SpinCo Option shall be equal to the quotient, rounded up to the nearest whole cent, obtained by dividing (A) the per share exercise price of such Parent Option immediately prior to the Distribution Date by (B) the SpinCo Equity Award Ratio.

(g) Parent Restricted Stock Awards Held by Parent Employees, Former Parent Employees or Former SpinCo Employees. Each Parent Restricted Stock Award held by a Parent Employee, Former Parent Employee or Former SpinCo Employee that is outstanding as of immediately prior to the Distribution Date shall be subject to the same terms and conditions after the Distribution Date as the terms and conditions applicable to such Parent Restricted Stock Award immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date, the number of shares of Parent Common Stock to which such Parent Restricted Stock Award relates shall be equal to the product, rounded up to the nearest whole number of shares, obtained by multiplying (i) the number of shares of Parent Common Stock to which such Parent Restricted Stock Award related immediately prior to the Distribution Date by (ii) the Parent Equity Award Ratio. Following the Distribution Date, Parent shall be responsible for the payment or settlement of any accrued dividends with respect to Parent Restricted Stock Awards held by Parent Employees, Former Parent Employees or Former SpinCo Employees, in accordance with the terms of the applicable Parent Restricted Stock Award.

(h) Parent Restricted Stock Awards Held by SpinCo Employees. Each Parent Restricted Stock Award held by a SpinCo Employee that is outstanding as of immediately prior to the Distribution Date shall be converted into a SpinCo Restricted Stock Award and shall otherwise be subject to the same terms and conditions (including the applicable vesting schedule) after the Distribution Date as the terms and conditions applicable to such Parent Restricted Stock Award immediately prior to the Distribution Date; provided, however, that from and after the Distribution Date, the number of shares of SpinCo Common Stock to which such SpinCo Restricted Stock Award relates shall be equal to the product, rounded up to the nearest whole number of shares, obtained by multiplying (i) the number of shares of Parent Common Stock to which such Parent Restricted Stock Award related immediately prior to the Distribution Date by (ii) the SpinCo Equity Award Ratio. Following the Distribution Date, SpinCo shall be responsible for the payment or settlement of any accrued dividends with respect to Parent Restricted Stock Awards (or the SpinCo Restricted Stock Awards into which they were converted) held by SpinCo Employees, in accordance with the terms of the applicable Parent Restricted Stock Award.

Section 13.03. Parent ESPP. The administrator of the Parent ESPP shall take all actions necessary and appropriate to provide that (a) SpinCo Employees who participate in the Parent ESPP shall not be eligible to participate in any future Offering Periods that begin following the Local Transfer Date and (b) any cash remaining in the Parent ESPP account of any SpinCo Employee after the Local Transfer Date shall be refunded to such SpinCo Employee without interest as soon as administratively practicable.

Section 13.04. Tax Reporting and Withholding for Equity-Based Awards. Unless otherwise required by applicable Law, (a) Parent (or one of its Subsidiaries) will be responsible for all income, payroll, fringe benefit, social security, payment-on-account and other Tax reporting relating to income of or otherwise owed by Parent Employees or Former Parent Employees from equity-based awards granted to such employees by Parent, (b) SpinCo (or one of its Subsidiaries) will be responsible for all income, payroll, fringe benefit, social security, payment-on-account and other Tax reporting related to or otherwise owed on income of SpinCo Employees or Former SpinCo Employees from equity-based awards granted to such employees by SpinCo, including equity-based awards described in this Article 13, (c) Parent (or one of its Subsidiaries) shall be responsible for remitting applicable Tax withholdings and related payments for equity awards granted by Parent and held by Parent Employees or Former Parent Employees to each applicable taxing authority and (d) SpinCo (or one of its Subsidiaries) shall be responsible for remitting applicable Tax withholdings and related payments for equity awards granted by SpinCo and held by SpinCo Employees or Former SpinCo Employees, including equity-based awards described in this Article 13 to each applicable taxing authority. In all cases, Parent and SpinCo (and any applicable Parent Subsidiary and SpinCo Subsidiary) agree to cooperate to ensure that such obligations are met. Parent and SpinCo agree to enter into any necessary agreements regarding the subject matter of this Section 13.04 to enable Parent and SpinCo (and any applicable Parent and SpinCo Subsidiaries) to fulfill their respective obligations hereunder and under applicable Law.

Section 13.05. Parent and SpinCo Income Tax Deductions in Respect of Certain Equity Awards and Compensation. Unless otherwise required by applicable Law, solely the member of the Group for which the relevant individual is currently employed or, if such individual is not currently employed by a member of the Group, was most recently employed, in either case, at the time of the vesting, exercise, disqualifying disposition, payment or other relevant taxable event, as appropriate, in respect of equity awards and other compensation shall be entitled to claim any income tax deduction in respect of such equity awards and other compensation on its respective tax return associated with such event.

Section 13.06. Compliance. For purposes of this Article 13, and notwithstanding the use of the phrase “same terms” or anything else to the contrary throughout this article, Parent and SpinCo reserve the right to impose other requirements or different terms and conditions on any Parent or SpinCo equity awards and Parent or SpinCo stock incentive compensation plans, or to treat the equity awards in a different manner, to the extent that either of them determines it is necessary or advisable for legal or administrative reasons, including for compliance with non-U.S. laws and regulations and to mitigate the potential impact of non-U.S. tax consequences on the equity awards.

ARTICLE 14
NON-U.S. EMPLOYEES

Section 14.01. Treatment of Non-U.S. Employees. Except as otherwise agreed by the Parties or as set forth in this Agreement, Parent Employees and SpinCo Employees who reside outside of the United States or are otherwise subject to non-U.S. Law ("Non-U.S. Employees") and their related benefits and Liabilities shall be treated under this Agreement in the same manner as the Parent Employees and SpinCo Employees, respectively, who are residents of the United States and are not subject to non-U.S. Law; provided that, notwithstanding anything to the contrary in this Agreement, all actions taken with respect to such Non-U.S. Employees shall be subject to and accomplished in accordance with applicable Law in the custom of the applicable jurisdictions and may be effectuated by implementation of a Local Agreement.

ARTICLE 15
COOPERATION; ACCESS TO INFORMATION; LITIGATION; CONFIDENTIALITY

Section 15.01. Cooperation. Following the date of this Agreement, the Parties shall, and shall cause their respective Subsidiaries to, use commercially reasonable efforts to cooperate with respect to any employee compensation or benefits matters that either Party reasonably determines require the cooperation of the other Party in order to accomplish the objectives of this Agreement. Without limiting the generality of the preceding sentence, the Parent Group and the SpinCo Group shall cooperate in connection with (a) any audits of any Benefit Plan with respect to which such Party may have Information, (b) any audits of their respective payroll services (whether by a Governmental Authority in the United States or otherwise) in connection with the services provided by one Party to the other Party and (c) the notification and consultation with labor unions and other employee representatives of employees of the Parent Group and the SpinCo Group. With respect to each Benefit Plan, the obligations of the Parent Group and the SpinCo Group to cooperate pursuant to this Section 15.01 or any other provision of this Agreement shall remain in effect until the latest of (i) the date on which all audits of such Benefit Plan with respect to which a Party may have Information have been completed, (ii) the date the applicable statute of limitations with respect to such audits has expired and (iii) the date on which the Parent Group discharges all obligations to SpinCo Employees, Former SpinCo Employees and their respective beneficiaries under such Benefit Plan.

Section 15.02. Access to Information; Privilege; Confidentiality. Except as would be inconsistent with Section 15.01 or any other provision of this Agreement relating to cooperation, Article VII of the Separation Agreement is hereby incorporated into this Agreement *mutatis mutandis*.

ARTICLE 16
TERMINATION

Section 16.01. Termination. This Agreement may be terminated by Parent at any time, in its sole discretion, prior to the Distribution; provided, however, that this Agreement shall automatically terminate upon the termination of the Separation Agreement in accordance with its terms.

Section 16.02. Effect of Termination. In the event of any termination of this Agreement prior to the Distribution, none of the Parties (or any of its directors or officers) shall have any Liability or further obligation to any other Party under this Agreement.

ARTICLE 17 MISCELLANEOUS

Section 17.01. Incorporation of Indemnification Provisions of Separation Agreement. In addition to the specific indemnification provisions in this Agreement, Article VI of the Separation Agreement is hereby incorporated into this Agreement *mutatis mutandis*.

Section 17.02. Additional Indemnification. If the Parties determine that the SpinCo Group is unable to establish any SpinCo Benefit Plan as of the Local Transfer Date (or the applicable Welfare Plan Date or such other date specified in this Agreement, if applicable) that it is required under this Agreement to establish by such date, then the SpinCo Group shall indemnify, defend and hold harmless each of the Parent Indemnitees from and against any and all Liabilities of the Parent Indemnitees relating to, arising out of or resulting from participation by any SpinCo Employee or Former SpinCo Employee on or after the Local Transfer Date (or the applicable Welfare Plan Date) in any such Parent Benefit Plan due to the failure to timely establish such SpinCo Benefit Plan or Plans. In addition, the SpinCo Group shall indemnify, defend and hold harmless each of the Parent Indemnitees from and against any and all Liabilities of the Parent Indemnitees relating to, arising out of or resulting from any claim by any SpinCo Employee or Former SpinCo Employee that Parent or any other member of the Parent Group is a “joint employer” or “co-employer” (or term of similar meaning under applicable Law) with SpinCo or any other member of the SpinCo Group or any such SpinCo Employee or Former SpinCo Employee on or after the Local Transfer Date (including, except as otherwise specifically provided in this Agreement or the TSA, with respect to a claim that any of the foregoing are entitled to participate in any Parent Benefit Plan at any time on or after the Local Transfer Date), except to the extent that any member of the Parent Group has taken affirmative and substantial action to treat a SpinCo Employee as a Parent Employee under the terms of this Agreement.

Section 17.03. Further Assurances. Article IX of the Separation Agreement is hereby incorporated into this Agreement *mutatis mutandis*.

Section 17.04. Administration. SpinCo hereby acknowledges that Parent has provided or will provide administration services for certain SpinCo Benefit Plans, and SpinCo agrees to assume sole responsibility for the administration and administration costs of such plans and each other SpinCo Benefit Plan. The Parties shall cooperate in good faith to complete such transfer of responsibility on commercially reasonable terms and conditions effective no later than the Local Transfer Date, the applicable Welfare Plan Date or the Workers' Compensation Claim Date.

Section 17.05. Third-Party Beneficiaries. Except as otherwise may be provided in the Separation Agreement with respect to the rights of any Parent Indemnitee or SpinCo Indemnitee, (a) no provisions of this Agreement shall be construed as a limitation on the right of the Parent Group or the SpinCo Group to amend any Benefit Plan or terminate its participation therein that the Parent Group or the SpinCo Group would otherwise have under the terms of such Benefit Plan or otherwise, (b) the provisions of this Agreement are solely for the benefit of the Parties and are not intended to confer any rights or remedies hereunder upon any Person except the Parties and (c) there are no third-party beneficiaries of this Agreement, and this Agreement shall not provide any third party with any remedy, claim, liability, reimbursement, cause of action or other right. Notwithstanding anything to the contrary set forth in this Agreement, no provisions of this Agreement shall be deemed to guarantee employment for any period of time for, or preclude the ability of Parent or any member of the Parent Group or SpinCo or any member of the SpinCo Group to terminate any employee or individual service provider for any reason.

Section 17.06. Employment Tax Reporting Responsibility. To the extent applicable, the Parties hereby agree to follow the alternate procedure for U.S. employment tax withholding as provided in Section 5 of Rev. Proc. 2004-53, I.R.B. 2004-35.

Section 17.07. Data Privacy. The Parties agree that any applicable data privacy Laws and any other obligations of the SpinCo Group and the Parent Group to maintain the confidentiality of any Information relating to employees in accordance with applicable Law shall govern the disclosure of Information relating to employees among the Parties under this Agreement. Parent and SpinCo shall use commercially reasonable efforts to ensure that they each have in place appropriate technical and organizational security measures to protect the personal data of the SpinCo Employees and Former SpinCo Employees. Additionally, each Party shall sign any documentation as may be required to comply with applicable data privacy Laws.

Section 17.08. Section 409A. The Parent Group and the SpinCo Group shall cooperate in good faith and use commercially reasonable efforts to ensure that the transactions contemplated by the Separation Agreement and the Ancillary Agreements, including this Agreement, will not result in adverse tax consequences under Section 409A of the Code to any Parent Employee, Former Parent Employee, SpinCo Employee or Former SpinCo Employee (or any of their respective beneficiaries) in respect of their respective benefits under any Benefit Plan.

Section 17.09. Confidentiality. Section 7.09 of the Separation Agreement is hereby incorporated into this Agreement *mutatis mutandis*.

Section 17.10. Employment Records. As of the Local Transfer Date, the Parent Group shall provide to the SpinCo Group employment records for SpinCo Employees and Former SpinCo Employees or copies thereof to the extent such records or copies are required to be provided to the SpinCo Group under applicable Law or the terms of this Agreement or the applicable Local Agreement or as otherwise agreed between the Parties, and the SpinCo Group shall accept and take delivery of such records or copies as of the Local Transfer Date. The SpinCo Group shall indemnify and hold harmless the Parent Group from and against any and all losses incurred as a result of claims or threatened claims by any SpinCo Employee or Former SpinCo Employee relating to the disclosure or use of the employment records for any non-employment-related purpose.

Section 17.11. Additional Provisions. Article XI of the Separation Agreement is hereby incorporated into this Agreement *mutatis mutandis*.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly authorized representatives.

International Business Machines Corporation

By: _____
Name:
Title:

Kyndryl Holdings, Inc.

By: _____
Name:
Title:

INTELLECTUAL PROPERTY AGREEMENT

by and between

International Business Machines Corporation

and

Kyndryl, Inc.

Dated as of [●], 2021

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INTELLECTUAL PROPERTY AGREEMENT, dated as of [•], 2021 (this “Agreement”), by and between International Business Machines Corporation, a New York corporation (“Parent”), and Kyndryl, Inc., a Delaware corporation (“SpinCo”).

RECITALS

WHEREAS, in connection with the contemplated Spin-Off and concurrently with the execution of this Agreement, Parent and Kyndryl Holdings, Inc. are entering into a Separation and Distribution Agreement (the “Separation Agreement”);

WHEREAS, pursuant to the Separation Agreement and the other Ancillary Agreements, as of the Distribution Date, the Parent IP has been allocated to the Parent Group and the SpinCo IP has been allocated to the SpinCo Group;

WHEREAS, the Parties wish to record the transfers of any registrations or applications of Parent IP and SpinCo IP, as applicable, to the extent the ownership thereof has transferred from a member of the Parent Group to a member of the SpinCo Group, or vice versa, pursuant to the Separation Agreement or any other Ancillary Agreement;

WHEREAS, it is the intent of the Parties that Parent grant to the SpinCo Group certain licenses to Intellectual Property as set forth herein, subject to the terms and conditions set forth in this Agreement; and

WHEREAS, it is the intent of the Parties that SpinCo grant to the Parent Group certain licenses to Intellectual Property as set forth herein, subject to the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained in this Agreement, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE I DEFINITIONS

Section 1.01. Definitions. As used in this Agreement, the following terms have the meanings set forth below and herein, and the terms defined in Exhibits, Schedules and Annexes shall have the meanings set forth therein. Capitalized terms used but not defined in this Agreement shall have the meanings ascribed to such terms in the Separation Agreement or any other Ancillary Agreement, as applicable.

“Bankruptcy Code” has the meaning set forth in Section 10.06.

“Copyrights” means all works of authorship, including common law rights and related registrations therefor, together with any moral rights related thereto.

“Divested Entity” has the meaning set forth in Section 8.02.

“Domain Names” means a unique string of characters or numbers used to identify a particular internet protocol address or uniform resource locator.

“Intellectual Property Assignment Agreements” has the meaning set forth in the US Contribution Agreement.

“Intellectual Property” means any of the following, as they exist anywhere in the world, whether registered or unregistered: (i) Patents, (ii) Trademarks, (iii) Domain Names, (iv) Copyrights, (v) Database Rights and (vi) Trade Secrets, including any intellectual property or proprietary rights similar to any of the foregoing prongs (i)-(vi). For the avoidance of doubt, “Intellectual Property” shall not include Contracts or other contractual rights (including license grants to or from Third Parties).

“Other Parent IP” means all Copyrights (other than Copyrights in Software, Databases and Documentation) and all Trade Secrets, in each case, owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution and used in the SpinCo Business, other than the Other SpinCo IP.

“Other SpinCo IP” means all Copyrights (other than Copyrights in Software, Databases and Documentation) and all Trade Secrets, in each case, owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution and exclusively related to the SpinCo Business.

“Parent Domain Names” means all Domain Names owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution, other than the SpinCo Domain Names.

“Parent Field of Use” means any and all businesses, operations, products and services.

“Parent IDs” means all invention disclosures owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution, other than the SpinCo IDs.

“Parent IP” means all Intellectual Property owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution, other than the SpinCo IP, including all (i) Parent Patents, (ii) the right to pursue and obtain Patent protection under the Parent IDs, (iii) Parent Trademarks, (iv) Parent Domain Names, (v) Copyrights in Parent Software and Licensed Documentation, (vi) Database Rights in Parent Databases and (vii) Other Parent IP.

“Parent Patents” means all Patents owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution, other than the SpinCo Patents. For the avoidance of doubt, “Parent Patents” includes the Patents identified on Schedule C and any other Patent that claims, or is entitled to claim, priority from any of the foregoing Patents.

“Parent Trademarks” means all Trademarks owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution, other than the SpinCo Trademarks.

“Party” means either party hereto, and “Parties” means both parties hereto.

“Patent Assignment Agreement” has the meaning set forth in the US Contribution Agreement.

“Patent Cross License Agreement” means that certain Patent Cross License Agreement, dated as of the date hereof, by and between Parent and SpinCo.

“Patents” means all patents and patent applications throughout the world, including reissues, continuations, divisionals and continuations-in-part, utility models and design patents and registrations, including typeface design patents and registrations.

“SpinCo Domain Names” means the Domain Names identified on Schedule A.

“SpinCo Field of Use” means the conduct of the SpinCo Business as conducted immediately prior to the Distribution, together with natural extensions and evolutions thereof.

“SpinCo IDs” means the Delayed Transfer IDs (as such term is defined in the US Contribution Agreement).

“SpinCo IP” means (i) the SpinCo Patents, (ii) the right to pursue and obtain Patent protection under the SpinCo IDs, (iii) the SpinCo Trademarks, (iv) the SpinCo Domain Names, (v) Copyrights in the Assigned Software and Assigned Documentation, (vi) Database Rights in the Assigned Databases and (vii) the Other SpinCo IP.

“SpinCo Patents” means (i) the Closing Date Patents (as such term is defined in the US Contribution Agreement) and (ii) the Delayed Transfer Patents (as such term is defined in the US Contribution Agreement).

“SpinCo Trademarks” means the Trademarks identified on Schedule B.

“Third Party” means any Person (including any Governmental Authority) who is not a member of the Parent Group or the SpinCo Group.

“Trade Secrets” means rights in information and data that (i) derive independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public, and (ii) are the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

“Trademarks” means a word, name, symbol, color, sound, or other device (or any combination thereof) used to indicate the source or origin of goods or services and to distinguish the goods or services of one party from those of another, including any brand names, logos, certification marks, collective marks, trade dress, tradenames and other indications of origin, all registrations in any jurisdiction of, and applications in any jurisdiction to register, the foregoing, including any extension, modification or renewal of any such registration or application, together with all goodwill associated therewith.

“US Contribution Agreement” means that certain Agreement relating to the contribution of certain assets and assumption of certain liabilities of International Business Machines Corporation, dated as of [●], 2021, by and between Parent and SpinCo.

ARTICLE II
INTELLECTUAL PROPERTY ASSIGNMENT

Section 2.01. Intellectual Property Assignment Agreements. In order to carry out the intent of the Parties with respect to the recordation of the transfers of any registrations or applications of SpinCo IP, to the extent the ownership thereof has transferred from a member of the Parent Group to a member of the SpinCo Group, pursuant to the Separation Agreement, the US Contribution Agreement or any other Ancillary Agreement, the Parties have executed intellectual property assignment agreements in the forms substantially similar to the Intellectual Property Assignment Agreements.

Section 2.02. Recordation. The relevant assignee Party shall have the sole responsibility, at its sole cost and expense, to file any Intellectual Property Assignment Agreements, including any short form intellectual property assignments attached thereto or such additional case specific assignments as deemed appropriate or necessary under applicable Laws, with the appropriate Governmental Authorities as required to record the transfer of any registrations or applications of SpinCo IP that is allocated under the Separation Agreement or any other Ancillary Agreement (including, for clarity, the US Contribution Agreement), as applicable, and the relevant assignor Party hereby consents to such recordation.

Section 2.03. Further Assurances.

(a) In addition to the actions specifically provided for elsewhere in this Agreement, each of the Parties shall use reasonable best efforts, prior to, on and after the Distribution Date, to take, or cause to be taken, all actions, and to do, or cause to be done, all things, reasonably necessary, proper or advisable under applicable Laws and agreements to consummate, and make effective, the transactions contemplated by this Agreement.

(b) Without limiting the foregoing, prior to, on and after the Distribution Date, each Party shall cooperate with the other Party, without any further consideration, but at the expense of the requesting Party, (i) to execute and deliver, or use reasonable best efforts to execute and deliver, or cause to be executed and delivered, all instruments, including any instruments of conveyance, assignment and transfer as such Party may reasonably be requested to execute and deliver by the other Party, and (ii) to take, or cause to be taken, all such other actions as such Party may reasonably be requested to take by the other Party from time to time, consistent with the terms of this Agreement, in order to effectuate the provisions and purposes of this Agreement.

ARTICLE III
LICENSES FROM PARENT TO SPINCO

Section 3.01. License Grants.

(a) Patents. No licenses to Patents are granted under this Agreement (including, for the avoidance of doubt, under Exhibit A hereto). The Parties acknowledge and agree that certain licenses with respect to the use by the SpinCo Group of certain Parent Patents shall be set forth in the Patent Cross License Agreement.

(b) Software and Databases. The Parties acknowledge and agree that certain licenses with respect to the use by the SpinCo Group of certain Parent Software and Parent Databases are set forth in Exhibit A hereto.

(c) Trademarks and Domain Names. No licenses to Domain Names are granted under this Agreement. The Parties acknowledge and agree that certain terms and conditions with respect to the SpinCo Group's transitional use of certain Parent Trademarks are set forth in Exhibit B.

(d) Other Parent IP.

(i) License Grant. Subject to the other terms and conditions of this Agreement, Parent, on behalf of itself and the Parent Group, hereby grants to SpinCo and the members of the SpinCo Group, under the Parent Group's Copyrights and Trade Secrets, a perpetual, irrevocable, sublicensable (subject to Section 3.01(d)(ii)), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine, transmit, and prepare and distribute Derivative Works, copies, reproductions, translations, combinations, and modifications of the Other Parent IP, solely as and to the extent such Other Parent IP is used by the SpinCo Group in the SpinCo Field of Use.

(ii) Sublicensing. The license granted in Section 3.01(d)(i) to the SpinCo Group includes the right to grant sublicenses within the scope of such license only to members of the SpinCo Group, and, without any further right to sublicense (except as necessary to provide products and services to customers of the SpinCo Group within the SpinCo Field of Use, solely for the benefit of such customers), to their respective (i) contractors, distributors, manufacturers, resellers, and other service providers, in each case solely within the SpinCo Field of Use, and (ii) End Users and customers, in each case solely in connection with the use of products and services within the SpinCo Field of Use or otherwise as necessary to provide products and services to customers of the SpinCo Business within the SpinCo Field of Use, for the benefit of such customers; provided, however, that the SpinCo Group may only sublicense such rights pursuant to terms and conditions as protective as those under which it licenses its own Intellectual Property of a similar nature and value, and in any event under terms and conditions that provide for commercially reasonable protection for the confidential and proprietary elements of the Other Parent IP. SpinCo shall cause all members of the SpinCo Group to comply with the terms set forth in this Section 3.01(d)(ii). The SpinCo Group shall remain liable for any breach or default of the applicable terms and conditions of this Agreement by any of its sublicensees.

ARTICLE IV LICENSES FROM SPINCO TO PARENT

Section 4.01. License Grants.

(a) Patents. No licenses to Patents are granted under this Agreement (including, for the avoidance of doubt, under Exhibit A hereto). The Parties acknowledge and agree that certain licenses with respect to the use by the Parent Group of certain SpinCo Patents shall be set forth in the Patent Cross License Agreement.

(b) Software and Databases. The Parties acknowledge and agree that certain licenses with respect to the use and retention of rights by the Parent Group of certain Assigned Software, Assigned Databases and Assigned Documentation are set forth in Exhibit A hereto.

(c) Trademarks and Domain Names. The Parties acknowledge and agree that no licenses are granted to the Parent Group in this Agreement with respect to any Trademarks or Domain Names.

(d) Other SpinCo IP.

(i) License Grant. Subject to the other terms and conditions of this Agreement, SpinCo, on behalf of itself and the SpinCo Group, hereby grants to Parent and the other members of the Parent Group, under the SpinCo Group's Copyrights and Trade Secrets, a perpetual, irrevocable, sublicensable (subject to Section 4.01(d)(ii)), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine, transmit, and prepare and distribute Derivative Works, copies, reproductions, translations, combinations, and modifications of the Other SpinCo IP, solely as and to the extent such Other SpinCo IP is used by the Parent Group in the Parent Field of Use.

(ii) Sublicensing. The license granted in Section 4.01(d)(i) to the Parent Group includes the right to grant sublicenses within the scope of such license only to members of the Parent Group, and, without any further right to sublicense (except as necessary to provide products and services to customers of the Parent Group within the Parent Field of Use, solely for the benefit of such customers), to their respective (i) contractors, distributors, manufacturers, resellers, and other service providers, in each case solely within the Parent Field of Use, and (ii) End Users and customers, in each case solely in connection with the use of products and services within the Parent Field of Use or otherwise as necessary to provide products and services to customers of the Parent Business within the Parent Field of Use, for the benefit of such customers; provided, however, that the Parent Group may only sublicense such rights pursuant to terms and conditions as protective as those under which it licenses its own Intellectual Property of a similar nature and value, and in any event under terms and conditions that provide for commercially reasonable protection for the confidential and proprietary elements of the Other SpinCo IP. Parent shall cause all members of the Parent Group to comply with the terms set forth in this Section 4.01(d)(ii). The Parent Group shall remain liable for any breach or default of the applicable terms and conditions of this Agreement by any of its sublicensees.

ARTICLE V ADDITIONAL INTELLECTUAL PROPERTY RELATED MATTERS

Section 5.01. Ownership. The Party receiving the license hereunder acknowledges and agrees that the Party (or the applicable member of its Group) granting the license is the sole and exclusive owner of the Intellectual Property rights so licensed.

Section 5.02. Licenses. Any license of Intellectual Property by either Party or any member of its Group to the other Party or any member of its Group pursuant to ARTICLE III, ARTICLE IV or Exhibit A hereto, respectively, shall be subject to the applicable licenses, covenants and restrictions set forth herein or therein.

Section 5.03. No License. No license, immunity or other right is granted pursuant to this Agreement by either Party to the other Party, either directly or by implication, estoppel, or otherwise, under any Intellectual Property right, other than as expressly set forth in this Agreement, and all other rights under any Intellectual Property licensed to a Party or the members of its Group hereunder are expressly reserved by the Party granting the license.

Section 5.04. Corrections to Schedules and Annexes. Without limiting Section 2.01(b) of the Separation Agreement, the Parties acknowledge and agree that, in the event that either Party notifies the other Party within twelve (12) months following the Distribution that there was an inadvertent omission or inclusion of any item in any Schedule or Annex to this Agreement (including any Schedule or Annex to an Exhibit hereto), the Parties agree to promptly work in good faith to modify such Schedule or Annex so that it accurately reflects the intent of the Parties as of the Distribution. Any such modification to any Schedule or Annex made pursuant to this Section 5.04 shall be treated by the Parties for all purposes as if it had been included on such Schedule or Annex as of the Distribution.

Section 5.05. No Obligation To Prosecute, Maintain or Enforce Intellectual Property. Except as expressly set forth in this Agreement, no Party or any member of its Group shall have any obligation to seek, perfect or maintain any protection for any of its Intellectual Property. Without limiting the generality of the foregoing, except as expressly set forth in this Agreement, no Party or any member of its Group shall have any obligation to file any Patent application, to prosecute any Patent, or secure any Patent rights or to maintain any Patent in force. Neither Party shall have any obligation hereunder to institute any action or suit against Third Parties for infringement of any of its Intellectual Property or to defend any action or suit brought by a Third Party which challenges or concerns the validity of any of its Intellectual Property. Neither Party shall have any right to institute any action or suit against Third Parties for infringement of any of the other Party's Intellectual Property.

Section 5.06. Improvements. Neither Party nor any member of its Group shall have any obligation under this Agreement to disclose or license to the other Party any Derivative Works or other improvements made by or on behalf of such Party or any member of its Group (i) to any Intellectual Property owned by such Party or its Group or (ii) to the extent permitted under this Agreement, to any Intellectual Property licensed to such Party or its Group hereunder.

Section 5.07. No Technical Assistance. Neither Party or any member of its Group shall be required under this Agreement to furnish, disclose, deliver or otherwise provide copies of or access to any Software, Databases, Documentation, Trade Secrets, or embodiments of any other Intellectual Property. Neither Party or any member of its Group shall be required under this Agreement to provide (i) any support or maintenance to the other Party or its customers, (ii) any technical assistance, consultation, training, or other support for installation, enhancement or maintenance or (iii) any assistance with respect to adding, creating or modifying any encryption functionality.

Section 5.08. Data Privacy and Security Terms. SpinCo (on behalf of itself and each other member of the SpinCo Group) acknowledges and agrees that any use of or access to any information or data assigned or licensed to SpinCo or any member of its Group hereunder, or to which SpinCo or any member of its Group has access to hereunder, shall comply with the requirements set forth in Exhibit C.

ARTICLE VI CONFIDENTIAL INFORMATION

Section 6.01. Confidentiality. All confidential Information of a Party disclosed to the other Party under this Agreement shall be deemed Specified Confidential Information (as that term is defined in the Separation Agreement), shall be subject to the provisions of Section 7.09 of the Separation Agreement, and may be used by the receiving Party pursuant to this Agreement for the sole and express purpose of effecting the licenses granted herein.

ARTICLE VII LIMITATION ON LIABILITY AND WARRANTY DISCLAIMER

Section 7.01. Limitation on Liability. Without limiting the terms set forth in Section 6.10 of the Separation Agreement, none of Parent, SpinCo or any other member of either Group shall in any event have any Liability to the other or to any other member of the other's Group under this Agreement for any indirect, special, punitive or consequential damages, whether or not caused by or resulting from negligence or breach of obligations hereunder and whether or not informed of the possibility of the existence of such damages.

Section 7.02. Disclaimer of Representations and Warranties. Each of Parent (on behalf of itself and each other member of the Parent Group) and SpinCo (on behalf of itself and each other member of the SpinCo Group) understands and agrees that, except as expressly set forth in Section 10.01(c), no Party is representing or warranting in any way, including any implied warranties of merchantability, fitness for a particular purpose, title, registerability, allowability, enforceability or non-infringement, (i) as to any Intellectual Property licensed or assigned hereunder, (ii) as to the sufficiency of the Intellectual Property licensed or assigned hereunder for the conduct and operations of the SpinCo Business or the Parent Business, as applicable, (iii) as to the value or freedom from any Security Interests of, or any other matter concerning, any Intellectual Property licensed or assigned hereunder, (iv) as to the absence of any defenses or rights of setoff or freedom from counterclaim with respect to any claim or other Intellectual Property of any such Party, (v) as to the legal sufficiency of any assignment, document or instrument delivered hereunder to convey title to any Intellectual Property or thing of value upon the execution, delivery and filing hereof or thereof or (vi) as to whether the other Party will or will not require a license under other Intellectual Property to make, use, import, offer for sale, sell or otherwise transfer products or to otherwise operate under the licenses or rights granted herein. All Intellectual Property is being licensed or assigned on an "as is," "where is" basis and the respective licensees shall bear the economic and legal risks related to the use of the Parent IP in the SpinCo Business or the SpinCo IP in the Parent Business, as applicable.

ARTICLE VIII
TRANSFERABILITY AND ASSIGNMENT

Section 8.01. No Assignment or Transfer Without Consent. Except as expressly set forth in this Agreement, neither this Agreement nor any of the rights, interests or obligations under this Agreement, including the licenses granted pursuant to this Agreement, shall be assigned, in whole or in part, by operation of Law or otherwise by either Party without the prior written consent of the other Party. Any purported assignment without such consent shall be void. Subject to the preceding sentences, this Agreement will be binding upon, inure to the benefit of, and be enforceable by, the Parties and their respective successors and assigns. Notwithstanding the foregoing, if any Party to this Agreement (or any of its successors or permitted assigns) (a) shall enter into a consolidation or merger transaction in which such Party is not the surviving entity and the surviving entity acquires or assumes all or substantially all of such Party's Assets, (b) shall transfer all or substantially all of such Party's Assets to any Person or (c) shall assign this Agreement to such Party's Affiliates, then, in each such case, the assigning Party (or its successors or permitted assigns, as applicable) shall ensure that the assignee or successor-in-interest expressly assumes in writing all of the obligations of the assigning Party under this Agreement, and the assigning Party shall not be required to seek consent, but shall provide written notice and evidence of such assignment, assumption or succession to the non-assigning Party. No assignment permitted by this Section 8.01 shall release the assigning Party from liability for the full performance of its obligations under this Agreement. For the avoidance of doubt, in no event will the licenses granted in this Agreement extend to products, services or other activities of the assignee existing on or before the date of the transaction described in clauses (a) or (b) of the preceding sentence, except to the extent that they were licensed under the terms of this Agreement prior to such transaction.

Section 8.02. Divested Businesses. In the event a Party divests a line of business or line of products or services by (a) spinning off a member of its Group, including by its sale or other disposition to a Third Party or by its public offering, (b) reducing ownership or control in a member of its Group so that it no longer qualifies as a member of its Group under this Agreement, (c) selling or otherwise transferring such line of business, products or services to a Third Party or (d) forming a joint venture with a Third Party with respect to such line of business, products or services (each such divested entity or line of business, products or services, a "Divested Entity"), the Divested Entity shall retain those licenses granted to it under this Agreement; provided, however, that the license shall be limited to the business, products or services (as applicable) of the Divested Entity as of the date of divestment and such natural extensions and evolutions thereof within the SpinCo Field of Use or the Parent Field of Use, as applicable. The retention of any license grants are subject to the Divested Entity's and, in the event it is acquired by a Third Party, such Third Party's execution and delivery to the non-transferring Party, within ninety (90) days of the effective date of such divestment, of a duly authorized, written undertaking, agreeing to be bound by the applicable terms of this Agreement. For the avoidance of doubt, (i) in no event will the licenses retained by a Divested Entity extend to products, services or other activities of a Third Party acquirer existing on or before the date of the divestment, except to the extent that they were licensed under the terms of this Agreement prior to such divestment and (ii) in the event that a Divested Entity owns any Intellectual Property licensed to the other Party under this Agreement, such Intellectual Property may be transferred or assigned with such Divested Entity subject to the terms and conditions of this Agreement.

**ARTICLE IX
TERMINATION OF AGREEMENT**

Section 9.01. Termination of Agreement by Both Parties. Subject to Section 9.02, this Agreement may not be terminated except by an agreement in writing signed by a duly authorized officer of each of the Parties.

Section 9.02. Termination of Agreement Prior to the Distribution. This Agreement may be terminated by Parent at any time, in its sole discretion, prior to the Distribution; provided, however, that this Agreement (and all licenses herein) shall automatically terminate upon the termination of the Separation Agreement in accordance with its terms.

Section 9.03. Effect of Termination of Agreement; Survival. In the event of any termination of this Agreement prior to the Distribution, neither Party (nor any member of their Group or any of their respective directors or officers) shall have any Liability or further obligation to the other Party or any member of its Group under this Agreement. Except with respect to termination of the Agreement under Section 9.02, notwithstanding anything in this Agreement to the contrary, ARTICLE I, ARTICLE III, ARTICLE IV, ARTICLE VI, ARTICLE VII, this Section 9.03, ARTICLE X and Exhibit A shall survive any termination of this Agreement.

**ARTICLE X
MISCELLANEOUS**

Section 10.01. Counterparts; Entire Agreement; Corporate Power.

(a) This Agreement may be executed in one or more counterparts, all of which counterparts shall be considered one and the same agreement, and shall become effective when one or more counterparts have been signed by each Party and delivered to the other Party. This Agreement may be executed by facsimile or PDF signature and scanned and exchanged by electronic mail, and such facsimile or PDF signature or scanned and exchanged copies shall constitute an original for all purposes.

(b) The Exhibits, Schedules and Annexes to this Agreement, whether attached hereto or referred to in this Agreement, are incorporated herein and made a part hereof. This Agreement and the Exhibits, Schedules and Annexes hereto and thereto contain the entire agreement between the Parties with respect to the subject matter hereof and supersede all previous agreements, negotiations, discussions, writings, understandings, commitments and conversations with respect to such subject matter, and there are no agreements or understandings between the Parties with respect to the subject matter hereof other than those set forth or referred to herein or therein. In the event of conflict or inconsistency between the provisions of this Agreement or the Separation Agreement, the provisions of this Agreement shall prevail and remain in full force and effect.

(c) Parent represents on behalf of itself and each other member of the Parent Group, and SpinCo represents on behalf of itself and each other member of the SpinCo Group, as follows:

(i) each such Person has the requisite corporate or other power and authority and has taken all corporate or other action necessary in order to execute, deliver and perform this Agreement and to consummate the transactions contemplated hereby; and

(ii) this Agreement has been duly executed and delivered by it and constitutes, or will constitute, a valid and binding agreement of it enforceable in accordance with the terms thereof.

Section 10.02. Additional Provisions. Sections 11.02 – 11.07 of the Separation Agreement are hereby incorporated into this Agreement *mutatis mutandis*.

Section 10.03. Notices. All notices or other communications under this Agreement shall be in writing and shall be deemed to be duly given (a) when delivered in person, (b) on the date received, if sent by a nationally recognized delivery or courier service, (c) upon written confirmation of receipt after transmittal by electronic mail or (d) upon the earlier of confirmed receipt or the fifth (5th) business day following the date of mailing if sent by registered or certified mail, return receipt requested, postage prepaid and addressed as follows:

If to Parent, to:

International Business Machines Corporation
One New Orchard Road
Armonk, NY 10504
Attn: General Manager, Corporate Development and Strategy

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Attn: Scott A. Barshay
Steven J. Williams
Laura C. Turano
Jonathan Ashtor
Email: sbarshay@paulweiss.com
swilliams@paulweiss.com
lturano@paulweiss.com
jashtor@paulweiss.com
Facsimile: 212-492-0040

If to SpinCo, to:

Kyndryl, Inc.
One Vanderbilt Avenue, 15th Floor
New York, NY 10017
Attn: Steve Kurlowecz, Chief IP Counsel

Either Party may, by notice to the other Party, change the address and identity of the Person to which such notices and copies of such notices are to be given. Each Party agrees that nothing in this Agreement shall affect the other Party's right to serve process in any other manner permitted by Law (including pursuant to the rules for foreign service of process authorized by the Hague Convention).

Section 10.04. Third Party Beneficiaries. Except as otherwise expressly set forth herein or as otherwise may be provided in the Separation Agreement with respect to the rights of any Parent Indemnitee or SpinCo Indemnitee, in his, her or its respective capacities as such, (a) the provisions of this Agreement are solely for the benefit of the Parties hereto and are not intended to confer upon any Person except the Parties hereto any rights or remedies hereunder and (b) there are no Third Party beneficiaries of this Agreement and this Agreement shall not provide any third person with any remedy, claim, liability, reimbursement, cause of action or other right in excess of those existing without reference to this Agreement.

Section 10.05. Import and Export Control. Each Party will comply with all applicable export and import laws and associated embargo and economic sanction regulations, including those of the United States, that prohibit or restrict the export, re-export, or transfer of products, technology, services or data, directly or indirectly, to certain countries, or for certain end uses or end users.

Section 10.06. Bankruptcy. The Parties acknowledge and agree that all rights and licenses granted by the other under or pursuant to this Agreement are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the United States Bankruptcy Code, as amended (the "Bankruptcy Code"), licenses of rights to "intellectual property" as defined under Section 101 of the Bankruptcy Code. The Parties agree that, notwithstanding anything else in this Agreement, Parent and the members of the Parent Group and SpinCo and the members of the SpinCo Group, as licensees of such Intellectual Property under this Agreement, shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code (including Parent's and the Parent Group members' and SpinCo's and the SpinCo Group members' right to the continued enjoyment of the rights and licenses respectively granted under this Agreement).

Section 10.07. Severability. If any provision of this Agreement or the application thereof to any Person or circumstance is determined by a court or arbitrator of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such provision to Persons or circumstances, or in jurisdictions other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to either Party. Upon any such determination, any such provision, to the extent determined to be invalid, void or unenforceable, shall be deemed replaced by a provision that such court determines is valid and enforceable and that comes closest to expressing the intention of the invalid, void or unenforceable provision.

Section 10.08. Expenses. Except as set forth on Schedule XXII to the Separation Agreement, as otherwise expressly provided in this Agreement or the Separation Agreement, (i) all Third Party fees, costs and expenses incurred by either the Parent Group or the SpinCo Group in connection with effecting the Spin-Off prior to or on the Distribution Date (but excluding, for the avoidance of doubt, any financing fees or interest payable in respect of any indebtedness incurred by SpinCo in connection with the Spin-Off), will be borne and paid by Parent and (ii) all Third Party fees, costs and expenses incurred by either the Parent Group or the SpinCo Group in connection with effecting the Spin-Off following the Distribution Date, will be borne and paid by the Party incurring such fee, cost or expense. For the avoidance of doubt, this Section 10.08 shall not affect each Party's responsibility to indemnify Parent Liabilities or SpinCo Liabilities, as applicable, arising from the transactions contemplated by the Distribution.

Section 10.09. Headings. The article, section and paragraph headings contained in this Agreement, including in the table of contents of this Agreement, are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 10.10. Survival of Covenants. Except as expressly set forth in this Agreement, the covenants in this Agreement and the Liabilities for the breach of any obligations in this Agreement shall survive the Spin-Off and shall remain in full force and effect.

Section 10.11. Waivers of Default. No failure or delay of any Party (or the applicable member of its Group) in exercising any right or remedy under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such right or power, or any course of conduct, preclude any other or further exercise thereof or the exercise of any other right or power. Waiver by any Party of any default by the other Party of any provision of this Agreement shall not be deemed a waiver by the waiving Party of any subsequent or other default.

Section 10.12. Amendments. No provisions of this Agreement shall be deemed waived, amended, supplemented or modified by any Party, unless such waiver, amendment, supplement or modification is in writing and signed by the authorized representative of each Party.

Section 10.13. Interpretation. Words in the singular shall be held to include the plural and vice versa and words of one gender shall be held to include the other gender as the context requires. The terms “hereof,” “herein,” “herewith” and words of similar import, unless otherwise stated, shall be construed to refer to this Agreement as a whole (including all of the Exhibits, Schedules and Annexes hereto) and not to any particular provision of this Agreement. Article, Section, Schedule or Annex references are to the articles, sections, schedules and annexes of or to this Agreement or the applicable Exhibit, unless otherwise specified. Any capitalized terms used in any Exhibit, Schedule or Annex to this Agreement but not otherwise defined therein shall have the meaning as defined in this Agreement. Any definition of or reference to any agreement, instrument or other document herein (including any reference herein to this Agreement) shall, unless otherwise stated, be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth therein, including in Section 10.12 above). The word “including” and words of similar import when used in this Agreement shall mean “including, without limitation,” unless the context otherwise requires or unless otherwise specified. The word “or” shall not be exclusive. The word “extent” in the phrase “to the extent” shall mean the degree to which a subject or other thing extends, and such phrase shall not mean simply “if.” All references to “\$” or dollar amounts are to the lawful currency of the United States of America. In the event that an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring either Party by virtue of the authorship of any provisions hereof.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Intellectual Property Agreement to be executed by their duly authorized representatives.

INTERNATIONAL BUSINESS MACHINES CORPORATION

By: _____
Name:
Title:

KYNDRYL, INC.

By: _____
Name:
Title:

[Signature Page to Intellectual Property Agreement]

EXHIBIT A

SOFTWARE AND DATABASE LICENSE TERMS

ARTICLE I DEFINITIONS

Section 1.01. Definitions. The following terms shall have the following meanings and, unless stated otherwise, all references to “Section,” “Article” or “Annex” herein shall be to such Section, Article or Annex of this Exhibit A.

“Assigned Databases” means (i) the Databases set forth in Annex A and (ii) any other Databases owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution that were solely developed in the conduct of, or acquired solely for use in, the SpinCo Business at any time prior to the Distribution Date. For the avoidance of doubt, “Assigned Databases” shall not include any Third Party Commercial Databases.

“Assigned Documentation” means the Documentation (or portions thereof) owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution and exclusively used in conjunction with the Assigned Software or the Assigned Databases, including the folders set forth in Annex B.

“Assigned Restricted Research Assets” has the meaning set forth in Annex J.

“Assigned Restricted Software” has the meaning set forth in Annex J.

“Assigned Software” means (i) the SpinCo Software Programs, (ii) the SpinCo Research Assets and (iii) any other Software owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution that was solely developed in the conduct of, or acquired solely for use in, the SpinCo Business at any time prior to the Distribution Date, in each case, excluding Common Code, Parent JDK, Parent JRE, Parent Commercial Programs, or Internal Tools. A list containing registered Copyrights relating to the Assigned Software is set forth in Annex C. For the avoidance of doubt, “Assigned Software” shall not include any Third Party Commercial Software or OSS.

“Assigned Unrestricted Research Assets” means the SpinCo Research Assets that are identified in Annex H as “Unrestricted.”

“Code Fragment” means a portion or portions of the Assigned Software that have been incorporated by the Parent Group or the SpinCo Group, prior to the Distribution Date, into Software other than the Assigned Software and (i) do not constitute the primary functionality of the Assigned Software and (ii) cannot, either separately or in aggregate, be used to reconstruct the Assigned Software.

“Commercial License Agreement” means Parent’s standard license or support agreement for the Parent Commercial Programs.

“Common Code” means any Software library, package or module that is used by or in conjunction with both (i) any Parent Software (other than such library, package or module itself) and (ii) any Assigned Software, including the items set forth in Annex D. For the avoidance of doubt, “Common Code” shall not include any Third Party Commercial Software, or OSS.

“Database” means all databases, datasets, and collections and compilations of data, in any form or medium (including knowledge databases, customer lists and customer databases).

“Database Rights” means all Copyrights in Databases and any other statutory and common law rights in Databases under the laws of any jurisdiction, whether registered or unregistered, and any applications for registration therefor.

“Derivative Work” has the meaning ascribed to such term under the United States Copyright statute, 17 USC sec. 101.

“Documentation” means the tangible and electronic documentary materials, including marketing materials, used in conjunction with any Software or Database.

“End User” means an entity that uses a product or service for its own productive use or solely for its internal purposes and which does not remarket, sell, license, or lease the product or service to other Persons.

“Internal Tools” means any Software program that is (i) used to build, test, or develop both (x) any Parent Software (other such program itself) and (y) any Assigned Software or (ii) used internally in the conduct of the businesses of both the Parent Group and the SpinCo Group, in each case (i) and (ii), including the items set forth in Annex E. For the avoidance of doubt, “Internal Tools” shall not include any Third Party Commercial Software, or OSS.

“Licensed Databases” means the Parent Databases used in the SpinCo Business. For the avoidance of doubt, “Licensed Databases” shall not include any Third Party Commercial Databases.

“Licensed Documentation” means any Documentation owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution that is used in the SpinCo Business, other than the Assigned Documentation.

“Object Code” means computer programming code, substantially or entirely in binary form, which is intended to be directly executable by a computer after suitable processing but without the intervening steps of compilation or assembly, including byte code. For computer software written in non-compiled or scripting languages, such as JavaScript, the Object Code includes those files in the form in which they are distributed to End Users under a Commercial License Agreement.

“Open Source Software” or “OSS” means any Software of which: (i) the Source Code is available to the public for inspection and use by others and (ii) the terms and conditions of the applicable license agreement permit recipients of the program freely (and without the subsequent payment of any fee or royalty) to copy, modify and distribute the program’s Source Code.

“Other Licensed Software” means the non-commercial Parent Software used in the SpinCo Business, other than any Common Code, Parent JDK, Parent JRE, Parent Commercial Programs, or Internal Tools. For the avoidance of doubt, “Other Licensed Software” shall not include any Third Party Commercial Software or OSS.

“Parent Commercial Programs” means any commercially available Software developed, marketed, offered or supported by the Parent Group at any time prior to the Distribution, including the items set forth in Annex E.

“Parent Databases” means all Databases owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution Date, other than the Assigned Databases.

“Parent JDK” means Parent’s versions of the Java Development Kit derived from code originally provided by Sun Microsystems or Oracle America, Inc., which have been, as of the Distribution Date, used in the development of the Assigned Software.

“Parent JRE” means Parent’s versions of the Java Runtime Environment derived from code originally provided by Sun Microsystems or Oracle America, Inc., which have been, as of the Distribution Date, used in conjunction with the Assigned Software.

“Parent Licensed Materials” means the Common Code, Other Licensed Software, Internal Tools, Licensed Databases and Licensed Documentation.

“Parent Software” means all Software owned by the Parent Group or the SpinCo Group as of immediately prior to the Distribution Date, other than the Assigned Software.

“PCP Requirements” has the meaning set forth in Section 4.05(a).

“Software” means any set of instructions that controls the operation of a computer or similar electronic device, including firmware embedded in hardware devices, code (including Source Code and Object Code), programs, operating systems, subroutines, and interfaces, including APIs, protocols and algorithm. For the avoidance of doubt, “Software” shall not include Databases or Documentation.

“Source Code” means computer programming code other than Object Code and includes code that may be displayed in a form readable and understandable by a programmer of ordinary skill, including any related code level system documentation, comments and procedural code, such as job control language.

“SpinCo Commercial Programs” means the commercially available SpinCo Software Programs identified in Annex G.

“SpinCo Licensed Materials” means the Assigned Software, including any Code Fragments therein, Assigned Documentation and Assigned Databases.

“SpinCo Research Assets” means the Software identified in Annex H.

“SpinCo Software Programs” means the Software identified in Annex I.

“Third Party Commercial Database” means any Database licensed to the Parent Group or the SpinCo Group by a Third Party as of immediately prior to the Distribution and used in the SpinCo Business.

“Third Party Commercial Software” means the Software to which any Third Party owns Intellectual Property rights, excluding OSS. Third Party Commercial Software also includes documents or logos (collectively, when used in regards to Third Party Commercial Software, “materials”) to which one or more Third Parties own the Intellectual Property rights.

ARTICLE II LICENSES FROM PARENT TO SPINCO

Section 2.01. Licenses to SpinCo Group. Subject to the other terms and conditions of this Agreement, Parent, on behalf of itself and the Parent Group, hereby grants to SpinCo and the members of the SpinCo Group, in each case solely within the SpinCo Field of Use:

(a) Common Code and Other Licensed Software. Under the Parent Group’s Copyrights, a perpetual, irrevocable, sublicensable (subject to Section 2.02), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine with other Software or hardware, transmit, and prepare and distribute Derivative Works of the Common Code and the Other Licensed Software, in each case, solely as and to the extent such Common Code or such Other Licensed Software is used by the SpinCo Group in the SpinCo Field of Use; provided, however, that with respect to Common Code or Other Licensed Software that, as of immediately prior to the Distribution, was in the possession of the SpinCo Group in Object Code form only, (i) the foregoing license shall not include any rights to modify, or prepare or distribute Derivative Works of, any Source Code of such Common Code or such Other Licensed Software and (ii) such Common Code and such Other Licensed Software shall not be distributed independently of the Assigned Software by or in conjunction with which it is used;

(b) Internal Tools. Under the Parent Group’s Copyrights, a perpetual, irrevocable, sublicensable (subject to Section 2.02), worldwide, non-exclusive, royalty-free, fully paid-up right and license to:

(i) with respect to the Internal Tools designated for “Hard Segmentation” in Annex E, use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine with other Software or hardware, transmit, and prepare and distribute Derivative Works of such Internal Tools in each case, solely as and to the extent such Internal Tools are used by the SpinCo Group in the SpinCo Field of Use, and

(ii) with respect to all other Internal Tools, use, internally, reproduce, perform and display such Internal Tools in Object Code form only, (x) for the purpose of further building, testing and developing the Assigned Software or any other Software developed by the SpinCo Group after the Distribution within the SpinCo Field of Use or (y) for internal use by the SpinCo Group in the SpinCo Field of Use, in each case as applicable for such Internal Tool and without the right to prepare or distribute Derivative Works of such Internal Tool.

(c) Licensed Databases. Under the Parent Group's Database Rights, a perpetual, irrevocable, sublicensable (subject to Section 2.02), worldwide, non-exclusive, royalty-free, fully paid-up right and license to (i) use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine with Software or hardware, transmit, and prepare and distribute Derivative Works of the Licensed Databases, solely as and to the extent such Licensed Databases are used by the SpinCo Group in the SpinCo Field of Use and (ii) extract data from the Licensed Databases and to re-utilize such data, solely as and to the extent such data is used by the SpinCo Group in the SpinCo Field of Use; and

(d) Licensed Documentation. Under the Parent Group's Copyrights, a perpetual, irrevocable, sublicensable (subject to Section 2.02), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, reproduce, distribute, perform, display, and prepare and distribute Derivative Works of the Licensed Documentation, solely as and to the extent such Licensed Documentation is used by the SpinCo Group in the SpinCo Field of Use; provided, however, that the Licensed Documentation associated with the Assigned Software or Assigned Databases, or any Derivative Works thereof shall not be used or distributed independently of products, services or releases that incorporate the Assigned Software, Assigned Databases or such Derivative Works thereof.

Section 2.02. Sublicensing. The licenses granted in Section 2.01 to the SpinCo Group include the right to grant sublicenses within the scope of such licenses only to members of the SpinCo Group, and, without any further right to sublicense (except as necessary to provide products and services to customers of the SpinCo Group within the SpinCo Field of Use, solely for the benefit of such customers), to their respective (i) contractors, distributors, manufacturers, resellers, and other service providers, in each case solely within the SpinCo Field of Use and (ii) End Users and customers, in each case solely in connection with the use of products and services within the SpinCo Field of Use or otherwise as necessary to provide products and services to customers of the SpinCo Business within the SpinCo Field of Use, for the benefit of such customers; provided, however, that the SpinCo Group may only sublicense such rights pursuant to terms and conditions as protective as those under which it licenses its own Software or Databases of a similar nature and value, and in any event terms and conditions that provide for commercially reasonable protection for the Source Code, structure and other confidential and proprietary elements of the Parent Licensed Materials. SpinCo shall cause all members of the SpinCo Group to comply with the terms set forth in this Section 2.02. The SpinCo Group shall remain liable for any breach or default of the applicable terms and conditions of this Exhibit A by any of its sublicensees.

Section 2.03. License Restrictions. The licenses granted in Section 2.01 are subject to the following additional restrictions:

(a) the SpinCo Group shall make no representations or warranties about or on behalf of the Parent Group;

(b) distribution and providing End Users access to SpinCo Group products or services shall comply with all applicable Laws, including those related to privacy, export and import, including those of the United States and those that prohibit or restrict distributions for certain end uses or End Users;

(c) the SpinCo Group shall not perform any actions with regard to the Parent Licensed Materials that could require the Source Code of the Parent Licensed Materials to be licensed under any OSS license or be disclosed to any Third Party;

(d) for any component of the Parent Licensed Materials that is provided or licensed in Object Code, the SpinCo Group shall not, and shall not allow any Third Party to, reverse assemble, reverse compile, decompile, translate, or otherwise attempt to discover the Source Code of such component, except as permitted by Law, without the possibility of contractual waiver and shall include such requirements in all downstream licenses;

(e) notwithstanding any other provision of this Agreement to the contrary, the SpinCo Group shall maintain the Parent copyright notice and all other Parent Group proprietary notices (if any) as provided in the Parent Licensed Materials;

(f) all distributions of SpinCo Group products or services incorporating Common Code, Other Licensed Software, Licensed Databases or Licensed Documentation, or access thereto by End Users, as the case may be, shall be under a written license agreement that will include the provisions set out below or their legal equivalent. For SpinCo's reference, the phrase "the third party" in subsections (i) – (ix) below, refers to Parent (or another member of the Parent Group, as applicable), although the SpinCo Group shall use the phrase "the third party" and not identify any member of the Parent Group:

(i) the product or service contains materials licensed from a third party, and SpinCo or customer has assumed responsibility for these materials and their use in the product or service;

(ii) the third party Software, Database, or Documentation in the product or service is licensed, and not sold, and neither the third party nor SpinCo passes any title to such Software, Database, or Documentation;

(iii) the End User is prohibited from copying any part or portion of the third party Software, Database, or Documentation or from preparing any Derivative Work thereof, or otherwise modifying the third party Software, Database, or Documentation;

(iv) the End User may not assign, sublicense, distribute, lease, rent, or otherwise transfer the third party Software, Database or Documentation;

(v) the End User may neither distribute the product or service nor offer the product or service as a cloud service or software-as-a-service;

(vi) the End User is prohibited from reverse assembling, reverse compiling, translating or otherwise trying to discover the Source Code form of any Software provided in Object Code form, except as permitted by the national or regional law of the places where the End User does business (without the opportunity for contractual waiver), and then only with respect to the particular copy of Object Code incorporated into that particular product or service;

(vii) warranties, including any implied warranties, are provided solely by SpinCo and not by the third party;

(viii) in such written license agreements, SpinCo will include a provision limiting liability and terms excluding all consequential damages effective to limit the Parent Group's liability, and an audit provision sufficient to enable SpinCo to fulfill its obligations under this Agreement; and

(ix) in such written license agreements, SpinCo will also include the following statement, or other legally sufficient and wholly comparable terms: "The limitation of liabilities described in this agreement also applies to the third party supplier. Such third party supplier is an intended beneficiary of this agreement, and any rights of indemnification also apply to any third party supplier described in this agreement. A list of such third party beneficiaries will be provided on written request";

(g) Any action that breaches Section 2.01, Section 2.02 or this Section 2.03 is beyond the scope of the licenses granted in this Agreement. Any distribution of Common Code, Other Licensed Software, Licensed Databases or Licensed Documentation permitted under Section 2.01 may be through multiple tiers of distribution in the SpinCo Group's channel; and

(h) SpinCo shall cause all members of the SpinCo Group to comply with each of the restrictions set forth in this Section 2.03.

Section 2.04. Suspension of Licenses to Parent Licensed Materials. The licenses to the Parent Licensed Materials granted hereunder are irrevocable, even in the event of a material breach; provided, however, that any such license may be suspended by the Parent Group only in the event of a material breach thereof, including unauthorized use or distribution, by any SpinCo Group member that remains uncured for thirty (30) days following SpinCo's receipt of written notice from a member of the Parent Group specifying such breach. Upon suspension of the SpinCo Group's licenses, the SpinCo Group shall immediately cease all use of the specific Parent Licensed Materials that are the subject of such material breach until such material breach or unauthorized use or distribution by the SpinCo Group is cured and SpinCo certifies to Parent in writing as to such cure.

Section 2.05. Reservation of Rights. Parent Licensed Materials are licensed and not sold, and nothing in this Agreement grants the SpinCo Group any ownership right, title, or interest in or to the Parent Licensed Materials. The SpinCo Group shall use the Parent Licensed Materials only for the purposes expressly permitted by this Agreement.

ARTICLE III
LICENSES FROM SPINCO TO PARENT

Section 3.01. Licenses to Parent Group. Notwithstanding the provisions of Section 2.01, SpinCo, on behalf of itself and the SpinCo Group, hereby grants to Parent and the other members of the Parent Group, in each case solely within the Parent Field of Use:

(a) Assigned Software. Under the SpinCo Group's Copyrights, a perpetual, irrevocable, sublicensable (subject to Section 3.04), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine with other Software or hardware, transmit, and prepare and distribute Derivative Works of the Assigned Software (other than Assigned Unrestricted Research Assets) solely as and to the extent such Assigned Software is used by the Parent Group in the Parent Field of Use; provided, however, that with respect to Assigned Software (other than Assigned Unrestricted Research Assets) that, as of immediately prior to the Distribution, was in the possession of the Parent Group in Object Code form only, the foregoing license shall not include any rights to modify, or prepare or distribute Derivative Works of, any Source Code of such Assigned Software;

(b) Assigned Databases. Under the SpinCo Group's Database Rights, a perpetual, irrevocable, sublicensable (subject to Section 3.04), worldwide, non-exclusive, royalty-free, fully paid-up right and license to (i) use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine with Software or hardware, transmit, and prepare and distribute Derivative Works of the Assigned Databases, solely as and to the extent such Assigned Databases are used by the Parent Group in the Parent Field of Use and (ii) extract data from the Assigned Databases and to re-utilize such data, solely as and to the extent such data is used by the Parent Group in the Parent Field of Use; and

(c) Assigned Documentation. Under the SpinCo Group's Copyrights, a perpetual, irrevocable, sublicensable (subject to Section 3.04), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, reproduce, distribute, perform, display, and prepare and distribute Derivative Works of the Assigned Documentation solely as and to the extent such Assigned Documentation is used by the Parent Group in the Parent Field of Use.

Section 3.02. Assigned Unrestricted Research Assets. Notwithstanding the provisions of Section 2.01, SpinCo, on behalf of itself and the SpinCo Group, hereby grants to Parent and the other members of the Parent Group, under the SpinCo Group's Copyrights, a perpetual, irrevocable, freely sublicensable (through multiple tiers of sublicenses), freely transferable in whole or in part (notwithstanding Article VIII of the Agreement), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine with other Software or hardware, transmit, and prepare and distribute Derivative Works of the Assigned Unrestricted Research Assets.

Section 3.03. Code Fragments. Notwithstanding the provisions of Section 2.01 and without limiting Section 3.01, SpinCo, on behalf of itself and the SpinCo Group, hereby grants to Parent and the other members of the Parent Group, under the SpinCo Group's Copyrights, a perpetual, irrevocable, freely sublicensable (through multiple tiers of sublicenses), freely transferable in whole or in part (notwithstanding Article VIII of the Agreement), worldwide, non-exclusive, royalty-free, fully paid-up right and license to use, copy, reproduce, modify, display, perform, distribute, translate into any language or form, combine with other Software or hardware, transmit, and prepare and distribute Derivative Works of any Code Fragments.

Section 3.04. Sublicensing. The rights and licenses set forth in Section 3.01 include the right to grant sublicenses within the scope of such rights and licenses only to members of the Parent Group, and, without any further right to sublicense (except as necessary to provide products and services to customers of the Parent Group within the Parent Field of Use, solely for the benefit of such customers), to their respective (i) contractors, distributors, manufacturers, resellers, and other service providers, in each case solely within the Parent Field of Use, and (ii) End Users and customers, in each case solely in connection with the use of products and services within the Parent Field of Use or otherwise as necessary to provide products and services to customers of the Parent Business within the Parent Field of Use, for the benefit of such customers; provided, however, that the Parent Group may only sublicense such rights pursuant to terms and conditions as protective as those under which it licenses its own Software of a similar nature and value, and in any event terms and conditions that provide for commercially reasonable protection for the Source Code, structure and other confidential and proprietary elements of the Assigned Software and Assigned Documentation. Parent shall cause all members of the Parent Group to comply with the terms set forth in this Section 3.04. The Parent Group shall remain liable for any breach or default of the applicable terms and conditions of this Agreement by any of its sublicensees.

Section 3.05. License Restrictions. The licenses granted in Section 3.01 are subject to the following additional restrictions:

- (a) the Parent Group shall make no representations or warranties about or on behalf of the SpinCo Group;
- (b) distribution and providing End Users access to Parent Group products or services shall comply with all applicable Laws, including privacy, export and import Laws, including those of the United States and those that prohibit or restrict distributions for certain end uses or End Users;
- (c) the Parent Group shall not perform any actions with regard to the SpinCo Licensed Materials that could require the Source Code of the SpinCo Licensed Materials to be licensed under any OSS license or be disclosed to any Third Party;
- (d) for any component of the SpinCo Licensed Materials that is provided or licensed in Object Code, the Parent Group shall not, and shall not allow any Third Party to, reverse assemble, reverse compile, decompile, translate, or otherwise attempt to discover the Source Code of such component, except as permitted by Law, without the possibility of contractual waiver and shall include such requirements in all downstream licenses;
- (e) notwithstanding any other provision of this Agreement to the contrary, the Parent Group shall maintain the SpinCo copyright notice and all other SpinCo Group proprietary notices (if any) as provided in the SpinCo Licensed Materials;
- (f) all distributions of Parent Group products or services incorporating Assigned Software, Assigned Databases or Assigned Documentation, or access thereto by End Users, as the case may be, shall be under a written license agreement that will include the provisions set out below or their legal equivalent. For Parent's reference, the phrase "the third party" in subsections (i) – (ix) below, refers to SpinCo (or another member of the SpinCo Group, as applicable), although the Parent Group shall use the phrase "the third party" and not identify any member of the SpinCo Group:

- (i) the product or service contains materials licensed from a third party, and Parent or customer has assumed responsibility for these materials and their use in the product or service;
- (ii) the third party Software, Database or Documentation in the product or service is licensed, and not sold, and neither the third party nor Parent passes any title to such Software, Database or Documentation;
- (iii) the End User is prohibited from copying any part or portion of the third party Software, Database or Documentation, from preparing any Derivative Work thereof, or otherwise modifying the third party Software, Database or Documentation;
- (iv) the End User may not assign, sublicense, distribute, lease, rent, or otherwise transfer the third party Software, Database or Documentation;
- (v) the End User may neither distribute the product or service nor offer the product or service as a cloud service or software-as-a-service;
- (vi) the End User is prohibited from reverse assembling, reverse compiling, translating or otherwise trying to discover the Source Code form of any Software provided in Object Code form, except as permitted by the national or regional law of the places where the End User does business (without the opportunity for contractual waiver), and then only with respect to the particular copy of Object Code incorporated into that particular product or service;
- (vii) warranties, including any implied warranties, are provided solely by Parent and not by the third party;
- (viii) in such written license agreements, Parent will include a provision limiting liability and terms excluding all consequential damages effective to limit the SpinCo Group's liability, and an audit provision sufficient to enable Parent to fulfill its obligations under this Agreement; and
- (ix) in such written license agreements, Parent will also include the following statement, or other legally sufficient and wholly comparable terms: "The limitation of liabilities described in this agreement also applies to the third party supplier. Such third party supplier is an intended beneficiary of this agreement, and any rights of indemnification also apply to any third party supplier described in this agreement. A list of such third party beneficiaries will be provided on written request";
- (g) The Parties acknowledge and agree that certain provisions with respect to the Assigned Restricted Software and Assigned Restricted Research Assets are set forth in Annex J hereto.
- (h) Any action that breaches Section 3.01, Section 3.04 or this Section 3.05 is beyond the scope of the licenses granted in this Agreement. Any distribution of Assigned Software, Assigned Databases, or Assigned Documentation permitted under Section 3.01 may be through multiple tiers of distribution in the Parent Group's channel; and

(i) Parent shall cause all members of the Parent Group to comply with each of the restrictions set forth in this Section 3.05.

Section 3.06. Suspension of Licenses to SpinCo Licensed Materials. The licenses to the SpinCo Licensed Materials granted hereunder are irrevocable, even in the event of a material breach; provided, however, that any such license may be suspended by the SpinCo Group only in the event of a material breach thereof, including unauthorized use or distribution, by any Parent Group member that remains uncured for thirty (30) days following Parent's receipt of written notice from a member of the SpinCo Group specifying such breach. Upon suspension of the Parent Group's licenses, the Parent Group shall immediately cease all use of the specific SpinCo Licensed Materials that are the subject of the material breach until such material breach or unauthorized use or distribution by the Parent Group is cured and Parent certifies to SpinCo in writing as to such cure.

Section 3.07. Reservation of Rights. SpinCo Licensed Materials are licensed and not sold, and nothing in this Agreement grants the Parent Group any ownership right, title, or interest in or to the SpinCo Licensed Materials. The Parent Group shall use the SpinCo Licensed Materials only for the purposes expressly permitted by this Agreement.

ARTICLE IV ADDITIONAL SOFTWARE AND DATABASE RELATED MATTERS

Section 4.01. TSA. Notwithstanding anything in this Agreement to the contrary, no licenses are granted to the SpinCo Group or the Parent Group under this Agreement with respect to Software or Databases that are licensed, provided or otherwise made available under the TSA or the Reverse TSA; provided, however, that the foregoing sentence shall not apply to the Internal Tools designated for "Hard Segmentation" in Annex E.

Section 4.02. Open Source Software. With regard to any OSS that is contained within or used in conjunction with the Assigned Software, SpinCo (on behalf of itself and each other member of the SpinCo Group) acknowledges that the SpinCo Group's rights with respect to OSS shall be governed by the respective license associated with each such OSS program. Parent will have no obligations whatsoever to the SpinCo Group with respect to the OSS contained within or used in conjunction with the Assigned Software pertaining to its usage after the Distribution Date.

Section 4.03. Parent JDK/Parent JRE. Parent JDK and Parent JRE or any licenses thereto are not being assigned or licensed to the SpinCo Group under this Agreement. Any licenses to the Parent JDK and Parent JRE that may be provided, as applicable, will be specified in a separate Parent Java OEM Agreement and Parent Java OEM Transaction Document, as applicable.

Section 4.04. Third Party Commercial Software and Third Party Commercial Databases. SpinCo (on behalf of itself and each other member of the SpinCo Group) acknowledges that the Assigned Software, Assigned Databases, and computer hardware or servers within the SpinCo Assets being provided to the SpinCo Group, may include various Software packages, Databases and materials, including Third Party Commercial Software and Third Party Commercial Databases. No license rights to any Third Party Commercial Software or Third Party Commercial Databases are being assigned or licensed to the SpinCo Group under this Agreement. Subject to the terms and conditions of the TSA, as applicable: (i) SpinCo is solely responsible for, and shall without delay obtain and maintain, its own licenses to such Third Party Commercial Software or such Third Party Commercial Databases, (ii) time is of the essence in regard to SpinCo's obligations to obtain its own licenses and (iii) the SpinCo Group shall not make any use of such Third Party Commercial Software or Third Party Commercial Databases prior to obtaining licenses thereto.

Section 4.05. Parent Commercial Programs.

(a) SpinCo (on behalf of itself and each other member of the SpinCo Group) acknowledges that the Assigned Software, or computer hardware or servers within the SpinCo Assets, may include or require various Parent Commercial Programs. No license rights to any Parent Commercial Programs are being assigned or licensed to the SpinCo Group under this Agreement. Subject to the terms and conditions of the TSA, as applicable: (i) SpinCo is solely responsible for, and shall without delay obtain and maintain, its own licenses to such Parent Commercial Programs, (ii) time is of the essence in regard to SpinCo's obligations to obtain its own licenses and (iii) the SpinCo Group shall not make any use of such Parent Commercial Programs prior to obtaining licenses thereto (the "PCP Requirements"). Following the Distribution Date, in the event that Parent reasonably believes that the SpinCo Group is violating the PCP Requirements existing as of the Distribution Date, Parent shall promptly notify SpinCo thereof, identifying the relevant PCP Requirement and specifying reasonable details of such violation, and the Parties shall engage in the following procedures:

(i) Within thirty (30) days following such notice to SpinCo, each Party shall promptly nominate a senior executive with experience in the relevant business or product line to investigate the matter, and the senior executives shall meet and confer (telephonically or in person) regarding such alleged violation. Within thirty (30) days following such meeting, SpinCo Group's senior executive shall conduct an investigation of the matter to determine whether there is any ongoing use of such Parent Commercial Program, without a commercial license from the Parent Group.

(ii) Promptly following completion of such investigation, the SpinCo Group's senior executive shall report the findings thereof to the Parent Group's senior executive. If the senior executives mutually agree that the SpinCo Group is using such Parent Commercial Program without a commercial license, Parent will offer the SpinCo Group a commercial license on reasonable terms for the SpinCo Group's continued use of the applicable Parent Commercial Program. The SpinCo Group shall have the option, in its sole discretion, to either (i) reasonably negotiate and enter into a commercial license for the applicable Parent Commercial Program or (ii) wind down and cease use of such Parent Commercial Program in a reasonable period of time, as agreed by the senior executives in good faith.

(iii) In the event the senior executives are unable to resolve the matter as set forth in the foregoing clause (ii), the matter shall be escalated to the general managers of such senior executives, who shall promptly attempt to resolve the matter. If such general managers are unable to resolve the matter within thirty (30) days of such escalation, either Party may submit the matter to the dispute resolution process in Section 10.02 of the Agreement.

(iv) Notwithstanding anything to the contrary in this Agreement, the Parties acknowledge and agree that no violation of the PCP Requirements shall constitute a breach of this Agreement or give rise to any liability of the SpinCo Group, without limiting the SpinCo Group's obligation to enter into a commercial license or wind down and cease such use of the Parent Commercial Programs to the extent required by this Section 4.05(a).

REAL ESTATE MATTERS AGREEMENT

This REAL ESTATE MATTERS AGREEMENT (this “Agreement”) is entered into on [____], 2021, by and between International Business Machines Corporation, a New York corporation (“Parent”), and Kyndryl Holdings, Inc., a Delaware corporation (“SpinCo”).

RECITALS:

WHEREAS, in accordance with that certain Separation and Distribution Agreement dated as of [____], 2021, by and between Parent and SpinCo (the “Separation Agreement”), the Parent Group has transferred or conveyed or will transfer or convey to the SpinCo Group, certain assets related to the SpinCo Business;

WHEREAS, in accordance with the Separation Agreement, the SpinCo Group has transferred or conveyed or will transfer or convey to the Parent Group certain assets related to the Parent Business; and

WHEREAS, the parties desire to set forth certain agreements regarding the transfer of real estate assets and other real estate matters pertaining to the SpinCo Business and the Parent Business.

NOW, THEREFORE, in consideration of the foregoing, the covenants and agreements set forth below and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. The following terms, as used herein, shall have the meanings stated below. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Separation Agreement.

(a) “Actual Completion Date” means, with respect to each Parent Property and each SpinCo Property, the date upon which completion of the transfer, assignment, lease, sublease and/or replacement leases with respect to that Property actually takes place.

(b) “Allocation Principle” means the principle that: (1) any Property that is Majority Occupied by one party will be allocated in full to such party; and (2) the other party (the “Minority Occupant”) is generally expected to relocate (either to a different Property or elsewhere) to enable consolidation of operations by the parties, but in no event shall the Minority Occupant be required to vacate earlier than the expiration date of any applicable lease or sublease entered into pursuant to this Agreement unless such action is agreed upon in the manner set forth in Section 2.13; it being understood that for substantially all of the Sublease Properties, the Minority Occupant will sublease a portion of such Property for the duration of the underlying lease.

(c) “Casualty” has the meaning ascribed to such term in Section 2.15(a).

- (d) “Colocation Sites Schedule” means Schedule 2 attached hereto, as updated from time to time prior to the Real Estate Separation Date pursuant to Section 2.19.
- (e) “Damaged Property” has the meaning ascribed to such term in Section 2.15(a).
- (f) “Excluded Personal Property” means that certain equipment, office equipment, trade fixtures, furniture and any other personal property located at each Property which is scheduled as excluded personal property under any lease and/or sublease entered into between Parent and SpinCo.
- (g) “Landlord” means the third-party landlord or sublandlord under a Parent Lease or SpinCo Lease, and its successors and assigns, and includes the holder of any other interest that is superior to the interest of the landlord or sublandlord under such Parent Lease or SpinCo Lease.
- (h) “Lease Assignment Form” means the form of lease assignment attached to this Agreement as Exhibit 1, subject to commercially reasonable changes necessary to reflect Property-specific provisions negotiated in good faith by the parties and to conform to requirements of the jurisdiction in which the applicable Property is located in accordance with Article III hereof.
- (i) “Lease Consents” means, as applicable (i) all consents or waivers required from the Landlord or other third parties under the Required Consent Leases to assign the Required Consent Leases to SpinCo or Parent, as applicable, or to sublease the Sublease Properties to SpinCo or Parent, as applicable, or to lease or sublease the Leaseback Properties to SpinCo or Parent, as applicable, and (ii) all consents or waivers required from the Landlord or other third parties under Pre-Split Leases and all agreements with the Landlord or other third parties with respect to the Pre-Split Leases to terminate the Pre-Split Leases and to enter into the Split Leases with SpinCo or Parent, as applicable, including, for the avoidance of doubt, any consents or waivers required to permit the Distribution or Merger.
- (j) “Lease” means a Parent Lease or a Spinco Lease, as the case may be.
- (k) “Lease Form” means the form of lease attached hereto as Exhibit 3, subject to commercially reasonable changes necessary to reflect Property-specific provisions negotiated in good faith by the parties and to conform to requirements of the jurisdiction in which the applicable Property is located in accordance with Article III hereof.
- (l) “Leaseback Properties” means collectively, the SpinCo Leaseback Properties and the Parent Leaseback Properties.
- (m) “Leased Properties” means collectively, the Parent Leased Properties and the SpinCo Leased Properties.
- (n) “Majority Occupied” means as of the date of Real Estate Separation Date, without taking into account temporary remote working requirements related to the COVID-19 pandemic either (i) maintaining operations on more than 50% of the usable square footage of a particular Property, or (ii) employing more than 50% of the employees and contractors, taken as a whole, at such Property; whichever method is more commercially reasonable in determining the proper allocation of the Property as reasonably determined by the parties in good faith.

- (o) “Minority Occupant” has the meaning ascribed to such term in the definition of the term “Allocation Principle.”
- (p) “New Lease Properties” means collectively, the SpinCo New Lease Properties and the Parent New Lease Properties.
- (q) “Notice Date” has the meaning ascribed to such term in Section 2.13(c).
- (r) “Owned and Leased Properties Schedule” means Schedule 1 attached hereto, as updated from time to time prior to the Real Estate Separation Date pursuant to Section 2.19.
- (s) “Parent Lease” means, in relation to each Parent Property, the lease(s) or sublease(s) and any related supplemental agreements under which Parent or its applicable Subsidiary leases such Parent Leased Property from a Landlord prior to the Real Estate Separation Date.
- (t) “Parent Leaseback Properties” means each of (a) those Parent Owned Properties identified as “Parent Owned Properties” and identified as “Leaseback Properties” on the Owned and Leased Properties Schedule, with respect to part of which SpinCo has leased or shall lease back to Parent and (b) those Parent Leased Properties identified as “Parent Leased Properties” and identified as “Leaseback Properties” on the Owned and Leased Properties Schedule, with respect to part of which SpinCo is to sublease back or has subleased back to Parent. Parent Leaseback Properties are to be transferred through deed transfer or lease assignment (as applicable) by Parent (or its Subsidiaries) to SpinCo (or its Subsidiaries) and a portion of which will then be leased or subleased (as applicable) back to Parent (or its Subsidiaries) prior to or as of the Real Estate Separation Date.
- (u) “Parent Leased Properties” means those Properties identified as “Parent Leased Properties” on the Owned and Leased Properties Schedule, which Properties are or were leased by Parent pursuant to a lease with a Landlord and will be or have been, in accordance with this Agreement (i) transferred by lease assignment from Parent (or its Subsidiaries) to SpinCo (or its Subsidiaries) or (ii) terminated and for which SpinCo (or its Subsidiaries) have entered or will enter into a new lease with such third-party for Property, in each case prior to or as of the Real Estate Separation Date subject to obtaining the necessary Lease Consent.
- (v) “Parent New Lease Properties” means those Properties identified as “Parent New Lease Properties” on the Colocation Sites Schedule, which Properties are owned by Parent (or its Subsidiaries) in fee and a portion of which will be or has been leased to SpinCo (or its Subsidiaries) prior to or as of the Real Estate Separation Date.
- (w) “Parent Owned Properties” means those Properties identified as “Parent Owned Properties” on the Owned and Leased Properties Schedule, which Properties are or were owned by Parent (or its Subsidiaries) in fee and will be conveyed or have been conveyed by deed to SpinCo (or its Subsidiaries) prior to or as of the Real Estate Separation Date.

(x) “Parent Properties” means the Parent Owned Properties, the Parent Leased Properties, the Parent Sublease Properties, the Parent New Lease Properties, the Parent Leaseback Properties and the Parent Split Lease Properties.

(y) “Parent Split Lease Properties” means those Properties demised or to be demised unto Parent (or one of its Subsidiaries) as tenant pursuant to any Parent Split Lease.

(z) “Parent Split Leases” means those new leases to be entered into by Parent (or its Subsidiaries) as tenant pursuant to Section 2.9.

(aa) “Parent Sublease Properties” means those Properties identified as “Parent Sublease Properties” on the Colocation Sites Schedule, which Properties are leased by Parent (or its Subsidiaries) and a portion of which will be or has been subleased by Parent or a Subsidiary to SpinCo (or its Subsidiaries) prior to or as of the Real Estate Separation Date subject to obtaining the necessary Lease Consents.

(bb) “Pre-Split Leases” means those Parent Leases or SpinCo Leases pursuant to which Parent (or its Subsidiaries) or SpinCo (or its Subsidiaries), as applicable, occupies the Split Lease Properties prior to the Real Estate Separation Date and which Pre-Split Leases are contemplated to be terminated on or prior to the Real Estate Separation Date pursuant to Section 2.9 hereof.

(cc) “Properties” means the Parent Properties and the SpinCo Properties.

(dd) “Real Estate Separation Date” means (i) as to Properties located in [●], _____, 202_, and (ii) as to Properties located in any country other than [●], _____, 202_, in each case as such dates may be modified in accordance with the Separation Agreement and the Separation Step Plan (as defined in the Separation Agreement).

(ee) “Required Consent Leases” means those Parent Leases and SpinCo Leases with respect to which the Landlord’s consent is required for (x) assignment or sublease to a member of the Parent Group or a member of the SpinCo Group, as applicable, as contemplated by the Separation Agreement or hereunder, or (y) any of the other transactions contemplated by the Separation Agreement or the other Ancillary Agreements.

(ff) “Retained Part” means each of those parts of (i) the Parent Owned Properties and the Parent Leased Properties which, following transfer or assignment to SpinCo, are intended to be leased or subleased to Parent, (ii) the SpinCo Owned Properties and the SpinCo Leased Properties which, following the transfer or assignment to Parent, are intended to be leased or subleased to SpinCo, (iii) those parts of the Sublease Properties and the Parent New Lease Properties which will not, and which are not intended to, be leased or subleased to SpinCo in accordance with this Agreement and (iv) those parts of the Sublease Properties and the SpinCo New Lease Properties which will not, and which are not intended to, be leased or subleased to Parent in accordance with this Agreement.

(gg) “SpinCo Lease” means, in relation to each SpinCo Property, the lease(s) or sublease(s) and any related supplemental agreements under which SpinCo or its applicable Subsidiary leases from a Landlord such SpinCo Property completed prior to the Real Estate Separation Date.

(hh) “SpinCo Leaseback Properties” means each of (a) those SpinCo Owned Properties identified as “SpinCo Owned Properties” and identified as “Leaseback Properties” on the Owned and Leased Properties Schedule, with respect to part of which Parent has leased or shall lease back to SpinCo and (b) those SpinCo Leased Properties identified as “SpinCo Leased Properties” and identified as “Leaseback Properties” on the Owned and Leased Properties Schedule, with respect to part of which Parent is to sublease back or has subleased back to SpinCo. SpinCo Leaseback Properties are to be transferred through deed transfer or lease assignment (as applicable) by SpinCo (or its Subsidiaries) to Parent (or its Subsidiaries) and a portion of which will then be leased or subleased (as applicable) back to SpinCo (or its Subsidiaries) prior to or as of the Real Estate Separation Date, subject to obtaining the necessary Lease Consents.

(ii) “SpinCo Leased Properties” means those Properties identified as “SpinCo Leased Properties” on the Owned and Leased Properties Schedule, which Properties are or were leased by SpinCo (or its Subsidiaries) from a Landlord and will be or have been in accordance with this Agreement (i) transferred by lease assignment to Parent (or its Subsidiaries) or (ii) terminated and for which Parent (or its Subsidiaries) have entered into a new lease with such third-party for such Property, in each case prior to or as of the Real Estate Separation Date subject to obtaining the necessary Lease Consents.

(jj) “SpinCo New Lease Properties” means those Properties identified as “SpinCo New Lease Properties” on the Colocation Sites Schedule, which Properties are owned by SpinCo (or its Subsidiaries) in fee and a portion of which will be or have been leased to Parent (or its Subsidiaries) prior to or as of the Real Estate Separation Date.

(kk) “SpinCo Owned Properties” means those Properties identified as “SpinCo Owned Properties” on the Owned and Leased Properties Schedule, which Properties are or were owned by SpinCo (or its Subsidiaries) in fee and will transfer or have been transferred by deed to Parent (or its Subsidiaries) in fee prior to or as of the Real Estate Separation Date.

(ll) “SpinCo Properties” means the SpinCo Owned Properties, the SpinCo Leased Properties, the SpinCo Sublease Properties, the SpinCo New Lease Properties, the SpinCo Leaseback Properties, and the SpinCo Split Lease Properties.

(mm) “SpinCo Split Lease Properties” means those Properties demised or to be demised unto SpinCo (or one of its Subsidiaries) as tenant pursuant to any SpinCo Split Lease.

(nn) “SpinCo Split Leases” means those new leases to be entered into by SpinCo (or its Subsidiaries) as tenant pursuant to Section 2.9.

(oo) “SpinCo Sublease Properties” means those Properties identified as “SpinCo Sublease Properties” on the Colocation Sites Schedule, which Properties are leased by SpinCo (or its Subsidiaries) and a portion of which will be or has been subleased by SpinCo or a Subsidiary to Parent (or its Subsidiaries) prior to or as of the Real Estate Separation Date subject to obtaining the necessary Lease Consents.

(pp) “Split Lease Properties” means those Properties identified as “Split Lease Properties” on the Colocation Sites Schedule, which Properties are or were leased by one of SpinCo (or its Subsidiaries) or Parent (or its Subsidiaries) pursuant to a Pre-Split Lease, which Pre-Split Lease will be terminated on or prior to the Real Estate Separation Date subject to obtaining the necessary Lease Consents and, following such termination, which Properties will be or have been demised in part pursuant to a SpinCo Split Lease and in part pursuant to a Parent Split Lease, in each case subject to Section 2.9.

(qq) “Split Leases” means the Parent Split Leases and the SpinCo Split Leases.

(rr) “Sublease Form” means the form of sublease attached hereto as Exhibit 2, subject to commercially reasonable changes necessary to reflect Property-specific provisions negotiated in good faith by the parties and to conform to requirements of the jurisdiction in which the applicable Property is located in accordance with Article III hereof.

(ss) “Sublease Properties” means the SpinCo Sublease Properties and the Parent Sublease Properties.

ARTICLE II
PROPERTY IN THE UNITED STATES

Section 2.1 Parent Owned Property.

(a) Parent shall convey or cause its applicable Subsidiary to convey each of the Parent Owned Properties (together with all improvements thereon and all rights and easements appurtenant thereto) to SpinCo or its applicable Subsidiary, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the Ancillary Agreements. Such conveyance shall be completed on or before the Real Estate Separation Date.

(b) Subject to the conveyance to SpinCo or its applicable Subsidiary of the relevant Parent Owned Property, with respect to each Parent Owned Property that is a Parent Leaseback Property, SpinCo shall lease to Parent or its applicable Subsidiary that part of the relevant Parent Owned Property identified on the Colocation Sites Schedule and Parent or its applicable Subsidiary shall accept the same. Such lease shall be on the Lease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues, and completed on or before the Real Estate Separation Date.

Section 2.2 SpinCo Owned Property.

(a) SpinCo shall convey or cause its applicable Subsidiary to convey each of the SpinCo Owned Properties (together with all improvements thereon and all rights and easements appurtenant thereto) to Parent or its applicable Subsidiary, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the Ancillary Agreements. Such conveyance shall be completed on or before the Real Estate Separation Date.

(b) Subject to the conveyance to Parent or its applicable Subsidiary of the relevant SpinCo Owned Property, with respect to each SpinCo Owned Property that is a SpinCo Leaseback Property, Parent shall lease to SpinCo or its applicable Subsidiary that part of the relevant SpinCo Owned Property identified on the Colocation Sites Schedule and SpinCo or its applicable Subsidiary shall accept the same. Such lease shall be on the Lease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues, and completed before the Real Estate Separation Date.

Section 2.3 Parent Leased Property.

(a) Parent shall assign or cause its applicable Subsidiary to assign, and SpinCo or its applicable Subsidiary shall accept and assume, Parent's or its Subsidiary's interest in the Parent Leased Properties, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the other Ancillary Agreements. Such assignment shall be completed on or before the Real Estate Separation Date; provided if Lease Consent is required but not obtained prior to the Real Estate Separation Date for any assignment, the assignment shall be completed on the earlier of (A) the tenth (10th) Business Day after the relevant Lease Consent has been granted and (B) the date agreed upon by the parties in accordance with Section 2.13(a).

(b) Subject to the completion of the assignment to SpinCo or its applicable Subsidiary of the relevant Parent Leased Property, with respect to each Parent Leased Property that is also a Parent Leaseback Property, SpinCo or its applicable Subsidiary shall sublease to Parent or its applicable Subsidiary that part of the relevant Parent Leased Property identified on the Colocation Sites Schedule and Parent or its applicable Subsidiary shall accept the same. Such sublease shall be on the Sublease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues, and completed as soon as practical following completion of the transfer of the relevant Parent Leased Property to SpinCo or its applicable Subsidiary subject to obtaining the necessary Lease Consents. Such sublease shall be completed on or before the Real Estate Separation Date; provided if Lease Consent is required but not obtained prior to the Real Estate Separation Date for any sublease, the sublease shall be completed on the earlier of (A) the tenth (10th) Business Day after the relevant Lease Consent has been granted and (B) the date agreed upon by the parties in accordance with Section 2.13(a).

Section 2.4 SpinCo Leased Property.

(a) SpinCo shall assign or cause its applicable Subsidiary to assign, and Parent or its applicable Subsidiary shall accept and assume, SpinCo's or its Subsidiary's interest in the SpinCo Leased Properties, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the other Ancillary Agreements. Such assignment shall be completed on or before the Real Estate Separation Date; provided if Lease Consent is required but not obtained prior to the Real Estate Separation Date for any assignment, the assignment shall be completed on the earlier of (A) the tenth (10th) Business Day after the relevant Lease Consent has been granted and (B) the date agreed upon by the parties in accordance with Section 2.13(a).

(b) Subject to the completion of the assignment to Parent or its applicable Subsidiary of the relevant SpinCo Leased Property, with respect to each SpinCo Leased Property that is also a SpinCo Leaseback Property, Parent or its applicable Subsidiary shall grant sublease to SpinCo or its applicable Subsidiary that part of the relevant SpinCo Leased Property identified on the Colocation Sites Schedule and SpinCo or its applicable Subsidiary shall accept the same. Such sublease shall be on the Sublease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues, and completed as soon as practical following completion of the transfer of the relevant SpinCo Leased Property to Parent or its applicable Subsidiary subject to obtaining the necessary Lease Consents. Such sublease shall be completed on or before the Real Estate Separation Date; provided if Lease Consent is required but not obtained prior to the Real Estate Separation Date for any sublease, the sublease shall be completed on the earlier of (A) the tenth (10th) Business Day after the relevant Lease Consent has been granted and (B) the date agreed upon by the parties in accordance with Section 2.13(a).

Section 2.5 Parent Sublease Properties. Parent shall sublease or cause its applicable Subsidiary to sublease to SpinCo or its applicable Subsidiary that part of the relevant Parent Sublease Property identified on the Colocation Sites Schedule and SpinCo or its applicable Subsidiary shall accept the same, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the Ancillary Agreements. Such sublease shall be on the Sublease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues, and completed on or before the Real Estate Separation Date; provided if Lease Consent is required but not obtained prior to the Real Estate Separation for any sublease, the sublease shall be completed on the earlier of (i) the tenth (10th) Business Day after the relevant Lease Consent has been granted and (ii) the date agreed upon by the parties in accordance with Section 2.13(a). Furthermore, subsequent to the commencement date of each such sublease, (x) the sublandlord and subtenant thereunder shall cooperate (reasonably and in good faith) to estimate the amount of time required for any necessary restoration work at the end of the term of the applicable lease and the cost thereof (“Restoration Costs”) and (y) the sublandlord thereunder will make reasonable efforts to cause the applicable Landlord to agree to accept payment in lieu of such restoration work (“Restoration Buy Out”). In any instance where the Landlord refuses to agree to a Restoration Buy Out, the sublandlord, at its option upon notice delivered to the subtenant not less than one hundred and eighty(180) days prior to the scheduled sublease expiration date, may shorten the term of the sublease by changing the scheduled sublease expiration date to a date which is the earlier of: (x) thirty(30) days prior to the scheduled sublease expiration date; or (y) that date which would enable sublandlord in its commercially reasonable judgment to perform the sublandlord’s restoration obligations as tenant under the lease but in no event shall such date be sooner than ninety(90)days prior to the scheduled expiration date ((x) or (y) as applicable, the “Early Expiration Date”); provided however, that the sublandlord’s right to modify the sublease term so as to expire on the Early Expiration Date shall be available solely in order to enable the sublandlord to perform the sublandlord’s restoration obligations as tenant under the lease and for no other reason. Other than obligations which expressly survive the expiration date of the sublease or as may be stated herein, all other obligations(including, but not limited to, payment of rent) between the sublandlord and subtenant under the sublease shall end of as of the Early Expiration Date. Should the subtenant fail to timely vacate and surrender the subleased premises on or before the Early Expiration Date in the condition required under the applicable sublease, the subtenant shall be liable to the sublandlord for the Restoration Costs and all holdover and other damages the sublandlord suffers as a result of the subtenant’s failure to surrender the subleased premises on or before the Early Expiration Date.

Section 2.6 SpinCo Sublease Properties. SpinCo shall sublease or cause its applicable Subsidiary to sublease to Parent or its applicable Subsidiary that part of the relevant SpinCo Sublease Property identified on the Colocation Sites Schedule and Parent or its applicable Subsidiary shall accept the same, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the other Ancillary Agreements. Such sublease shall be on the Sublease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues, and completed on or before the Real Estate Separation Date; provided if Lease Consent is required but not obtained prior to the Real Estate Separation Date for any sublease, the sublease shall be completed on the earlier of (i) the tenth (10th) Business Day after the relevant Lease Consent has been granted and (ii) the date agreed upon by the parties in accordance with Section 2.13(a). Furthermore, subsequent to the commencement date of each such sublease, (x) the sublandlord and subtenant thereunder shall cooperate (reasonably and in good faith) to estimate the amount of time required for any necessary restoration work at the end of the term of the applicable lease and the cost thereof and (y) the sublandlord thereunder will make reasonable efforts to cause the applicable Landlord to agree to accept the Restoration Buy Out in lieu of such restoration work. In any instance where the Landlord refuses to agree to a Restoration Buy Out, the sublandlord, at its option upon notice delivered to the subtenant not less than one hundred and eighty(180) days prior to the scheduled sublease expiration date, may shorten the term of the sublease by changing the scheduled sublease expiration date to the Early Expiration Date; provided however, that the sublandlord's right to modify the sublease term so as to expire on the Early Expiration Date shall be available solely in order to enable the sublandlord to perform the sublandlord's restoration obligations as tenant under the lease and for no other reason. Other than obligations which expressly survive the expiration date of the sublease or as may be stated herein, all other obligations(including, but not limited to, payment of rent) between the sublandlord and subtenant under the sublease shall end of as of the Early Expiration Date. Should the subtenant fail to timely vacate and surrender the subleased premises on or before the Early Expiration Date in the condition required under the applicable sublease, the subtenant shall be liable to the sublandlord for the Restoration Costs and all holdover and other damages the sublandlord suffers as a result of the subtenant's failure to surrender the subleased premises on or before the Early Expiration Date.

Section 2.7 Parent New Lease Properties. Parent shall lease or cause its applicable Subsidiary to lease to SpinCo or its applicable Subsidiary those parts of the Parent New Lease Properties identified on the Colocation Sites Schedule and SpinCo or its applicable Subsidiary shall accept the same, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the Ancillary Agreements. Such lease shall be completed on or before the Real Estate Separation Date and based on the Lease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues.

Section 2.8 SpinCo New Lease Properties. SpinCo shall lease cause its applicable Subsidiary to lease to Parent or its applicable Subsidiary those parts of the SpinCo New Lease Properties identified on the Colocation Sites Schedule and Parent or its applicable Subsidiary shall accept the same, subject to the other provisions of this Agreement and (to the extent not inconsistent with the provisions of this Agreement) the terms of the Separation Agreement and the Ancillary Agreements. Such lease shall be completed on or before the Real Estate Separation Date and based on the Lease Form, as reasonably adjusted and agreed to by Parent and SpinCo to account for local law requirements and site specific issues.

Section 2.9 Split Lease Properties.

(a) On or prior to the Real Estate Separation Date, (i) Parent shall terminate or cause its applicable Subsidiary to terminate each Pre-Split Lease which is a Parent Lease on or prior to the Real Estate Separation Date subject to obtaining the necessary Lease Consents, (ii) contemporaneously with the termination described in the foregoing clause (i), Parent (or its Subsidiaries) shall enter into a new lease for a portion of each Split Lease Property on terms mutually agreed upon between Parent and the applicable Landlord demising to Parent or its Subsidiary the portion of the Split Lease Property agreed to among Parent, SpinCo and each applicable Landlord (provided, that, for the avoidance of doubt, such demised portion shall in no event include all or any portion of the Split Lease Property demised to SpinCo (or its Subsidiary) pursuant to the following clause (iii)), in each case subject to obtaining the necessary Lease Consents and (iii) contemporaneously with the termination described in the foregoing clause (i), SpinCo (or its Subsidiaries) shall enter into a new lease for a portion of each Split Lease Property on terms mutually agreed upon between SpinCo and the applicable Landlord demising to SpinCo or its Subsidiary the portion of the Split Lease Property agreed to among Parent, SpinCo and each applicable Landlord (provided, that, for the avoidance of doubt, such demised portion shall in no event include all or any portion of the Split Lease Property demised to Parent (or its Subsidiary) pursuant to the foregoing clause (ii)), in each case subject to obtaining the necessary Lease Consents.

(b) On or prior to the Real Estate Separation Date, (i) SpinCo shall terminate or cause its applicable Subsidiary to terminate each Pre-Split Lease which is a SpinCo Lease on or prior to the Real Estate Separation Date subject to obtaining the necessary Lease Consents, (ii) contemporaneously with the termination described in the foregoing clause (i), SpinCo (or its Subsidiaries) shall enter into a new lease for a portion of each Split Lease Property on terms mutually agreed upon between SpinCo and the applicable Landlord demising to SpinCo or its Subsidiaries the portion of the Split Lease Property agreed to among Parent, SpinCo and each applicable Landlord (provided, that, for the avoidance of doubt, such demised portion shall in no event include all or any portion of the Split Lease Property demised to Parent (or its Subsidiary) pursuant to the following clause (iii)), in each case subject to obtaining the necessary Lease Consents and (iii) contemporaneously with the termination described in the foregoing clause (i), Parent (or its Subsidiaries) shall enter into a new lease for a portion of each Split Lease Property on terms mutually agreed upon between Parent and the applicable Landlord demising to Parent of its Subsidiaries the portion of the Split Lease Property agreed to among Parent, SpinCo and each applicable Landlord (provided, that, for the avoidance of doubt, such demised portion shall in no event include all or any portion of the Split Lease Property demised to SpinCo (or its Subsidiary) pursuant to the foregoing clause (ii)), in each case subject to obtaining the necessary Lease Consents.

Section 2.10 Obtaining the Lease Consents and Other Landlord Cooperation.

(a) Parent and SpinCo confirm that, with respect to each Parent Leased Property, SpinCo Leased Property, Parent Sublease Property, SpinCo Sublease Property, Parent Leaseback Property which is a Parent Leased Property, SpinCo Leaseback Property which is a SpinCo Leased Property and Split Lease Property, to the extent required by the Required Consent Lease, one or more applications or requests have been made or will be made (prior to the Real Estate Separation Date or Distribution Date, as applicable) to the relevant Landlord for the Lease Consents required with respect to the transactions contemplated by this Agreement, the Separation Agreement or the other Ancillary Agreements (including, for the avoidance of doubt, the transactions contemplated by the Separation Agreement to occur on the Distribution Date). Parent shall be, and has at all times been, primarily responsible for requesting, negotiating and obtaining all Lease Consents.

(b) Parent shall use commercially reasonable efforts to obtain the Lease Consents, but Parent shall not be required to commence judicial proceedings for a declaration that a Lease Consent has been unreasonably withheld, conditioned or delayed, nor shall Parent be required to pay any consideration in excess of administrative and/or review fees, its shares of fees set forth in Section 2.17, reimbursement of expenses required by the Required Consent Lease to obtain the relevant Lease Consent and other commercially reasonable amounts.

(c) Parent and SpinCo will promptly satisfy the lawful requirements of the Landlord, and Parent and SpinCo, will take all reasonable steps to assist the other in obtaining the Lease Consents and other cooperation reasonably required from any Landlord, including, without limitation:

(i) if reasonably required by the Landlord, entering into an agreement with the relevant Landlord to observe and perform the tenant's obligations contained in the applicable Lease from and after the Real Estate Separation Date throughout the remainder of the term of such Lease, subject to any statutory limitations of such liability, provided, however, that in no event shall Parent or SpinCo be required to enter into any such an agreement for any extension of the then current term of such Lease;

(ii) if reasonably required by the Landlord, providing a commercially reasonable guarantee, surety or other commercially reasonable security (including, without limitation, a security deposit or letter of credit) for the obligations of SpinCo or Parent, as applicable, or its applicable Subsidiary as tenant, accruing under the applicable Lease from and after the Real Estate Separation Date throughout the remainder of the then current term of such Lease, and otherwise taking all steps which are reasonably necessary and which it is capable of doing to meet the lawful requirements of the Landlord so as to ensure that the Lease Consents (and any other reasonably required Landlord cooperation) are obtained, provided, however, that in no event shall Parent or SpinCo be required to provide any such security for any extension of the then current term of the applicable Lease. For the avoidance of any doubt, the steps contemplated by this Section 2.10(c)(ii), shall only be required if such action is consistent with the intention expressed in the Separation Agreement that the Spin-Off qualify for Tax-Free Status;

(iii) using commercially reasonable efforts to assist Parent with obtaining the Landlord's consent to the release of any guarantee, surety or other security which Parent may have previously provided to the Landlord and (if applicable) the release of Parent or its Subsidiary from any assignor or secondary liability with respect to the assignee's failure to perform under the applicable Lease, and, if required and, subject to the limitations contained in Section 2.10(c)(ii), offering substantially the same or equivalent security to the Landlord in order to obtain such release, including a commercially reasonable guarantee from SpinCo or a Subsidiary thereof with respect to any Property where the tenant or subtenant (as the case may be) following the Real Estate Separation Date is SpinCo or its Subsidiaries;

(iv) using commercially reasonable efforts to assist Parent and its Subsidiaries with obtaining the Landlord's consent to the release of Parent or its applicable Subsidiary from any and all liabilities and obligations accruing from and after the Real Estate Separation Date under any Parent Lease to be transferred to SpinCo or a Subsidiary thereof in accordance with the terms hereof, including (if applicable) the release of Parent or its Subsidiary from any assignor or secondary liability with respect to the assignee's failure to perform under the applicable Lease, and if required and, subject to the limitations of Section 2.10(c)(ii), offering security to the Landlord in order to obtain such release, including, including a guarantee from SpinCo or a Subsidiary thereof with respect to any Property where the tenant or subtenant (as the case may be) following the Real Estate Separation Date is SpinCo or its Subsidiaries;

(v) providing (promptly once available) financial statements and other reasonable evidence of net worth, liquidity and/or financial capability to fulfill the obligations of a tenant under the applicable Lease to any Landlord requesting same in connection with a release of the liability of Parent or its applicable Subsidiary for any obligations under such Lease; and

(vi) using commercially reasonable efforts to assist SpinCo and its Subsidiaries with obtaining the Landlord's consent to the release of SpinCo or its applicable Subsidiary from any and all liabilities and obligations accruing from and after the Real Estate Separation Date under any SpinCo Lease to be transferred to Parent or a Subsidiary thereof in accordance with the terms hereof, and if required and, subject to the limitations contained in Section 2.10(c)(ii), offering security to the Landlord in order to obtain such release, including a guarantee from Parent or a Subsidiary thereof with respect to any Property where the tenant or subtenant (as the case may be) following the Real Estate Separation Date is Parent or its Subsidiaries.

(d) If, with respect to any Leased Properties or Sublease Properties, Parent and SpinCo are unable to obtain a release by the Landlord of any guarantee, surety or other security which Parent or an Affiliate has previously provided to the Landlord or are unable to obtain a release of Parent or SpinCo (or their respective Subsidiaries) from liabilities and obligations accruing from and after the Real Estate Separation Date under any SpinCo Lease or Parent Lease (including (if applicable) the release from any assignor or secondary liability with respect to the assignee's failure to perform under the applicable Lease), as applicable, in accordance with Section 2.10(c)(iv) or Section 2.10(c)(v), as applicable, SpinCo or Parent, as applicable, shall indemnify, defend, protect and hold harmless the other party from and after the Real Estate Separation Date against all reasonable, actually incurred losses, costs, claims, damages, or liabilities accruing against such other party after the Real Estate Separation Date and incurred by Parent or SpinCo, as applicable, as a result of such guarantee, surety or other security or assignor or secondary liability of the applicable assignor.

Section 2.11 Occupancy by SpinCo.

(a) Subject to compliance with Section 2.11(b), in the event that the Actual Completion Date for any Parent Owned Property, Parent New Lease Property, Parent Leased Property, Parent Sublease Property or Split Lease Property does not occur on or before the Real Estate Separation Date, SpinCo shall, commencing on or prior to the Real Estate Separation Date, be entitled to occupy, use and receive the rental income from the relevant Parent Property (except to the extent that the same is a Retained Part) as a licensee upon the terms and conditions contained in the Parent Lease (as to Parent Leased Properties), upon the terms and conditions contained in the Sublease Form (as to Parent Sublease Properties), upon the terms and conditions contained in the Lease Form (as to Parent Owned Properties and Parent New Lease Properties), or upon the terms and conditions contained in the Pre-Split Lease with respect to the portion of the Split Lease Property that is to be a SpinCo Split Lease Property (as to Split Lease Properties). Such license shall not be revocable prior to the applicable Actual Completion Date unless an enforcement action or forfeiture by the relevant Landlord due to SpinCo's occupancy of the Parent Property constituting a breach of the Parent Lease cannot, in the reasonable opinion of Parent, be avoided other than by requiring SpinCo to immediately vacate the relevant Parent Property, in which case Parent may by notice to SpinCo immediately require SpinCo to vacate the relevant Parent Property. SpinCo will be responsible for all costs, expenses and liabilities incurred by Parent or its applicable Subsidiary as a consequence of such occupancy, except for any losses, claims, costs, demands and liabilities incurred by Parent or its Subsidiary as a result of any enforcement action or forfeiture taken by the Landlord against Parent or its Subsidiary with respect to any breach by Parent or its Subsidiary of the Required Consent Lease in permitting SpinCo to so occupy the Parent Property without obtaining the required Lease Consent, for which Parent or its Subsidiary shall be solely responsible. SpinCo shall not be entitled to make any claim or demand against, or obtain reimbursement from, Parent or its applicable Subsidiary with respect to any costs, losses, claims, liabilities or damages incurred by SpinCo as a consequence of being obliged to vacate the Parent Property or in obtaining alternative premises, including, without limitation, any enforcement action which a Landlord may take against SpinCo.

(b) In the event that the Actual Completion Date for any Parent Owned Property, Parent New Lease Property, Parent Leased Property, Parent Sublease Property, Parent or Split Lease Property does not occur on or before the Real Estate Separation Date, whether or not SpinCo occupies a Parent Property as licensee as provided in Section 2.11(a), SpinCo shall, effective as of or prior to the Real Estate Separation Date, (i) pay Parent all rents, service charges, insurance premiums and other sums payable by Parent or its applicable Subsidiary under any Required Consent Lease (as to Parent Leased Properties), under the Lease Form (as to Parent Owned Properties or Parent New Lease Properties), under the Sublease Form (as to Parent Sublease Properties) or under the Pre-Split Lease with respect to the portion of the Split Lease Property that is to be a SpinCo Split Lease Property (as to Split Lease Properties), (ii) observe, in all material respects, the tenant's covenants, obligations and conditions contained in the Parent Lease (as to Parent Leased Properties), in the Sublease Form (as to Parent Sublease Properties) or in the Pre-Split Lease with respect to the portion of the Split Lease Property that is to be a SpinCo Split Lease Property (as to Split Lease Properties) and (iii) subject to the limitations contained in Section 2.11(a) indemnify, defend, protect and hold harmless Parent and its applicable Subsidiary from and against all reasonable, actually incurred losses, costs, claims, damages and liabilities arising on account of any breach thereof by SpinCo.

(c) Parent shall supply promptly to SpinCo copies of all invoices, demands, notices and other communications received by Parent or its or its applicable Subsidiaries or agents in connection with any of the matters for which SpinCo may be liable to make any payment or perform any obligation pursuant to Section 2.11(b), and shall, at SpinCo's cost, (x) take any steps and communicate any objections which SpinCo may have in connection with any such matters and (y) at the direction of SpinCo, enforce Parent's rights against the Landlord under the Required Consent Lease. SpinCo shall promptly supply to Parent any notices, demands, invoices and other communications received by SpinCo or its agents from any Landlord while SpinCo occupies any Parent Property without the relevant Lease Consent.

Section 2.12 Occupancy by Parent.

(a) Subject to compliance with Section 2.12(b), in the event that the Actual Completion Date for any SpinCo Owned Property, SpinCo New Lease Property, SpinCo Leased Property, SpinCo Sublease Property or Split Lease Property does not occur on or before the Real Estate Separation Date, Parent shall, commencing on or prior to the Real Estate Separation Date, be entitled to occupy, use and receive the rental income from the relevant SpinCo Property (except to the extent that the same is a Retained Part) as a licensee upon the terms and conditions contained in the SpinCo Lease (as to SpinCo Leased Properties), upon the terms and conditions contained in the Sublease Form (as to SpinCo Sublease Properties), upon the terms and conditions contained in the Lease Form (as to SpinCo Owned Properties or SpinCo New Lease Properties) or upon the terms and conditions contained in the Pre-Split Lease with respect to the portion of the Split Lease Property that is to be a Parent Split Lease Property (as to Split Lease Properties). Such license shall not be revocable prior to the applicable Actual Completion Date unless an enforcement action or forfeiture by the relevant Landlord due to Parent's occupancy of the SpinCo Property constituting a breach of the SpinCo Lease cannot, in the reasonable opinion of SpinCo, be avoided other than by requiring Parent to immediately vacate the relevant SpinCo Property, in which case SpinCo may by notice to Parent immediately require Parent to vacate the relevant SpinCo Property. Parent will be responsible for all costs, expenses and liabilities incurred by SpinCo or its applicable Subsidiary as a consequence of such occupancy, except for any losses, claims, costs, demands and liabilities incurred by SpinCo or its Subsidiary as a result of any enforcement action or forfeiture taken by the Landlord against SpinCo or its Subsidiary with respect to any breach by SpinCo or its Subsidiary of the Required Consent Lease in permitting Parent to so occupy the SpinCo Property without obtaining the required Lease Consent, for which SpinCo or its Subsidiary shall be solely responsible. Parent shall not be entitled to make any claim or demand against, or obtain reimbursement from, SpinCo or its applicable Subsidiary with respect to any costs, losses, claims, liabilities or damages incurred by Parent as a consequence of being obliged to vacate the SpinCo Property or in obtaining alternative premises, including, without limitation, any enforcement action which a Landlord may take against Parent.

(b) In the event that the Actual Completion Date for any SpinCo Owned Property, SpinCo New Lease Property, SpinCo Leased Property, SpinCo Sublease Property or Split Lease Property does not occur on or before the Real Estate Separation Date, whether or not Parent occupies a SpinCo Property as licensee as provided in Section 2.12(a), Parent shall, effective as of or prior to the Real Estate Separation Date, (i) pay SpinCo all rents, service charges, insurance premiums and other sums payable by SpinCo or its applicable Subsidiary under any Required Consent Lease (as to SpinCo Leased Properties), under the Lease Form (as to SpinCo Owned Properties or SpinCo New Lease Properties), under the Sublease Form (as to SpinCo Sublease Properties) or under the Pre-Split Lease with respect to the portion of the Split Lease Property that is to be a Parent Split Lease Property (as to Split Lease Properties), (ii) observe, in all material respects, the tenant's covenants, obligations and conditions contained in the SpinCo Lease (as to SpinCo Leased Properties), in the Sublease Form (as to SpinCo Sublease Properties) or in the Pre-Split Lease with respect to the portion of the Split Lease Property that is to be a Parent Split Lease Property (as to Split Lease Properties) and (iii) subject to the limitations contained in Section 2.12(a) Parent shall indemnify, defend, protect and hold harmless SpinCo and its applicable Subsidiary from and against all actually incurred, reasonable losses, costs, claims, damages and liabilities arising on account of any breach thereof by Parent.

(c) SpinCo shall supply promptly to Parent copies of all invoices, demands, notices and other communications received by SpinCo or its or its applicable Subsidiaries or agents in connection with any of the matters for which Parent may be liable to make any payment or perform any obligation pursuant to Section 2.12(b), and shall, at Parent's cost, (x) take any steps and communicate any objections which Parent may have in connection with any such matters and (y) at the direction of Parent, enforce SpinCo's rights under the Required Consent Lease against the Landlord. Parent shall promptly supply to SpinCo any notices, demands, invoices and other communications received by Parent or its agents from any Landlord while Parent occupies any SpinCo Property without the relevant Lease Consent.

Section 2.13 Obligation to Complete. If, with respect to any Parent Leased Property, SpinCo Leased Property, Parent Sublease Property, SpinCo Sublease Property or Split Lease Property, at any time the relevant Lease Consent is lawfully, formally and unconditionally refused in writing, Parent and SpinCo shall commence good faith negotiations and use commercially reasonable efforts to determine how to allocate the applicable Property, based on the relative importance of the applicable Property to the operations of each party, the size of the applicable Property, the number of employees of each party at the applicable Property, the value of assets associated with each business, the cost to relocate, and the potential risk and liability to each party in the event any enforcement action is brought by the applicable Landlord. Such commercially reasonable efforts shall include consideration of alternate structures to accommodate the needs of each party and the allocation of the costs thereof, including entering into amendments of the size, term or other terms of the Required Consent Lease, restructuring a proposed lease assignment to be a sublease and relocating one party.

Section 2.14 Form of Transfer.

(a) The conveyance to SpinCo or its Subsidiary of each relevant Parent Owned Property shall be in the form of a special or limited warranty deed, or its equivalent, in statutory form. The conveyance to Parent or its Subsidiary of each relevant SpinCo Owned Property shall be in the form of a special or limited warranty deed, or its equivalent, in statutory form.

Section 2.15 Casualty; Lease Termination.

(a) If, prior to the Actual Completion Date (but not after the Distribution Date), any Parent Property (or any part thereof) shall be damaged or destroyed by a fire or other casualty (a "Casualty", and any property subject to such Casualty, a "Damaged Property"), then, in any such event, Parent shall promptly notify SpinCo, and Parent shall proceed to effectuate the transfer of the Damaged Property under all the terms of this Agreement; subject, however, to the following: (1) unless Parent chooses to repair the Damaged Property pursuant to clause (2) below, SpinCo shall accept such Damaged Property subject to the damage or destruction in question; (2) prior to the Actual Completion Date, Parent shall have the right (but not the obligation) to repair or restore any such damage or destruction at Parent's sole cost and expense, subject to the terms and provisions of any applicable Parent Lease, and (3) if Parent chooses not to repair or restore any such damage or destruction, Parent shall (x) assign all of its rights and promptly make available to SpinCo all insurance proceeds due or received by Parent in connection with the Casualty and (y) pay to SpinCo the amount of the deductible due under the applicable insurance policy.

(b) If, prior to the Actual Completion Date (but not after the Distribution Date) any SpinCo Property (or any part thereof) shall be damaged or destroyed by Casualty, then, in any such event SpinCo shall promptly notify Parent, and SpinCo shall proceed to effectuate the transfer of the Damaged Property under all the terms of this Agreement; subject, however, to the following: (1) unless SpinCo chooses to repair the Damaged Property pursuant to clause (2) below, Parent shall accept such Damaged Property subject to the damage or destruction in question; (2) prior to the Actual Completion Date, SpinCo shall have the right (but not the obligation) to repair or restore any such damage or destruction at SpinCo's sole cost and expense, subject to the terms and provisions of any applicable SpinCo Lease, and (3) if SpinCo chooses not to repair or restore any such damage or destruction, SpinCo shall (x) assign all of its rights and promptly make available to Parent all insurance proceeds due or received by SpinCo in connection with the Casualty and (y) pay to Parent the amount of the deductible due under the applicable insurance policy.

(c) Promptly following the execution of the Separation Agreement, Parent or SpinCo, as applicable, shall name (or caused to be named) the other party as an additional insured on any business interruption insurance policies affecting any Parent Property or SpinCo Property, as applicable; provided that following the Real Estate Separation Date, subject to the terms of the Ancillary Agreements each party shall be permitted to remove (and there shall be no obligation to name) the other party as an additional insured on any such insurance policy.

(d) In addition, in the event that a Parent Lease with respect to a Parent Leased Property, a Parent Sublease Property or a Pre-Split Lease or a SpinCo Lease with respect to a SpinCo Leased Property, a SpinCo Sublease Property or a Pre-Split Lease is terminated prior to the Real Estate Separation Date, (i) Parent and SpinCo, respectively, shall not be required to assign, sublease or share such Property, (ii) SpinCo and Parent, respectively, shall not be required to accept an assignment, sublease or sharing of such Property and (iii) neither party shall have any further liability with respect to such Property hereunder.

Section 2.16 Fixtures and Fittings. The provisions of the Separation Agreement and the other Ancillary Agreements shall apply to any equipment, office equipment, trade fixtures, furniture and any other personal property located at each Property (excluding any equipment, office equipment, trade fixtures, furniture and any other personal property owned by third parties), except for the applicable scheduled Excluded Personal Property.

Section 2.17 Costs. Parent shall pay (i) all actual costs and expenses incurred in connection with obtaining the Lease Consents, including, without limitation, Landlord's consent fees and attorneys' fees and any costs and expenses relating to renegotiation of Parent Leases, SpinCo Leases and Split Leases, as applicable, (ii) except as expressly stated otherwise in the applicable Lease Form, Sublease Form or Split Lease, the costs relating to any alterations or improvements (such as demising walls and separate security and badging systems) reasonably required to separate Parent and SpinCo employees with respect to all Properties being shared between Parent and SpinCo following the Real Estate Separation Date, and (iii) all actual costs and expenses in connection with the transfer of any Property pursuant to this Agreement, including title insurance premiums, escrow fees, recording fees, and any transfer taxes arising as a result of such transfers; provided, that, with respect to any Split Lease or other lease agreement entered into with a third-party landlord, the tenant thereunder shall be responsible for any recording, restriction or municipal charges or other fees associated with entering into such Split Lease or other lease agreement; provided, further that this Section 2.17 shall not apply with respect to any obligation to deliver a security deposit, letter of credit or other guaranty (which shall be governed instead by Section 2.10 hereof).

Section 2.18 Signing and Ratification. Parent and SpinCo hereby ratify and authorize all signatures to any document entered into in connection with this Agreement by Parent and SpinCo, or each's respective Subsidiaries, and the parties agree that to the extent any challenges arise to the authority of any such signature from and after the date hereof, Parent and SpinCo will cooperate to ratify such signatures and prepare any corporate authorizations or resolutions necessary therefor.

Section 2.19 Allocation of Properties. To the extent that the Owned and Leased Properties Schedule and the Colocation Sites Schedule require amendments made (i) in accordance with the Allocation Principle in all material respects following the date hereof, or (ii) as a result of changes to allocations made in accordance with Section 2.13, Parent shall provide written notice to SpinCo prior to amending the Owned and Leased Properties Schedule or the Colocation Sites Schedule. If SpinCo disputes in good faith the application of the Allocation Principle with respect to any such amendment, such dispute shall be resolved in accordance with Article XI, Section 11.02 (Dispute Resolution) of the Separation Agreement.

Section 2.20 Insurance. Between the date of this Agreement and each applicable Real Estate Separation Date (or earlier termination of this Agreement), each of Parent, SpinCo and their respective Subsidiaries, as applicable, shall use commercially reasonable efforts to keep in full force and effect present insurance policies maintained (or renewals thereof) with respect to each Property owned, leased, subleased or otherwise occupied by such party.

ARTICLE III
PROPERTY OUTSIDE THE UNITED STATES

With respect to each of the Properties located outside the United States listed on the Owned and Leased Property Schedule and the Colocation Sites Schedule, as well as any additional properties acquired by Parent, SpinCo or a Subsidiary prior to the Real Estate Separation Date, Parent and SpinCo will use the appropriate form document attached hereto, translated into the local language, if customary under local practice, and modified to comply with local legal requirements to cause the appropriate transfers, assignments, leases, subleases or leasebacks to occur. Such transfers, assignments, leases, subleases or leasebacks shall, so far as the law in the jurisdiction in which such property is located permits, be on the same terms and conditions as provided in Article II and shall include such other deliveries (and the parties shall comply with such other customary procedures and formalities) as may be required by the laws of the jurisdiction in which the Property is located. In the event of a conflict between the terms of this Agreement and the terms of such local agreements, the terms of the local agreements shall prevail.

ARTICLE IV
MISCELLANEOUS

Section 4.1 Additional Provisions. Section 6.10, Article IX, Article X and Article XI of the Separation Agreement are hereby incorporated into this Agreement *mutatis mutandis*.

Section 4.2 Performance. Parent will cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by any member of the Parent Group. SpinCo will cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth in this Agreement to be performed by any member of the SpinCo Group. Each Party (including its permitted successors and assigns) further agrees that it will (a) give timely notice of the terms, conditions and continuing obligations contained in this Section 4.2 to all of the other members of its Group, and (b) cause all of the other members of its Group not to take any action inconsistent with such Party's obligations under this Agreement.

Section 4.3 Hazardous Materials. In the case of any conflict between the terms of this Agreement or any deed, lease, lease assignment, sublease or sublease assignment executed pursuant to the terms of this Agreement, on the one hand, and any provision of the Separation Agreement, on the other hand, with respect to Hazardous Materials or HSE Liabilities (each as defined in the Separation Agreement), the provisions of the Separation Agreement shall govern and control in all respects.

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IN WITNESS WHEREOF, each of the parties hereto has caused this Real Estate Matters Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and year first above written.

International Business Machines Corporation, a New York corporation

By: _____
Name:
Title:

Kyndryl Holdings, Inc., a Delaware corporation

By: _____
Name:
Title:

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THE EXHIBIT BECAUSE IT IS BOTH NOT MATERIAL AND WOULD LIKELY CAUSE COMPETITIVE HARM TO THE REGISTRANT IF PUBLICLY DISCLOSED. [***] INDICATES THAT INFORMATION HAS BEEN REDACTED.



IBM International Client Relationship Agreement

This IBM International Client Relationship Agreement (Agreement or iCRA) includes Part 1 – General Terms and Part 2 – Country Required Terms. This Agreement governs transactions by which Client may order Programs, Cloud and other Services, Machines and Appliances (collectively IBM Products) and third party products and services (Non-IBM Products). Transaction Documents (TDs) and Attachments detail the specifics of transactions such as charges and a description of and information about the Product. Examples of TDs include statements of work, service descriptions, ordering documents, supplements, or invoices. Attachments provide supplemental terms that apply to certain types of Products, such as product capacity or trial services. In the event of conflict, an Attachment prevails over this Agreement and a TD prevails over both the Agreement and any Attachment and only applies to the specific transaction.

IBM and Client have entered into a Separation and Distribution Agreement, dated as of [____], 2021 (the “Separation Agreement”). In furtherance of the foregoing, Client may acquire Products from IBM for Client’s own Enterprise or for Client’s third-party End Users outside Client’s Enterprise, as specified in the applicable Attachment and TDs.

Client Lead Company and IBM Lead Company agree to coordinate the activities of their respective Enterprise companies participating under this Agreement. This Agreement is written in English and signed with the understanding that the Lead Companies are bound by its terms. The Lead Companies will distribute copies of the Agreement to their respective participating Enterprise companies. The specific relationship established in each country will be documented by signing this Agreement or a participation document that incorporates this Agreement and its Attachments and TDs.

Enterprise companies include (i) companies within the same country that Client or IBM control (by owning greater than 50% of the voting shares), and (ii) any other entity that controls, is controlled by, or is under common control with Client or IBM, and has signed a participation agreement.

All references to the “Spin Date” mean [insert date].

Part 1 – General Terms

1. Programs

- a. A Program is an IBM-branded computer program and related material available for license subject to the payment of charges. Program details are described in an Attachment called License Information (LI). Programs do not include Machine Code or Project Materials. Programs are copyrighted and licensed (not sold). When IBM accepts an order for a Program, Client is granted a nonexclusive license to: i) use the Program only up to its authorizations and subject to its LI; ii) make and install copies to support such authorized use; and iii) make a backup copy. Programs may be used by Client, its authorized employees and contractors only within Client’s Enterprise, and not to provide hosting or timesharing services to any third party. Client may not sublicense, assign, or transfer the license for any Program. Additional rights may be available for additional fees or under different terms. Client is not granted unrestricted rights to use the Program nor has Client paid for all of the economic value of the Program. Certain Programs may contain third party code licensed under separate agreements identified in the LI.
- b. The license granted for a Program is subject to Client:
 - (1) reproducing copyright notices and other markings;
 - (2) ensuring anyone who uses the Program does so only for Client’s authorized use and complies with the license;
 - (3) not reverse assembling, reverse compiling, translating, or reverse engineering the Program; and
 - (4) not using any of the elements of the Program or related licensed material separately from the Program.
- c. The metric applicable to a Program license is specified in an Attachment or TD. All licenses on a server or capacity based metric must be licensed to the full capacity of the server on which the Program is installed, unless sub-capacity usage is available from IBM and Client complies with the applicable sub-capacity requirements and terms as set forth in Attachments and TDs.

2. Services - Cloud Services

- a. A Cloud Service is an IBM offering provided by IBM and made available via a network. Each Cloud Service is described in a TD. Cloud Services are designed to be available 24/7, subject to maintenance. Client will be notified of scheduled maintenance. Technical support and service level commitments, if applicable, are specified in an Attachment or TD.
- b. When IBM accepts Client’s order, IBM provides Client the authorizations specified in the TD.
- c. IBM will provide the facilities, personnel, equipment, software, and other resources necessary to provide the Cloud Services and generally available user guides and documentation to support Client’s use of the Cloud Service. A Cloud Service may require the use of enabling software that Client downloads to Client systems to facilitate use of the Cloud Service. Client may use enabling software only in connection with use of the Cloud Service and according to any licensing terms if specified in a TD. Enabling software is provided as-is, without warranties of any kind.
- d. Client will provide hardware, software and connectivity to access and use the Cloud Service, including any required Client-specific URL addresses and associated certificates.

- e. Client may access a Cloud Service only to the extent of authorizations acquired by Client. Client is responsible for use of Cloud Services by any user who accesses the Cloud Service with Client's account credentials. A Cloud Service may not be used in any jurisdiction for unlawful, obscene, offensive or fraudulent Content or activity, such as advocating or causing harm, interfering with or violating the integrity or security of a network or system, evading filters, sending unsolicited, abusive or deceptive messages, viruses or harmful code, or violating third party rights. In addition, Client may not use Cloud Services if failure of the Cloud Service could lead to death, bodily injury, or property or environmental damage. Client may not: i) reverse engineer any portion of the Cloud Services; or ii) assign or resell direct access to a Cloud Service to a third party outside Client's Enterprise. or iii) combine Cloud Services with Client's value add to create a commercially available Client branded solution that Client markets to its end user customers unless otherwise agreed (unless otherwise set forth in an Attachment or Transaction Document).

- f. A Cloud Service or feature of a Cloud Service is considered “Preview” when IBM makes such services or features available at no charge, with limited or pre-release functionality, or for a limited time to try available functionality (such as beta, trial, no-charge, or preview designated Cloud Services). Preview services are excluded from available service level agreements. A Preview service may not be covered by support and IBM may change or discontinue a Preview service at any time and without notice. IBM is not obligated to release a Preview service or make an equivalent service generally available.

2.1 Changes to Cloud Services

- a. IBM may modify: i) a Cloud Service; and ii) IBM’s Data Security and Privacy Principles for IBM Cloud Services (DSP) from time to time at IBM’s sole discretion and such modifications will supersede prior versions. Updates to a TD (such as a service description or statement of work) will take effect upon a new order, change effective date for ongoing services, or upon the renewal date for Cloud Services that automatically renew. The intent of any modification will be to: i) improve or clarify existing commitments; ii) maintain alignment to current adopted standards and applicable laws; or iii) provide additional features and functionality. Modifications will not degrade the security or functionality of a Cloud Service.
- b. IBM may withdraw a Cloud Service on 12 months’ notice, unless otherwise stated in a TD. IBM will continue to provide the Cloud Service for the remainder of Client’s unexpired term or work with Client to migrate to another IBM offering.

2.2 Term and Termination of Cloud Services

- a. The term of a Cloud Service begins on the date IBM notifies Client that Client can access the Cloud Service. IBM will specify whether the Cloud Service renews automatically, proceeds on a continuous use basis, or terminates at the end of the term. For automatic renewal, unless Client provides written notice to IBM or the IBM Business Partner involved in the Cloud Service not to renew at least 30 days prior to the term expiration date, the Cloud Service will automatically renew for the specified term. For continuous use, the Cloud Service will continue to be available on a month to month basis until Client provides 30 days written notice to IBM or the IBM Business Partner involved in the Cloud Service of termination. The Cloud Service will remain available to the end of the calendar month after such 30 day period.
- b. IBM may suspend or limit, to the extent necessary, Client’s use of a Cloud Service if IBM determines there is a material breach of Client’s obligations, a security breach, violation of law, or breach of the terms set forth in section 2 (f). If the cause of the suspension can reasonably be remedied, IBM will provide notice of the actions Client must take to reinstate the Cloud Service. If Client fails to take such actions within a reasonable time, IBM may terminate the Cloud Service.
- c. Client may terminate a Cloud Service on one month’s notice: i) at the written recommendation of a government or regulatory agency following a change in either applicable law or the Cloud Services; ii) if IBM’s modification to the computing environment used to provide the Cloud Service causes Client to be noncompliant with applicable laws; or iii) if IBM notifies Client of a modification that has a material adverse effect on Client’s use of the Cloud Service, provided that IBM will have 90 days to work with Client to minimize such effect. In the event of such termination, IBM shall refund a portion of any prepaid amounts for the applicable Cloud Service for the period after the date of termination. If the Agreement is terminated for any other reason, Client shall pay to IBM, on the date of termination, the total amounts due per the Agreement. Upon termination, IBM may assist Client in transitioning Client’s Content to an alternative technology for an additional charge and under separately agreed terms.

3. Services – Other Services

- a. IBM provides consulting, installation, customization and configuration, maintenance, and other services as detailed in an Attachment or TD. Client will own the copyright in works of authorship that IBM develops for Client under a Statement of Work (SOW) (Project Materials). Project Materials exclude works of authorship delivered to Client, but not created, under the SOW, and any modifications or enhancements of such works made under the SOW (Existing Works). Some Existing Works are subject to a separate license agreement (Existing Licensed Works). A Program is an example of an Existing Licensed Work and is subject to the Program terms. IBM grants Client an irrevocable (subject to Client’s payment obligations), nonexclusive, worldwide license to use, execute, reproduce, display, perform and prepare derivatives of Existing Works that are not Existing Licensed Works. IBM retains an irrevocable, nonexclusive, worldwide, paid-up license to use, execute, reproduce, display, perform, sublicense, distribute, and prepare derivative works of Project Materials.
- b. Any operational or administrative process that by its nature apply to a Service that is (a) part of Existing Backlog and (b) the process is documented in Client’s contract with its customer and (c) the process has been agreed to by the parties prior to Spin Date, will continue to apply for the current term of that customer’s contract with Client. For the purposes of this paragraph “Existing Backlog” means existing Service obligations documented under active IBM documents of understanding or the Survey Gizmo tool, including those amended by a mutually agreed project change request (PCR) or request for service (RFS), and as may be reflected in corresponding pricing and quote to cash records (i.e., CFTS/IERP), or equivalent forms but all as specified in an Attachment or TD.
- c. Either party may terminate a Service if a material breach concerning the Service is not remedied within a reasonable time. IBM will provide at least 90 days’ notice prior to withdrawal of Service. Client will pay charges for Services provided through the effective date of termination. If Client terminates without cause or IBM terminates for breach, Client will meet all minimum commitments and pay termination or adjustment charges specified in the SOW or TD and any additional costs IBM reasonably incurs because of early termination, such as costs relating to subcontracts or relocation. IBM will take reasonable steps to mitigate any such additional costs.

- d. IBM Personnel. Attachment A is incorporated by reference.

4. Machines and Appliances

- a. A Machine is an IBM-branded device including its features, upgrades, and accessories. An Appliance is a Program and Machine combination designed for a particular function. Unless otherwise provided, terms that apply to a Program apply to the Program component of an Appliance and terms that apply to a Machine apply to the Machine component of an Appliance. Client may not use or transfer an Appliance's Program component independently of the Appliance.
- b. When IBM accepts Client's order, IBM transfers title to Machines and non-IBM machines to Client or Client's lessor upon payment of all amounts due, except in the United States where title transfers upon shipment. IBM bears risk of loss until delivery to the carrier for shipment. IBM pays for insurance on Client's behalf until delivery to Client's location. Client must report any loss in writing to IBM within 10 business days of delivery and follow the claim procedure. Additional charges may apply for IBM installation more than six months after shipment. Client must follow instructions provided to install Client set up Machines.
- c. Machines and parts removed or exchanged for upgrade, warranty service, or maintenance are IBM property and must be returned to IBM promptly. A replacement assumes the warranty or maintenance status of the replaced part. A Machine may include parts that are not new and in some instances Machines may have been previously installed. Regardless, IBM's warranty terms apply. Client will promptly install or allow IBM to install mandatory engineering changes. Client may only acquire Machines for use within Client's Enterprise in the country where acquired and not for resale, lease, or transfer. Lease-back financing is permitted.

4.1 Machine Code and Built in Capacity

Machines may include Machine Code (MC) and Built in Capacity (BIC). MC is computer instructions, fixes, replacements, and related materials, such as data and passwords relied on, provided, used with, or generated by MC, that permit the operation of the machine's processors, storage, or other functionality. MC is copyrighted and licensed (not sold). IBM only provides copies, fixes, or replacements for MC for Machines under warranty or IBM maintenance, or under a separate written agreement which may be subject to additional charges. Client agrees that all copies, fixes, or replacements for MC will be obtained solely as authorized by IBM. Client is granted a nonexclusive license to use MC only: i) on the Machine for which IBM provided it; and ii) to access and use BIC only to the extent paid for by Client, activated by IBM and subject to the Attachment called IBM Authorized Use Table for Machines (AUT) available from IBM and at http://www.ibm.com/systems/support/machine_warranties/machine_code/aut.html. BIC is computing resource (e.g., processors, storage, and other functionality) that IBM provides for a Machine. Use of BIC may be restricted by contract, technological or other measures. Client agrees to IBM's implementation of technological and other measures that restrict, monitor and report on use of BIC or MC, and to install any changes IBM provides. Client may not alter, reverse assemble, reverse compile, translate, or reverse engineer the MC, or circumvent or interfere, by any means, with IBM's contractual, technological, or other measures that restrict, monitor or report on use of BIC or MC. While Client's license to MC is in effect, Client may transfer possession of the entire MC along with all of Client's rights and obligations only with corresponding transfer of the Machine and a hardcopy of this MC license, and only if the transferee agrees to the terms of this MC license. Client's MC license terminates immediately upon transfer. This Agreement governs MC and BIC on Machines acquired from another party. Use of BIC in excess of authorizations from IBM is subject to additional charges.

5. Content and Data Protection

- a. Content consists of all data, software, and information that Client or its authorized users provides, authorizes access to, or inputs to the Cloud Service or information or data Client may provide, make available or grant access to, in connection with IBM providing other Services, such as consulting, maintenance, or Program support. Providing Content or otherwise using Cloud Services will not affect Client's ownership or license rights in such Content. IBM, its affiliates, and contractors of either may access and use the Content solely for the purpose of providing and managing the applicable Cloud Services or other Services. IBM will treat all Content as confidential by not disclosing Content except to IBM employees and contractors and only to the extent necessary to deliver the Cloud Services or perform other Services.
- b. Client is responsible for obtaining all necessary rights and permissions to enable, and grants such rights and permissions to, IBM, its affiliates, and contractors of either to use, provide, store and otherwise process Content in the Cloud Services or other Services. This includes Client providing required information, making necessary disclosures and obtaining consent, if required, before providing individuals' information, including personal or other regulated data in such Content. Client is responsible for adequate back-up of Content. If any Content could be subject to governmental regulation or may require security measures beyond those specified by IBM for Cloud Services or other Services, Client will not input, provide, or allow access to such Content unless specifically permitted in the terms of the relevant TD or unless IBM has otherwise first agreed in writing to implement additional security and other measures.
- c. IBM's Data Security and Privacy Principles for IBM Cloud Services (DSP), at <http://www.ibm.com/cloud/data-security>, apply for generally available Cloud Service offerings. Specific security features and functions of a Cloud Service may be provided in an Attachment and TDs. Client is responsible to assess the suitability of each Cloud Service for Client's intended use and Content and to take necessary actions to order, enable, or use available data protection features for a Cloud Service appropriate for the Content being used with a Cloud Service. By using the Cloud Service, Client accepts responsibility for use of the Cloud Services, and acknowledges that it meets Client's requirements and processing instructions to enable compliance with applicable laws.

- d. IBM's Data Processing Addendum at <http://ibm.com/dpa> (DPA) and applicable DPA Exhibit(s) apply to personal data contained in Content, if and to the extent: i) European General Data Protection Regulation (EU/2016/679) (GDPR); or ii) other data protection laws identified at <http://ibm.com/dpa/dpl> apply.
- e. Upon request by either party, IBM, Client, affiliates of either, will enter into additional agreements as required by law in the prescribed form for the protection of personal or regulated personal data included in Content. The parties agree (and will ensure that their respective affiliates agree) that such additional agreements will be subject to the terms of the Agreement.
- f. IBM will return or remove Content from IBM computing resources upon the expiration or cancellation of the Cloud Service, other Services, or earlier upon Client's request. IBM may charge for certain activities performed at Client's request (such as delivering Content in a specific format). IBM does not archive Content, however some Content may remain in backup files until expiration of such files as governed by IBM's backup retention practices.

6. Warranties and Post Warranty Support

- a. IBM warrants that Programs used in their specified operating environment conform to their official published specifications. The warranty period for a Program (not the Program component of an Appliance) is one year, or the initial license term if less than one year, unless another warranty period is specified in an Attachment or TD. During the Program warranty period, IBM provides Software Subscription and Support (S&S), entitling Client to defect correction information, restrictions, bypasses, and new releases and versions IBM makes generally available. Unless Client elects to discontinue S&S, annual S&S automatically renews at then-current charges until S&S for a version or release is withdrawn. If Client elects to continue S&S for a Program at a designated Client site, Client must maintain S&S for all uses and installations of the Program at that site.
- b. IBM warrants that it provides Cloud and other Services using commercially reasonable care and skill in accordance with the applicable Attachment or TD, including any completion criteria, and that Project Materials will comply with the Attachment or TD at the time of delivery. The warranty for a Service ends when the Service ends.
- c. IBM warrants that Machines used in their specified operating environment conform to their official published specifications. For a Machine or Appliance, the warranty period is specified in the Attachment or TD. During its warranty period, IBM will repair or exchange the Machine without charge, as specified in the Attachment. Warranty does not apply to Machines that Client did not allow IBM to install as required by the TD. Client may purchase warranty service upgrades and post warranty support where available. For Appliances, post warranty support includes maintenance and S&S.
- d. If a Machine or Program does not function as warranted during its warranty period and IBM is unable to repair or replace it with a functional equivalent, Client may return it to IBM for a refund of the amount Client paid (for recurring charges, up to twelve months' charges) and Client's license or right to use it terminates.
- e. IBM does not warrant uninterrupted or error-free operation of an IBM Product or that IBM will correct all defects or prevent third party disruptions or unauthorized third party access to an IBM Product. These warranties are the exclusive warranties from IBM and replace all other warranties, including the implied warranties or conditions of satisfactory quality, merchantability, non-infringement, and fitness for a particular purpose. IBM warranties will not apply if there has been misuse, modification, damage not caused by IBM, or failure to comply with instructions provided by IBM. Preview services and non-IBM Products are sold under the Agreement as-is, without warranties of any kind. Third parties may provide their own warranties to Client.

7. Charges, Taxes, Payment and Verification

- a. Unless otherwise set forth in a TD, IBM will provide Products only after receiving Client's authorization in either electronic or tangible form (i.e., a purchase order, bill of lading, or another Client designated document) (collectively, a Work Authorization (WA)). Preprinted Client terms on the WA are void and of no effect. Notwithstanding the foregoing, a WA is not required for Program or Cloud Services use in excess of authorizations.
- b. Client agrees to pay all applicable charges specified for an IBM Product or non-IBM Product, and charges for use in excess of authorizations. The agreed upon charges and currency for an IBM Product and non-IBM Product will be set forth in the TD. Payment of invoices does not constitute acceptance of Project Materials. IBM will submit invoices to Client via Client's designated electronic invoicing system. [***]. Prepaid Services must be used within the applicable period. IBM does not give credits or refunds for any prepaid, one-time charges, or other charges already due or paid. [***].
- c. For Cloud Services, based on selected billing frequency, IBM will invoice Client the charges due at the beginning of the billing frequency term, except for overage and usage type of charges which will be invoiced in arrears. One time charges will be billed upon IBM's acceptance of an order.
- d. All charges referred to in this Agreement are expressed as exclusive of all applicable Indirect Taxes. If any Indirect Taxes are payable in relation to any goods, services or other supplies made under or in connection with this Agreement, including the provisioning and fulfillment of such supplies (i) the applicable Indirect Taxes shall be added to any charges payable by Client; (ii) IBM shall issue an invoice or other billing documentation to the Client that complies with applicable tax laws; and (iii) as applicable, Client shall pay or reimburse the amounts of such Indirect Taxes to IBM on or before the due dates for satisfaction of such invoices. Indirect Taxes means value added, goods and services, consumption, sales, use, revenue and/or turnover taxes calculated as a percentage of gross revenue (excluding income taxes calculated on net income or profit), financial transaction, digital services, export and import taxes or duties, stamp, registration, documentary and property taxes and any other similar charges or contributions, including surcharges on the aforementioned taxes, in each case imposed, collected or assessed by, or payable to, a tax authority or other governmental agency.

In the event that local laws or regulations could require the IBM contracting entity to register for Indirect taxes in overseas countries, Client agrees to execute local agreements with the local IBM Enterprise company in the applicable overseas country where IBM makes supplies under the Agreement and/ or the Client or Client Enterprise company receives the supplies. Client may nominate which Client Enterprise company (namely, Client or a local Client Enterprise company,) executes the local service agreement with the local IBM Enterprise company.

Client will pay the charge to IBM net of the required withholding or deduction and shall account for the amount so deducted or withheld to the relevant tax authority. Client will supply to IBM evidence to the reasonable satisfaction of IBM that Client has accounted to the relevant tax authority for the amount withheld or deducted and will provide all such reasonable assistance as may be requested by the IBM in recovering the amount withheld or deducted. In the event that a double taxation treaty applies which provides for a reduced withholding tax rate (including a complete exemption from withholding tax), Client shall take all reasonable steps to ensure that such reduced withholding is applied.

- e. Unless otherwise set forth in an attachment or TD, IBM may change recurring charges, labor rates and minimum commitments on three months' notice. Notwithstanding the foregoing IBM may change Cloud Service charges on thirty days' notice unless otherwise committed to pricing during the term of the Cloud Service or as specified in an attachment or TD. A change applies on the invoice date or the first day of the charging period on or after the effective date IBM specifies in the notice. IBM may change one-time charges without notice. However, a change to a one-time charge does not apply to an order if: i) IBM receives the order before the announcement date of the increase; and ii) within three months after IBM's receipt of the order, the product is shipped or made available to Client.
- f. Client will: i) maintain, and provide upon request, records, system tools output, and access to Client's premises, as reasonably necessary for IBM and its independent auditor to verify Client's compliance with the Agreement, including MC and Program licenses and metrics, such as sub-capacity usage; and ii) promptly order and pay for required entitlements (including associated S&S or maintenance) at IBM's then current rates and for other charges and liabilities determined as a result of such verification, as IBM specifies in an invoice. These compliance verification obligations remain in effect during the term of any TD and for two years thereafter.
- g. **Travel Expenses.** To the extent travel expenses are reimbursable by Client under a TD, Client will reimburse IBM for the following travel expenses only, provided they are incurred in the performance of this Agreement and with Client's prior written approval for the estimated costs and daily limits (as may be specified by Client): (i) tolls, parking fees, taxis, buses or auto rentals fees (ii) personal automobile use, excluding normal commutation; (iii) air transportation at the economy, tourist or coach class rate for the most direct route of a scheduled airline; (iv) reasonable lodging charges commensurate with the average rates charged for the immediate area (v) reasonable and actual meal expenses; (vi) necessary business calls made on Client's behalf; (vii) reasonable tipping; (viii) reasonable valet and laundry charges if a trip extends beyond four (4) days. All reservations made by IBM must be made through IBM's designated travel agency or through another agency with Client's prior written approval.

8. Liability and Indemnity

- a. IBM's entire liability for all claims related to the Agreement will not exceed the amount of any actual direct damages incurred by Client up to the amounts paid (if recurring charges, up to 12 months' charges apply) for the product or service that is the subject of the claim, regardless of the basis of the claim. IBM will not be liable for special, incidental, exemplary, indirect, or economic consequential damages, or lost profits, business, value, revenue, goodwill, or anticipated savings. These limitations apply collectively to IBM, its affiliates, contractors, and suppliers.
- b. The following amounts are not subject to the above cap: i) third party payments referred to in the paragraph below; and ii) damages that cannot be limited under applicable law.
- c. If a third party asserts a claim against Client that an IBM Product acquired under the Agreement infringes a patent or copyright, IBM will defend Client against that claim and pay amounts finally awarded by a court against Client or included in a settlement approved by IBM, provided that Client promptly: i) notifies IBM in writing of the claim; ii) supplies information requested by IBM; and iii) allows IBM to control, and reasonably cooperates in, the defense and settlement, including mitigation efforts.
- d. IBM has no responsibility for claims based on Non-IBM Products, items not provided by IBM, or any violation of law or third party rights caused by Content, or any Client materials, designs, specifications, or use of a non-current version or release of an IBM Product when an infringement claim could have been avoided by using a current version or release.
- e. With respect to Services, the parties agree to look to their own risk management (including insurance) to cover damage, destruction, loss, theft, or government taking (collectively, Loss) of their respective tangible property (whether owned or leased), and neither party shall be liable to the other for such Loss except liability for negligence under applicable law.

9. Termination

Either party may terminate this Agreement: i) without cause on at least one month's notice to the other after expiration or termination of its obligations under the Agreement; or ii) immediately for cause if the other is in material breach of the Agreement, provided the one who is not complying is given notice and reasonable time to comply. Any terms that by their nature extend beyond the Agreement termination remain in effect until fulfilled, and apply to successors and assignees. Termination of this Agreement does not terminate TDs, and provisions of this Agreement and Attachments as they relate to such TDs remain in effect until fulfilled or otherwise terminated in accordance with their terms. IBM may terminate Client's license to use a Program or MC if Client fails to comply with the Agreement. Client will promptly destroy all copies of the Program or MC after either party has terminated the license. Failure to pay is a material breach.

10. Governing Laws and Geographic Scope

- a. Each party is responsible for complying with: i) laws and regulations applicable to its business and Content; and ii) import, export and economic sanction laws and regulations, including defense trade control regime of any jurisdiction, including the International Traffic in

- b. Both parties agree to the application of the laws of the country where the transaction is performed (or for Cloud Services, the laws of the country of Client's business address) to the Agreement, without regard to conflict of law principles. The rights and obligations of each party are valid only in the country where the transaction is performed or, if IBM agrees, the country where the product is placed in productive use, except all licenses are valid as specifically granted. IBM will not serve as Client's exporter or importer, except as required by data protection laws, for: i) any Content; or ii) use of any portion of the Cloud Service from a country outside Client's business address. If any provision of the Agreement is invalid or unenforceable, the remaining provisions remain in full force and effect. Nothing in the Agreement affects statutory rights of consumers that cannot be waived or limited by contract. The United Nations Convention on Contracts for the International Sale of Goods does not apply to transactions under the Agreement.

11. General

- a. The parties agree that the IBM International Agreement for the Exchange of Confidential Information (iAECI) between the parties dated _____ shall govern the obligations and rights of the parties with respect to any Information (as defined in the iAECI) exchanged between the parties under this Agreement, any Attachment or TDs, which is incorporated herein by reference. Pricing and terms contained in the Agreement, any Attachment or any TD are IBM Information and Client will not disclose such Information to any third party without IBM's written consent. In addition, Client's obligations for IBM pricing remain in effect until the later of (a) two years following the date the pricing was disclosed to Client or (b) one year following the termination of the TD that contains the pricing. This paragraph does not apply to Content provided in the use of a Cloud Service.
- b. Client accepts an Attachment or TD by ordering, enrolling, using, or making a payment for, the product, offering or service. Since this Agreement may apply to many future orders, IBM may modify this Agreement by providing Client at least three months' written notice. Changes are not retroactive; they apply, as of the effective date, only to new orders, ongoing services that do not expire, and renewals. For transactions with a defined renewable contract period stated in a TD, Client may request that IBM defer the change effective date until the end of the current contract period. IBM's ability to modify the Cloud Services is set forth in Section 2.1. Client accepts changes by placing new orders or continuing use after the change effective date or allowing transactions to renew after receipt of the change notice. Except as provided above, all changes to the Agreement must be in writing accepted by both parties.
- c. IBM is an independent contractor, not Client's agent, joint venturer, partner, or fiduciary, and does not undertake to perform any of Client's regulatory obligations, or assume any responsibility for Client's business or operations. IBM is an information technology provider only. Any directions, suggested usage, or guidance provided by the IBM or an IBM Product does not constitute medical, clinical, legal, accounting, or other licensed professional advice. Client should obtain its own expert advice. Client is responsible for its use of IBM Products and Non-IBM Products. Each party is responsible for determining the assignment of its and its affiliates personnel and their respective contractors, and for their direction, control, and compensation.
- d. IBM maintains a robust set of business conduct and related guidelines covering conflicts of interest, market abuse, anti-bribery and corruption, and fraud. IBM and its personnel comply with such policies and require contractors to have similar policies. Each party will be familiar and will strictly comply with all laws and regulations on bribery, corruption, and prohibited business practices. Each party and its Affiliates have not and will not, for the purpose of influencing or inducing anyone to influence decisions in favor of the other party or its Affiliates, offer, promise or make or agree to make, directly or indirectly, (a) any political contributions of any kind or any payment to or for the benefit of any public official, whether elected or appointed, (b) any payments for gifts, meals, travel or other value for a government employee or his/her family members or (c) any payments or gifts (of money or anything of value) to anyone. Neither party shall reimburse the other party for any such political contributions, payments or gifts.
- e. IBM Business Partners who use or make available IBM Products or non-IBM products are independent from IBM and unilaterally determine their prices and terms. IBM is not responsible for their actions, omissions, statements, or offerings.
- f. IBM may offer Non-IBM Products, or an IBM Product may enable access to Non-IBM Product, that may require acceptance of third party terms presented to the Client. Linking to or use of Non-IBM Products constitutes Client's agreement with such terms. IBM is not a party to such third party agreements and is not responsible for such Non-IBM Products. Access to Non-IBM Cloud Services or other Services may be withdrawn at any time.
- g. IBM, its affiliates, and contractors of either, may, wherever they do business, store and otherwise process business contact information (BCI) of Client, its personnel, and authorized users, for example, name, business telephone, address, email, and user ID for business dealings with them. Where notice to or consent by the individuals is required for such processing, Client will notify and obtain such consent. The IBM Privacy Statement at <https://www.ibm.com/privacy/us/en/> provides additional details with respect to BCI and Account Data described below.
- h. Account Data is information, other than Content and BCI, that Client provides to IBM to enable Client's acquisition or use of IBM Products or Non-IBM Products or that IBM collects using tracking technologies, such as cookies and web beacons, regarding Client's acquisition or use of IBM Products or non-IBM Products. IBM, its affiliates, and contractors of either, may use Account Data, for example, to enable product features, administer use, personalize experience, and otherwise support or improve use of IBM Products and non-IBM Products.
- i. License grants to Programs and MC hereunder are provided by International Business Machines Corporation, a New York corporation ("IBM Corporation"). For transactions entered into by a Client Enterprise company with an IBM Enterprise company, IBM is acting as a distributor and delivering Programs and MC pursuant to this Agreement, and is responsible for enforcing the license terms and fulfilling all obligations concerning such Programs and MC and no right or cause of action hereunder is created in favor of Client against IBM Corporation. Client waives all claims and causes of action against IBM Corporation and agrees to look solely to IBM for any rights and remedies in connection with Programs and MC.

- j. Neither party may assign the Agreement, in whole or in part, without the prior written consent of the other, where consent will not to be unreasonably withheld or delayed. Assignment of IBM rights to receive payments is not restricted and such assignment does not require Client's consent.
- k. This Agreement applies to IBM and Client (the signatories below) and their respective Enterprise companies who acquire IBM Products or Non-IBM Products under this Agreement. The signatories shall coordinate the activities of their own Enterprise companies under this Agreement. Enterprise companies include: i) companies within the same country that Client or IBM control (by owning greater than 50% of the voting shares); and ii) any other entity that controls, is controlled by or is under common control as Client or IBM and has signed a participation agreement.
- l. All notices under the Agreement must be in writing and sent to the business address specified for the Agreement, unless a party designates in writing a different address. The parties consent to the use of electronic means and facsimile transmissions for communications as a signed writing. Any reproduction of the Agreement made by reliable means is considered an original. The Agreement supersedes any course of dealing, discussions or representations between the parties.
- m. No right or cause of action for any third party is created by the Agreement or any transaction under it. Neither party will bring a legal action arising out of or related to the Agreement more than two years after the cause of action arose. Neither party is responsible for failure to fulfill its non-monetary obligations due to causes beyond its control. Each party will allow the other reasonable opportunity to comply before it claims the other has not met its obligations. Where approval, acceptance, consent, access, cooperation or similar action by either party is required, such action will not be unreasonably delayed or withheld.
- n. IBM may use personnel and resources in locations worldwide, including third party contractors to support the delivery of IBM Products and Non-IBM Products. IBM may transfer Content, including personally identifiable information, across country borders. A list of countries where Content may be processed is described in the TD or as specified in service support documentation. IBM is responsible for the obligations under the Agreement even if IBM uses a third party contractor and will have appropriate agreements in place to enable IBM to meet its obligations.

o. Insurance

IBM will maintain at its expense (and provide certificates of insurance at Client's request) i) all statutory mandated insurance such as workers' compensation and employer's liability, ii) commercial general liability insurance including products liability and completed operations with a minimum per occurrence limit of 5,000,000 USD (or local currency equivalent), and iii) automobile liability insurance (if a vehicle is to be used in performance of this Agreement) of at least 5,000,000 USD (or local currency equivalent). Commercial general liability insurance and automobile insurance policy limits may be met through a combination of primary and umbrella/excess liability insurance and must name Client as an additional insured. Insurance required under a TD must be purchased either from insurers with an AM Best Rating of A- or better, or with a Standard & Poor's rating of BBB and \$50M in policy holder's surplus or greater.

p. Record Keeping and Audit

IBM will maintain (and subject to applicable law provide to Client upon request) relevant business, technical and accounting records i) to support IBM's invoices; ii) show proof of required permits and professional licenses and iii) to demonstrate compliance with IBM's performance of its obligations under this Agreement, for not less than six (6) years following completion or termination of the relevant Services. All accounting records will be maintained in accordance with generally accepted accounting principles.

Upon Client's notice, Client may, at no charge to IBM, audit IBM's compliance with its obligations under this Agreement, including verifying compliance with applicable laws and the protection and integrity of Client data. In connection with an audit, IBM shall provide Client (including its auditors and any regulators) access at reasonable times (or in the case of regulators, at any time designated by such regulators), to all systems, data and business, technical and accounting records relating to IBM's (and any subcontractor's) compliance with this Agreement or amounts invoiced by IBM to Client. IBM shall provide its full cooperation in any such audit, including by designating a focal point to support an audit and, if required by Client, promptly securing the rights for Client to directly request from any subcontractor, and for the subcontractor to promptly provide to Client, access to such systems, data and records relating to the work performed by such subcontractors. Client will not have the right to audit any IBM owned or controlled facilities, including but not limited to data centers.

q. Business Continuity

IBM agrees to have and maintain a business continuity plan and business continuity testing procedures, which include but are not limited to the areas of disaster recovery planning and pandemic planning, and cyber security. Cyber security programs must include, at a minimum, provisions to prevent, detect and respond to cyber security incidents. IBM agrees to provide the specific recovery targets of the business continuity plan and to review, update, and test the business continuity plan annually and, upon Client's request, IBM will provide a summary of the business continuity plan and test results. Client may, from time to time, provide feedback regarding the plan and requests that IBM take Client's comments into consideration when updating the plan. However, IBM remains solely responsible for the performance of its responsibilities under the Agreement and the adequacy of the business continuity plan regardless of whether Client has reviewed or commented on the plan.

- r. IBM will continue to evolve and enhance the technical support tools to drive innovation with enhanced automation, artificial Intelligence, and analytics.
- s. For Client's acquisition of Products or Services to be delivered to Client's customer on Client's behalf (as allowed under attachments to this Agreement), the following additional terms apply:

- (1) Client will not make any representations about IBM or IBM Products or Services other than those authorized by IBM in writing,
- (2) Client agrees that it has the direct contractual relationship with Client's customer receiving the benefit of the IBM Products or Services, and
- (3) Client is responsible for all Client's customer's obligations with respect to the IBM Products or Services.

IBM will provide the IBM Products or Services to Client or, at Client's direction, to Client's customer, on Client's behalf (as further described in any applicable attachments to this Agreement).

12. Dispute Resolution

- 12.01 **Negotiation.** In the event of any claim, controversy, demand or request for relief of any kind arising out of, in connection with, or in relation to the interpretation, performance, nonperformance, validity or breach of this Agreement or otherwise arising out of or related to this Agreement, including any Action based on contract, tort, equity, statute, regulation or constitution (collectively, "Disputes"), the Party raising the Dispute shall give written notice of the Dispute (a "Dispute Notice"), and the general counsels of the Parties (or such other individuals designated by the respective general counsels) and/or the executive officers designated by the Parties shall negotiate for a reasonable period of time to settle such Dispute; provided, that such reasonable period shall not, unless otherwise agreed by the Parties in writing, exceed ninety (90) days (the "Negotiation Period") from the time of receipt of the Dispute Notice; provided, further, that in the event of any arbitration in accordance with Section 12.03 hereof, (x) the Parties shall not assert the defenses of statute of limitations, laches or any other defense, in each such case based on the passage of time during the Negotiation Period, and (y) any contractual time period or deadline under this Agreement relating to such Dispute occurring after the Dispute Notice is received shall not be deemed to have passed until such Arbitration has been resolved.
- 12.02 **Arbitration.** If the Dispute has not been resolved for any reason after the Negotiation Period, then to the fullest extent permitted by applicable law such Dispute may be submitted by either Party to final and binding arbitration administered in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("AAA") then in effect (the "Rules"), except as modified herein.
- (a) The arbitration shall be conducted by a three-member arbitral tribunal (the "Arbitral Tribunal"). The claimant shall nominate one arbitrator in accordance with the Rules, and the respondent shall nominate one arbitrator in accordance with the Rules within twenty-one days (21) after the appointment of the first arbitrator. The third arbitrator, who shall serve as chair of the Arbitral Tribunal, shall be jointly nominated by the two party-nominated arbitrators within twenty-one (21) days of the confirmation of the appointment of the second arbitrator. If any arbitrator is not appointed within the time limit provided herein, such arbitrator shall be appointed by the AAA in accordance with the listing, striking and ranking procedure in the Rules.
 - (b) The arbitration shall be held, and the award shall be rendered, in New York, New York, in the English language.
 - (c) For the avoidance of doubt, by submitting their Dispute to arbitration under the Rules, the Parties expressly agree that all issues of arbitrability, including all issues concerning the propriety and timeliness of the commencement of the arbitration, the jurisdiction of the Arbitral Tribunal (Including the scope of this agreement to arbitrate and the extent to which a Dispute is within that scope), and the procedural conditions for arbitration, shall be finally and solely determined by the Arbitral Tribunal.
 - (d) Without derogating from Section 12.03(e) below, the Arbitral Tribunal shall have the full authority to grant any pre-arbitral injunction, pre-arbitral attachment, interim or conservatory measure or other order in aid of arbitration proceedings ("Interim Relief"). The Parties shall exclusively submit any application for Interim Relief to only: (A) the Arbitral Tribunal; or (B) prior to the constitution of the Arbitral Tribunal, an emergency arbitrator appointed in the manner provided for in the Rules (the "Emergency Arbitrator"). Any Interim Relief so issued shall, to the extent permitted by applicable Law, be deemed a final arbitration award for purposes of enforceability, and, moreover, shall also be deemed a term and condition of this Agreement subject to specific performance in Section 12.04 below. The foregoing procedures shall constitute the exclusive means of seeking Interim Relief, provided, however, that (i) the Arbitral Tribunal shall have the power to continue, review, vacate or modify any Interim Relief granted by an Emergency Arbitrator; and (ii) in the event an Emergency Arbitrator or the Arbitral Tribunal issues an order granting, denying or otherwise addressing Interim Relief (a "Decision on Interim Relief"), any Party may apply to enforce or require specific performance of such Decision on Interim Relief in any court of competent jurisdiction.
 - (e) The Arbitral Tribunal shall have the power to grant any remedy or relief that is in accordance with the terms of this Agreement or the applicable Ancillary Agreement, including temporary or final injunctive relief, provided, however, that the Arbitral Tribunal shall have no authority or power to limit, expand, alter, amend, modify, revoke or suspend any condition or provision of this Agreement or any Ancillary Agreement, nor any right or power to award punitive, exemplary, enhanced or treble damages.
 - (f) The Arbitral Tribunal shall have the power to allocate the costs and fees of the arbitration, including reasonable attorneys' fees and costs as well as those costs and fees addressed in the Rules, between the Parties in the manner it deems fit.
 - (g) Arbitration under this Section 12 shall be the sole and exclusive remedy for any Dispute, and any award rendered thereby shall be final and binding upon the Parties as from the date rendered. Judgment on the award rendered by the Arbitral Tribunal may be entered in any court having jurisdiction thereof, including any court having jurisdiction over the relevant Party.

- 12.03 **Relief.** Subject to Section 12.02 and Section 12.03, in the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Agreement, the affected Party shall have the right to injunctive or other equitable relief of its rights under this Agreement, in addition to any and all other rights and remedies at Law or in equity, and all such rights and remedies shall be cumulative. The other Party shall not oppose the granting of such relief on the basis that money damages are an adequate remedy. The Parties agree that the remedies at Law for any breach or threatened breach hereof, including monetary damages, are inadequate compensation for any loss and that any defense in any action for specific performance that a remedy at Law would be adequate is waived. Any requirements for the securing or posting of any bond or similar security with such remedy are waived.
- 12.04 **Treatment of Arbitration.** The Parties agree that any arbitration hereunder shall be kept confidential, and that the existence of the proceeding and all of its elements (including any pleadings, briefs or other documents or evidence submitted or exchanged, any testimony or other oral submissions, and any awards) shall be deemed confidential, and shall not be disclosed beyond the Arbitral Tribunal, the Parties, their counsel, and any Person necessary to the conduct of the proceeding, except as and to the extent required by law and to defend or pursue any legal right. In the event any Party makes application to any court in connection with this Section 12.05 (including any proceedings to enforce a final award or any Interim Relief), that party shall take all steps reasonably within its power to cause such application, and any exhibits (including copies of any award or decisions of the Arbitral Tribunal or Emergency Arbitrator) to be filed under seal, shall oppose any challenge by any third party to such sealing, and shall give the other Party immediate notice of such challenge.
- 12.05 **Continuity of Service and Performance.** Unless otherwise agreed in writing, the Parties shall continue to provide services and honor all other commitments under this Agreement and each Ancillary Agreement during the course of dispute resolution pursuant to the provisions of Section 12.02, Section 12.03, Section 12.04 or Section 12.05 with respect to all matters not subject to such dispute resolution.
- 12.06 As used in this Section 12, “**Action**” means any claim, complaint, petition, hearing, charge, demand, action, suit, countersuit, arbitration, inquiry, proceeding or investigation by or before any Governmental Authority or any federal, state, local, foreign or international arbitration or mediation tribunal; and “**Governmental Authority**” means any federal, state, local, foreign, international or multinational court, government, quasi-government, department, commission, board, bureau, agency, official or other legislative, judicial, tribunal, commission, regulatory, administrative or governmental authority.

Part 2 – Country Required Terms

The terms of Part 2 replace or modify those of Part 1 in the countries specified.

AMERICAS

Section 2.2 Term and Termination of Cloud Services

In paragraph b., replace the third sentence with the following:

In Mexico: If Client fails to take such actions within a reasonable time, IBM may terminate the Cloud Service without responsibility.

Section 4. Machines and Appliances

In paragraph b, replace the first sentence with the following:

In Argentina, Chile, Colombia, Ecuador, Perú, Uruguay and Venezuela: When IBM accepts Client's order, IBM transfers title to Machines and non-IBM machines upon tradition to Client or Client's lessor.

Section 7. Charges, Taxes, Payment, and Verification

Add at the end of the last paragraph of subsection d the following sentence:

In United States and Canada: Where taxes are based upon the location(s) receiving the benefit of the Cloud Service, Client has an ongoing obligation to notify IBM of such location(s) if different than Client's business address listed in the applicable Attachment or TD.

Replace the first sentence of paragraph b with the following:

In Brazil: Client agrees to pay all applicable charges specified for a Cloud Service, charges for use in excess of authorizations, any customs or other duty, tax, and similar levies imposed by any authority resulting from Client's acquisitions under the Agreement.

In paragraph b:

In Mexico: *In the fourth sentence, delete the words "to an account specified by IBM"*

In Mexico: *Add the following new sentence after the fourth sentence:*

Payments will be made through electronic transfer of funds to an account specified by IBM or *in* IBM's domicile which is located in Alfonso Napoles Gandara 3111, Santa Fe Peña Blanca, Alvaro Obregon, Mexico City, Zip Code 01210.

Section 8. Liability and Indemnity

Insert the following disclaimer at the end of paragraph a:

In Peru: In accordance with Article 1328 of the Peruvian Civil Code this limitations and exclusions will not apply in the cases of willful misconduct ("dolo") or gross negligence ("culpa inexcusable").

Section 10. Governing Laws and Geographic Scope

In paragraph b, replace the first sentence only with:

In Argentina: Both parties agree to the application of the laws of the Republic of Argentina, without regard to the conflict of law principles..

In Chile: Both parties agree to the application of the laws of Chile, without regard to the conflict of law principles.

In Colombia: Both parties agree to the application of the laws of the Republic of Colombia, without regard to the conflict of law principles.

In Ecuador: Both parties agree to the application of the laws of the Republic of Ecuador, without regard to the conflict of law principles.

In Venezuela: Both parties agree to the application of the laws of Venezuela, without regard to the conflict of law principles.

In Peru: Both parties agree to the application of the laws of Perú, without regard to the conflict of law principles.

In Uruguay: Both parties agree to the application of the laws of Uruguay.

In paragraph b, first sentence only, replace the phrase, "the country where the transaction is performed (or for Cloud Services, the laws of the country of Client's Business Address)" with:

In United States, Anguilla, Antigua/Barbuda, Aruba, Bahamas, Barbados, Bermuda, Bonaire, British Virgin Islands, Cayman Islands, Curacao, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saba, Saint Eustatius, Saint Kitts and Nevis, Saint Lucia, Saint Maarten, Saint Vincent and the Grenadines, Suriname, Tortola, Trinidad and Tobago, Turk and Caicos: the State of New York, United States.

In Canada: the Province of Ontario and the federal laws of Canada applicable therein.

In paragraph b, second sentence, replace the phrase, "the country where the transaction is performed or, if IBM agrees, the country where the product is placed in productive use" with:

In Argentina: Argentina

In Chile: Chile

In Colombia: Colombia

In Ecuador: Ecuador

In Perú: Perú

In Uruguay: Uruguay
In Venezuela: Venezuela

Section 11. General

In paragraph b, replace the first sentence with:

In Latin America (all countries): Client accepts the terms in an Attachment or TD by signing it.

In paragraph b, replace the last two sentences with:

In Brazil: Client accepts changes by executing an amendment (in writing or on-line). New orders or continuing use services or renewal may be suspended until an amendment is executed.

In paragraph i:

In United States: Delete entire paragraph i.

In paragraph l, add the following new sentence after the first sentence:

In Mexico: Any change of address must be notified 10 (ten) days in advance, otherwise the notifications made at the last indicated address will have full legal effects.

In paragraph m, delete the 2nd sentence:

In Brazil: Neither party will bring a legal action arising out of or related to the Agreement more than two years after the cause of action arose.

Add as a new paragraph t to this section:

In Canada: Both parties agree to write this document in English. Les parties ont convenu de rédiger le présent document en langue anglaise.

ASIA PACIFIC

Section 4. Machines and Appliances

In paragraph c, the last sentence, delete "the country where acquired" and replace with:

In Hong Kong: Hong Kong S.A.R. of the PRC

In Macau: Macau S.A.R. of the PRC

In Taiwan: Taiwan

Section 6. Warranties and Post Warranty Support

Add at the end of this section as a new paragraph f:

In Australia: These warranties are in addition to any rights under, and only limited to the extent permitted by, the Competition and Consumer Act 2010.

In New Zealand: These warranties are in addition to any rights under the Consumer Guarantee Act 1993 or other legislation that cannot be limited by law.

Section 7. Charges, Taxes, Payment and Verification

Add as a new sentence to the end of last paragraph in subsection d:

In India: If any Indirect Taxes are not charged on the basis of the exemption documentation provided by the Client and the taxation authority subsequently rules that such Taxes should have been charged, then the Client will be liable to pay such Taxes, including any interests, levies and/or penalties applicable thereon.

Section 8. Liability and Indemnity

In paragraph a, add at the end of the first sentence the following:

In Australia: (for example, whether based in contract, tort, negligence, under statute or otherwise)

In paragraph a, second sentence after the word "special" and before the word "incidental," add the following:

In Philippines: (including nominal damages), moral,

Add as a new paragraph after the end of paragraph a (and ensure paragraphs properly reletter):

In Australia: Where IBM is in breach of a guarantee implied by the Competition and Consumer Act 2010, IBM's liability is limited to (a) for services, the supplying of services again or the payment of the cost of having the services supplied again; and (b) for goods, the repair or replacement of goods or the

supply of equivalent goods, or the payment of the cost of replacing the goods or having the good repaired. Where a guarantee relates to the right to sell, quiet possession, or clear title of a good under schedule 2 of the Competition and Consumer Act, then none of these limitations apply.

Section 9. Termination

Add at the end of the section as a new paragraph b:

In Indonesia: The parties waive article 1266 of the Indonesian Civil Code to the extent it requires a court decree for any such termination.

Section 10. Governing Laws and Geographic Scope

In paragraph b, in the first sentence only, replace the phrase, "the country where the transaction is performed (or for Cloud Services, the laws of the country of Client's business address)" with:

In Australia: the State or Territory in which the transaction is performed

In Cambodia, Vietnam: Singapore

In Hong Kong: Hong Kong S.A.R. of the PRC

In India: India

In Korea: the Republic of Korea, and subject to the Seoul Central District Court of the Republic of Korea

In Laos: the State of New York, United States

In Macau: Macau S.A.R. of the PRC

In Taiwan: Taiwan

In paragraph b, in the second and third sentence, replace the phrase "the country where the transaction is performed or, if IBM agrees, the country where the product is placed in productive use" with:

In Hong Kong: Hong Kong S.A.R. of the PRC

In Macau: Macau S.A.R. of the PRC

In Taiwan: Taiwan

Add at the end of the section as a new paragraph c:

Section 11. General

In the first sentence of paragraph b, before the word "ordering," add:

In Hong Kong, Macau, Thailand: signing (by hand or electronically),

In paragraph g, insert into the first sentence after "store"

In India: , transfer,

In paragraph k, in the following jurisdictions, delete "(the signatories below)" and replace the word "signatories: with:

In Hong Kong, Macau: parties

In paragraph k, replace the phrase "the same country" with:

In Hong Kong: Hong Kong S.A.R. of the PRC

In Macau: Macau S.A.R. of the PRC

In Taiwan: Taiwan

In paragraph m, in the second sentence, replace the phrase "two years" with:

In India: three years

Add to the end of this section the following new paragraph t:

In Indonesia: This agreement is made in the English and Indonesian languages. The English version will prevail if there are any interpretation differences as permitted by law.

EMEA

Section 4. Machines and Appliances

In paragraph b, the first sentence, add all countries listed in the following after "United States":

In Portugal, Spain, Switzerland, and Turkey: , Portugal, Spain, Switzerland, and Turkey,

In paragraph c, replace the second to last sentence (6th sentence) with:

In All countries in Western Europe (see definition within provision): Client may only acquire Machines for use within Client's Enterprise in Western Europe, and not for resale, lease, or transfer outside of Western Europe. For purposes of this paragraph, Western Europe means European Union member countries and Andorra, Iceland, Liechtenstein, Monaco, Norway, San Marino, Switzerland, and the Vatican State.

Section 5. Content and Data Protection

Replace paragraph d with the following:

In Switzerland: IBM's Data Processing Addendum (DPA) at <http://ibm.com/dpa> and the applicable DPA Exhibit apply and supplement the Agreement, if and to the extent the European General Data Protection Regulation (EU/2016/679) (GDPR) or the Swiss Federal Privacy Act (SFPA) apply to personal data contained in Content.

Section 6. Warranties and Post Warranty Support

Add at the end of paragraph c the following sentences:

In all countries in Western Europe: The warranty for Machines acquired in Western Europe applies in all Western Europe countries, provided the Machines have been announced and made available in such countries. For purposes of this paragraph, Western Europe means European Union member countries and Andorra, Iceland, Liechtenstein, Monaco, Norway, San Marino, Switzerland, and the Vatican State.

In paragraph e, Insert to the end of the fourth sentence (before the period), the following words and then add the additional sentence:

In Czech Republic, Estonia, and Lithuania: , or liabilities for defects. The parties hereby exclude any liability of IBM for defects beyond the agreed warranties.

Section 7. Charges, Taxes, Payment and Verification

In paragraph b, add the following to the end of the fifth sentence:

In Italy: if IBM requests in a written notice to Client.

In paragraph b, add the following to the end of the sixth sentence:

In Lithuania: , except as provided by law

At the end of paragraph b, add the following:

In Italy: In the instance of no payment or partial payment, and also following a formal credit claim procedure or trial that IBM may initiate, in derogation of article 4 of Legislative Decree n. 231 dated October 9, 2002, and according to article 7 of the same Legislative Decree, IBM will notify Client in writing by registered, return receipt mail of payment fees due.

In paragraph e, in the fourth sentence, after the phrase: "IBM may change one-time charges without notice" add:

In Czech Republic: , though Client may terminate the Agreement if Client disagrees with the change

Section 8. Liability and Indemnity

In paragraph a, in the first sentence insert the following before the words "the amounts paid":

In Belgium, France, Germany, Italy, Luxembourg, Malta, Portugal, and Spain: the greater of €500,000 (five hundred thousand euro) or

In UK and Ireland: 125% of

In paragraph a, in the first sentence, replace the phrase "direct damages incurred by Client" with:

In Spain: and proven damages incurred by Client as a direct consequence of the IBM default

In paragraph a, insert after the first sentence the following new sentence:

In Slovakia: Referring to § 379 of the Commercial Code, Act No. 513/1991 Coll. as amended, and concerning all conditions related to the conclusion of the Agreement, both parties state that the total foreseeable damage, which may accrue, shall not exceed the amount above, and it is the maximum for which IBM is responsible.

In paragraph a, insert before the second sentence the following new sentence:

In Russia: IBM will not be liable for the forgone benefit.

In paragraph a, in the second sentence, delete the word:

In Ireland and UK: economic

In paragraph a, replace the second sentence with:

In Belgium, Netherlands, and Luxembourg: IBM will not be liable for indirect or consequential damages, lost profits, business, value, revenue, goodwill, damage to reputation or anticipated savings, any third party claim against Client, and loss of (or damage to) data.

In France: IBM will not be liable for damages to reputation, indirect damages, or lost profits, business, value, revenue, goodwill, or anticipated savings.

In Portugal: IBM will not be liable for indirect damages, including loss of profit.

In Spain: IBM will not be liable for damage to reputation, lost profits, business, value, revenue, goodwill, or anticipated savings.

Add the following at the end of paragraph a:

In France: The terms of the Agreement, including financial terms, were established in consideration of the present clause, which is an integral part of the general economy of the Agreement.

In paragraph b, replace "and ii) damages that cannot be limited under applicable law" with the following:

In Germany: ; ii) damages for body injury (including death); iii) loss or damage caused by a breach of guarantee assumed by IBM in connection with any transaction under this Agreement; and iv) caused intentionally or by gross negligence.

Section 9. Termination

In paragraph a, delete:

In Switzerland: Failure to pay is a material breach.

In paragraph a, insert the following at the end of clause i) before "; or":

In Russia: without payment of any damages or penalties to the other party on the basis of early termination

In paragraph a, insert the following at the end:

In Netherlands: The Parties waive their rights under Title 7.1 ('Koop') and clause 7:401 and 402 of the Dutch Civil Code, and their rights to invoke a full or partial dissolution ('gehele of partiele ontbinding') of this Agreement under section 6:265 of the Dutch Civil Code

Section 10. Governing Laws and Geographic Scope

In paragraph b, first sentence only, replace the phrase "the country where the transaction is performed (or for Cloud Services, the laws of the country of Client's Business Address)" with:

Only for offshore agreements: In Albania, Armenia, Azerbaijan, Belarus, Bosnia-Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Montenegro, Romania, Russia, Serbia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan: Austria

Only for offshore agreements: In Estonia, Latvia, and Lithuania: Finland

In Algeria, Andorra, Benin, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo Republic, Djibouti, Democratic Republic of Congo, Equatorial Guinea, French Guiana, French Polynesia, Gabon, Guinea, Guinea-Bissau, Ivory Coast, Lebanon, Madagascar, Mali, Mauritania, Mauritius, Mayotte, Morocco, New Caledonia, Niger, Reunion, Senegal, Seychelles, Togo, Tunisia, Vanuatu, and Wallis and Futuna: France

In Angola, Bahrain, Botswana, Egypt, Eritrea, Ethiopia, Gambia, Ghana, Jordan, Kenya, Kuwait, Liberia, Malawi, Malta, Mozambique, Nigeria, Oman, Pakistan, Qatar, Rwanda, Sao Tome and Principe, Saudi Arabia, Sierra Leone, Somalia, Tanzania, Uganda, United Arab Emirates, West Bank/Gaza, Yemen, Zambia, and Zimbabwe: England

In Liechtenstein: Switzerland

In South Africa, Namibia, Lesotho, and Swaziland: the Republic of South Africa

In the United Kingdom: England

In paragraph b, add the following at the end of the first sentence:

In France: The Parties agree that articles 1222 and 1223 of the French Civil Code are not applicable.

Section 11. General

In paragraph g, replace the first sentence with the following:

In Switzerland and Austria: IBM and its affiliates, and their subcontractors, may process and store information about the Client and business contact information of Client personnel in connection with the performance of this Agreement wherever they do business.

In paragraph g, insert the following after the first sentence

In Spain: IBM will comply with requests to access, update or delete contact information if submitted to the following address: IBM, c/ Santa Hortensia 26-28, 28002 Madrid, Departamento de Privacidad de Datos.

In paragraph k, replace the first sentence with the following:

In Malta and Spain: This Agreement applies to IBM and Client (the signatories below, or the signatories of a document that incorporates this Agreement by reference).

In paragraph m, add to the end the paragraph:

In Czech Republic: Pursuant to Section 1801 of Act No. 89/2012 Coll. (the "Civil Code"), Section 1799 and Section 1800 of the Civil Code as amended, do not apply to transactions under this Agreement. Client accepts the risk of a change of circumstances under Section 1765 of the Civil Code.

In paragraph m, delete the 2nd sentence that says:

In Bulgaria, Croatia, Russia, Serbia, and Slovenia: Neither party will bring a legal action arising out of or related to this Agreement more than two years after the cause of action arose.

In paragraph m, add to the end of the second sentence:

In Lithuania: , except as provided by law

In paragraph m, replace the second sentence with:

In Poland: Neither party will bring a legal action arising out of or related to this Agreement more than three years after the cause of action arose, except for an action of non-payment which will be brought no more than 2 years after payment is due.

In paragraph m, second sentence, replace the word "two" with:

In Latvia and Ukraine: three

In Slovakia: four

In paragraph m, add to the end of the third sentence that says: "Neither party is responsible for failure to fulfill its non-monetary obligations due to causes beyond its control":

In Russia: , including but not limited to earthquakes, floods, fires, acts of God, strikes (excluding strikes of the parties' employees), acts of war, military actions, embargoes, blockades, international or governmental sanctions, and acts of authorities of the applicable jurisdiction.

In paragraph m, third sentence, modify the sentence: "Neither party is responsible for failure to fulfill its non-monetary obligations due to causes beyond its control" as follows:

In Ukraine: Neither party is responsible for failure to fulfill its non-monetary obligations due to causes or regulatory changes beyond its control, including but not limited to import, export, and economic sanctions requirements of the United States.

Add the following at the end of the section as new paragraph t:

In Hungary: By entering into this Agreement, Client confirms that Client was sufficiently informed of all the provisions of this Agreement and had the opportunity to negotiate those terms. The following provisions may significantly deviate from the provisions generally applied by Hungarian law and both parties accept those provisions by signing the Agreement: Programs; Services – Cloud Services; Services – Other Services; Machines and Appliances; Machine Code and Built in Capacity; Warranty and Post Warranty Support; Charges, Taxes, Payment and Verification; Liability and Indemnity, Termination; Governing Laws and Geographic Scope, and General.

In Czech Republic: Client expressly accepts the terms of this agreement which include the following important commercial terms: i) limitation and disclaimer of liability for defects (Warranties); ii) limitation of Client's entitlement to damages (Liability and Indemnity); iii) binding nature of export and import regulations (Governing Laws and Geographic Scope); iv) shorter limitation periods (General); v) exclusion of applicability of provisions on adhesion contracts (General); and vi) acceptance of the risk of a change of circumstances (General).

In Romania: The Client expressly accepts, the following standard clauses that may be deemed 'unusual clauses' as per the provisions of article 1203 Romanian Civil Code: clauses 6, 7, 8 and 9 h). The Client hereby acknowledges that it was sufficiently informed of all the provisions of this Agreement, including the clauses mentioned above, it properly analyzed and understood such provisions and had the opportunity to negotiate the terms of each clause.

Acceptance

This Agreement, including its Attachments and TDs, is the complete agreement between the parties regarding transactions hereunder, and replaces any prior oral or written communications between Client and IBM (the Parties). By signing below by hand or, where recognized by law, electronically, both parties agree to the terms of this Agreement. Once signed, 1) unless prohibited by local law or specified otherwise, any reproduction of this Agreement made by reliable means (for example photocopy or facsimile) is considered an original and 2) all Services under this Agreement are subject to it. The Agreement applies to IBM Lead Company and Client Lead Company (the signatories below) and their respective Enterprise companies who avail themselves of the Agreement by accepting the terms. The signatories shall coordinate the activities of Enterprise companies under this Agreement.

Agreed to:	Agreed to:
_____ Client Lead Company Name: [placeholder] ("Client" or "Kyndryl")	_____ IBM Lead Company: International Business Machines Corporation ("IBM")
By _____ Authorized signature	By _____ Authorized signature
_____ Title:	_____ Title:
_____ Name (type or print):	_____ Name (type or print):
_____ Date:	_____ Date:
_____ Client number:	_____ Agreement number:
_____ Enterprise number:	_____
_____ Client address:	_____ IBM address:
_____	_____

ATTACHMENT A

IBM PERSONNEL

1. IBM:

- a) is an independent contractor and this Agreement does not create an agency, partnership or joint venture relationship between Client and IBM or IBM Personnel. Client assumes no liability or responsibility for IBM Personnel.
- b) shall, upon request of Client and to the extent permitted by applicable law, provide to Client (I) for export evaluation purposes, the country of citizenship and permanent residence and immigration status of its Personnel, (II) written confirmation (i) that IBM Personnel are eligible to work in the country where the Services are being provided and (ii) to the extent required by applicable law, that IBM participates in eVerify pursuant to applicable Executive Order(s) and United States Department of Homeland Security, (III) if specific education requirements are required by Client, proof of completed education for IBM Personnel; (IV) proof that IBM Personnel have reviewed and agreed to Client's Contractor Code of Conduct; and (V) evidence that IBM Personnel have successfully completed all cybersecurity, privacy and other education identified by Client as mandatory in a timely manner;
- c) shall instruct its Personnel that employment related issues should be brought forward to IBM (and not Client) and shall notify Client promptly where such issues relate to actions which are alleged to have been taken by Client or its Personnel to enable Client to investigate as necessary;
- d) is and shall remain responsible for the day to day supervision, control, terms and conditions, hiring, verification of eligibility to work, discipline, performance management, termination, counseling, scheduling, compensation, benefits and other activities, withholdings, health and safety of IBM Personnel, and shall ensure IBM Personnel do not seek to obtain the same from Client. To avoid any confusion, IBM remains the employer of IBM Personnel at all times. Further, this Agreement does not create an employment relationship between Client and IBM Personnel;
- e) shall provide written confirmation to each IBM Personnel that IBM remains the employer of IBM Personnel, assignment to Client does not create an employer/employee relationship, Client is not their employer, and they are not entitled to Client benefits. IBM is obligated to provide such notice upon request by Client;
- f) acknowledges that Client has no responsibility for reviewing or approving timesheets; however, Client may review such timesheets for billing verification purposes only;
- g) is responsible for the actions and inactions of IBM Personnel and compliance by IBM Personnel with the requirements of this Agreement;
- h) agrees that Client retains the right to refuse to accept IBM Personnel made available by IBM to perform Services hereunder and may request the removal of IBM Personnel from assignment under this Agreement, for any lawful reason at Client's sole and reasonable discretion;
- i) will ensure that IBM Personnel assigned to work on Client's or Client's Customer's premises will not use Client confidential information that IBM Personnel may be exposed to or have access to while working on Client or Client's Customer's premises and will not sure such information or disclose it by publication or otherwise to any other person during the terms of this Agreement and for a period of three (3) years thereafter, except as required by law.
- j) Shall have a written agreement with of its Personnel who is involved in the performance of this Agreement sufficient to enable IBM to comply with the requirements of this Section 15. Such Personnel agreements will be provided to Client upon request.

2. Client Assets

IBM shall instruct IBM Personnel to:

- a) use Client Assets only for purposes of this Agreement and IBM will reimburse Client for any unauthorized use;
- b) only connect with, interact with or use programs, tools or routines that Client agrees are needed to provide Services;
- c) not copy, disclose or leave Client Assets unsecured or unattended;
- d) promptly notify Client of any accident or security incidents (such as those involving loss or misuse of, or damage to, Client Assets (as defined below), and IBM will provide Client with a copy of any accident or security incident report involving the above.

Client may periodically audit IBM's use of Client Assets.

3. IBM Access to Client or Customer Premises

- a) If IBM Personnel will have access to Client or Customer premises, IBM shall conduct orientation sessions with its Personnel before placement on an assignment with Client or Customer and identify and provide contact information (which shall be updated by IBM as necessary) for all supervisor(s) for IBM Personnel.
- b) IBM will require its Personnel assigned to work on Client's or Customer's premises to comply with the U.S. Contractor Environmental and Safety Guide, as may be amended from time to time or a local country equivalent that may be provided by Client. The US Guide is applicable for all US locations, unless a location specific guide exists for the particular Client site where the work is to be performed at the following URL: <https://www.Client.com/procurement/ossi>.
- c) IBM shall instruct IBM Personnel as follows:

1. IBM Personnel on Client's or Customer's premises may not (i) bring weapons of any kind onto such premises; (ii) possess, use or be under the influence of controlled substances or alcoholic beverages; (iii) have in their possession hazardous materials of any kind without Client's authorization; (iv) send or receive non-Client or Customer email through Client's or Customer's mail systems; (v) sell, advertise or market any products or distribute printed, written or graphic materials without Client's written permission; or (vi) conduct any non-Client or non-Customer related business activities while assigned to work under this Agreement.

2. IBM Personnel on Client's or Customer's premises must (i) obtain a valid identification badge from Client or Customer and return identification badges upon completion or termination of assignments; (ii) remain in authorized areas only (limited to work locations, cafeterias, restrooms and parking lots); (iii) access and use for work only the materials, documents, information and data necessary to perform and (iv) immediately report to IBM any incidents (such as actual or alleged physical alterations, assaults, harassment and/or inappropriate behavior) so that IBM can promptly notify Client and provide Client with a copy of any incident report.
 3. IBM Personnel in possession of Client Assets must cooperate with and return such Client Assets in a timely manner as requested by Client.
4. Criminal and other Background Checks. This Section 4 is applicable only to IBM personnel who will be on-site at Client premises or Client's customers premises and only to IBM Personnel who were hired by IBM after the effective date of the Separation Agreement.
- a) IBM shall inform Client if any IBM Personnel to be assigned to perform Services hereunder are former employees of Client, which assignment is subject to Client's approval.
 - b) To the extent permitted by local law, IBM will obtain from IBM Personnel photographic proof of identity from an official government source (including but not limited to documentation such as a valid driver's license or government issued passport).
 - c) To the extent permitted by local law, IBM will conduct or otherwise obtain criminal background checks on IBM Personnel as defined in section (d) below, in locations where the IBM Personnel resided for the past seven years. Where no criminal convictions within the past seven years are identified, IBM Personnel may be assigned to perform Services. Where a criminal conviction is identified, IBM may not assign IBM Personnel where IBM Personnel is disqualified from performing Services based on IBM's individualized assessment of the conviction against the Services to be performed in accordance with applicable law and guidance, which may include but is not limited to the Equal Employment Opportunity Commission's promulgated guidance in the United States or similar state or other government promulgated guidance, as applicable.
 - d) If, after such assessment, IBM still recommends assigning a IBM Personnel with a criminal conviction to perform Services, Client must first be informed of such decision. Client will thereafter review the criminal conviction and Services which will be performed and/or access that the IBM Personnel will have. Unless otherwise required for this review, Client will not receive any personally identifiable information (e.g., IBM Personnel name, social security number, etc.)
 - e) For IBM Personnel in the United States, a Federal background check must be conducted as well as a county or state background check, whichever is more comprehensive. In other countries, background checks may be at the county, state, province and/or country level, whichever is most comprehensive.
 - f) Upon Client request and subject to applicable law, IBM will provide documentation to Client to verify its compliance with this section.
 - g) Notwithstanding the foregoing, IBM is not required to conduct an additional background check on IBM Personnel if (a) IBM conducted a background check that meets or exceeds Client's requirements in the Criminal and other Background Checks subsection above in the last five (5) years and (b) the IBM Personnel have not had a gap in employment with IBM during that five-year period.
5. Definitions:
- a) Personnel means are individuals who are i) employees of a party, ii) agents appointed by a party, iii) independent contractors engaged by a party, or iv) provided to a party by a subcontractor.
 - b) Client Assets means Client's or Customer's computer systems and/or networks, Client's or Customer's property that is accessed or used by IBM Personnel or materials, data, documents or information provided to IBM Personnel by (or on behalf of) Client.
 - c) Customer means Client's customer(s).

Kyndryl 2021 Long-Term Performance Plan

1. Objectives.

The Kyndryl 2021 Long-Term Performance Plan (the “Plan”) is designed to attract, motivate and retain selected employees of, and other individuals providing services to, the Company. These objectives are accomplished by making long-term incentive and other awards under the Plan, thereby providing Participants with a proprietary interest in the growth and performance of the Company.

2. Definitions.

(a) “Assumed Award” – An award granted to certain employees, officers, and directors of the Company and its subsidiaries under a Prior Plan, which award is assumed by the Company and converted into an Award in connection with the Spin-Off, pursuant to the terms of the Employee Matters Agreement.

(b) “Awards” – The grant of any form of stock option, stock appreciation right, stock or cash award, whether granted singly, in combination or in tandem, to a Participant pursuant to such terms, conditions, performance requirements, limitations and restrictions as the Committee may establish in order to fulfill the objectives of the Plan.

(c) “Award Agreement” – An agreement between the Company and a Participant that sets forth the terms, conditions, performance requirements, limitations and restrictions applicable to an Award.

(d) “Beneficial Ownership” – Beneficial ownership within the meaning of Rule 13d-3 promulgated under Section 13 of the Exchange Act.

(e) “Board” – The Board of Directors of Kyndryl.

(f) “Cause” – As reasonably determined by Kyndryl, the occurrence of any of the following: (i) embezzlement, misappropriation of corporate funds or other material acts of dishonesty; (ii) commission or conviction of any felony or of any misdemeanor involving moral turpitude, or entry of a plea of guilty or nolo contendere to any felony or misdemeanor (other than a minor traffic violation or other minor infraction); (iii) engagement in any activity that the employee knows or should know could harm the business or reputation of the Company; (iv) failure to adhere to the Company’s corporate codes, policies or procedures; (v) a breach of any covenant in any employment agreement or any intellectual property agreement, or a breach of any other provision of the employment agreement, in either case if the breach is not cured to the Company’s satisfaction within a reasonable period after notice of the breach (no notice and cure period is required if the breach cannot be cured); (vi) failure to perform duties or follow management direction, which failure is not cured to the Company’s satisfaction within a reasonable period of time after a written demand for substantial performance is delivered to (no notice or cure period is required if the failure to perform cannot be cured); (vii) violation of any statutory, contractual or common law duty or obligation to the Company, including, without limitation, the duty of loyalty; (viii) rendering of services for any organization or engaging directly or indirectly in any business which is or becomes competitive with the Company, or which organization or business, or the rendering of services to such organization or business, is or becomes otherwise prejudicial to or in conflict with the interests of the Company; or (ix) acceptance of an offer to engage in or associate with any business which is or becomes competitive with the Company; provided, however, that the mere failure to achieve performance objectives shall not constitute Cause.

(g) “Change in Control” – Unless the applicable Award Agreement or the Committee provides otherwise, the first to occur of any of the following events:

- (i) the acquisition by any Person or related “group” (as such term is used in Section 13(d) and Section 14(d) of the Exchange Act) of Persons, or Persons acting jointly or in concert, of Beneficial Ownership (including control or direction) of more than 50% (on a fully diluted basis) of either (A) the then-outstanding shares of Common Stock, including shares of Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, and the exercise of any similar right to acquire such shares of Common Stock or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote in the election of Directors (the “Outstanding Company Voting Securities”), but excluding any acquisition by the Company or any of its affiliates, its Permitted Transferees or any of their respective affiliates or by any employee benefit plan sponsored or maintained by the Company;
-

- (ii) a change in the composition of the Board such that members of the Board during any consecutive 24-month period (the “Incumbent Directors”) cease to constitute a majority of the Board. Any person becoming a Director through election or nomination for election approved by a valid vote of at least a majority of the Incumbent Directors shall be deemed an Incumbent Director; provided, however, that no individual becoming a Director as a result of an actual or threatened election contest, as such terms are used in Rule 14a-12 of Regulation 14A promulgated under the Exchange Act, or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board, shall be deemed an Incumbent Director;
 - (iii) the approval by the stockholders of the Company of a plan of complete dissolution or liquidation of the Company; or
 - (iv) the consummation of a reorganization, recapitalization, merger, amalgamation, consolidation, statutory share exchange or similar form of corporate transaction involving (x) the Company or (y) any of its subsidiaries, but in the case of this clause (y) only if Outstanding Company Voting Securities are issued or issuable (a “Business Combination”), or sale, transfer or other disposition of all or substantially all of the business or assets of the Company to an entity that is not an affiliate of the Company (a “Sale”), unless immediately following such Business Combination or Sale: (A) more than 50% of the total voting power of the entity resulting from such Business Combination or the entity that acquired all or substantially all of the business or assets of the Company in such Sale (in either case, the “Surviving Company”), or the ultimate parent entity that has Beneficial Ownership of sufficient voting power to elect a majority of the board of directors (or analogous governing body) of the Surviving Company (the “Parent Company”), is represented by the Outstanding Company Voting Securities that were outstanding immediately prior to such Business Combination or Sale (or, if applicable, is represented by shares of Common Stock into which the Outstanding Company Voting Securities were converted pursuant to such Business Combination or Sale), and such voting power among the holders thereof is in substantially the same proportion as the voting power of the Outstanding Company Voting Securities among the holders thereof immediately prior to the Business Combination or Sale, (B) no Person (other than any employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company) is or becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the outstanding voting securities eligible to elect members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) and (C) at least a majority of the members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) following the consummation of the Business Combination or Sale were Board members at the time of the Board’s approval of the execution of the initial agreement providing for such Business Combination or Sale.
- (h) “Common Stock” or “stock” – Authorized and issued or unissued Common Stock of Kyndryl, at such par value as may be established from time to time.
- (i) “Code” – The Internal Revenue Code of 1986, as amended from time to time.
- (j) “Committee” – The committee designated by the Board to administer the Plan.
- (k) “Company” – Kyndryl and its affiliates and subsidiaries including subsidiaries of subsidiaries and partnerships and other business ventures in which Kyndryl has an equity interest.

(l) “Director” – Any member of the Board.

(m) “Exchange Act” – The U.S. Securities Exchange Act of 1934, as amended, and any successor thereto. References to any section of (or rule promulgated under) the Exchange Act shall be deemed to include any rules, regulations or other interpretative guidance under such section or rule, and any amendments or successors thereto.

(n) “Fair Market Value” – The average of the high and low prices of Common Stock on the New York Stock Exchange for the date in question, provided that, if no sales of Common Stock were made on said exchange on that date, the average of the high and low prices of Common Stock as reported for the most recent preceding day on which sales of Common Stock were made on said exchange.

(o) “Kyndryl” – Kyndryl Holdings, Inc.

(p) “Participant” – An individual to whom an Award has been made under the Plan. Awards may be made to (i) any employee of, or any other individual providing services to, the Company, or (ii) any prospective employee or other service provider of the Company who has accepted an offer of employment or service from the Company. However, incentive stock options may be granted only to individuals who are employed by Kyndryl or by a subsidiary corporation (within the meaning of section 424(f) of the Code) of Kyndryl, including a subsidiary that becomes such after the adoption of the Plan.

(q) “Performance Period” – A multi-year period of no more than five consecutive calendar years over which one or more of the performance criteria listed in Section 6 shall be measured pursuant to the grant of Long-Term Performance Incentive Awards (whether such Awards take the form of stock, stock units or equivalents or cash). Performance Periods may overlap one another, but no two Performance Periods may consist solely of the same calendar years.

(r) “Permitted Transferee” – A Person to whom an Award may be transferred in accordance with Section 10.

(s) “Person” – A “person” as defined in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of Common Stock of the Company.

(t) “Prior Plans” – Any Long-Term Performance Plan of International Business Machines Corporation.

(u) “Spin-Off” – The distribution of shares of Common Stock to the stockholders of International Business Machines Corporation in 2021 pursuant to the Separation and Distribution Agreement and the Employee Matters Agreement between the Company and International Business Machines Corporation entered into in connection with such distribution.

(v) “Substitute Awards” – An Award granted under the Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock; provided, however, that in no event shall the term “Substitute Award” be construed to refer to an award made in connection with the cancellation and repricing of an option or stock appreciation right.

3. Common Stock Available for Awards.

The number of shares of Common Stock that may be issued under the Plan for Awards granted wholly or partly in stock during the term of the Plan is [●] plus the number of shares of Common Stock subject to the Assumed Awards. Shares of Common Stock may be made available from the authorized but unissued shares of the Company or from shares held in the Company’s treasury and not reserved for some other purpose. For purposes of determining the number of shares of Common Stock issued under the Plan, no shares shall be deemed issued until they are actually delivered to a Participant, or such other person in accordance with Section 10. Shares covered by Awards that either wholly or in part are not earned, or that expire or are forfeited, terminated, canceled, settled in cash, payable solely in cash or exchanged for other awards, shall be available for future issuance under Awards. However, shares of Common Stock tendered to or withheld by the Company in connection with the exercise of stock options or SARs, or the payment of tax withholding on any Award, shall not be available for future issuance under Awards. The maximum amount (based on the fair value of shares of Common Stock underlying Awards on the grant date as determined in accordance with applicable financial accounting rules) of Awards that may be granted in any single fiscal year to any non-employee member of the Board, taken together with any cash fees paid to such non-employee member of the Board during such fiscal year, shall be \$750,000.

Substitute Awards shall not reduce the shares of Common Stock authorized for grant under the Plan. Additionally, in the event that a company acquired by the Company or any affiliate or with which the Company or any affiliate combines has shares available under a pre-existing plan approved by stockholders and not approved in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the shares of Common Stock authorized for grant under the Plan; provided that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company immediately prior to such acquisition or combination.

4. Administration.

The Plan shall be administered by the Committee, which shall have full power to select Participants, to interpret the Plan, to grant waivers of Award restrictions, to continue, accelerate or suspend exercisability, vesting or payment of an Award and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper. These powers include, but are not limited to, the adoption of modifications, amendments, procedures, subplans and the like as necessary to comply with provisions of the laws and regulations of the countries in which the Company operates in order to assure the viability of Awards granted under the Plan and to enable Participants regardless of where employed to receive advantages and benefits under the Plan and such laws and regulations.

5. Delegation of Authority.

The Committee may delegate to officers of the Company its duties, power and authority under the Plan pursuant to such conditions or limitations as the Committee may establish, except that only the Committee or the Board may select, and grant Awards to, Participants who are subject to Section 16 of the Securities Exchange Act of 1934.

6. Awards.

The Committee shall determine the type or types of Award(s) to be made to each Participant and shall set forth in the related Award Agreement the terms, conditions, performance requirements, and limitations applicable to each Award. Awards may include but are not limited to those listed in this Section 6. Notwithstanding anything to the contrary herein, and subject to Section 15, Awards shall be subject to a condition that vesting of (or lapsing of restrictions on) such Award will not occur until at least the first anniversary of the date of grant; provided, however, that the Committee may, in its sole discretion, (i) accelerate the vesting of Awards or otherwise lapse or waive such minimum vesting condition in connection with (A) the Participant's termination of employment (including as a result of death, disability or retirement) or (B) a Change in Control (subject to the requirements of Section 15) and (ii) grant Awards that are not subject to the minimum vesting condition with respect to (A) 5% or less of the total shares of Common Stock available for Awards (as set forth in Section 3, as may be adjusted pursuant to Section 14), (B) Awards made to non-employee members of the Board that occur in connection with the Company's annual meeting of stockholders, and which vest on the earlier of the one-year anniversary of the date of grant or the date of the Company's next annual meeting of stockholders which is at least 50 weeks after the immediately preceding year's annual meeting and (C) Substitute Awards that were scheduled to vest within the one year minimum vesting period. Awards may be granted singly, in combination or in tandem. Awards may also be made in combination or in tandem with, in replacement or payment of, or as alternatives to, grants, rights or compensation earned under any other plan of the Company, including the plan of any acquired entity.

(a) Stock Option – A grant of a right to purchase a specified number of shares of Common Stock the exercise price of which shall be not less than 100% of Fair Market Value on the date of grant of such right, as determined by the Committee, provided that, in the case of a stock option granted retroactively in tandem with or as substitution for another award granted under any plan of the Company, the exercise price may be the same as the purchase or designated price of such other award. A stock option may be in the form of an incentive stock option (“ISO”) which, in addition to being subject to applicable terms, conditions and limitations established by the Committee, complies with section 422 of the Code. The number of shares of Common Stock that shall be available for issuance under ISOs granted under the Plan is limited to [●].

(b) Stock Appreciation Right – A right to receive a payment, in cash and/or Common Stock, equal in value to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the stock appreciation right (SAR) is exercised over the grant price of the SAR, which shall not be less than 100% of the Fair Market Value on the date of grant of such SAR, as determined by the Committee, provided that, in the case of a SAR granted retroactively in tandem with or as substitution for another award granted under any plan of the Company, the grant price may be the same as the exercise or designated price of such other award

(c) Stock Award – An Award made in stock and denominated in units of stock. All or part of any stock award may be subject to conditions established by the Committee, and set forth in the Award Agreement, which may include, but are not limited to, continuous service with Company, achievement of specific business objectives, increases in specified indices, attaining growth rates, and other comparable measurements of Company performance. An Award made in stock or denominated in units of stock that is subject to restrictions on transfer and/or forfeiture provisions may be referred to as an Award of “Restricted Stock” or “Restricted Stock Units”.

(d) Cash Award – An Award denominated in cash with the eventual payment amount subject to future service and such other restrictions and conditions as may be established by the Committee, and as set forth in the Award Agreement, including, but not limited to, continuous service with the Company, achievement of specific business objectives, increases in specified indices, attaining growth rates, and other comparable measurements of Company performance.

7. Payment of Awards.

Payment of Awards may be made in the form of cash, stock or combinations thereof and may include such restrictions as the Committee shall determine. Further, with Committee approval, payments may be deferred, either in the form of installments or as a future lump-sum payment, in accordance with such procedures as may be established from time to time by the Committee. Any deferred payment, whether elected by the Participant or specified by the Award Agreement or the Committee, may require the payment to be forfeited in accordance with the provisions of Section 13. Dividends or dividend equivalent rights may be extended to and made part of any Award denominated in stock or units of stock (for the avoidance of doubt, excluding stock options or SARs), subject to such terms, conditions and restrictions as the Committee may establish; provided, that, notwithstanding anything herein to the contrary, any dividends or dividend equivalents payable with respect to any Award or any portion of an Award may only be paid to the Participant to the extent the vesting conditions applicable to such Award or portion thereof are subsequently satisfied and the Award or portion thereof to which such dividend or dividend equivalent relates, and any dividends or dividend equivalents with respect to any Award or any portion thereof does not become vested shall be forfeited. The Committee may also establish rules and procedures for the crediting of interest on deferred cash payments and dividend equivalents for deferred payments denominated in stock or units of stock. At the discretion of the Committee, a Participant may be offered an election to substitute an Award for another Award or Awards of the same or different type.

8. Stock Option Exercise.

The price at which shares of Common Stock may be purchased under a stock option shall be paid in full in cash at the time of the exercise or, if permitted by the Committee, by means of tendering Common Stock or surrendering another Award or any combination thereof. The Committee shall determine acceptable methods of tendering Common Stock or other Awards and may impose such conditions on the use of Common Stock or other Awards to exercise a stock option as it deems appropriate.

9. Tax Withholding.

Prior to the payment or settlement of any Award, the Participant must pay, or make arrangements acceptable to the Company for the payment of, any and all federal, state and local tax withholding that in the opinion of the Company is required by law. The Company shall have the right to deduct applicable taxes from any Award payment and withhold, at the time of delivery or vesting of shares under the Plan and up to the maximum permissible withholding amounts, an appropriate number of shares for payment of taxes required by law or to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for withholding of such taxes.

10. Transferability.

No Award shall be transferable or assignable, or payable to or exercisable by, anyone other than the Participant to whom it was granted, except (i) by law, will or the laws of descent and distribution, (ii) as a result of the disability of a Participant or (iii) that the Committee (in the form of an Award Agreement or otherwise) may permit transfers of Awards by gift or otherwise to a member of a Participant's immediate family and/or trusts whose beneficiaries are members of the Participant's immediate family, or to such other persons or entities as may be approved by the Committee. Notwithstanding the foregoing, in no event shall ISOs be transferable or assignable other than by will or by the laws of descent and distribution.

11. Amendment, Modification, Suspension or Discontinuance of the Plan.

The Board may amend, modify, suspend or terminate the Plan for the purpose of meeting or addressing any changes in legal requirements or for any other purpose permitted by law. Subject to changes in law or other legal requirements that would permit otherwise, the Plan may not be amended without the consent of the holders of a majority of the shares of Common Stock then outstanding, to (i) increase the aggregate number of shares of Common Stock that may be issued under the Plan (except for adjustments pursuant to Section 14 of the Plan), (ii) permit the granting of stock options or SARs with exercise or grant prices lower than those specified in Section 6, (iii) reduce the exercise or grant price of any stock option or SAR, (iv) cancel any outstanding stock option or SAR and replace it with a new stock option or SAR (with a lower exercise or grant price, as the case may be) or other Award or cash in a manner which would either (A) be reportable on the Company's proxy statement as stock options that have been "repriced" (as such term is used in Item 402 of Regulation S-K promulgated under the Exchange Act), or (B) result in any "repricing" for financial statement reporting purposes (or otherwise cause the Award to fail to qualify for equity accounting treatment) and (v) take any other action which is considered a "repricing" for purposes of the stockholder approval rules of the applicable securities exchange or inter-dealer quotation service on which the Common Stock is listed or quoted.

12. Termination of Employment.

If the employment of a Participant terminates, other than as a result of the death or disability of a Participant, all unexercised, deferred and unpaid Awards shall be canceled immediately, unless the Award Agreement provides otherwise. In the event of the death of a Participant or in the event a Participant is deemed by the Company to be disabled and eligible for benefits under the terms of the Kyndryl Long Term Disability Plan (or any successor plan or similar plan of another employer), the Participant's estate, beneficiaries or representative, as the case may be, shall have the rights and duties of the Participant under the applicable Award Agreement.

13. Cancellation and Rescission of Awards/Clawback.

(a) Unless the Award Agreement specifies otherwise, the Committee may cancel, rescind, suspend, withhold or otherwise limit or restrict any unexpired, unpaid, or deferred Awards at any time if the Participant is not in compliance with all applicable provisions of the Award Agreement and the Plan, or if the Participant engages in any "Detrimental Activity." For purposes of this Section 13, "Detrimental Activity" shall include: (i) the rendering of services, including the acceptance of an offer to render services, for any organization or engaging directly or indirectly in any business which is or becomes competitive with the Company, or which organization or business, or the rendering of services to such organization or business, is or becomes otherwise prejudicial to or in conflict with the interests of the Company; (ii) the disclosure to anyone outside the Company, or the use in other than the Company's business, without prior written authorization from the Company, of any confidential information or material, as defined in the Company's Agreement Regarding Confidential Information and Intellectual Property, relating to the business of the Company, acquired by the Participant either during or after employment with the Company; (iii) the failure or refusal to disclose promptly and to assign to the Company, pursuant to the Company's Agreement Regarding Confidential Information and Intellectual Property, all right, title and interest in any invention or idea, patentable or not, made or conceived by the Participant during employment by the Company, relating in any manner to the actual or anticipated business, research or development work of the Company or the failure or refusal to do anything reasonably necessary to enable the Company to secure a patent where appropriate in the United States and in other countries; (iv) activity that results in termination of the Participant's employment for Cause; (v) a violation of any rules, policies, procedures or guidelines of the Company, including but not limited to the Company's Business Conduct Guidelines; (vi) any attempt directly or indirectly to induce any employee of the Company to be employed or perform services elsewhere or any attempt directly or indirectly to solicit the trade or business of any current or prospective customer, supplier or partner of the Company; or (vii) the Participant being convicted of, or entering a guilty plea with respect to, a crime, whether or not connected with the Company.

(b) Upon exercise, payment or delivery pursuant to an Award, the Participant shall certify in a manner acceptable to the Company that he or she is in compliance with the terms and conditions of the Plan. In the event a Participant fails to comply with the provisions of paragraphs (a)(i)-(vii) of this Section 13 prior to, or during the Rescission Period, then any exercise, payment or delivery may be rescinded within two years after such exercise, payment or delivery. In the event of any such rescission, the Participant shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required, and the Company shall be entitled to set-off against the amount of any such gain any amount owed to the Participant by the Company. As used herein, Rescission Period shall mean that period of time established by the Committee which shall not be less than 6 months after any exercise, payment or delivery pursuant to an Award.

(c) The Committee shall have full authority to implement any policies and procedures necessary to comply with Section 10D of the Exchange Act and any rules promulgated thereunder and any other regulatory regimes. Further, to the extent required by applicable law (including, without limitation, Section 304 of the Sarbanes-Oxley Act and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of the securities exchange or inter-dealer quotation service on which the shares of Common Stock are listed or quoted, or if so required pursuant to a written policy adopted by the Company, Awards shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements (and such requirements shall be deemed incorporated by reference into all outstanding Award Agreements).

14. Adjustments.

In the event of any change in the outstanding Common Stock of the Company by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, the Committee may adjust proportionately: (a) the number of shares of Common Stock (i) available for issuance under the Plan, (ii) available for issuance under ISOs, (iii) for which Awards may be granted to an individual Participant set forth in Section 6, and (iv) covered by outstanding Awards denominated in stock or units of stock; (b) the exercise and grant prices related to outstanding Awards; and (c) the appropriate Fair Market Value and other price determinations for such Awards. Notwithstanding the foregoing, in the event of any change in the outstanding Common Stock of the Company by reason of a stock split or a reverse stock split, the above-referenced proportionate adjustments, if applicable, shall be mandatory.

In the event of any other change affecting the Common Stock or any distribution (other than normal cash dividends) to holders of Common Stock, such adjustments in the number and kind of shares and the exercise, grant and conversion prices of the affected Awards as may be deemed equitable by the Committee, including adjustments to avoid fractional shares, shall be made to give proper effect to such event. In the event of a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Committee shall be authorized to cause Kyndryl to issue or assume stock options, whether or not in a transaction to which section 424(a) of the Code applies, by means of substitution of new stock options for previously issued stock options or an assumption of previously issued stock options. In such event, the aggregate number of shares of Common Stock available for issuance under Awards under Section 3, including the individual Participant maximums set forth in Section 6 will be increased to reflect such substitution or assumption.

15. Effect of a Change in Control on Awards.

Except to the extent otherwise provided in an Award Agreement, or any applicable employment, consulting, change-in-control, severance or other agreement between the Participant and the Company, in the event of a Change in Control, notwithstanding any provision of the Plan to the contrary:

(a) If the acquirer or successor company in such Change in Control has agreed to provide for the substitution, assumption, exchange or other continuation of Awards granted pursuant to the Plan, then, if the Participant's employment with or service to the Company or an Affiliate is terminated by the Company without Cause (and other than due to death or Disability) on or within 24 months following a Change in Control, then unless otherwise provided by the Committee, all stock options and SARs held by such Participant shall become immediately exercisable with respect to 100% of the shares of Common Stock subject to such stock options and SARs, and that the restricted period (and any other conditions) shall expire immediately with respect to 100% of the shares of Restricted Stock and Restricted Stock Units and any other Awards held by such Participant (including a waiver of any applicable performance conditions); provided that if the vesting or exercisability of any Award would otherwise be subject to the achievement of performance conditions, the portion of such Award that shall become fully vested and immediately exercisable shall be based on the assumed achievement of actual or target performance as determined by the Committee.

(b) If the acquirer or successor company in such Change in Control has not agreed to provide for the substitution, assumption, exchange or other continuation of Awards granted pursuant to the Plan, then unless otherwise provided by the Committee, all Options and SARs held by such Participant shall become immediately exercisable with respect to 100% of the shares of Common Stock subject to such Options and SARs, and the Restricted Period (and any other conditions) shall expire immediately with respect to 100% of the shares of Restricted Stock and Restricted Stock Units and any other Awards held by such Participant (including a waiver of any applicable performance conditions); provided that if the vesting or exercisability of any Award would otherwise be subject to the achievement of performance conditions, the portion of such Award that shall become fully vested and immediately exercisable shall be based on the assumed achievement of actual or target performance as determined by the Committee.

(c) In addition, the Committee may upon at least 10 days' advance notice to the affected Participants, cancel any outstanding Award and pay to the holders thereof, in cash, securities or other property (including of the acquiring or successor company), or any combination thereof, the value of such Awards based upon the price per share of Common Stock received or to be received by other stockholders of the Company in the event (it being understood that any Option or SAR having a per-share exercise or hurdle price equal to, or in excess of, the Fair Market Value (as of the date specified by the Committee) of a share of Common Stock subject thereto may be canceled and terminated without any payment or consideration therefor). Notwithstanding the above, the Committee shall exercise such discretion over the timing of settlement of any Award subject to Code Section 409A at the time such Award is granted.

(d) To the extent practicable, the provisions of this Section 15 shall occur in a manner and at a time that allows affected Participants the ability to participate in the Change in Control transaction with respect to the shares of Common Stock subject to their Awards.

16. Section 409A of the Code.

(a) It is intended that the Plan comply with Section 409A of the Code, and all provisions of the Plan shall be construed and interpreted in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A of the Code. Each Participant is solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or in respect of such Participant in connection with the Plan or any other plan maintained by the Company, including any taxes and penalties under Section 409A of the Code, and the Company shall not have any obligation to indemnify or otherwise hold such Participant or any beneficiary harmless from any or all of such taxes or penalties. With respect to any Award that is considered “deferred compensation” subject to Section 409A of the Code, references in the Plan to “termination of employment” (and substantially similar phrases) shall mean “separation from service” within the meaning of Section 409A of the Code. For purposes of Section 409A of the Code, each of the payments that may be made in respect of any Award granted under the Plan is designated as a separate payment.

(b) Notwithstanding anything in the Plan to the contrary, if the Participant is a “specified employee” within the meaning of Section 409A(a)(2)(B)(i) of the Code, no payments or deliveries in respect of any Awards that are “deferred compensation” subject to Section 409A of the Code shall be made to such Participant prior to the date that is six months after the date of such Participant’s “separation from service” within the meaning of Section 409A of the Code or, if earlier, the Participant’s date of death. All such delayed payments or deliveries will be paid or delivered (without interest) in a single lump sum on the earliest date permitted under Section 409A of the Code that is also a business day.

(c) In the event that the timing of payments in respect of any Award that would otherwise be considered “deferred compensation” subject to Section 409A of the Code would be accelerated upon the occurrence of (A) a Change in Control, no such acceleration shall be permitted unless the event giving rise to the Change in Control satisfies the definition of a change in the ownership or effective control of a corporation, or a change in the ownership of a substantial portion of the assets of a corporation pursuant to Section 409A of the Code and any Treasury Regulations promulgated thereunder, or (B) a Disability, no such acceleration shall be permitted unless the Disability also satisfies the definition of “disability” pursuant to Section 409A of the Code and any Treasury Regulations promulgated thereunder.

17. Miscellaneous.

(a) Any notice to the Company required by any of the provisions of the Plan shall be addressed to the chief human resources officer of Kyndryl in writing, and shall become effective when it is received.

(b) The Plan shall be unfunded and the Company shall not be required to establish any special account or fund or to otherwise segregate or encumber assets to ensure payment of any Award.

(c) Nothing contained in the Plan shall prevent the Company from adopting other or additional compensation arrangements or plans, subject to stockholder approval if such approval is required, and such arrangements or plans may be either generally applicable or applicable only in specific cases.

(d) No Participant shall have any claim or right to be granted an Award under the Plan and nothing contained in the Plan shall be deemed or be construed to give any Participant the right to be retained in the employ of the Company or to interfere with the right of the Company to discharge any Participant at any time without regard to the effect such discharge may have upon the Participant under the Plan. Except to the extent otherwise provided in any plan or in an Award Agreement, no Award under the Plan shall be deemed compensation for purposes of computing benefits or contributions under any other plan of the Company.

(e) The Plan and each Award Agreement shall be governed by the laws of the State of Delaware, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the Award Agreement, recipients of an Award under the Plan are deemed to submit to the exclusive jurisdiction and venue of the Court of Chancery of the State of Delaware (or, if the Court of Chancery of the State of Delaware lacks jurisdiction over such action or proceeding, then another court of the State of Delaware or, if no court of the State of Delaware has jurisdiction, then the United States District Court for the District of Delaware), to resolve any and all issues that may arise out of or relate to the Plan or any related Award Agreement.

(f) In the event that a Participant or the Company brings an action to enforce the terms of the Plan or any Award Agreement and the Company prevails, the Participant shall pay all costs and expenses incurred by the Company in connection with that action, including reasonable attorneys' fees, and all further costs and fees, including reasonable attorneys' fees incurred by the Company in connection with collection.

(g) The Committee and any officers to whom it may delegate authority under Section 5 shall have full power and authority to interpret the Plan and to make any determinations thereunder, including determinations under Section 13, and the Committee's or such officer's determinations shall be binding and conclusive. Determinations made by the Committee or any such officer under the Plan need not be uniform and may be made selectively among individuals, whether or not such individuals are similarly situated.

(h) If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Committee, it shall be stricken and the remainder of the Plan shall remain in full force and effect.

(i) The Plan shall become effective on the date it is approved by the requisite vote of the stockholder of the Company.

(j) Notwithstanding anything in this Plan to the contrary, each Assumed Award shall be subject to the terms and conditions of the Prior Plan and award agreement to which such Assumed Award was subject immediately prior to the Spin-Off, subject to the adjustment of such Assumed Award by the Executive Compensation and Management Resources Committee of International Business Machines Corporation and the terms of the Employee Matters Agreement; provided that following the date of the Spin-Off, each such Assumed Award shall relate solely to shares of Common Stock and be administered by the Committee in accordance with the administrative procedures in effect under this Plan.

Federal Income Tax Consequences

The Company has been advised by counsel that, in general, under the Internal Revenue Code, as presently in effect, a Participant will not be deemed to recognize any income for federal income tax purposes at the time an option or SAR is granted or a restricted stock award is made, nor will the Company be entitled to a tax deduction at that time. However, when any part of an option or SAR is exercised, when restrictions on restricted stock lapse, or when an unrestricted stock award is made, the federal income tax consequences may be summarized as follows:

1. In the case of an exercise of a stock option other than an ISO, the optionee will generally recognize ordinary income in an amount equal to the excess of the fair market value of the shares on the exercise date over the option price.
2. In the case of an exercise of a SAR, the Participant will generally recognize ordinary income on the exercise date in an amount equal to any cash and the fair market value of any unrestricted shares received.
3. In the case of an exercise of an option or SAR payable in restricted stock, or in the case of an award of restricted stock, the immediate federal income tax effect for the recipient will depend on the nature of the restrictions. Generally, the fair market value of the stock will not be taxable to the recipient as ordinary income until the year in which his or her interest in the stock is freely transferable or is no longer subject to a substantial risk of forfeiture. However, the recipient may elect to recognize income when the stock is received, rather than when his or her interest in the stock is freely transferable or is no longer subject to a substantial risk of forfeiture. If the recipient makes this election, the amount taxed to the recipient as ordinary income is determined as of the date of receipt of the restricted stock.

4. In the case of ISOs, there is generally no tax liability at time of exercise. However, the excess of the fair market value of the stock on the exercise date over the option price is included in the optionee's income for purposes of the alternative minimum tax. If no disposition of the ISO stock is made before the later of one year from the date of exercise and two years from the date of grant, the optionee will realize a capital gain or loss upon a sale of the stock, equal to the difference between the option price and the sale price. If the stock is not held for the required period, ordinary income tax treatment will generally apply to the excess of the fair market value of the stock on the date of exercise (or, if less, the amount of gain realized on the disposition of the stock) over the option price, and the balance of any gain or any loss will be treated as capital gain or loss. In order for ISOs to be treated as described above, the Participant must remain employed by the Company (or a subsidiary in which the Company holds at least 50 percent of the voting power) from the ISO grant date until three months before the ISO is exercised. The three-month period is extended to one year if the Participant's employment terminates on account of disability. If the Participant does not meet the employment requirement, the option will be treated for federal income tax purposes as an option as described in paragraph 5 below. A Participant who exercises an ISO might also be subject to an alternative minimum tax.

5. Upon the exercise of a stock option other than an ISO, the exercise of a SAR, the award of stock, or the recognition of income on restricted stock, the Company will generally be allowed an income tax deduction equal to the ordinary income recognized by a Participant. The Company will not receive an income tax deduction as a result of the exercise of an ISO, provided that the ISO stock is held for the required period as described above. When a cash payment is made pursuant to the Award, the recipient will recognize the amount of the cash payment as ordinary income, and the Company will generally be entitled to a deduction in the same amount.



Office of the Senior Vice President
Human Resources

1 New Orchard Road
Armonk, NY 10504

July 23, 2021

Mr. David Wyshner

Dear David,

I am delighted to extend an offer of employment to you at IBM as Chief Financial Officer, Kyndryl, currently the Managed Infrastructure Services unit of Global Technology Services (excluding TSS).

The attachment outlines the specifics of our offer. I am extremely excited about your joining the IBM team.

Please indicate your acceptance of this offer by signing and returning the letter and the Noncompetition Agreement to me via email.

Sincerely,

/s/ Nickle LaMoreaux

Nickle LaMoreaux
Senior Vice President and Chief Human Resources Officer,
IBM Human Resources

Attachments

July 23, 2021
David Wyshner

This letter confirms our offer of IBM employment to you as Chief Financial Officer, Kyndryl, reporting to Martin Schroeter, Chief Executive Officer, Kyndryl. Your primary responsibilities will be to ensure completion of The Transaction, as described below, and other responsibilities as agreed upon between you and Kyndryl's Chief Executive Officer. This offer letter supersedes all previous offer letters, including the offer letter date July 13, 2021. The elements of your employment offer are:

Cash Compensation:

Effective on your first day of employment, your annualized base salary will be \$780,000.00, and you will have an opportunity to receive a \$975,000.00 bonus as set forth below. This is in addition to your participation in the IBM benefits plans. As an employee, you will receive a paycheck on a semi-monthly basis, on or around the 15th and 31st of each month. For 2021, your base salary will be prorated to reflect your actual IBM service.

In connection with IBM's announced intention to spin-off the Managed Infrastructure Services unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company with IBM no longer owning any stake in the new company (the separate publicly listed company referred to as "NewCo", and the spin-off referred to as "The Transaction"), which will occur on the date of the closing of such spin-off (referred to as "The Closing Date"), your bonus payment will depend on your successful completion of The Transaction. If achieved, your bonus will be paid no later than February 1, 2022. You must be an active employee on The Closing Date in order to be eligible to receive the bonus payout.

While IBM intends for The Transaction to be completed by December 31, 2021, if The Transaction is not completed by such date, IBM's Chief Executive Officer may in his discretion decide to pay the bonus in full or in part and such payment shall be made no later than February 1, 2022, provided you are an active employee of IBM or Newco on such payment date.

Additionally, you shall receive the bonus within one month following the date of your termination if the Transaction is not completed by December 31, 2021 for reasons beyond your reasonable control and your employment is terminated without Cause (as defined in the Noncompetition Agreement).

Please note, if prior to December 31, 2021 for strategic business reasons, (A) IBM unilaterally determines and formally announces that it will not complete The Transaction, or (B) if NewCo is sold to another buyer, and in both cases, the IBM CEO determines that your performance in moving the transaction to closure was not a contributing factor in the decision not to complete The Transaction or sell to another buyer, and your performance is otherwise satisfactory, you will be eligible to receive the bonus payment one month following the later of: (1) IBM's formal announcement to not complete The Transaction ("Announcement Date"); or (2) the closing date of the sale of NewCo ("Sale Date"). You must be an active employee on the Announcement Date or the Sale Date, as applicable, in order to be eligible to receive the bonus payout.

July 23, 2021
David Wyshner

New Hire Equity:

You will be awarded a new hire equity grant of \$4,000,000.00 in planned value. You will receive 100% of this planned value as a special Performance Share Unit (PSU) award. Your award will be granted on the 1st of the month following your Hire Date, or as soon as practical thereafter. The number of PSUs granted will be determined by dividing the planned grant value by the average of IBM's closing stock price for the 30 active trading days prior to the date of grant.

In order to vest in your PSU award, you must meet two performance criteria ("Performance Criteria"), or be excused for the non-performance:

1. You (a) successfully complete The Transaction as envisaged by no later than January 1, 2023 or (b) you are excused from completing the Transaction as envisaged for reasons beyond your reasonable control as described in the Terms and Conditions document provided with this offer letter; or (c) your employment is terminated without Cause (as such term is defined in your Noncompetition Agreement) by IBM.
2. If The Transaction is completed, then immediately following The Closing Date you accept employment at NewCo as the Chief Financial Officer, provided this performance criterion is excused if NewCo's offer of employment is not comparable in the aggregate to the terms of this offer letter, including your annual salary, bonus, and equity award.

If the performance criteria described above are satisfied or excused, your award will generally vest and be released 33% on the six month anniversary of The Closing Date, 33% on the 1st anniversary of The Closing Date, and 34% on the 2nd anniversary of The Closing Date, assuming all other conditions in your equity award agreement and its incorporated terms and conditions are met.

Except as specified above, PSUs are subject to the terms and conditions of the applicable IBM Long-term Performance Plan, along with the Preliminary Award Agreement and Terms and Conditions document that is being provided with this offer letter. A final Award Agreement that indicates the number of PSUs granted will be provided after the grant date of your award. Subsequent grants may be awarded in IBM or NewCo's discretion based on your performance and contribution to the business.

July 23, 2021
David Wyshner

Sign-on Equity Award:

You will be also be awarded a Sign-On Equity Grant of \$3,500,000.00 in planned value. You will receive 100% of this planned value in Retention Restricted Stock Units (RRSUs) (the "Sign-On Equity Award"). Your award will be granted on the 1st of the month following your Hire Date, or as soon as practical thereafter. The number of RRSUs granted will be determined by dividing the planned grant value by the average of IBM's closing stock price for the 30 active trading days prior to the date of grant. Your Sign-on Equity Grant is anticipated to vest and be released \$250,000 in planned value on the one year anniversary of the grant date, \$250,000 in planned value on the two year anniversary of the grant date, and \$3,000,000 in planned value on the three year anniversary of the grant date. RRSUs are equivalent in value to shares of IBM stock and, once vested and released, are paid out in stock (or cash in select countries). Upon The Closing Date, the Sign-On Equity Award will be converted in a manner consistent with similar awards.

If IBM terminates your employment without Cause (as defined in your Noncompetition Agreement with IBM) and your performance is otherwise satisfactory, you will continue to be eligible to vest and receive your Sign-On Equity Award as scheduled.

Except as specified above, PSUs and RRSUs are subject to the terms and conditions of the applicable IBM Long-Term Performance Plan, along with the Preliminary Award Agreement and Terms and Conditions document that is being provided with this offer letter. A final Award Agreement that indicates the number of PSUs and RRSUs granted will be provided after the grant date of your award. Subsequent grants may be awarded in IBM or NewCo's discretion based on your performance and contribution to the business.

Indemnification:

In your role, you will be covered by IBM's Directors & Officers insurance policy, and after the Transaction you will be indemnified by Kyndryl as required by law and in accordance with any additional Kyndryl policy regarding your role.

Benefits:

During your employment, you will be eligible to participate in the various benefit plans which IBM generally makes available to its regular employees, including medical and dental coverage, accident, disability and life insurance, as well as the IBM 401(k) Plus Plan. Additional details on these programs will be provided separately. For detailed information on IBM Health Care Benefits, visit the Health Care Benefits at IBM site at <http://www.ibm.com/employment/us/benefits/>.

If you have additional benefits questions after visiting our website, please contact Paul Dunkle.

Additionally, the Affordable Care Act (ACA) requires companies to provide employees with a Notice of Exchanges which discusses the Health Insurance Marketplace; a public option where individuals may purchase health care coverage. This notice is attached for your information.

July 23, 2021
David Wyshner

As is customary at IBM, this offer is contingent upon the completion of our pre-employment process, including verification of your application materials and your ability to work for IBM without restriction (which means you do not have non-compete obligations or other restrictive clause with your current or former employer; or any non-compete or other restrictions have been disclosed by you and resolved to IBM's satisfaction).

IBM employees are required to comply with IBM's Business Conduct Guidelines. Once you have authorized access to the IBM Intranet, you will be able to read and/or print the contents of these documents, and will be required to acknowledge receipt and compliance with the guidelines.

U.S. Laws and regulations prohibit the unauthorized release of restricted technology to certain persons. IBM, in order to comply with these legal requirements, must ascertain whether someone who may be given access to restricted technology is a "Foreign Person" subject to these export control restrictions. If someone is a Foreign Person for export control purposes, then he/she may need to be granted an export license or other government authorization before starting in a position with access to restricted technology. Therefore, if you indicated that you are a Foreign Person on your employment application (by answering "no" to the question "Are you a U.S. citizen or national, a permanent resident?" or "yes" to the question "Are you a refugee, an asylee or authorized to work under the amnesty provisions of U.S. immigration law?"), you will be contacted by a member of IBM's Recruitment organization who will ask for your country(s) of citizenship and permanent residence. Your country(s) of citizenship and permanent residence will enable IBM to determine the type of export license which would be required, should you be placed in a position with access to restricted technology. Our ability to obtain an export license for you may be a factor in IBM's decision to continue with your pre-employment process, depending on the staffing needs of the hiring manager.

For tax and payroll purposes, you will require a Social Security Number. If you do not have one, you must apply for a number at your Social Security Administration Office before your first day of employment. Also, please note that IBM may be required to withhold federal tax at a different rate based upon your alien residency tax filing status. For more information on this, please review IRS Publication 519 before completing the W4 from, <http://www.irs.gov/publications/p519/ch01.html>. If you are a nonresident alien, you will need to complete the W-4 form using the provided instructions on your first day of work, <http://www.irs.gov/publications/p519/ch08.html>.

Your employment is also contingent upon your compliance with the U.S. immigration law. The law requires you to complete the U.S. Government Employment Eligibility Verification form (1-9) and to provide on your first day of employment documents that verify your identity and employment eligibility. By accepting this offer, you will be required to comply with this law. The terms of this letter are not a contract of employment and do not imply employment for any specific period of time. Rather, employment at IBM is at-will, which means that either you or IBM may terminate your employment at any time, for any reason and without prior notice, subject to the provisions of this offer letter. No modification of this at-will status is valid unless contained in writing signed by two authorized representatives of IBM.

July 23, 2021
David Wyshner

On your first day of employment you will be required to sign IBM's form regarding confidential information and intellectual property. If you would like to review or discuss this document in advance, please contact Paul Dunkle.

Accepted: /s/ David B Wyshner

Date: 7-25-21

Projected Start Date: September 2021



Office of the Senior Vice President
Human Resources

1 New Orchard Road
Armonk, NY 10504

May 28, 2021

Maryjo Charbonnier

Dear Maryjo,

I am delighted to extend an offer of employment to you at IBM as Chief Human Resources Officer, Kyndryl, currently the Managed Infrastructure Services unit of Global Technology Services (excluding TSS).

The attachment outlines the specifics of our offer. I am extremely excited about your joining the IBM team.

Please indicate your acceptance of this offer by signing and returning the letter, along with the Sign-on Payment Repayment Agreement and the Noncompetition Agreement to me via email.

Sincerely,

/s/ Nickle LaMoreaux

Nickle LaMoreaux
Senior Vice President and Chief Human Resources Officer,
IBM Human Resources

Attachments

May 28, 2021
Maryjo Charbonnier

This letter (the "Offer Letter") confirms our offer of IBM employment to you as Chief Human Resources Officer, Kyndryl, reporting directly to Martin Schroeter, Chief Executive Officer, Kyndryl and based in New York, NY. Your primary responsibilities will be to ensure completion of The Transaction, as described below, and other responsibilities as agreed upon between you and Kyndryl's Chief Executive Officer. The elements of your employment offer are:

Cash Compensation:

Effective on your first day of employment, your annualized base salary will be \$615,000.00, and you will have an opportunity to receive a \$770,000.00 bonus as set forth below. This is in addition to your participation in the IBM benefits plans. As an employee, you will receive a paycheck on a semi-monthly basis, on or around the 15th and 31st of each month. For 2021, your base salary will be prorated to reflect your actual IBM start date and termination date.

In connection with IBM's announced intention to spin-off the Managed Infrastructure Services unit of its IBM Global Technology Services (GTS) business and organization (excluding TSS) as a separate publicly listed company with IBM no longer owning any stake in the new company (the separate publicly listed company referred to as "NewCo", and the spin-off referred to as "The Transaction"), which will occur on the date of the closing of such spin-off (referred to as "The Closing Date"), your bonus payment will depend on your successful completion of The Transaction. If The Transaction is completed, your bonus will be paid no later than February 1, 2022. You must be an active employee on The Closing Date in order to be eligible to receive the bonus payout. In the event of termination without Cause (as defined in your Noncompetition Agreement with IBM) prior to The Closing Date, IBM in its sole discretion may decide to provide a partial payment of \$200,000.00 of the bonus.

While IBM intends for The Transaction to be completed by December 31, 2021, if The Transaction is not completed by such date, IBM's Chief Executive Officer may in his discretion decide to pay the bonus in full or in part and such payment shall be made no later than February 1, 2022, provided you are an active employee of IBM or Newco on such payment date.

Additionally, you shall receive the bonus payable by February 1, 2022, if The Transaction is not completed by December 31, 2021 for reasons beyond your reasonable control and your employment is terminated without Cause (as defined in your Noncompetition Agreement with IBM).

Please note, if prior to December 31, 2021 for strategic business reasons, (A) IBM unilaterally determines and formally announces that it will not complete The Transaction, or (B) if NewCo is sold to another buyer, and in both cases, the IBM CEO determines that your performance in moving The Transaction to closure was not a contributing factor in the decision not to complete The Transaction or sell to another buyer, and your performance is otherwise satisfactory, you will receive the bonus payment one month following the later of: (1) IBM's formal announcement to not complete The Transaction ("Announcement Date"); or (2) the closing date of the sale of NewCo ("Sale Date"). You must be an active employee on the Announcement Date or the Sale Date, as applicable, to receive the bonus payout.

May 28, 2021
Maryjo Charbonnier

New Hire Equity:

You will be awarded a new hire equity grant of \$1,000,000.00 in planned value. You will receive 100% of this planned value as a special Performance Share Unit (PSU) award. Your award will be granted on the 1st of the month following your Hire Date, or as soon as practical thereafter. The number of PSUs granted will be determined by dividing the planned grant value by the average of IBM's closing stock price for the 30 active trading days prior to the date of grant.

In order to vest in your PSU award, you must meet two performance criteria ("Performance Criteria"), or be excused for the non-performance:

1. You (a) successfully complete The Transaction as envisaged by no later than January 1, 2023 or (b) you are excused from completing The Transaction as envisaged for reasons beyond your reasonable control as described in the Terms and Conditions document provided with this offer letter; or (c) your employment is terminated without Cause (as such term is defined in your Noncompetition Agreement) by IBM.
2. If The Transaction is completed as envisaged, immediately following The Closing Date you accept employment at NewCo as the Chief Human Resources Officer, provided this performance criterion is excused if NewCo's offer of employment is not comparable in the aggregate to the terms of this offer letter, including your annual salary, bonus, equity award, and geographic location which cannot be greater than 50 miles from your work location.

If the performance criteria described above are satisfied or excused, your award will generally vest and be released 33% on the six month anniversary of The Closing Date, 33% on the 1st anniversary of The Closing Date, and 34% on the 2nd anniversary of The Closing Date, assuming all other conditions in your equity award agreement and its incorporated terms and conditions are met.

Sign-on Equity Award:

You will be also be awarded a Sign-On Equity Grant of \$700,000.00 in planned value. You will receive 100% of this planned value in Retention Restricted Stock Units (RRSUs) (the "Sign-On Equity Award"). Your award will be granted on the 1st of the month following your Hire Date, or as soon as practical thereafter. The number of RRSUs granted will be determined by dividing the planned grant value by the average of IBM's closing stock price for the 30 active trading days prior to the date of grant. 100% of your Sign-on Equity Grant is anticipated to vest on the second anniversary of the grant date. RRSUs are equivalent in value to shares of IBM stock and, once vested and released, are paid out in stock (or cash in select countries). Upon The Closing Date, the Sign-On Equity Award will be converted in a manner consistent with similar awards.

May 28, 2021
Maryjo Charbonnier

If IBM terminates your employment without Cause (as defined in your Noncompetition Agreement with IBM) and your performance is otherwise satisfactory, you will continue to be eligible to vest and receive your Sign-On Equity Award as scheduled.

Except as specified above, PSUs and RRSUs are subject to the terms and conditions of the applicable IBM Long-Term Performance Plan, award agreements, and terms and conditions documents. Additional details about the award will be provided to you after your IBM employment begins. Subsequent grants may be awarded in IBM's discretion based on your performance and contribution to the business.

Your formal award agreements and associated terms and conditions for your New Hire Equity and Sign-On Equity will include the terms set forth in the draft documents provided to you with this Offer Letter without material change, provided, however, that with respect to your New Hire Equity, the sentence on p. 10 of the June 1, 2020 Terms & Conditions document that "if you cease to be an active employee for any reason (other than on account of death or are disabled as described in Section 12 of the Plan) before they vest in accordance with the terms of your Equity Award Agreement, all PSUs are cancelled immediately" shall not be interpreted to supersede the provisions therein with respect to vesting upon Performance Criteria not being met due to certain specified reasons involving the termination of your employment.

Sign-on Bonus Payment:

As part of your employment offer, you will be provided a sign-on bonus of \$875,000.00, which will be included in one of your semi-monthly paychecks within two months of the commencement of your IBM employment. This payment will be less applicable tax withholdings. Please note the payment is subject to the terms and conditions of the repayment agreement attached and requires your signature. Please see the attached repayment agreement for the complete terms.

Executive Coach:

You will be provided with an Executive Coach via Crenshaw through the earlier of The Closing Date or December 31, 2021. The Executive Coach will either be paid for directly by IBM or eligible for reimbursement.

May 28, 2021
Maryjo Charbonnier

Benefits:

During your employment, you will be eligible to participate in the various benefit plans which IBM generally makes available to its regular employees, including medical and dental coverage, accident, disability and life insurance, as well as the IBM 401(k) Plus Plan. Additional details on these programs will be provided separately. For detailed information on IBM Health Care Benefits, visit the Health Care Benefits at IBM site at <http://www.ibm.com/employment/us/benefits/>.

If you have additional benefits questions after visiting our website, please contact Paul Dunkle.

Additionally, the Affordable Care Act (ACA) requires companies to provide employees with a Notice of Exchanges which discusses the Health Insurance Marketplace; a public option where individuals may purchase health care coverage. This notice is attached for your information.

As is customary at IBM, this offer is contingent upon the completion of our pre-employment process, including verification of your application materials and your ability to work for IBM without restriction (which means you do not have non-compete obligations or other restrictive clause with your current or former employer; or any non-compete or other restrictions have been disclosed by you and resolved to IBM's satisfaction).

IBM employees are required to comply with IBM's Business Conduct Guidelines. Once you have authorized access to the IBM Intranet, you will be able to read and/or print the contents of these documents, and will be required to acknowledge receipt and compliance with the guidelines.

U.S. Laws and regulations prohibit the unauthorized release of restricted technology to certain persons. IBM, in order to comply with these legal requirements, must ascertain whether someone who may be given access to restricted technology is a "Foreign Person" subject to these export control restrictions. If someone is a Foreign Person for export control purposes, then he/she may need to be granted an export license or other government authorization before starting in a position with access to restricted technology. Therefore, if you indicated that you are a Foreign Person on your employment application (by answering "no" to the question "Are you a U.S. citizen or national, a permanent resident?" or "yes" to the question "Are you a refugee, an asylee or authorized to work under the amnesty provisions of U.S. immigration law?"), you will be contacted by a member of IBM's Recruitment organization who will ask for your country(s) of citizenship and permanent residence. Your country(s) of citizenship and permanent residence will enable IBM to determine the type of export license which would be required, should you be placed in a position with access to restricted technology. Our ability to obtain an export license for you may be a factor in IBM's decision to continue with your pre-employment process, depending on the staffing needs of the hiring manager.

May 28, 2021
Maryjo Charbonnier

For tax and payroll purposes, you will require a Social Security Number. If you do not have one, you must apply for a number at your Social Security Administration Office before your first day of employment. Also, please note that IBM may be required to withhold federal tax at a different rate based upon your alien residency tax filing status. For more information on this, please review IRS Publication 519 before completing the W4 from, <http://www.irs.gov/publications/p519/ch01.html>. If you are a nonresident alien, you will need to complete the W-4 form using the provided instructions on your first day of work, <http://www.irs.gov/publications/p519/ch08.html>.

Your employment is also contingent upon your compliance with the U.S. immigration law. The law requires you to complete the U.S. Government Employment Eligibility Verification form (I-9) and to provide on your first day of employment documents that verify your identity and employment eligibility. By accepting this offer, you will be required to comply with this law. The terms of this letter are not a contract of employment and do not imply employment for any specific period of time. Rather, employment at IBM is at-will, which means that either you or IBM may terminate your employment at any time, for any reason and without prior notice, subject to the provisions of this offer letter. No modification of this at-will status is valid unless contained in writing signed by two authorized representatives of IBM.

On your first day of employment you will be required to sign IBM's form regarding confidential information and intellectual property. If you would like to review or discuss this document in advance, please contact Paul Dunkle.

Accepted: /s/ Maryjo Charbonnier

Date: June 1, 2021

Projected Start Date: July 6, 2021

Executive Sign-on Payment Repayment Agreement

This form must be completed in order to receive your Sign-On Payment.

Employee Name Maryjo Charbonnier	Date of Hire TBD	E-Mail Address
Phone	Resident Location	Work Location New York

Prior to receiving any payment, I understand and agree to the following terms:

- I am eligible to receive a sign-on payment in the total amount of \$875,000.00. The payment ("Payment Amount") will be made as identified in the schedule below.
- The Payment Amount is earned on the Payment Earned Date identified in the schedule below.
- Except as otherwise provided below, if my employment with IBM or NewCo ends within one year after my date of hire, I will repay to my employer the Payment Amount.
- In connection with IBM's announced intention to spin-off the Managed Infrastructure Services business (NewCo) as a separate publicly listed company, which will occur on the date of the closing of such spin-off (the Closing Date), referred to below as the Transaction, my repayment requirement will continue with NewCo.
- However, in the event that my employment with IBM or NewCo is terminated within the first year of my employment for any of the following reasons, the repayment requirement mentioned above will not apply.
 1. IBM unilaterally decides to formally change course and announces that it will not move forward with the Transaction, and the IBM Chief Executive Officer determines that my performance in moving The Transaction to closure was not a contributing factor in the decision not to complete The Transaction, and my performance was otherwise satisfactory;
 2. NewCo is purchased by another buyer and the IBM Chief Executive Officer determines that my performance was not a contributing factor in the decision to sell to another buyer, and my performance was otherwise satisfactory, but I am NOT selected for a role in NewCo that is substantially comparable in the aggregate to the terms of my offer letter, including my annual salary, bonus, equity award, and geographic location (which cannot be greater than 50 miles from my work location); or
 3. Without Cause (as defined in my Noncompetition Agreement with IBM).
- If I take a leave of absence from working for my employer on an active, full-time basis before the Payment Earned Date or during the repayment period, the Payment Earned Date and my obligation to repay the relevant installment payment will be extended for the period of the leave of absence.
- Similarly, if I convert to part-time employment status from active, full-time employment at IBM before the Payment Earned Date or during the repayment period, the Payment Earned Date and my obligation to repay the payment will be extended for the period of time represented by the difference between one year's active, full-time employment and the hours worked on my part-time employment schedule.

To the extent permitted by law, I also authorize my employer to deduct any unearned sign-on payment balance, less any tax withholdings, owed to my employer from any funds my employer may owe me at the time of my departure, such as wages, commissions, vacation, or bonus payments. If, after my employer has deducted the amount from funds owed to me at the time of my departure, a balance owed to my employer remains, I shall repay the balance to my employer.

Executive Sign-on Payment Repayment Agreement

This Sign-on Payment Repayment Agreement does not constitute a contract of employment or create or grant any right to continued employment with IBM for any period of time. My employment remains “at will” and may end at any time by IBM, NewCo or me, as applicable.

Payment Amount	Payment Date	Payment Earned Date
\$875,000	Within 60 days of hire	1 year from my date of hire at IBM

Employee Signature	Date
/s/ Maryjo Charbonnier	6/1/21

**IBM Confidential*

Confidential Treatment Requested by Kyndryl Holdings LLC
Pursuant to 17 C.F.R. Section 200.83

Subject to Completion — Dated [], 2021

INFORMATION STATEMENT

Kyndryl Holdings LLC

Common Stock

(par value \$0.01 per share)

Kyndryl Holdings LLC (“**Kyndryl**” or “**we**”), a wholly-owned subsidiary of International Business Machines Corporation (“**IBM**”), is sending you this Information Statement in connection with the spin-off of Kyndryl by IBM. To effect the spin-off, IBM will distribute all of the shares of our common stock on a *pro rata* basis to the holders of IBM common stock. We expect that the distribution of our common stock will be tax-free to holders of IBM common stock for U.S. federal income tax purposes, except for cash that stockholders may receive (if any) in lieu of fractional shares. Kyndryl Holdings LLC will be converted into a Delaware corporation prior to the spin-off.

If you are a record holder of IBM common stock as of the close of business on [], 2021, which is the record date for the distribution, you will be entitled to receive [] shares of our common stock for every [] shares of IBM common stock that you hold on that date. IBM will distribute its shares of our common stock in book-entry form, which means that we will not issue physical stock certificates. The distribution agent will not distribute any fractional shares of our common stock.

The distribution will be effective as of [], New York City time, on [], 2021. Immediately after the distribution becomes effective, we will be an independent, publicly traded company.

IBM’s stockholders are not required to vote on or take any other action to approve the spin-off. We are not asking you for a proxy, and request that you do not send us a proxy. IBM stockholders will not be required to pay any consideration for the shares of our common stock they receive in the spin-off, and they will not be required to surrender or exchange their shares of IBM common stock or take any other action in connection with the spin-off.

No trading market for our common stock currently exists. We expect, however, that a limited trading market for our common stock, commonly known as a “when-issued” trading market, will develop as early as one trading day prior to the record date for the distribution, and we expect “regular-way” trading of our common stock will begin on the first trading day after the distribution date. We intend to apply to list our common stock on the [] under the ticker symbol “[]”. The listing is subject to approval of our application.

In reviewing this Information Statement, you should carefully consider the matters described in the section entitled “Risk Factors” beginning on page [12](#) of this Information Statement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this Information Statement is truthful or complete. Any representation to the contrary is a criminal offense.

This Information Statement is not an offer to sell, or a solicitation of an offer to buy, any securities.

The date of this Information Statement is [], 2021.

Information contained herein is subject to completion or amendment. A registration statement on Form 10 relating to these securities has been filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

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TRADEMARKS AND COPYRIGHTS

We own or have rights to various trademarks, logos, service marks and trade names that we use in connection with the operation of our business. We also own or have the rights to copyrights that protect the content of our products. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this Information Statement are listed without the ™, ® or © symbols, but such references do not constitute a waiver of any rights that might be associated with the respective trademarks, service marks, trade names and copyrights included or referred to in this Information Statement.

INDUSTRY AND MARKET DATA

This Information Statement includes data concerning our industry and the markets in which we operate that is based on information from public filings, internal company sources, management estimates and various third-party sources. All such industry data is available publicly or for purchase and was not commissioned specifically for us. Forecasts based upon such data involve risks and uncertainties, and actual results regarding the subject matter of such forecasts are subject to change based upon various factors beyond our control.

The sources of certain statistical data, industry data, estimates and forecasts contained in this Information Statement 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, 1Q21 Update, dated March 25, 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 Press Release, Gartner Forecasts Strong Revenue Growth for Global Container Management Software and Services Through 2024, dated June 25, 2020.
- Gartner, Forecast Analysis: Cloud Consulting and Implementation Services, Worldwide, dated March 5, 2020.

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 opinions or viewpoints published, as part of a syndicated subscription service, by Gartner, Inc. (“**Gartner**”) and are not representations of fact. Each Gartner Content speaks as of its original publication date (and not as of the date of this Information Statement), and the opinions expressed in the Gartner Content are subject to change without notice.

INFORMATION STATEMENT SUMMARY

In this Information Statement, unless the context otherwise requires:

- The “**Company**,” “**Kyndryl**,” “**we**,” “**our**” and “**us**” refer to (a) Kyndryl Holdings LLC (a newly formed holding company) and (b) Kyndryl Holdings Inc. following the conversion of Kyndryl Holdings LLC into a Delaware corporation, which will occur prior to the Spin-Off, and, in each case unless otherwise indicated or the context otherwise requires, its consolidated subsidiaries after giving effect to the Spin-Off; and
- “**IBM**” or “**Parent**” refers to International Business Machines Corporation and its consolidated subsidiaries.

The transaction in which IBM will distribute to its stockholders all of the shares of our common stock is referred to in this Information Statement as the “**Distribution**” or the “**Spin-Off**.” Any references to IBM stockholders in this Information Statement refer to holders of IBM’s common stock. Prior to IBM’s Distribution of the shares of our common stock to its stockholders, IBM will undertake a series of internal reorganization transactions, pursuant to which, among other transactions, Kyndryl will be converted into a corporation and following which Kyndryl will hold, through its subsidiaries, IBM’s managed infrastructure services business, which we refer to as the “**Business**.” We refer to this series of internal reorganization transactions as the “**Reorganization Transactions**.”

Our Company

We are a leading technology services company and the largest infrastructure services provider in the world, serving as a partner to more than 4,000 customers in over 100 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. Today, enterprises are engaged in individual and unique digital transformations to differentiate their businesses and derive value through better customer experiences. However, enterprises often face shortages in critical technical expertise to successfully make this complex change. Our purpose is therefore to design, build, and manage secure and responsive private, public, and multicloud environments to accelerate our customers’ digital transformations.

We put the customer at the center of everything we do, every day. 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 are also organized to be fast and focused, in order to respond more quickly to our customers’ needs, and our principles have led to a structure that drives accountability and responsibility to the teams that work closely with them and our partners. 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 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 manage their complex environments so that they can achieve their business objectives.

As an independent company, we will be free to 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 \$19.4 billion in revenue for the fiscal year ended December 31, 2020. 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.

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 best help existing and new customers realize their future.

The market for these services is large and dynamic. We project this market, which is a subset of the total IT services market, to represent a \$415 billion opportunity in 2021, growing 7% annually to \$510 billion in 2024. Growth in this market is driven by services that are aligned to customers’ transformations, and represent an incremental \$75 billion. These transformation services include several high-growth portions of the market that each exceed approximately \$10 billion in opportunity, including public cloud managed services (compounded annual growth of 11% from 2021 to 2024), data services (compounded annual growth of 18% from 2021 to 2024), security services (compounded annual growth of 12% from 2021 to 2024), and intelligent automation services (compounded annual growth of 27% from 2021 to 2024). Managed services for edge environments represents a smaller portion connected to many other opportunities, and itself is expected to experience compounded 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. Illustrating the growth in digitization, U.S. online retail sales surged by 32% year-over-year in 2020. While customers seek to transform, skills availability often represents a challenge, with lack of skills ranked as one of the top 3 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. These transitions are often complex, with companies seeking assistance from service providers. Gartner forecasts that by 2025, 85% of large organizations will have engaged external service providers to migrate applications to the cloud, an increase from 43% in 2019. Furthermore, Gartner projects that by 2022, more than 75% of global organizations will be running containerized applications in production (an increase from less than 30% today) and worldwide revenue for container management will double by 2024. 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 2020, enterprises created and captured 64 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: ISVs, large public cloud providers, internal platforms, and other technologies (e.g., 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 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 (CTOs) 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 cyber-security services for Chief Information Security Officers and CRO, 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, and IDC). 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 partner:

- **We are a leader in technology services.** We are the largest provider of IT infrastructure services and are recognized by research analysts (e.g., Gartner, Forrester, IDC, Everest, NelsonHall, and HfS Research) 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 to produce our next-generation services, investing to ensure continuous innovation for improved outcomes. 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 & 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. Following the Spin-Off, we will 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 the best technology and capability for our customers. Our services and ecosystems enable us to offer leading services for all levels of customer environment complexity and integration.

Our Strategies

We will pursue a strategy 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). With increased freedom of action, we will extend these capabilities to an even broader ecosystem of technology providers and develop 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 the 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. While we will be an independent and distinct entity following the separation, we will continue to work with IBM on an arms-length basis. In addition to any transition services agreements for services that IBM will provide to us as part of the Spin-Off, they will be part of our partner ecosystem from the standpoint of a technology provider, cloud provider, and application services partner. See "Certain Relationships and Related Party Transactions — Agreements with IBM — Other Arrangements."

As we look to the future, our focus is centered on the following strategic tenets:

- **Scale Insights and Intellectual Property.** We will invest 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 will have the freedom of action to develop a broad ecosystem of strategic partnerships with a wider set of technology and services companies to complement our relationship with IBM. We will invest 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 will extend 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 will reflect that of a services company, emphasizing customers and resulting in a flatter, faster, and more focused company. We will pursue an investment and co-investment strategy focused on building our team, developing aligned intellectual property and automation, and broadening our ecosystem of partnerships.

The Spin-Off

On October 8, 2020, IBM announced plans for the complete legal and structural separation of our Business from IBM. In reaching the decision to pursue the Spin-Off, IBM considered a range of potential structural alternatives for the Business and concluded that the Spin-Off is the most attractive alternative for enhancing stockholder value. To effect the separation, first, IBM will undertake the series of Reorganization Transactions described under “Certain Relationships and Related Party Transactions — Agreements with IBM — Separation and Distribution Agreement.” IBM will subsequently distribute all of our common stock to IBM’s stockholders, and following the Distribution, Kyndryl, holding the Business, will become an independent, publicly traded company. Prior to completion of the Spin-Off, we intend to enter into a separation and distribution agreement (the “**Separation and Distribution Agreement**”) and several other agreements with IBM related to the Spin-Off. These agreements will govern our relationship with IBM up to and after completion of the Spin-Off and allocate between us and IBM and various assets, liabilities and obligations, including employee benefits, intellectual property and tax-related assets and liabilities. See “Certain Relationships and Related Party Transactions” for more information.

Completion of the Spin-Off is subject to the satisfaction or waiver of a number of conditions. In addition, IBM has the right not to complete the Spin-Off if, at any time, IBM’s board of directors, or the “**IBM Board**,” determines, in its sole and absolute discretion, that the Spin-Off is not in the best interests of IBM or its stockholders, or is otherwise not advisable. See “The Spin-Off — Conditions to the Spin-Off” for more information.

Following the Spin-Off, we and IBM will each have a more focused business that will be better positioned to invest more in growth opportunities and execute strategic plans best suited to address the distinct market trends and opportunities for the respective businesses. Following the Reorganization Transactions, we will hold IBM’s former managed infrastructure services business, and we will have greater

agility to design, run and modernize the technology environments of some of the world’s most important organizations. We plan to focus on further developing our expertise in broad and complex mission-critical IT environments and our separation from IBM will allow IBM to focus on its open hybrid cloud platform and artificial intelligence capabilities. Further, the Spin-Off will allow our management team to devote its time and attention to the corporate strategies and policies that are based specifically on the needs of our Business. We plan to create incentives for our management and employees that align more closely with our business performance and the interests of our stockholders, which will help us attract, retain and motivate highly qualified personnel. Moreover, the Spin-Off is expected to increase the aggregate trading price of each of our and IBM’s common stock above what the trading price of IBM common stock would have had if it had continued to represent an interest in both the businesses, allowing each company to use its stock to pursue and achieve strategic objectives including evaluating and effectuating acquisitions. Additionally, we believe the Spin-Off will help align our stockholder base with the characteristics and risk profile of the respective businesses. See “The Spin-Off — Reasons for the Spin-Off” for more information.

Following the Spin-Off, subject to the approval of our application, we expect our common stock to trade on the _____ under the ticker symbol “_____.”

Our Corporate Information

We were incorporated in December 2020. Our corporate headquarters will be located at One Vanderbilt Avenue, 15th Floor, New York, New York 10017, and our telephone number is _____. Our website address is www.kyndryl.com. Information contained on, or that can be accessed through, our website is not part of, and is not incorporated into, this Information Statement.

Questions and Answers about IBM’s Reasons for the Spin-Off

The following provides only a summary of certain information regarding IBM’s reasons for the Spin-Off. You should read this Information Statement in its entirety for a more detailed description of the matters described below.

Q: *What are the reasons for the Spin-Off?*

A: The IBM Board believes that the separation of the managed infrastructure services business from IBM is in the best interests of IBM stockholders and for the success of the managed infrastructure services business for a number of reasons. See “The Spin-Off — Reasons for the Spin-Off” for more information.

Q: *Why is our separation structured as a spin-off?*

A: IBM believes that a distribution of our shares that is tax-free to IBM and its stockholders for U.S. federal income tax purposes is the most efficient way to separate our business from IBM.

Questions and Answers about the Spin-Off

The following provides only a summary of certain information regarding the Spin-Off. You should read this Information Statement in its entirety for a more detailed description of the matters described below.

Q: *What is the Spin-Off?*

A: The Spin-Off is the method by which we will separate from IBM. In the Spin-Off, IBM will distribute to its stockholders all of the outstanding shares of our common stock. Following the Spin-Off, we will be an independent, publicly traded company, and IBM will not retain any ownership interest in our Company.

Q: *Is the completion of the Spin-Off subject to the satisfaction or waiver of any conditions?*

A: Yes, the completion of the Spin-Off is subject to the satisfaction, or the IBM Board’s waiver, of certain conditions. Any of these conditions may be waived by the IBM Board to the extent such waiver is permitted by law. In addition, IBM may at any time until the Distribution

decide to abandon the Distribution or modify or change the terms of the Distribution. See “The Spin-Off — Conditions to the Spin-Off” for more information.

Q: Will the number of IBM shares I own change as a result of the Spin-Off?

A: No, the number of shares of IBM common stock you own will not change as a result of the Spin-Off.

Q: Will the Spin-Off affect the trading price of my IBM common stock?

A: The trading price of shares of IBM common stock immediately following the Distribution is expected to be lower than the trading price immediately prior to the Distribution because the trading price will no longer reflect the value of the Business. IBM believes that our separation from IBM offers its stockholders the greatest long-term value. There can be no assurance that, following the Distribution, the combined trading prices of the IBM common stock and our common stock will equal or exceed what the trading price of IBM common stock would have been in the absence of the Spin-Off.

It is possible that after the Spin-Off, our and IBM’s combined equity value will be less than IBM’s equity value before the Spin-Off.

Q: What will I receive in the Spin-Off in respect of my IBM common stock?

A: As a holder of IBM common stock, you will receive a dividend of _____ shares of our common stock for every _____ shares of IBM common stock you hold on the Record Date (as defined below). The distribution agent will distribute only whole shares of our common stock in the Spin-Off. See “The Spin-Off — Treatment of Fractional Shares” for more information on the treatment of the fractional share you may be entitled to receive in the Distribution. Your proportionate interest in IBM will not change as a result of the Spin-Off. For a more detailed description, see “The Spin-Off.”

Q: What is being distributed in the Spin-Off?

A: IBM will distribute approximately _____ shares of our common stock in the Spin-Off, based on the approximately _____ shares of IBM common stock outstanding as of _____, 2021. The actual number of shares of our common stock that IBM will distribute will depend on the total number of shares of IBM common stock outstanding on the Record Date. The shares of our common stock that IBM distributes will constitute all of the issued and outstanding shares of our common stock immediately prior to the Distribution. For more information on the shares being distributed in the Spin-Off, see “Description of Our Capital Stock — Common Stock.”

Q: What do I have to do to participate in the Distribution?

A: All holders of IBM’s common stock as of the Record Date will participate in the Distribution. You are not required to take any action in order to participate, but we urge you to read this Information Statement carefully. Holders of IBM common stock on the Record Date will not need to pay any cash or deliver any other consideration, including any shares of IBM common stock, in order to receive shares of our common stock in the Distribution. In addition, no stockholder approval of the Distribution is required. We are not asking you for a vote and request that you do not send us a proxy card.

Q: What is the record date for the Distribution?

A: IBM will determine record ownership as of the close of business on _____, 2021, which we refer to as the “**Record Date**.”

Q: When will the Distribution occur?

A: The Distribution will be effective as of _____, New York City time, on _____, 2021, which we refer to as the “**Distribution Date**.”

Q: How will IBM distribute shares of our common stock?

A: On the Distribution Date, IBM will release the shares of our common stock to the distribution agent to distribute to IBM stockholders. The whole shares of our common stock will be credited in book-entry accounts for IBM stockholders entitled to receive the shares in the Distribution. If you own IBM common stock as of the close of business on _____, 2021, the shares of our common stock that you are entitled to receive in the Distribution will be issued to your account as follows:

Registered stockholders: If you own your shares of IBM common stock directly through IBM's transfer agent (Computershare Trust Company, N.A.), you are a registered stockholder. In this case, the distribution agent will credit the whole shares of our common stock you receive in the Distribution by way of direct registration in book-entry form to a new account with our transfer agent. Registration in book-entry form refers to a method of recording share ownership where no physical stock certificates are issued to stockholders, as is the case in the Distribution. You will be able to access information regarding your book-entry account for shares of our common stock at _____ or by calling _____.

"Street name" or beneficial stockholders: If you own your shares of IBM common stock beneficially through a bank, broker or other nominee, the bank, broker or other nominee holds the shares in "street name" and records your ownership on its books. In this case, your bank, broker or other nominee will credit your account with the whole shares of our common stock that you receive in the Distribution on or shortly after the Distribution Date. We encourage you to contact your bank, broker or other nominee if you have any questions concerning the mechanics of having shares held in "street name."

See "The Spin-Off — When and How You Will Receive Our Shares" for a more detailed explanation.

Q: If I sell my shares of IBM common stock on or before the Distribution Date, will I still be entitled to receive shares of our common stock in the Distribution?

A: If you sell your shares of IBM common stock before the Record Date, you will not be entitled to receive shares of our common stock in the Distribution. If you hold shares of IBM common stock on the Record Date and decide to sell them on or before the Distribution Date, you may have the ability to choose to sell your IBM common stock with or without your entitlement to receive our common stock in the Distribution. You should discuss the available options in this regard with your bank, broker or other nominee. See "The Spin-Off — Trading Prior to the Distribution Date" for more information.

Q: How will fractional shares be treated in the Distribution?

A: The distribution agent will not distribute any fractional shares of our common stock in connection with the Spin-Off. Instead, the distribution agent will aggregate all fractional shares into whole shares and sell the whole shares in the open market at prevailing market prices on behalf of IBM stockholders entitled to receive a fractional share. The distribution agent will then distribute the aggregate cash proceeds of the sales, net of brokerage fees, transfer taxes and other costs, pro rata to these holders (net of any required withholding for taxes applicable to each holder). We anticipate that the distribution agent will make these sales in the "when-issued" market, and "when-issued" trades will generally settle within two trading days following the Distribution Date. See "Q: How will our common stock trade?" for additional information regarding "when-issued" trading and "The Spin-Off — Treatment of Fractional Shares" for a more detailed explanation of the treatment of fractional shares. The receipt of cash in lieu of fractional shares generally will be taxable to the recipient IBM stockholders for U.S. federal income tax purposes as described in the section entitled "Material U.S. Federal Income Tax Consequences of the Spin-Off." The distribution agent will, in its sole discretion, without any influence by IBM or us, determine when, how, through which broker-dealer and at what price to sell the whole shares of our common stock. The distribution agent is not, and any broker-dealer used by the distribution agent will not be, an affiliate of either IBM or us.

Q: What are the U.S. federal income tax consequences to me of the Distribution?

A: Completion of the Spin-Off is conditioned on IBM's receipt of a separate written opinion from Paul, Weiss, Rifkind and Wharton & Garrison LLP to the effect that the Distribution will qualify for non-recognition of gain and loss under Section 355 and related provisions of the Internal Revenue Code of 1986 (the "**Code**"). Accordingly, it is expected that the Distribution, together with certain related transactions, qualifies as a transaction that is tax-free to IBM and IBM's stockholders, for U.S. federal income tax purposes, under Sections 368(a)(1)(D) and 355 of the Code, and thus no gain or loss will be recognized by, or be includible in the income of, a U.S. Holder (as defined in "Material U.S. Federal Income Tax Consequences of the Spin-Off") as a result of the Distribution, except with respect to any cash (if any) received by IBM stockholders in lieu of fractional shares. After the Distribution, IBM stockholders will allocate their basis in their IBM common stock held immediately before the Distribution between their IBM common stock and our common stock in proportion to their relative fair market values on the date of Distribution. IBM may also waive the tax opinion as a condition to the completion of the Spin-Off. IBM does not currently intend to waive this condition to the obligation to complete the Spin-Off. If IBM were to waive this condition, it would communicate such waiver to IBM stockholders in a manner as described in "The Spin-Off — Conditions to the Spin-Off." See "Material U.S. Federal Income Tax Consequences of the Spin-Off" for more information regarding the potential tax consequences to you of the Spin-Off. You should consult your tax advisor as to the particular tax consequences of the Spin-Off to you.

Q: Do I have appraisal rights in connection with the Spin-Off?

A: No. Holders of IBM common stock are not entitled to appraisal rights in connection with the Spin-Off.

Q: Where can I get more information?

A: If you have any questions relating to the mechanics of the Distribution, you should contact the distribution agent at:

Before the Spin-Off, if you have any questions relating to the Spin-Off, you should contact IBM at:

After the Spin-Off, if you have any questions relating to Kyndryl, you should contact us at:

Questions and Answers about Kyndryl

The following provides only a summary of certain information regarding Kyndryl. You should read this Information Statement in its entirety for a more detailed description of the matters described below.

Q: Do we intend to pay cash dividends?

A: Following the separation, the initial combined dividend level of Kyndryl and IBM is expected to be no less than IBM's pre-spin dividend per share. The timing, declaration, amount and payment of future dividends to stockholders will fall within the discretion of our board of directors (our "**Board**"). Among the items we will consider when evaluating the payment of

dividends will be the capital needs of our business and opportunities to retain future earnings for use in the operation of our business and to fund future growth. See “Dividend Policy” for more information.

Q: Will we incur any debt prior to or at the time of the Distribution?

A: In connection with the Spin-Off, we expect to incur indebtedness in an aggregate principal amount of approximately \$ of senior notes and term loans, of which \$ of the net proceeds will be transferred to IBM substantially concurrently with the consummation of the Spin-Off. We also intend to enter into a revolving credit facility, none of which is expected to be drawn at the closing of the Spin-Off. The terms of such indebtedness are subject to change and will be finalized prior to the closing of the Spin-Off. See “Capitalization,” “Unaudited Pro Forma Condensed Combined Financial Statements,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Other Information — Liquidity and Capital Resources” for more information.

Q: How will our common stock trade?

A: We intend to apply to list our common stock on the under the symbol “ .” Currently, there is no public market for our common stock.

We anticipate that trading in our common stock will begin on a “when-issued” basis as early as one trading day prior to the Record Date for the Distribution and will continue up to and including the Distribution Date. “When-issued” trading in the context of a spin-off refers to a sale or purchase made conditionally on or before the Distribution Date because the securities of the spun-off entity have not yet been distributed. “When-issued” trades generally settle within two trading days after the Distribution Date. On the first trading day following the Distribution Date, any “when-issued” trading of our common stock will end and “regular-way” trading will begin. Regular-way trading refers to trading after the security has been distributed and typically involves a trade that settles on the second full trading day following the date of the trade. See “The Spin-Off — Trading Prior to the Distribution Date” for more information. We cannot predict the trading prices for our common stock before, on or after the Distribution Date.

Q: Who is the transfer agent and registrar for our common stock?

A: is the transfer agent and registrar for our common stock.

Q: Are there risks associated with owning shares of our common stock?

A: Yes, there are substantial risks associated with owning shares of our common stock. Accordingly, you should read carefully the information set forth under “Risk Factors” in this Information Statement.

Summary of Risk Factors

An investment in our company is subject to a number of risks. These risks relate to our business, cybersecurity and data privacy, laws and regulations, financing and capital markets activities, the Spin-Off and our common stock and the securities market. Any of these risks and other risks could materially and adversely affect our business, financial condition and results of operations and the actual outcome of matters as to which forward-looking statements are made in this Information Statement. Please read the information in the section captioned “Risk Factors” of this Information Statement for a description of the principal risks that we face.

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.

Technological developments and the speed by which we respond to them could adversely impact our long-term success.

Our business depends on generating and maintaining ongoing, profitable customer demand for our services and solutions, including through the creation, adaptation and expansion of our services and solutions in response to ongoing changes in technology. A significant reduction in such demand or a failure to invest in strategic growth areas could materially affect our results of operations. Technological developments may cause customers to delay spending under existing contracts and engagements, or to delay entering into new contracts while they evaluate new technologies, which could negatively impact our results of operations if we are unable to introduce new commercial models that reflect the value of these technological developments or if customer spending on new technologies is not sufficient to make up any shortfall caused by such delays.

We may not meet our growth and productivity objectives.

Our goals for profitability and capital return following the Spin-Off 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 market 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 market share 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 so that they function as one. 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.

We have a large portfolio of services and we need to strategically allocate financial, personnel and other resources across these services while competing with companies that have smaller portfolios or specialize in one or more of our service lines. Our competitors may have greater financial, technical and marketing resources available to them compared to the resources allocated to our services. In addition, competitors who have a greater presence and brand recognition in some of the markets in which we compete, or who can provide more favorable contractual terms and conditions, may be more successful at winning new business. Industry consolidation may also affect competition by creating larger and potentially stronger competitors in the markets in which we operate, furthering pressuring margins. Additionally, competitors may affect our business by entering into exclusive arrangements with existing or potential customers or suppliers. 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 partners, 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 cannot assure you that one or more key employees will not leave in the future. 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, marketing 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 shifts, 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 amongst 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 IP 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 and other factors associated with the COVID-19 pandemic may result in delays in some services projects. Another example, the U.K.'s withdrawal from the E.U., commonly referred to as "Brexit," has caused global economic, trade and regulatory uncertainty. We are actively monitoring and planning for possible impacts from Brexit.

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 based upon, among other items, the expected price 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. 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 the Spin-Off,” we may decide to make acquisitions, alliances and dispositions in furtherance of our strategy. Such transactions 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 us failing to achieve strategic objectives, anticipated revenue improvements and cost savings, the failure to retain key strategic relationships of acquired companies, the failure to retain key personnel and the assumption of liabilities related to litigation or other legal proceedings involving the businesses in such transactions, as well as the failure to close planned transactions. Such transactions may require us to secure financing and the indebtedness we incur concurrently with or prior to the Distribution 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 Combined Income Statement.

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 to 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 to 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.

Risks Relating to Cybersecurity and Data Privacy

Cybersecurity and privacy considerations could adversely impact our business.

There are numerous and evolving risks to 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 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. In addition, 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 a global enterprise, the regulatory environment with regard to cybersecurity, privacy and data protection issues 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

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. It is likely that our tax returns could be examined by taxing authorities in the jurisdictions in which we do business which also could adversely impact our income tax provision.

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 K, "Commitments and Contingencies" in the combined financial statements elsewhere in this Information Statement. 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 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. 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.

Risks Relating to Financing and Capital Markets Activities***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 ability to obtain targeted credit ratings prior to and following the Spin-Off.

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. We have not independently executed derivative financial instruments to manage our foreign currency risk and instead have participated in a centralized foreign currency hedging program administered by IBM to reduce foreign currency volatility. Our current strategy does not include hedging all of our foreign currency exposures and the hedges placed through the centralized program may not fully mitigate our foreign currency risk or may prove disadvantageous. At the time of the Spin-Off, we intend to have our own risk management program,

hedging foreign currency exposure and interest rate risk. See “— Risks Relating to the Spin-Off — We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent, publicly traded company, and we may experience increased costs after the Spin-Off.”

Risks Relating to the Spin-Off

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

Completion of the Spin-Off is conditioned on IBM’s receipt of a written opinion from Paul, Weiss, Rifkind and Wharton & Garrison LLP to the effect that the Distribution will qualify for non-recognition of gain and loss under Section 355 and related provisions of the Code. IBM can waive receipt of the tax opinion as a condition to the completion of the Spin-Off.

The opinion of counsel does not address any U.S. state or local or foreign tax consequences of the Spin-Off. The opinion assumes that the Spin-Off will be completed according to the terms of the Separation and Distribution Agreement and relies on the facts as stated in the Separation and Distribution Agreement, the Tax Matters Agreement, the other ancillary agreements, this Information Statement and a number of other documents. In addition, the opinion is based on certain representations as to factual matters from, and certain covenants by IBM and us. The opinion cannot be relied on if any of the assumptions, representations or covenants is incorrect, incomplete or inaccurate or is violated in any material respect.

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. If the conclusions expressed in the opinion are challenged by the IRS, and if the IRS prevails in such challenge, the tax consequences of the Spin-Off could be materially less favorable.

If the Spin-Off were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, each U.S. Holder who receives our common stock in the Distribution would generally be treated as receiving a distribution in an amount equal to the fair market value of our common stock received, which would generally result in: (1) a taxable dividend to the U.S. Holder to the extent of that U.S. Holder’s *pro rata* share of IBM’s current or accumulated earnings and profits; (2) a reduction in the U.S. Holder’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 (3) taxable gain from the exchange of IBM common stock to the extent the amount received exceeds the sum of the U.S. Holder’s share of IBM’s earnings and profits and the U.S. Holder’s basis in its IBM common stock. See below and “Material U.S. Federal Income Tax Consequences of the Spin-Off.”

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 Spin-Off would generally be taxable to IBM, but not to stockholders, under Section 355(e), unless it were established that such transactions and the Spin-Off were not part of a plan or series of related transactions. If the Spin-Off 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. See “Certain Relationships and Related Party Transactions — Agreements with IBM — Tax Matters Agreement.”

We intend to agree to numerous restrictions to preserve the non-recognition 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 intend to agree in the Tax Matters Agreement 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 will include certain restrictions on our activity for a period of two years following the Spin-Off. Specifically, we will be 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 will be 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. See “Certain Relationships and Related Party Transactions — Agreements with IBM — Tax Matters Agreement.”

We may be unable to achieve some or all of the benefits that we expect to achieve from the Spin-Off.

We may be unable to achieve the full strategic and financial benefits expected to result from the separation and distribution, or such benefits may be delayed or not occur at all. We believe that, as an independent, publicly traded company, we will be able to, among other things, more effectively focus on pursue our own distinct operating priorities and strategies, position us as a global leader in our industry with the ability to better address specific market dynamics and target innovation, increase the aggregate trading price of the stock of IBM and Kyndryl above the trading price that the stock of IBM would have had if it had continued to represent an interest in both the businesses, create incentives for our management and employees that align more closely with our business performance and the interests of our stockholders, and allow us to articulate a clear investment proposition and tailored capital allocation policy to attract a long-term investor base best suited to our business needs. We may be unable to achieve some or all of the benefits that we expect to achieve as an independent company in the time we expect, if at all, for a variety of reasons, including: (i) the completion of the Spin-Off will require significant amounts of our management’s time and effort, which may divert management’s attention from operating and growing our business; (ii) following the Spin-Off, we may be more susceptible to market fluctuations and other adverse events than if it were still a part of IBM; (iii) following the Spin-Off, our businesses will be less diversified than IBM’s businesses prior to the separation; (iv) the other actions required to separate IBM’s and our respective businesses could disrupt our operations; and (v) under the terms of the Tax Matters Agreement, we will be restricted from taking certain actions that could cause the Distribution to fail to qualify as a tax-free transaction and these restrictions may limit us for a period of time from pursuing strategic transactions and equity issuances or engaging in other transactions that may increase the value of our business. If we fail to achieve some or all of the benefits that we expect to achieve as an independent company, or do not achieve them in the time we expect, our business, financial condition and results of operations could be adversely affected.

The terms we will receive in our agreements with IBM could be less beneficial than the terms we may have otherwise received from unaffiliated third parties.

The agreements we will enter into with IBM in connection with the separation, will be negotiated prior to the Spin-Off, at a time when our business will still be operated by IBM. The agreements generally will be entered into on arms-length terms similar to those that would be agreed with an unaffiliated third party such as a buyer in sale transaction, but we will not have an independent board of directors or a management team independent of IBM representing its interests while the agreements are being negotiated. In addition, until the Distribution occurs, we will continue to be a wholly owned subsidiary of IBM and, accordingly, IBM

will still have the discretion to determine and change the terms of the separation until the Distribution Date. As a result of these factors, the terms of those agreements may not reflect terms that would have resulted from arm's-length negotiations between unaffiliated third parties and it is possible that we might have been able to achieve more favorable terms if the circumstances differed. See "Certain Relationships and Related Party Transactions."

Our customers, prospective customers, suppliers or other companies with whom we conduct business may need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them.

Some of our customers, prospective customers, suppliers or other companies with whom we conduct business may need assurances that our financial stability on a stand-alone basis is sufficient to satisfy their requirements for doing or continuing to do business with them. Any failure of parties to be satisfied with our financial stability could have an adverse effect on our business, financial condition, results of operations and cash flows.

Following the Spin-Off, we could incur substantial additional costs and experience temporary business interruptions, and we may not be adequately prepared to meet the requirements of an independent, publicly traded company.

In connection with the Spin-Off, we have been installing and implementing information technology infrastructure to support certain of our business functions, including accounting and reporting, human resources, sales operations, customer service, and fulfillment. We may incur substantially higher costs than currently anticipated as we transition from the existing transactional and operational systems and data centers we currently use as part of IBM. If we are unable to transition effectively, we may incur temporary interruptions in business operations. Any delay in implementing, or operational interruptions suffered while implementing, our new information technology infrastructure could disrupt our business and have a material adverse effect on our results of operations.

In addition, if we are unable to replicate or transition certain systems, our ability to comply with regulatory requirements could be impaired. As a result of the Spin-Off, we will be directly 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 and resources.

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.

We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as an independent, publicly traded company, and we may experience increased costs after the Spin-Off.

We have historically operated as part of IBM's corporate organization, and IBM has provided us with various corporate functions. Following the Spin-Off, IBM will have no obligation to provide us with

assistance other than the transition and other services described under “Certain Relationships and Related Party Transactions.” These services do not include every service that we have received from IBM in the past, and IBM is only obligated to provide the transition services for limited periods following completion of the Spin-Off. Following the Spin-Off and the cessation of any transition services agreements, we will need to provide internally or obtain from unaffiliated third parties the services we will no longer receive from IBM. We may be unable to replace these services in a timely manner or on terms and conditions as favorable as those we receive from IBM. Because our business has historically operated as part of the wider IBM organization, we may be unable to successfully establish the infrastructure or implement the changes necessary to operate independently, or may incur additional costs that could adversely affect our business. In particular, our ability to position and market ourselves as a provider of technology services could be adversely affected by our loss of access to IBM’s development platforms. If we fail to obtain the quality of services necessary to operate effectively or incur greater costs in obtaining these services, our business, financial condition and results of operations may be adversely affected.

As an independent, publicly traded company, we may not enjoy the same benefits that we did as a part of IBM.

There is a risk that, by separating from IBM, we may become more susceptible to market fluctuations and other adverse events than we would have been if we were still a part of the current IBM organizational structure. As part of IBM, we have been able to enjoy certain benefits from IBM’s operating diversity, size, purchasing power, lower cost of capital and opportunities to pursue integrated strategies with IBM’s other businesses. As an independent, publicly traded company, we will not have the same benefits. Additionally, as part of IBM, we have been able to leverage the IBM historical market reputation and performance and brand identity to recruit and retain key personnel to run and operate our business. As an independent, publicly traded company, we will not have the same historical market reputation and performance or brand identity as IBM and it may be more difficult for us to recruit or retain such key personnel.

We have no operating history as an independent, publicly traded company, and our historical combined financial information is not necessarily representative of the results we would have achieved as an independent, publicly traded company and may not be a reliable indicator of our future results.

We derived the historical combined financial information included in this Information Statement from IBM’s consolidated financial statements, and this information does not necessarily reflect the results of operations and financial position we would have achieved as an independent, publicly traded company during the periods presented, or those that we will achieve in the future. This is primarily because of the following factors:

- Prior to the Spin-Off, we operated as part of IBM’s broader corporate organization, and IBM performed various corporate functions for us. Our historical combined financial information reflects allocations of corporate expenses from IBM for these and similar functions. These allocations may not reflect the costs we will incur for similar services in the future as an independent publicly traded company.
- We will enter into transactions with IBM that did not exist prior to the Spin-Off, such as IBM’s provision of transition and other services, and undertake indemnification obligations, which will cause us to incur new costs. See “Certain Relationships and Related Party Transactions — Agreements with IBM.”
- Our historical combined financial information does not reflect changes that we expect to experience in the future as a result of our separation from IBM, including changes in the financing, cash management, operations, cost structure and personnel needs of our business. As part of IBM, we enjoyed certain benefits from IBM’s operating diversity, reputation, size, purchasing power, borrowing leverage and available capital for investments, and we will lose these benefits after the Spin-Off. As an independent entity, we may be unable to purchase goods, services and technologies, such as insurance and health care benefits and computer software licenses, or access capital markets, on terms as favorable to us as those we obtained as part of IBM prior to the Spin-Off, and our results of operations may be adversely affected. In addition, our historical combined financial data do not include an allocation of interest expense comparable to the interest expense we will incur as a result of

the Reorganization Transactions and the Spin-Off, including interest expense in connection with our incurrence of indebtedness.

Following the Spin-Off, we will also face additional costs and demands on management's time associated with being an independent, publicly traded company, including costs and demands related to corporate governance, investor and public relations and public reporting. For additional information about our past financial performance and the basis of presentation of our Combined Financial Statements, see "Unaudited Pro Forma Condensed Combined Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical Combined Financial Statements and the Notes thereto included elsewhere in this Information Statement.

We expect to incur new indebtedness concurrently with or prior to the Distribution, and the degree to which we will be leveraged following completion of the Distribution could adversely affect our business, financial condition and results of operations.

In connection with the Spin-Off, we intend to incur substantial indebtedness in an aggregate principal amount of approximately \$ million, of which \$ million of the net proceeds will be transferred to IBM or a subsidiary of IBM substantially concurrently with the consummation of the Spin-Off. We have historically relied upon IBM to fund our working capital requirements and other cash requirements. After the Distribution, we will not be able to rely on the earnings, assets or cash flow of IBM, and IBM will not provide funds to finance our working capital or other cash requirements. As a result, after the Distribution, we will be responsible for servicing our own debt and obtaining and maintaining sufficient working capital and other funds to satisfy our cash requirements. After the Spin-Off, our access to and cost of debt financing will be different from the historical access to and cost of debt financing under IBM. Differences in access to and cost of debt financing may result in differences in the interest rate charged to us on financings, as well as the amount of indebtedness, types of financing structures and debt markets that may be available to us. Our ability to make payments on and to refinance our indebtedness, including the debt incurred in connection with the Spin-Off, as well as any future debt that we may incur, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

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

Our indebtedness is expected to have an investment grade rating, and 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 investment grade could cause certain customers to reduce or cease to do business with us, which would adversely impact our financial performance.

Following the Spin-Off, certain of our employees may have actual or potential conflicts of interest because of their financial interests in IBM.

Because of their current or former positions with IBM, certain of our expected executive officers own equity interests in both us and IBM. Continuing ownership of IBM shares and equity awards could create, or appear to create, potential conflicts of interest if we and IBM 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 following the separation and distribution. 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 will be executed as part of the separation.

In connection with the separation, and prior to the Distribution, we and IBM will enter into various transaction agreements related to the Spin-Off. All of these agreements will also govern our relationship with IBM following the Spin-Off. We will 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. See “Certain Relationships and Related Party Transactions.”

Certain non-U.S. entities or assets that are part of our separation from IBM may not be transferred to us prior to the Distribution or at all.

Certain non-U.S. entities and assets that are part of our separation from IBM may not be transferred prior to the Distribution because the entities or assets, as applicable, are subject to foreign government or third party approvals that we may not receive prior to the Distribution. Such approvals may include, but are not limited to, approvals to merge or demerge, to form new legal entities (including obtaining required registrations and/or licenses or permits) and to transfer assets and/or liabilities. It is currently anticipated that most material transfers will occur without delays beyond the Distribution Date, but we cannot offer any assurance that such transfers will ultimately occur or not be delayed for an extended period of time. To the extent such transfers do not occur prior to the Distribution, under the Separation and Distribution Agreement, the economic consequences of owning such assets and/or entities will, to the extent reasonably possible and permitted by applicable law, be provided to us. In the event such transfers do not occur or are significantly delayed because we do not receive the required approvals, we may not realize all of the anticipated benefits of our separation from IBM and we may be dependent on IBM for transition services for a longer period of time than would otherwise be the case.

Risks Relating to Our Common Stock and the Securities Market

No market for our common stock currently exists and an active trading market may not develop or be sustained after the Spin-Off. Following the Spin-Off, our stock price may fluctuate significantly, and there can be no assurance that the combined trading prices of our and IBM’s common stock would exceed the trading price of IBM common stock absent the Spin-Off.

There is currently no public market for our common stock. In connection with the Spin-Off, we intend to list our common stock on . We anticipate that before the Distribution Date, trading of shares of our common stock will begin on a “when-issued” basis and this trading will continue through the Distribution Date. However, an active trading market for our common stock may not develop as a result of the Spin-Off or may not be sustained in the future. The lack of an active market may make it more difficult for stockholders to sell our shares and could lead to our share price being depressed or volatile.

Although the Spin-Off is expected to increase the aggregate trading price of the common stock of IBM and Kyndryl above what the trading price of IBM common stock would have had if it had continued to represent an interest in both the businesses, we cannot predict the prices at which our common stock may trade after the Spin-Off or whether the combined trading prices of a share of our common stock and a share of IBM’s common stock will be less than, equal to or greater than the trading price of a share of IBM common stock prior to the Spin-Off. The market price of our common stock may fluctuate widely, depending on many factors, some of which may be beyond our control.

Furthermore, our business profile and market capitalization may not fit the investment objectives of some IBM stockholders and, as a result, these IBM stockholders may sell their shares of our common stock after the Distribution. See “— Substantial sales of our common stock may occur in connection with the Spin-Off, or in the future, either of which could cause our stock price to decline.” Low trading volume for our stock, which may occur if an active trading market does not develop, among other reasons, would amplify the effect of the above factors on our stock price volatility. Should the market price of our shares drop significantly, stockholders may institute securities class action lawsuits against us. A lawsuit against us could cause us to incur substantial costs and could divert the time and attention of our management and other resources.

Substantial sales of our common stock may occur in connection with the Spin-Off, or in the future, either of which could cause our stock price to decline.

IBM stockholders receiving shares of our common stock in the Distribution generally may sell those shares immediately in the public market. It is likely that some IBM stockholders, including some of its larger stockholders, will sell their shares of our common stock received in the Distribution if, for reasons such as our business profile or market capitalization as an independent company, we do not fit their investment objectives, or, in the case of index funds, we are not a participant in the index in which they are investing. 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.

We cannot guarantee the timing, amount or payment of dividends on our common stock.

Following the Spin-Off, the initial combined dividend level of Kyndryl and IBM is expected to be no less than IBM's pre-spin dividend per share. The timing, declaration, amount and payment of future dividends to stockholders will fall within the discretion of our Board. The Board's decisions regarding the payment of dividends will depend on consideration of many factors, such as our financial condition, earnings, sufficiency of distributable reserves, opportunities to retain future earnings for use in the operation of our business and to fund future growth, capital requirements, covenants associated with certain debt service obligations, legal requirements, regulatory constraints and other factors that the Board deems relevant. For more information, see "Dividend Policy." There can be no assurance that we will pay our anticipated dividend in the same amount, frequency or at all in the future.

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. Our employees will have stock-based awards that correspond to shares of our common stock after the distribution as a result of the conversion of and/or adjustments to their IBM stock-based awards. Such awards will have a dilutive effect on our earnings per share, which could adversely affect the market price of our common stock. We also 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.

The rights associated with our common stock will differ from the rights associated with IBM common stock.

Upon completion of the Distribution, the rights of IBM stockholders who become our stockholders will be governed by our Amended and Restated Certificate of Incorporation and by Delaware law. The rights associated with IBM shares are different from the rights associated with our shares. In addition, the rights of IBM stockholders are governed by New York law, while the rights of our stockholders will be governed by Delaware law. Material differences between the rights of stockholders of IBM and the rights of our stockholders include differences with respect to, among other things, anti-takeover measures. See "Description of Our Capital Stock — Certain Provisions of Delaware Law, Our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws" for more information.

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. See "Description of our Capital Stock" for more information.

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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 of Kyndryl, 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. See "Description of Our Capital Stock" for more information.

Our Amended and Restated Certificate of Incorporation will provide 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 will provide, 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 of Kyndryl 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 will provide 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.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Information Statement may constitute “forward-looking statements” that involve risks and uncertainties. Forward-looking statements are based on our current assumptions regarding future business and financial performance. These statements by their nature address matters that are uncertain to different degrees. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Words such as “anticipates,” “believes,” “expects,” “estimates,” “intends,” “plans,” “projects,” and similar expressions, may identify such forward-looking statements. Any forward-looking statement in this Information Statement speaks only as of the date on which it is made. Although we believe that the forward-looking statements contained in this Information Statement are based on reasonable assumptions, you should be aware that many factors could affect our actual financial results or results of operations and could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- the failure to attract new customers, retain existing customers or make sales of additional services to customers;
- technological developments and the speed by which we respond to them;
- the failure to meet growth and productivity objectives;
- competition in the markets in which we operate;
- our relationship with critical suppliers and partners;
- our ability to attract and retain qualified personnel and other skilled employees;
- local economic, political, health and other conditions due to our global presence;
- a downturn in the economic environment and customer spending budgets;
- damage to our reputation;
- the failure to accurately estimate the cost of services and timeline for completion of contracts;
- service delivery issues;
- the risks from acquisitions, alliances and dispositions;
- the additional requirements or approvals needed for business with government customers;
- the failure to protect our intellectual property or allegations that we have infringed the intellectual property of others;
- cybersecurity and privacy considerations;
- tax matters;
- legal proceedings and investigatory risks;
- environmental matters;
- the impact of the commercial and credit environment on our access capital;
- changes in market liquidity conditions and customer credit risk on receivables;
- a lowering or withdrawal of our credit ratings;
- the impact by our pension plans;
- exposure to currency risk; and
- certain factors discussed elsewhere in this Information Statement.

These and other factors are more fully discussed in the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections and elsewhere in this Information Statement. Those cautionary statements are not exclusive and are in addition to other factors discussed elsewhere in this Information Statement. Except as required by law, we assume no obligation to update or revise any forward-looking statements.

THE SPIN-OFF

Background

On October 8, 2020, IBM announced that it intended to separate its Managed Infrastructure Services unit from its Hybrid Cloud platform and AI capabilities. To effect the separation, IBM is undertaking the Reorganization Transactions described under “Certain Relationships and Related Party Transactions — Agreements with IBM — Separation and Distribution Agreement” and, following the Reorganization Transactions, will distribute all of its equity interest in us, consisting of all of the outstanding shares of our common stock, to holders of IBM’s common stock on a pro rata basis. On _____, 2021, the IBM Board approved the Distribution on the basis of _____ shares of our common stock for every _____ shares of IBM common stock held as of the close of business on the record date of _____, 2021.

On _____, 2021, the Distribution Date, each IBM stockholder will receive _____ shares of our common stock for every _____ shares of IBM common stock held at close of business on the record date. Following the Spin-Off, IBM will not own any equity interest in us, and we will operate independently from IBM. No approval of IBM’s stockholders is required in connection with the Spin-Off, and IBM’s stockholders will not have any appraisal rights in connection with the Spin-Off.

Completion of the Spin-Off is subject to the satisfaction, or the IBM Board’s waiver, to the extent permitted by law, of a number of conditions. In addition, IBM may at any time until the Distribution decide to abandon the Distribution or modify or change the terms of the Distribution. For a more detailed discussion, see “— Conditions to the Spin-Off.”

Reasons for the Spin-Off

The IBM Board has reviewed various factors, including the company’s portfolio and capital allocation options with the goal of enhancing long-term stockholder value and determined that the Spin-Off is in the best interests of IBM and its stockholders. The potential benefits considered by the IBM Board in making the determination to consummate the Spin-Off include the following:

- **Greater Focus and Enhanced Operational Agility:** The Spin-Off will permit both us and IBM and their management teams to more effectively focus on pursuing their own distinct operating priorities and strategies. IBM will focus on its open hybrid cloud platform and AI capabilities, and we will have greater agility to design, run and modernize the technology environments of some of the world’s most important organizations. This will enable each company to better serve and adapt faster to clients’ changing needs.
- **Strong Financial Profile to Support Growth:** The Spin-Off will enable each business to be positioned as a global leader in its industry with expected investment grade credit ratings and strong financial characteristics to independently drive growth and investment to better address specific market dynamics and target innovation.
- **Value Creation:** The Spin-Off is expected to increase the aggregate trading price of the stock of IBM and Kyndryl above the trading price that the stock of IBM would have had if it had continued to represent an interest in both the businesses, so as to: (i) allow each company to use its stock to pursue and achieve strategic objectives including evaluating and effectuating acquisitions, and (ii) increase the long-term attractiveness of equity compensation programs in a significantly more efficient and effective manner with significantly less dilution to existing stockholders.
- **Alignment of Incentives with Performance:** The Spin-Off will enable each company to create incentives for its management and employees that align more closely with business performance and the interests of their respective stockholders, which is also expected to help each company attract, retain and motivate highly qualified personnel.
- **Broadening of Investor Base:** The Spin-Off allows each company to articulate a clear investment proposition and tailored capital allocation policy to attract a long-term investor base best suited to its business needs.

The IBM Board of Directors also considered some factors that may be adverse to us, including any one-time costs and dissynergies associated with separation, and the possibility of disruptions to the business as

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a result of the Spin-Off. Notwithstanding these costs and risks, IBM determined that the Spin-Off provided the best opportunity to achieve the above benefits and enhance long-term stockholder value. Please refer to the “Risk Factors — Risks Relating to the Spin-Off” elsewhere in this Information Statement for additional considerations.

When and How You Will Receive Our Shares

IBM will distribute to its stockholders, as a pro rata dividend, _____ shares of our common stock for every _____ shares of IBM common stock outstanding as of _____, 2021, the Record Date of the Distribution.

Prior to the Distribution, IBM will deliver all of the issued and outstanding shares of our common stock to the distribution agent. _____ will serve as distribution agent in connection with the Distribution and as transfer agent and registrar for our common stock.

If you own IBM common stock as of the close of business on _____, 2021, the shares of our common stock that you are entitled to receive in the Distribution will be issued to your account as follows:

- **Registered stockholders.** If you own your shares of IBM common stock directly through IBM’s transfer agent, you are a registered stockholder. In this case, the distribution agent will credit the whole shares of our common stock you receive in the Distribution by way of direct registration in book-entry form to a new account with our transfer agent. Registration in book-entry form refers to a method of recording share ownership where no physical stock certificates are issued to stockholders, as is the case in the Distribution. You will be able to access information regarding your book-entry account for our shares at _____ or by calling _____.

Commencing on or shortly after the Distribution Date, the distribution agent will mail to you an account statement that indicates the number of whole shares of our common stock that have been registered in book-entry form in your name. We expect it will take the distribution agent up to two weeks after the Distribution Date to complete the distribution of the shares of our common stock and mail statements of holding to all registered stockholders.

- **“Street name” or beneficial stockholders.** If you own your shares of IBM common stock beneficially through a bank, broker or other nominee, the bank, broker or other nominee holds the shares in “street name” and records your ownership on its books. In this case, your bank, broker or other nominee will credit your account with the whole shares of our common stock that you receive in the Distribution on or shortly after the Distribution Date. We encourage you to contact your bank, broker or other nominee if you have any questions concerning the mechanics of having shares held in “street name.”

If you sell any of your shares of IBM common stock on or before the Distribution Date, the buyer of those shares may in some circumstances be entitled to receive the shares of our common stock to be distributed in respect of the IBM shares you sold. See “— Trading Prior to the Distribution Date” for more information.

We are not asking IBM stockholders to take any action in connection with the Spin-Off. We are not asking you for a proxy and request that you not send us a proxy. We are also not asking you to make any payment or surrender or exchange any of your shares of IBM common stock for shares of our common stock. The number of outstanding shares of IBM common stock will not change as a result of the Spin-Off.

Number of Shares You Will Receive

On the Distribution Date, you will be entitled to receive _____ shares of our common stock for every _____ shares of IBM common stock that you hold on the record date.

Treatment of Fractional Shares

The distribution agent will not distribute any fractional shares of our common stock in connection with the Spin-Off. Instead, the distribution agent will aggregate all fractional shares into whole shares and sell the whole shares in the open market at prevailing market prices on behalf of IBM stockholders entitled

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to receive a fractional share. The distribution agent will then distribute the aggregate cash proceeds of the sales, net of brokerage fees, transfer taxes and other costs, pro rata to these holders (net of any required withholding for taxes applicable to each holder). We anticipate that the distribution agent will make these sales in the “when-issued” market, and “when-issued” trades will generally settle within two trading days following the Distribution Date. See “— Trading Prior to the Distribution Date” for additional information regarding “when-issued” trading. The distribution agent will, in its sole discretion, without any influence by IBM or us, determine when, how, through which broker-dealer and at what price to sell the whole shares. The distribution agent is not, and any broker-dealer used by the distribution agent will not be, an affiliate of either IBM or us.

The distribution agent will send to each registered holder of IBM common stock entitled to a fractional share a check in the cash amount deliverable in lieu of that holder’s fractional share as soon as practicable following the Distribution Date. We expect the distribution agent to take about two weeks after the Distribution Date to complete the distribution of cash in lieu of fractional shares to IBM stockholders. If you hold your shares through a bank, broker or other nominee, your bank, broker or nominee will receive, on your behalf, your pro rata share of the aggregate net cash proceeds of the sales. No interest will be paid on any cash you receive in lieu of a fractional share. The cash you receive in lieu of a fractional share will generally be taxable to you for U.S. federal income tax purposes. See “Material U.S. Federal Income Tax Consequences of the Spin-Off” for more information.

Results of the Spin-Off

After the Spin-Off, we will be an independent, publicly traded company. Immediately following the Spin-Off, we expect to have approximately _____ shares of our common stock outstanding, based on the number of IBM stockholders and shares of IBM common stock outstanding on _____, 2021. The actual number of shares of our common stock IBM will distribute in the Spin-Off will depend on the actual number of shares of IBM common stock outstanding on the Record Date, which will reflect any issuance of new shares, vesting of equity awards or exercises of outstanding options pursuant to IBM’s equity plans, and any repurchase of IBM shares by IBM under its common stock repurchase program, on or prior to the Record Date. Shares of IBM common stock held by IBM as treasury shares will not be considered outstanding for purposes of, and will not be entitled to participate in, the Distribution. The Spin-Off will not affect the number of outstanding shares of IBM common stock or any rights of IBM stockholders. However, following the Distribution, the equity value of IBM will no longer reflect the value of the Business. Although IBM believes that our separation from IBM offers its stockholders the greatest long-term value, there can be no assurance that the combined trading prices of the IBM common stock and our common stock will equal or exceed what the trading price of IBM common stock would have been in absence of the Spin-Off.

Before our separation from IBM, we intend to enter into the Separation and Distribution Agreement and several other agreements with IBM related to the Spin-Off. These agreements will govern the relationship between us and IBM up to and after completion of the Spin-Off and allocate between us and IBM various assets, liabilities, rights and obligations, including employee benefits, environmental, intellectual property and tax-related assets and liabilities. We describe these arrangements in greater detail under “Certain Relationships And Related Party Transactions — Agreements with IBM.”

Listing and Trading of Our Common Stock

As of the date of this Information Statement, we are a wholly owned subsidiary of IBM. Accordingly, no public market for our common stock currently exists, although a “when-issued” market in our common stock may develop prior to the Distribution. See “— Trading Prior to the Distribution Date” below for an explanation of a “when-issued” market. We intend to apply to list our shares of common stock on the _____ under the symbol “_____.” Following the Spin-Off, IBM common stock will continue to trade on the _____ under the symbol “IBM.”

Although IBM believes that our separation from IBM offers its stockholders the greatest long-term value, neither we nor IBM can assure you as to the trading price of IBM common stock or our common stock after the Spin-Off, or as to whether the combined trading prices of our common stock and the IBM

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common stock after the Spin-Off will equal or exceed the trading prices of IBM common stock prior to the Spin-Off. The trading price of our common stock may fluctuate significantly following the Spin-Off.

The shares of our common stock distributed to IBM stockholders will be freely transferable, except for shares received by individuals who are our affiliates. Individuals who may be considered our affiliates after the Spin-Off include individuals who control, are controlled by or are under common control with us, as those terms generally are interpreted for federal securities law purposes. These individuals may include some or all of our directors and executive officers. Individuals who are our affiliates will be permitted to sell their shares of our common stock only pursuant to an effective registration statement under the Securities Act of 1933, or the “Securities Act,” or an exemption from the registration requirements of the Securities Act, such as those afforded by Section 4(a)(1) of the Securities Act or Rule 144 thereunder.

Trading Prior to the Distribution Date

We expect a “when-issued” market in our common stock to develop as early as one trading day prior to the Record Date for the Distribution and continue up to and including the Distribution Date. “When-issued” trading refers to a sale or purchase made conditionally on or before the Distribution Date because the securities of the spun-off entity have not yet been distributed. If you own shares of IBM common stock at the close of business on the Record Date, you will be entitled to receive shares of our common stock in the Distribution. You may trade this entitlement to receive shares of our common stock, without the shares of IBM common stock you own, on the “when-issued” market. We expect “when-issued” trades of our common stock to settle within two trading days after the Distribution Date. On the first trading day following the Distribution Date, we expect that “when-issued” trading of our common stock will end and “regular-way” trading will begin.

We also anticipate that, as early as one trading day prior to the Record Date and continuing up to and including the Distribution Date, there will be two markets in IBM common stock: a “regular-way” market and an “ex-distribution” market. Shares of IBM common stock that trade on the regular-way market will trade with an entitlement to receive shares of our common stock in the Distribution. Shares that trade on the ex-distribution market will trade without an entitlement to receive shares of our common stock in the Distribution. Therefore, if you sell shares of IBM common stock in the regular-way market up to and including the Distribution Date, you will be selling your right to receive shares of our common stock in the Distribution. However, if you own shares of IBM common stock at the close of business on the Record Date and sell those shares on the ex-distribution market up to and including the Distribution Date, you will still receive the shares of our common stock that you would otherwise be entitled to receive in the Distribution.

If “when-issued” trading occurs, the listing for our common stock is expected to be under a trading symbol different from our regular-way trading symbol. We will announce our “when-issued” trading symbol when and if it becomes available. If the Spin-Off does not occur, all “when-issued” trading will be null and void.

Conditions to the Spin-Off

We expect that the Spin-Off will be effective on the Distribution Date, provided that the following conditions shall have been satisfied or waived by IBM:

- the IBM Board shall have approved the Distribution and not withdrawn such approval, and shall have declared the dividend of our common stock to IBM stockholders;
- the Separation and Distribution Agreement, as well as the ancillary agreements contemplated by the Separation and Distribution Agreement, shall have been executed by each party to those agreements;
- the Securities and Exchange Commission (the “**SEC**”) shall have declared effective our Registration Statement on Form 10, of which this Information Statement is a part, under the Exchange Act, and no stop order suspending the effectiveness of the Registration Statement shall be in effect and no proceedings for that purpose shall be pending before or threatened by the SEC;
- our common stock shall have been accepted for listing on a national securities exchange approved by IBM, subject to official notice of issuance;

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- IBM shall have received the written opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP, which shall remain in full force and effect, regarding the intended treatment of the Distribution under the Code;
- the Reorganization Transactions shall have been completed (other than those steps that are expressly contemplated to occur at or after the Distribution);
- no order, injunction or decree issued by any governmental authority of competent jurisdiction or other legal restraint or prohibition preventing consummation of the Distribution shall be in effect, and no other event outside the control of IBM shall have occurred or failed to occur that prevents the consummation of the Distribution;
- no other events or developments shall have occurred prior to the Distribution that, in the judgment of the IBM Board, would result in the Distribution having a material adverse effect on IBM or its stockholders;
- prior to the Distribution Date, the Notice of Internet Availability of this Information Statement or this Information Statement shall have been mailed to the holders of IBM common stock as of the Record Date; and
- certain other conditions set forth in the Separation and Distribution Agreement.

Any of the above conditions may be waived by the IBM Board to the extent such waiver is permitted by law. If the IBM Board waives any condition prior to the effectiveness of the Registration Statement on Form 10, of which this Information Statement forms a part, and the result of such waiver is material to IBM stockholders, we will file an amendment to the Registration Statement on Form 10, of which this Information Statement forms a part, to revise the disclosure in the Information Statement accordingly. In the event that IBM waives a condition after this Information Statement becomes effective and such waiver is material to IBM stockholders, we would communicate such change to IBM's stockholders by filing a Form 8-K describing the change.

The fulfillment of the above conditions will not create any obligation on IBM's part to complete the Spin-Off. We are not aware of any material federal, foreign or state regulatory requirements with which we must comply, other than SEC rules and regulations, or any material approvals that we must obtain, other than the approval for listing of our common stock and the SEC's declaration of the effectiveness of the Registration Statement, in connection with the Distribution. IBM may at any time until the Distribution decide to abandon the Distribution or modify or change the terms of the Distribution.

Reasons for Furnishing this Information Statement

We are furnishing this Information Statement solely to provide information to IBM's stockholders who will receive shares of our common stock in the Distribution. You should not construe this Information Statement as an inducement or encouragement to buy, hold or sell any of our securities or any securities of IBM. We believe that the information contained in this Information Statement is accurate as of the date set forth on the cover. Changes to the information contained in this Information Statement may occur after that date, and neither we nor IBM undertakes any obligation to update the information except in the normal course of our and IBM's public disclosure obligations and practices.

DIVIDEND POLICY

Following the separation, the initial combined dividend level of Kyndryl and IBM is expected to be no less than IBM's pre-spin dividend per share. The payment of any dividends in the future, and the timing and amount thereof, is within the discretion of the Board. The Board's decisions regarding the payment of dividends will depend on many factors, such as our financial condition, earnings, capital requirements, debt service obligations, restrictive covenants in our debt, industry practice, legal requirements, regulatory constraints and other factors that the Board deems relevant. Our ability to pay dividends will depend on our ongoing ability to generate cash from operations and on our access to the capital markets. We cannot guarantee that we will pay a dividend in the future or continue to pay any dividends if and when we commence paying dividends.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of June 30, 2021, on a historical basis and on an as adjusted basis to give effect to the Spin-Off and the transactions related to the Spin-Off, as if they occurred on June 30, 2021. You should review the following table in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” our historical Combined Financial Statements and the accompanying notes thereto and our unaudited pro forma condensed combined financial statements and the accompanying notes thereto included elsewhere in this Information Statement. See “Unaudited Pro Forma Condensed Combined Financial Statements.”

(\$ in millions)	As of June 30, 2021	
	Historical	Pro Forma
Cash and cash equivalents	\$ 29	\$ 2,006
Capitalization:		
Indebtedness:		
Credit facility	\$ —	\$ —
Short-term debt and current portion of long-term debt	109	94
Long-term debt	285	4,236
Total indebtedness	<u>\$ 394</u>	<u>\$ 4,330</u>
Equity:		
Net Parent investment	\$ 5,985	\$ —
Common Stock	—	—
Additional paid-in-capital	—	4,293
Accumulated other comprehensive income/(loss)	(1,163)	(1,572)
Noncontrolling interests	53	33
Total Parent invested equity	<u>\$ 4,875</u>	<u>\$ 2,754</u>
Total capitalization	<u>\$ 5,298</u>	<u>\$ 9,090</u>

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Our unaudited pro forma condensed combined financial statements consist of an unaudited Pro Forma Condensed Combined Income Statement for the six months ended June 30, 2021 and the year ended December 31, 2020, and an unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2021.

The following unaudited pro forma condensed combined financial statements give effect to the separation and related adjustments in accordance with Article 11 of the Securities and Exchange Commission's Regulation S-X. In May 2020, the SEC adopted Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses," or the Final Rule. The Final Rule became effective on January 1, 2021 and the unaudited pro forma condensed combined financial information herein is presented in accordance therewith.

The unaudited pro forma condensed combined financial statements presented below have been derived from our historical unaudited Combined Income Statement for the six months ended June 30, 2021, our historical audited Combined Income Statement for the year ended December 31, 2020 and the historical unaudited Combined Balance Sheet at June 30, 2021. The unaudited Pro Forma Condensed Combined Balance Sheet gives effect to the separation and related transactions described below as if they had occurred on June 30, 2021. The pro forma adjustments to the unaudited Pro Forma Condensed Combined Income Statement for the six months ended June 30, 2021 and the year ended December 31, 2020 assume that the separation and related transactions occurred as of January 1, 2020.

The unaudited pro forma condensed combined financial statements have been prepared to include transaction accounting, autonomous entity and other transaction adjustments to reflect the financial condition and results of operations as if we were a separate stand-alone entity.

The net loss of (\$234) million and (\$1,577) million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively, in our unaudited Pro Forma Condensed Combined Income Statements includes \$237 million and \$899 million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively, of certain transaction costs resulting from the Spin-Off. These costs include actual expenses incurred through June 30, 2021 included in our historical financial results and estimates for additional costs we expect to incur between June 30, 2021 and eighteen months after the Spin-Off. These costs primarily relate to legal, audit and advisory fees, system implementation costs, business separation and applicable employee retention fees and direct taxes from internal restructuring transactions. Actual transaction costs incurred may differ from the estimates.

The unaudited pro forma condensed combined financial information is for informational purposes only and does not purport to represent what our financial position and results of operations actually would have been had the separation and distribution occurred on the dates indicated, or to project our financial performance for any future period. Our historical combined financial statements have been derived from IBM's historical accounting records and reflect certain allocation of expenses. All of the allocations and estimates in such financial statements are based on assumptions that management believes are reasonable. Our historical combined financial statements do not necessarily represent our financial position or results of operations had we been operated as a standalone company during the periods or at the dates presented. As a result, autonomous entity adjustments have been reflected in the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined financial information reported below should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations," the historical combined financial statements and the corresponding notes included elsewhere in this Information Statement.

Within the financial statements and tables presented, certain columns and rows may not add due to the use of rounded numbers for disclosure purposes.

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**UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT
FOR THE SIX MONTHS ENDED JUNE 30, 2021**

(\$ in millions except per share amounts)	Historical	Transaction Accounting Adjustments	Notes	Autonomous Entity Adjustments	Notes	Other Transaction Adjustments (Note v)	Pro Forma
Revenues	\$ 9,523	\$416	(m)	\$ —		\$(274)	\$9,665
Cost of services	\$ 8,545	\$263	(m,n)	\$(258)	(r,s)	\$(250)	\$8,300
Selling, general and administrative	1,567	11	(m,n)	(213)	(s)	(1)	1,365
Workforce rebalancing charges	41	—		—		—	41
Research, development and engineering	29	—		5	(s,t)	—	34
Interest expense	29	51	(i)	(29)	(s)	—	51
Other (income) and expense	34	13	(f)	(9)	(s)	—	38
Total costs and expenses	<u>\$10,245</u>	<u>\$338</u>		<u>\$(504)</u>		<u>\$(250)</u>	<u>\$9,829</u>
Income/(loss) before income taxes	<u>\$ (722)</u>	<u>\$ 78</u>		<u>\$ 504</u>		<u>\$ (24)</u>	<u>\$ (164)</u>
Provision for income taxes	<u>\$ 165</u>	<u>\$ 42</u>	(o)	<u>\$(129)</u>	(u)	<u>\$ (7)</u>	<u>\$ 71</u>
Net income/(loss) (Note w)	<u><u>\$ (887)</u></u>	<u><u>\$ 36</u></u>		<u><u>\$ 633</u></u>		<u><u>\$ (17)</u></u>	<u><u>\$ (234)</u></u>
Earnings/(loss) per share of common stock							
(Note x)							
Assuming dilution							\$
Basic							\$
Weighted-average number of common							
shares outstanding (Note x)							
Assuming dilution							
Basic							

See accompanying notes to the unaudited pro forma condensed combined financial statements.

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**UNAUDITED PRO FORMA CONDENSED COMBINED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2020**

(\$ in millions except per share amounts)	Historical	Transaction Accounting Adjustments	Notes	Autonomous Entity Adjustments	Notes	Other Transaction Adjustments (Note v)	Pro Forma
Revenues	\$19,352	\$ 785	(m)	\$ —		\$ (544)	\$19,594
Cost of services	\$17,143	\$ 709	(m,n)	\$ (575)	(r,s)	\$ (490)	\$16,787
Selling, general and administrative	2,893	368	(m,n)	(415)	(s)	(2)	2,845
Workforce rebalancing charges	918	109	(n)	—		—	1,027
Research, development and engineering	76	—		5	(s,t)	—	81
Interest expense	63	103	(i)	(63)	(s)	—	102
Other (income) and expense	25	34	(f)	(4)	(s)	—	55
Total costs and expenses	<u>\$21,118</u>	<u>\$1,323</u>		<u>\$ (1,052)</u>		<u>\$ (492)</u>	<u>\$20,897</u>
Income/(loss) before income taxes	<u>\$ (1,766)</u>	<u>\$ (538)</u>		<u>\$ 1,052</u>		<u>\$ (51)</u>	<u>\$ (1,303)</u>
Provision for income taxes	<u>\$ 246</u>	<u>\$ 244</u>	(o)	<u>\$ (201)</u>	(u)	<u>\$ (15)</u>	<u>\$ 274</u>
Net income/(loss) (Note w)	<u><u>\$ (2,011)</u></u>	<u><u>\$ (782)</u></u>		<u><u>\$ 1,253</u></u>		<u><u>\$ (36)</u></u>	<u><u>\$ (1,577)</u></u>
Earnings/(loss) per share of common stock (Note x)							
Assuming dilution							\$
Basic							\$
Weighted-average number of common shares outstanding (Note x)							
Assuming dilution							
Basic							

See accompanying notes to the unaudited pro forma condensed combined financial statements.

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UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET AT JUNE 30, 2021

(\$ in millions)	Historical	Transaction Accounting Adjustments	Notes	Autonomous Entity Adjustments	Notes	Other Transaction Adjustments (Note v)	Pro Forma
Assets:							
Current assets:							
Cash and cash equivalents	\$ 29	\$ 1,977	(a)	\$ —		\$ —	\$ 2,006
Restricted cash	14	—		—		—	14
Notes and accounts receivable – net	1,614	—		—		(49)	1,565
Deferred costs	1,259	—		—		(64)	1,195
Prepaid expenses and other current assets	199	88	(b)	—		(2)	285
Total current assets	\$ 3,115	\$ 2,065		\$ —		\$(116)	\$ 5,065
Property and equipment – net	\$ 3,632	\$ (118)	(c)	\$ —		\$(169)	\$ 3,345
Operating right-of-use assets – net	1,125	—		372	(p)	—	1,498
Deferred costs	1,420	—		—		(53)	1,367
Deferred taxes	434	725	(d)	6	(q)	(8)	1,156
Goodwill	1,206	—		—		—	1,206
Intangible assets – net	56	—		—		—	56
Other assets	78	304	(e,f)	—		—	382
Total assets	\$11,066	\$ 2,975		\$379		\$(346)	\$14,074
Liabilities and equity:							
Current liabilities:							
Short-term debt	\$ 109	\$ —		\$ —		\$ (15)	\$ 94
Accounts payable	803	—		—		(18)	785
Compensation and benefits	393	136	(f,g)	—		(4)	525
Deferred income	939	—		—		(136)	802
Operating lease liabilities	333	—		85	(p)	—	419
Accrued contract costs	489	—		—		(79)	410
Other accrued expenses and liabilities	686	(128)	(b,h)	—		—	558
Total current liabilities	\$ 3,752	\$ 8		\$ 85		\$(252)	\$ 3,593
Long-term debt	\$ 285	\$ 3,977	(i)	\$ —		\$ (26)	\$ 4,236
Retirement and nonpension postretirement benefit obligations	516	611	(f)	—		—	1,128
Deferred income	554	—		—		(4)	550
Operating lease liabilities	805	—		303	(p)	—	1,107
Other liabilities	278	384	(b,d,g,h)	43	(q)	—	705
Total liabilities	\$ 6,190	\$ 4,980		\$431		\$(282)	\$11,319
Commitments and contingencies							
Equity:							
Net Parent investment	\$ 5,985	\$(5,985)	(j)	\$ —		\$ —	\$ —
Common Stock	—	—	(k)	—		—	—
Additional paid-in capital	—	4,389	(l)	(52)	(p,q)	(43)	4,293
Accumulated other comprehensive income/(loss)	(1,163)	(409)	(f)	—		—	(1,572)
Noncontrolling interest	53	—		—		(21)	33
Total equity	\$ 4,875	\$(2,005)		\$ (52)		\$ (64)	\$ 2,754
Total liabilities and equity	\$11,066	\$ 2,975		\$379		\$(346)	\$14,074

See accompanying notes to the unaudited pro forma condensed combined financial statements.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Transaction Accounting Adjustments:

- (a) Reflects \$4 billion of borrowings expected to be incurred in connection with the Spin-Off, net of approximately \$2 billion expected to be distributed to IBM and an estimated \$23 million of debt issuance costs. See note (i) below.
- (b) The majority of the prepaid taxes relate to Kyndryl's share of prepaid taxes for entities transferring to the Kyndryl group.

Kyndryl has estimated approximately \$25 million due from IBM related to IBM's share of income taxes for the pre-spin period for which Kyndryl has an associated liability.

Kyndryl may realize tax benefits in the future from pre-spin taxes. These tax benefits are estimated at \$425 million and have been primarily recognized as Deferred Tax Assets on the Balance Sheet. Under the terms of the Tax Matters Agreement, these tax benefits may need to be reimbursed to IBM. Kyndryl has currently estimated this liability to be approximately \$425 million and has recorded this amount in Other Liabilities. This amount is an estimate, and the final liability is likely to be different.

- (c) Reflects the impact of property and equipment directly attributable to Kyndryl that will not be transferred from IBM to Kyndryl in connection with the Spin-Off. This adjustment is primarily driven by owned buildings that will be retained by IBM. Going forward, we will enter into new leasing agreements with IBM for these buildings prior to the Spin-Off. See note (p) below.
- (d) The tax effects of the pro forma adjustments at the applicable statutory income tax rates include \$725 million in deferred taxes and (\$71) million in Other liabilities. The majority of the deferred tax impact reflected herein relates to tax basis in Kyndryl assets including the anticipated step ups in tax basis Kyndryl expects to receive as a result of the separation transactions. For the most part, the tax basis step ups are based on the valuation of related assets and liabilities, which have not yet been completed. We expect to finalize such valuations after completion of the transactions. In addition, this adjustment includes the deferred tax impact related to additional retirement and nonpension postretirement benefit plan assets and obligations that will be transferred to Kyndryl prior to completion of the Spin-Off described in note (f) below.
- (e) Reflects an agreement under which IBM will commit to provide Kyndryl with approximately \$265 million of upgraded hardware at no cost over an expected two-year period following completion of the Spin-Off. No associated income statement adjustment to reflect an increase in depreciation has been made as the timing of the receipt of the new hardware could not be reasonably estimated and, accordingly, expected impact in the periods presented was not deemed material.
- (f) Reflects additional retirement and nonpension postretirement benefit plan assets and obligations that will be transferred to Kyndryl prior to completion of the Spin-Off including prepaid pension assets of \$39 million, current liabilities — compensation and benefits of \$38 million and noncurrent liabilities — compensation and benefits of \$611 million. The assets and obligations associated with such plans resulted in recognizing accumulated other comprehensive loss of \$409 million, net of tax at June 30, 2021 and an adjustment to other (income) and expense associated with the plan of \$13 million and \$34 million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively. These additional plans are excluded from our historical Combined Balance Sheets as Kyndryl was not the plan sponsor for the related benefit plans. Certain benefit plan expenses associated with these additional plans are included in our historical Combined Income Statements.
- (g) Reflects \$98 million of current and \$34 million of non-current accrued liabilities for retention bonuses related to the Spin-Off estimated to be accrued between June 30, 2021 and the Spin-Off.
- (h) Reflects \$153 million of current and \$4 million of non-current accrued restructuring liabilities that will be retained by IBM for former and current Kyndryl employees pursuant to the terms in our local transfer agreements in certain countries.
- (i) Reflects indebtedness of approximately \$4 billion, consisting of expected term loans and senior notes

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with maturities ranging from three years to twenty years and an average interest rate of 2.5%, which are expected to be issued in connection with the Spin-Off, and related debt issuance costs of \$23 million. Taking into account the current strategic view of Kyndryl's required capital structure and related working capital needs, it is estimated that we will distribute approximately \$2 billion of the proceeds received from the issuance of debt to IBM in connection with the Spin-Off with the remaining proceeds to be held by the Company in cash equivalent investments. The value and terms of such indebtedness and related capital structure requirements of Kyndryl remain under continuing strategic review, which will be finalized prior to the Spin-Off.

We also expect to enter into a revolving credit facility, however, the facility is not expected to be utilized at the closing of the Spin-Off.

The unaudited Pro Forma Condensed Combined Income Statement adjustments reflect estimated interest expense related to the debt issuances and amortization of deferred issuance costs. Interest expense was calculated assuming constant debt levels throughout the periods. A 0.125 percent change to the annual interest rate would change interest expense by approximately \$3 million and \$5 million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively.

(\$ in millions)	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Interest expense on debt	\$50	\$100
Amortization of issuance costs	1	3
Total pro forma adjustment to interest expense	<u>\$51</u>	<u>\$103</u>

- (j) Represents the reclassification of IBM's net investment in our company to additional paid-in capital.
- (k) Reflects the issuance of _____ shares of our common stock with a par value of \$0.01 per share pursuant to the Separation and Distribution Agreement. We have assumed the number of outstanding shares of our common stock based on 896,320,073 shares of IBM common stock outstanding on June 30, 2021 and a distribution ratio of _____ shares of our common stock for every _____ shares of IBM common stock. The actual number of shares issued will not be known until the record date for the distribution.
- (l) The additional paid-in capital adjustments are summarized below:

	(\$ in millions)
Cash payment to IBM ^(a)	\$(2,000)
Indemnification receivables and payables with IBM ^(b)	(400)
Prepaid taxes / taxes payable ^(b)	38
Property and equipment ^(c)	(118)
Deferred taxes ^(d)	796
Upgraded hardware ^(e)	265
Retirement and nonpension postretirement benefit plans ^(f)	(202)
Retention accruals ^(g)	(132)
Restructuring accruals ^(h)	157
Net parent investment ^(j)	5,985
Common stock issuance ^(k)	_____
Total adjustment	<u>\$ 4,389</u>

- (m) Reflects the net impact of incremental customer contracts and services offerings being transferred to Kyndryl from IBM that were not historically managed by Kyndryl and specific customer contracts being retained by IBM. The pro forma adjustments are summarized below:

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Pursuant to 17 C.F.R. Section 200.83

(\$ in millions)	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Revenue	\$416	\$785
Cost of services	259	489
Selling, general and administrative	9	19
Total pre-tax income	<u>\$148</u>	<u>\$277</u>

- (n) All transaction costs incurred in 2020 related to the Spin-Off are included in our historical audited combined financial statements. All transaction costs incurred in the first half of 2021 are included in our historical unaudited combined financial statements. The pro forma adjustments for the year ended December 31, 2020 include estimates for additional charges we expect to incur between June 30, 2021 and twelve months after the Spin-Off and the adjustments for the six months ended June 30, 2021 include estimates for additional charges we expect to incur in the first half of the second year after the Spin-Off. These charges primarily relate to legal, audit and advisory fees, system implementation costs, business separation and applicable short and long-term employee retention fees and related tax charges. These adjustments include estimated non-recurring expenses of \$490 million with no related tax effect due to the valuation allowances discussed in note (o) below. Actual amounts may differ from these estimates. The pro forma adjustments are summarized below:

(\$ in millions)	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Cost of services	\$ 4	\$221
Selling, general and administrative	2	349
Workforce rebalancing charges	—	109
Total adjustment	<u>\$ 6</u>	<u>\$678</u>

- (o) Reflects \$42 million and \$244 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, of the income tax effects of pro forma adjustments, inclusive of Kyndryl's anticipated transfer pricing policies. This adjustment was determined by applying the respective statutory tax rates to pre-tax pro forma adjustments in jurisdictions where valuation allowances were not required. The amount for the year ended December 31, 2020 also includes \$200 million of non-recurring tax impacts of internal restructuring transactions which will be completed prior to the Spin-Off. These internal restructuring transactions will include taxable and non-taxable transfers to establish the Kyndryl legal entity structure which will ultimately be separated from IBM. The tax impact of these transactions is based on estimated amounts since the valuation of assets and liabilities has not been completed and hence subject to change. Due to the complexities involved, the tax impact could increase or decrease materially. Kyndryl's post-separation income taxes will be impacted by many factors, including the profitability in local jurisdictions and the legal entity structure implemented subsequent to separation, and may be materially different from the pro forma results.

Autonomous Entity Adjustments:

- (p) Reflects the net impact of lease arrangements with third parties and lease and sub-lease arrangements with IBM for corporate offices and data centers that have been entered into or will be entered into prior to the Spin-Off. These adjustments record the operating right-of-use assets and related operating lease liabilities based on the estimated present value of the lease payments over the lease term. There is no income statement impact as lease expense is expected to be consistent with facilities charges included in our historical Combined Income Statements. The pro forma adjustments are summarized below:

(\$ in millions)	Operating Right-of-Use Assets	Current Operating Lease Liabilities	Non-Current Operating Lease Liabilities
Operating leases with third parties	\$121	\$29	\$101
Operating leases and sub-leases with IBM	251	56	201
Total adjustment	<u>\$372</u>	<u>\$85</u>	<u>\$303</u>

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- (q) Reflects the tax effects of the pro forma adjustments at the applicable statutory income tax rates. The majority of the deferred tax impact reflected herein relates to reversal of hypothetical tax balances calculated on a separate return basis in the combined financial statements that will not be transferred to Kyndryl, including removal of hypothetical net operating losses, tax credits, and valuation allowances. In addition, this adjustment also includes the deferred tax impact of new lease arrangements discussed in note (p) above.
- (r) Reflects the effect of agreements that Kyndryl and IBM have entered into or will enter into prior to the Spin-Off. The net reduction to cost of \$243 million and \$544 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, reflects the impacts of the new commercial pricing in these arrangements applied to historical purchases of goods and services from IBM.
- (s) As an independent, separate, public company following the Spin-Off, we expect to incur certain expenses including accounting, auditing, communications, tax, legal and ethics and compliance program administration, employee benefits, human resources, information technology, insurance, investor relations, risk management, treasury, other shared facilities and other general and administrative functions; some of which will be provided by IBM pursuant to the Transition Services Agreement we intend to enter into with IBM. The unaudited pro forma condensed combined financial statements have been adjusted to depict us as an autonomous entity. We expect a reduction of expenses compared to the allocated expenses from IBM included in our historical Combined Income Statements, primarily driven by a reduction of certain indirect costs such as marketing. However, actual expenses that will be incurred could differ materially from these estimates. The pro forma adjustments are summarized below:

(\$ in millions)	Six Months Ended June 30, 2021	Year Ended December 31, 2020
Cost of services	\$ (16)	\$ (31)
Selling, general and administrative	(213)	(415)
Research, development and engineering	0	(5)
Interest expense	(29)	(63)
Other (income) and expense	(9)	(4)
Total adjustment	<u>\$(266)</u>	<u>\$(518)</u>

- (t) Reflects \$5 million and \$10 million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, of estimated research, development and engineering expense associated with the research master collaboration agreement that Kyndryl and IBM have entered into or will enter into prior to the Spin-Off for future joint research projects between Kyndryl and IBM's Research Division.
- (u) Reflects (\$129) million and (\$201) million for the six months ended June 30, 2021 and for the year ended December 31, 2020, respectively, of the income tax pro forma adjustments. This adjustment was determined by applying the respective statutory tax rates to pre-tax pro forma adjustments in jurisdictions where valuation allowances were not required. Additionally, the tax effects relate to the impacts of Kyndryl's anticipated transfer pricing policies. Kyndryl's post-separation income taxes will be impacted by many factors, including the profitability in local jurisdictions and the legal entity structure implemented subsequent to separation, and may be materially different from the pro forma results.

Other Transaction Adjustments:

- (v) Reflects the mutual agreement between IBM and a client of the infrastructure services business to dissolve their joint venture relationship, that was historically managed by us, which will be accelerated to become effective at the date of Spin-Off and does not take into account any anticipated post-spin client contractual relationships with us. The adjustment reflects the removal of the assets and liabilities of this joint venture as of June 30, 2021 that will not be transferred to Kyndryl and the removal of the revenue, cost and expense, including the related income taxes, from this joint venture relationship for the six months ended June 30, 2021 and for the year ended December 31, 2020. Going forward, we expect the client will develop separate, unique contractual relationships with IBM and Kyndryl, directly.

Net Income/(Loss):

- (w) Pro Forma Net Loss of (\$234) million and (\$1,577) million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively, includes transaction costs resulting from the Spin-Off of (\$237) million and (\$899) million for the six months ended June 30, 2021 and the year ended December 31, 2020, respectively. These costs include actual expenses incurred through June 30, 2021 included in our historical financial results and estimates for additional costs we expect to incur between June 30, 2021 and eighteen months after the Spin-Off. These costs primarily relate to legal, audit and advisory fees, system implementation costs, business separation and applicable employee retention fees and direct taxes from internal restructuring transactions. Actual transaction costs incurred may differ from the estimates.

Earnings (Loss) Per Share:

- (x) The weighted-average number of shares of our common stock used to compute basic earnings per share for the six months ended June 30, 2021 and the year ended December 31, 2020 is based on the number of weighted average IBM common shares outstanding during the six months ended June 30, 2021 and year ended December 31, 2020, respectively, assuming a distribution ratio of shares of our common stock for every shares of IBM common stock.

The weighted average number of shares used to compute diluted earnings per share is based on the weighted average number of basic shares of our common stock since the company had a net loss for the six months ended June 30, 2021 and the year ended December 31, 2020. The incremental shares associated with the stock-based awards granted to our employees under IBM's stock-based compensation plans were not included in the computation of earnings per share in either period since if included they would have been anti-dilutive. The actual future impact of potential dilution from stock-based awards granted to our employees under IBM equity plans will depend on various factors, including employees who may change employment from one company to another.

BUSINESS**Our Company**

We are a leading technology services company and the largest infrastructure services provider in the world, serving as a partner to more than 4,000 customers in over 100 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. Today, enterprises are engaged in individual and unique digital transformations to differentiate their businesses and derive value through better customer experiences. However, enterprises often face shortages in critical technical expertise to successfully make this complex change. Our purpose is therefore to design, build, and manage secure and responsive private, public, and multicloud environments to accelerate our customers' digital transformations.

We put the customer at the center of everything we do, every day. 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 are also organized to be fast and focused, in order to respond more quickly to our customers' needs, and our principles have led to a structure that drives accountability and responsibility to the teams that work closely with them and our partners. 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 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 manage their complex environments so that they can achieve their business objectives.

As an independent company, we will be free to 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 \$19.4 billion in revenue for the fiscal year ended December 31, 2020. 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.

Our Segments

Our reportable segments correspond to how we organize and manage the business and are aligned to key geographic markets in which Kyndryl operates. Segment results do not include any impacts associated with inter-company transactions between the segments:

- **Americas:** This segment comprises Kyndryl’s operations in North and Latin America, and includes countries such as, but not limited to, the United States, Canada, Brazil, Mexico, Peru, Colombia, Argentina and Chile. For the year ended the December 31, 2020, Americas contributed 38 percent of our revenue and 55 percent of Kyndryl’s gross profit.
- **Europe/Middle East/Africa (EMEA):** This segment comprises Kyndryl’s operations in Europe, the Middle East, and Africa and includes countries such as, but not limited to, Germany, France, the United Kingdom, Italy, Spain, Turkey, Israel, Saudi Arabia, South Africa, and Egypt. For the year ended December 31, 2020, EMEA contributed 38 percent of our revenue and 5 percent of the company’s gross profit.
- **Japan:** This segment comprises Kyndryl’s operations in Japan and does not include any other countries. For the year ended December 31, 2020, Japan contributed 16 percent of our revenue and 29 percent of Kyndryl’s gross profit.
- **Asia Pacific:** This segment comprises Kyndryl’s operations in Australia and Asia, excluding Japan, and includes countries such as, but not limited to India, China, Australia, Singapore, Korea, New Zealand and Thailand. For the year ended December 31, 2020, Asia Pacific contributed 8 percent of our revenue and 12 percent of the company’s gross profit.

From time to time, our geographic markets 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. Local currency fluctuations also tend to affect our geographic markets differently, depending on the geographic concentrations and locations of their businesses. We present additional segment financial information in note D, “Segments,” to our combined financial statements.

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 best help existing and new customers realize their future.

The market for these services is large and dynamic. We project this market, which is a subset of the total IT services market, to represent a \$415 billion opportunity in 2021, growing 7% annually to \$510 billion in 2024. Growth in this market is driven by services that are aligned to customers’ transformations, and represent an incremental \$75 billion. These transformation services include several high-growth portions of the market that each exceed approximately \$10 billion in opportunity, including public cloud managed services (compounded annual growth of 11% from 2021 to 2024), data services (compounded annual growth of 18% from 2021 to 2024), security services (compounded annual growth of 12% from 2021 to 2024), and intelligent automation services (compounded annual growth of 27% from 2021 to 2024). Managed services for edge environments represents a smaller portion connected to many other opportunities, and itself is expected to experience compounded 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. IDC estimates that approximately 65% of GDP will be digitized by 2022. Illustrating the growth in digitization, U.S. online retail sales surged by 32% year-over-year in 2020. While customers seek to transform, skills availability often represents a challenge, with lack of skills ranked as one of the top 3 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. These transitions are often complex, with companies seeking assistance from service providers. Gartner forecasts that by 2025, 85% of large organizations will have engaged external service providers to migrate applications to the cloud, an increase from 43% in 2019. Furthermore, Gartner projects that by 2022, more than 75% of global organizations will be running containerized applications in production (an increase from less than 30% today) and worldwide revenue for container management will double by 2024. 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 2020, enterprises created and captured 64 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: ISVs, large public cloud providers, internal platforms, and other technologies (e.g., 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 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 (CTOs) 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 cyber-security services for Chief Information Security Officers and CRO, 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, and IDC). 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 (e.g., Gartner, Forrester, IDC, Everest, NelsonHall, and HfS Research) 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 to produce our next-generation services, investing to ensure continuous innovation for improved outcomes. 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. Following the Spin-Off, we will 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 the best technology and capability for our customers. Our services and ecosystems enable us to offer leading services for all levels of customer environment complexity and integration.

Our Strategies

We will pursue a strategy 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). With increased freedom of action, we will extend these capabilities to an even broader ecosystem of technology providers and develop 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 the 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. While we will be an independent and distinct entity following the separation, we will continue to work with IBM on an arms-length basis. In addition to any transition services agreements for services that IBM will provide to us as part of the Spin-Off, they will be part of our partner ecosystem from the standpoint of a technology provider, cloud provider, and application services partner. See “Certain Relationships and Related Party Transactions — Agreements with IBM — Other Arrangements.”

As we look to the future, our focus is centered on the following strategic tenets:

- **Scale Insights and Intellectual Property.** We will invest 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 will have the freedom of action to develop a broad ecosystem of strategic partnerships with a wider set of technology and services companies to complement our relationship with IBM. We will invest 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 will extend 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 will reflect that of a services company, emphasizing customers and resulting in a flatter, faster, and more focused company. We will pursue an investment and co-investment strategy focused on building our team, developing aligned intellectual property and automation, and broadening our ecosystem of partnerships.

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, in technology-intensive, and often highly regulated environments, spread across over 100 countries, managing mission-critical technology environments across all industries. Our customers collectively represent:

- Financial Services: over 60% of the top 50 banks’ assets under management
- Telecommunications: approximately 50% of the total industry’s mobile connections worldwide

- Retail: over 50% of the total industry's hypermarket sales
- Automotive: approximately 45% of the total industry's production of passenger vehicles
- Airlines: over 35% of total revenue passenger miles flown

As companies engage in their digital journey, 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 them 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 one thousand 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 2 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. Our teams worked together 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 on premise, off premise, and network environment 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 2020, 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 will focus 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. Following the Spin-Off, we will deploy dedicated account coverage teams within our global operating structure. The teams will leverage our intellectual capital and tools underpinned by insights and proven practices derived from operating at scale. Senior account leaders will lead the teams and have end-to-end accountability from sale to delivery for managed services customers. They will tailor the full suite of our services to the customers' needs to deliver value and business outcomes across a wide range of technology environments. Account leaders will be 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 new account coverage model will ensure consistent and reliable delivery of services for our existing relationships over the lifetime of current and renewal contracts. In addition, the model will support 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 will seek 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 will focus on co-creating and innovating with customers to advance and deepen our relationships. We will leverage our broad base of expertise, capabilities, and partners to prototype, test, and develop innovative solutions across various approaches and technologies. Additionally, we will offer bespoke project capabilities in advisory, implementation, and transformation services to help customers enhance and evolve their technology environments. We will 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 will 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 sectorspecific experience and proven practices to generate unique insights for customers. As we gain new customers, we will apply our account coverage model to expand our relationships and footprint over time.

Partnership and Alliance Ecosystem. While we will maintain a strategic partnership with IBM, we will also benefit from greater flexibility to enhance and develop strategic relationships with other partners. We will build a set of new routes to market to serve as a multiplier that enables us to expand business with our partner ecosystem. The ecosystem will at least include: 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 will benefit our customers through broader access to best-in-class solutions that are tailored for their unique technology situations and digital journeys. We will have dedicated teams supporting our key alliance partners and will co-create and co-market with them to deliver value to our mutual customers.

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 will 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 will bring approximately 3,000 patents from IBM 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. We will leverage our multicloud management platform and orchestration and intelligence layer intellectual property to provide insights to our customers 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

We had approximately 90,000 employees as of June 30, 2021 spanning 63 countries. Approximately 92% of our employees work outside the U.S., with workforce hubs in India, Poland, Brazil, Japan, Czech Republic, and Hungary.

We work alongside the best people advancing 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. In 2020 alone, we earned more than 140,000 badges through our learning platform in strategic skills, including cloud, AI, analytics, design thinking, quantum and security. At Kyndryl, we are:

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- 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 truly 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 singularly 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 the best talent through increased career mobility/ velocity through internal upskilling and 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 market competitive, comprehensive rewards and benefits programs including health benefits, mental health support and Employee Assistance Plans, retirement savings benefits, paid time off, and salary and recognition programs, among others. We will continue to build on strong employee engagement including conducting an annual engagement survey, measuring elements such as workplace experience, inclusion, and pride.

Diversity and Inclusion

Diversity and Inclusion is inherent in our DNA. We will uphold and build upon a strong history of diversity, inclusion and equity. Key diversity and inclusion objectives are:

- Continually drive to achieve a diverse and equitable representation in both leadership positions and the broader workforce
- Aim to eliminate implicit bias and ensure equity in all our employment practices for underrepresented groups
- Drive engaging and inclusive employee experiences
- Exceed Equal Opportunity compliance goals in all countries where we operate, and
- Comply with Equal Opportunity audits

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 will implement 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.

During the COVID-19 pandemic, our priority continues to be the health and safety of employees, customers, and partners, while supporting our customers' operations. We have a comprehensive, global, pandemic management plan. This includes a robust case management system to manage potential COVID-19 exposures and a comprehensive playbook on workplace health and safety measures that allow our offices to reopen when conditions improve. 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 will continue to focus on mental health and supporting our employees through different phases of the pandemic.

Properties

As of June 30, 2021 we owned or leased approximately 19 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.

	Americas		EMEA		Japan		Asia Pacific		Total	
	Number of Locations	Square Feet (millions)	Number of Locations	Square Feet (millions)	Number of Locations	Square Feet (millions)	Number of Locations	Square Feet (millions)	Number of Locations	Square Feet (millions)
Total	79	8.0	162	6.5	40	1.1	62	3.1	343	18.8
Leased	68	4.5	156	5.8	40	1.1	62	3.1	326	14.5
Owned	11	3.5	6	0.7	—	—	—	—	17	4.2

Principal Executive Offices

Our principal executive offices, including our global headquarters, are located at New York, New York.

Legal Proceedings

Refer to note K, "Commitments and Contingencies," to the combined financial statements included elsewhere in this Information Statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the Combined Financial Statements and related Notes thereto and other financial information appearing elsewhere in this Information Statement. This discussion contains forward-looking statements that involve risk, assumptions and uncertainties, such as statements of our plans, objectives, expectations, intentions and forecasts. Our actual results and the timing of selected events could differ materially from those discussed in these forward-looking statements as a result of several factors, including those set forth under the section of this Information Statement titled "Risk Factors" and elsewhere in this Information Statement. You should carefully read the "Risk Factors" to gain an understanding of the important factors that could cause actual results to differ materially from our forward-looking statements. Please also see the section of this Information Statement titled "Cautionary Statement Concerning Forward-Looking Statements."

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is intended to help you understand the results of operations for the three and six months ended June 30, 2021 and 2020, and for the years ended December 31, 2020, 2019 and 2018, as well as the financial condition of the Business at June 30, 2021 and the annual periods ended December 31, 2020, 2019 and 2018.

Business Overview

We are a leading technology services company and the largest infrastructure services provider in the world, serving as a partner to more than 4,000 customers in over 100 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. Today, enterprises are engaged in individual and unique digital transformations to differentiate their businesses and derive value through better customer experiences. However, enterprises often face shortages in critical technical expertise to successfully make this complex change. Our purpose is therefore uniquely positioned to design, build, and manage secure and responsive private, public, and multicloud environments to accelerate our customers' digital transformations.

We put the customer at the center of everything we do, every day. 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 are also organized to be fast and focused, in order to respond more quickly to our customers' needs, and our principles have led to a structure that drives accountability and responsibility to the teams that work closely with them and our partners. 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 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 "Business — 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

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represent the backbones of their respective industries. These customers entrust us to deliver the services they need, and manage their complex environments so that they can achieve their business objectives.

As an independent company, we will be free to 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 \$19.4 billion in revenue for the fiscal year ended December 31, 2020. 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.

Management Discussion Snapshot

(\$ in millions)	For the Three Months Ended June 30,		Percent/ Margin Change	For the Six Months Ended June 30,		Percent/ Margin Change
	2021	2020		2021	2020	
Revenue	\$4,751	\$4,737	0.3%	\$9,523	\$ 9,569	(0.5)%
Gross profit margin	11.1%*	10.9%	0.1pts.	10.3%*	10.7%	(0.4)pts.
Total expense and other (income)	\$ 845**	\$ 803	5.3%	\$1,700**	\$ 1,903	(10.7)%
Loss before income taxes	\$ (319)***	\$ (284)	12.2%	\$ (722)***	\$ (879)	(17.9)%
Provision for income taxes	74	89	(16.4)%	165	176	(5.9)%
Net loss	\$ (393)***	\$ (373)	5.4%	\$ (887)***	\$ (1,055)	(15.9)%
Net loss margin	(8.3)%	(7.9)%	(0.4)pts.	(9.3)%	(11.0)%	1.7pts.

* Includes impact from \$58 million and \$61 million of pre-tax spin-off-related charges in the second quarter and first half, respectively.

** Includes \$119 million and \$171 million of pre-tax spin-off-related charges in the second quarter and first half, respectively.

*** Includes \$177 million and \$232 million of pre-tax spin-off related charges in the second quarter and first half, respectively.

(\$ in millions)	At June 30, 2021	At December 31, 2020	Yr.-to-Yr. Percent Change
Assets	\$11,066	\$11,205	(1.2)%
Liabilities	\$ 6,190	\$ 6,274	(1.3)%
Equity	\$ 4,875	\$ 4,931	(1.1)%

(\$ in millions)				Yr.-to-Yr. Percent/Margin Change		
	For the year ended December 31:	2020	2019	2020 – 2019	2019 – 2018	
Revenue		\$19,352	\$20,279	\$21,796	(4.6)%	(7.0)%
Gross profit margin		11.4%	12.8%	11.7%	(1.4)pts.	1.1pts.
Total expense and other (income)		\$ 3,975*	\$ 3,176	\$ 3,187	25.1%	(0.3)%
Loss before income taxes		\$ (1,766)*	\$ (579)	\$ (630)	205.0%	(8.1)%
Provision for income taxes		246	364	350	(32.5)%	4.0%
Net loss		\$ (2,011)*	\$ (943)	\$ (980)	113.3%	(3.7)%
Net loss margin		(10.4)%*	(4.7)%	(4.5)%	(5.7)pts.	(0.2)pts.

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* Includes \$918 million of pre-tax charges for workforce rebalancing actions during the year.

(\$ in millions) At December 31:	2020	2019	Yr.-to-Yr. Percent Change
Assets	\$11,205	\$11,744	(4.6)%
Liabilities	\$ 6,274	\$ 5,796	8.3%
Equity	\$ 4,931	\$ 5,948	(17.1)%

Organization of Information

As a result of the allocations and carve out methodologies used to prepare these combined financial statements, the accompanying combined financial statements included throughout this Information Statement 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 periods presented. For additional information, see “Basis of Presentation.”

Financial Performance Summary

Environmental Dynamics

With the unprecedented COVID-19 pandemic and macroeconomic uncertainty beginning in March 2020, many clients experienced declines in their business volumes, and client priorities shifted to maintaining operational stability, flexibility and preservation of cash. While there was continued demand for offerings that support their digital transformation, clients moved to shorter term duration engagements and prioritized operational expenditures over capital expenditures. These dynamics impacted our performance in 2020.

We expect the rate and pace of recovery from the pandemic to differ by geography and industry. The underlying fundamentals of our business continue to remain sound as we continue to manage through this macroeconomic uncertainty. As the world recovers from the effects of the pandemic, Kyndryl continues to be well positioned to support our clients to emerge even stronger.

2021 Financial Performance

Three months ended June 30:

In the second quarter of 2021, we reported \$4.8 billion in revenue, an increase of 0.3 percent year to year driven by the EMEA segment. This revenue growth reflects a modest improvement in year-to-year performance, driven by improving trends in client-based business volumes and project activity. Overall, we saw base portfolio improvement aligned to recovering trends of the macro-economic events. Gross profit margin of 11.1 percent increased 0.1 points versus the prior-year period reflecting the benefits from the productivity actions taken in 2020 to improve the profit and margin profile of the business in advance of the separation. The improving trends we saw in revenue are also reflected in our gross profit performance. Total expense and other income of \$0.8 billion increased 5.3 percent year to year impacted by spin-off-related charges of \$0.1 billion recorded in the second quarter of 2021 partially offset by lower workforce rebalancing charges of \$0.1 billion. Net loss of \$0.4 billion, increased 5.4 percent versus the prior-year period primarily driven by the same factors described above.

Six months ended June 30:

In the first six months of 2021, we reported \$9.5 billion in revenue, a decline of 0.5 percent when compared to the prior-year period primarily driven by declines in the Americas segment. Although there was an improved trajectory in project activity and client-based business volumes in the first half of 2021, signings were down year to year with strong signings in the first-quarter 2020 driven by large renewals. Gross

profit margin of 10.3 percent declined by 0.4 points versus the prior-year period. The benefits from the structural actions did not start to realize until the end of the first half of 2021. Although first half saw year-to-year decline in revenue and gross profit, this is mainly driven by the first quarter results. We saw improving trends in second quarter as we were less impacted by unique dynamics related to prior year macro-economic events. In second quarter, we also saw our base portfolio begin to stabilize as we balance the profit impact of both existing and new clients. Total expense and other income of \$1.7 billion decreased 10.7 percent year to year primarily driven by lower workforce rebalancing charges of \$0.3 billion and an improvement in expected credit loss expense of \$0.1 billion, partially offset by spin-off-related charges of \$0.2 billion recorded in the first half of 2021. Net loss of \$0.9 billion, improved by 15.9 percent versus the prior-year period primarily driven by the same factors described above.

Net cash used in operating activities of (\$0.5) billion includes approximately \$0.5 billion of cash outflows consisting of payments for our structural actions initiated in the fourth quarter of 2020 and spin-off-related charges. Total assets of \$11.1 billion decreased by \$0.1 billion from December 31, 2020 predominantly driven by declines in property and equipment of \$0.4 billion partially offset by an increase in notes and accounts receivable of \$0.2 billion and deferred costs of \$0.1 billion. Total liabilities of \$6.2 billion decreased by \$0.1 billion from year-end 2020 primarily as a result of a decrease in workforce rebalancing liabilities of \$0.2 billion partially offset by an increase in debt of \$0.1 billion. Total equity of \$4.9 billion declined \$0.1 billion from year-end 2020, mainly driven by a net loss of \$0.9 billion, an increase in foreign currency translation losses of \$0.1 billion, partially offset by net transfers from IBM of \$0.9 billion.

2020 Financial Performance

In 2020, we reported \$19.4 billion in revenue, a decline of 4.6 percent when compared to the prior year which was driven by declines in the Americas segment. Revenue declined primarily due to a reduction in client volumes within industries heavily impacted by the global pandemic. We ended 2020 with approximately 4,400 customers, as compared to approximately 4,600 customers in the prior year. Gross profit margin of 11.4 percent declined by 1.4 points. Total expense and other income of \$4.0 billion increased 25.1 percent and reflects the impacts of higher workforce rebalancing charges of \$0.8 billion. We took these structural actions to simplify and optimize our operating model. Losses from operations were \$2.0 billion, an increase of \$1.1 billion when compared to the prior year, primarily due to the higher workforce rebalancing charges.

We generated \$0.6 billion in cash from operations in 2020. Total assets of \$11.2 billion decreased by \$0.6 billion compared to the prior year, predominantly driven by declines in notes and accounts receivable of \$0.4 billion. Total liabilities of \$6.3 billion at December 31, 2020 increased by \$0.5 billion from the prior year, primarily as a result of an increase in workforce rebalancing liabilities of \$0.6 billion. Total equity of \$5.0 billion at December 31, 2020 declined by \$1.0 billion from the prior year, primarily driven by losses from operations within the year.

2019 Financial Performance

In 2019, we reported \$20.3 billion in revenue, a decline of 7.0 percent when compared to the prior year, which was driven by declines in the Americas and EMEA segments, and a currency headwind. Like our clients, we prioritized higher value opportunities in 2019. Discrete account and portfolio actions were taken to improve our profitability in the long term even though they had an impact on our 2019 results. We ended 2019 with approximately 4,600 customers, as compared to approximately 5,100 customers in the prior year. The majority of the historical net customer count decline was driven by lower revenue transactional business. Gross profit margin of 12.8 percent improved by 1.1 points, reflecting the benefit from structural actions taken to improve contract profitability. Total expense and other income of \$3.2 billion was flat when compared to the prior year. Losses from operations were \$0.9 billion, consistent with the prior year.

We generated \$1.0 billion in cash from operations in 2019. Total assets of \$11.8 billion increased by \$0.9 billion compared to the prior year, predominantly driven by right-of-use asset increases of \$1.2 billion due to the adoption of the new lease standard. Total liabilities of \$5.8 billion at December 31, 2019 increased by \$1.2 billion from the prior year, primarily as a result of an increase in operating lease liabilities of \$1.2 billion. Total equity of \$6.0 billion at December 31, 2019 declined by \$0.3 billion from the prior year, primarily driven by losses from operations within the year.

Basis of Presentation

Our combined financial statements included throughout this Information Statement have been derived from the consolidated financial statements and accounting records of IBM, as if we had 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, we were included in IBM's Global Technology Services segment and did not operate as a separate, standalone entity. Accordingly, IBM has reported our financial position and the related results of operations, cash flows and changes in equity in IBM's consolidated financial statements. As the separate legal entities that comprise us were not historically held by a single legal entity, Total Net Parent investment is shown in lieu of shareholder's equity in the combined financial statements included throughout this Information Statement. Intercompany transactions between Kyndryl and IBM are considered to be effectively settled in the combined 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 Combined Statement of Cash Flows and in the Combined Balance Sheet within Net Parent investment. Net Parent investment represents IBM's interest in the recorded assets of our business and represents the cumulative investment by IBM in us through the dates presented, inclusive of operating results.

The combined financial statements included elsewhere in this Information Statement include the historical basis of assets, liabilities, revenues and expenses of the individual businesses of IBM's historical managed infrastructure services business, including the joint ventures and partnerships over which we have a controlling financial interest. The combined financial statements included elsewhere in this Information Statement include certain assets and liabilities that are held by IBM that are specifically identifiable or otherwise attributable to us. All of our intracompany transactions between our businesses have been eliminated. All of our significant intercompany transactions between us and IBM have been included in the combined financial statements.

Cash is managed centrally through bank accounts controlled and maintained by IBM. Accordingly, cash and cash equivalents held by IBM at the corporate level were not attributable to us for any of the periods presented. Only cash amounts specifically attributable to us are reflected in the combined financial statements included throughout this Information Statement. Transfers of cash, both to and from IBM's centralized cash management system, are reflected as a component of Net Parent investment in the Combined Balance Sheet and as a financing activity on the Combined Statement of Cash Flows. Historically, we received or provided funding as part of IBM's centralized treasury program. IBM's debt was not attributed to us because IBM's borrowings are not our legal obligation. Interest expense in the Combined 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. Third-party debt obligations included in the combined financial statements are those for which the legal obligor is a legal entity of Kyndryl or the debt is expected to transfer to Kyndryl no later than the effective date of the spin off.

During the periods presented, we functioned as part of an operating segment of IBM. Accordingly, IBM performed certain corporate overhead functions for us. Therefore, certain corporate costs, including compensation costs for corporate employees supporting us, have been allocated from IBM. These allocated costs are for corporate functions including, but not limited to, senior management, legal, human resources, finance and accounting, treasury, IT, marketing and communications, internal audit and other shared services, which are not provided at the business level. Where possible, these costs were allocated based on direct usage, with the remainder allocated on a basis of cost, headcount or other measures we have determined as reasonable. The combined financial statements included throughout this Information Statement do not necessarily represent the expenses that would have been incurred or held by us had we been a separate, standalone company.

As a result of the allocations and carve out methodologies used to prepare these combined financial statements, the combined financial statements included throughout this Information Statement 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 periods presented. Our operations are included in the consolidated

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U.S. federal, and certain state and local and foreign income tax returns filed by IBM, where applicable. The income tax provision included in the combined financial statements has been calculated using the separate return basis, as if we filed separate tax returns. Post-separation, our operating footprint as well as tax return elections and assertions are expected to be different and therefore, our hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of our future income taxes. Current income tax liabilities including amounts for unrecognized tax benefits related to our activities included in IBM's income tax returns were assumed to be immediately settled with IBM through the Net Parent investment account in the Combined Balance Sheet and reflected in Net transfers from Parent in the Combined Statement of Cash Flows.

Second Quarter and First Six Months in Review

Results of Operations

Segment Details

The following is an analysis of the second quarter and first six months of 2021 versus the second quarter and first six months of 2020 reportable segment results. The table below presents each reportable segment's external revenue and gross margin results. Segment revenue and pre-tax income/(losses) exclude any transactions between the segments.

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Revenue			
Americas	\$1,794	\$1,827	(1.9)%
Gross profit margin	16.9%	15.0%	1.9pts.
Europe/Middle East/Africa	\$1,819	\$1,764	3.1%
Gross profit margin	0.2%	1.0%	(0.7)pts.
Japan	\$ 746	\$ 751	(0.7)%
Gross profit margin	21.9%	20.4%	1.5pts.
Asia Pacific	\$ 393	\$ 395	(0.4)%
Gross profit margin	14.0%	16.0%	(2.0)pts.
Total revenue	\$4,751	\$4,737	0.3%
Total gross profit	\$ 527	\$ 519	1.5%
Total gross profit margin	11.1%	10.9%	0.1pts.

(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Revenue			
Americas	\$3,596	\$3,712	(3.1)%
Gross profit margin	15.9%	15.0%	0.9pts.
Europe/Middle East/Africa	\$3,630	\$3,557	2.0%
Gross profit/(loss) margin	(1.5)%	1.0%	(2.4)pts.
Japan	\$1,507	\$1,488	1.3%
Gross profit margin	21.3%	20.4%	1.0pts.
Asia Pacific	\$ 790	\$ 812	(2.7)%
Gross profit margin	17.4%	16.0%	1.4pts.
Total revenue	\$9,523	\$9,569	(0.5)%
Total gross profit	\$ 978	\$1,024	(4.6)%
Total gross profit margin	10.3%	10.7%	(0.4)pts.

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Americas

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Americas			
Revenue	\$1,794	\$1,827	(1.9)%
Gross profit	304	273	11.2
Gross profit margin	16.9%	15.0%	1.9pts.
Pre-tax income/(loss)	\$ (49)	\$ (78)	(36.7)
Pre-tax income/(loss) margin	(2.8)%	(4.3)%	1.5pts.

(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Americas			
Revenue	\$3,596	\$3,712	(3.1)%
Gross profit	573	557	2.8
Gross profit margin	15.9%	15.0%	0.9pts.
Pre-tax income/(loss)	\$ (122)	\$ (217)	(43.9)
Pre-tax income/(loss) margin	(3.4)%	(5.9)%	2.5pts.

In the second quarter of 2021, Americas revenue of \$1,794 million declined by 1.9 percent when compared to the prior-year period driven by declines mainly in the United States due to a significant transaction in the prior year period relating to services provided in response to the Covid 19 pandemic. For the first six months of 2021, Americas revenue of \$3,596 million decreased 3.1 percent as compared to the prior-year period driven by declines in the United States and Brazil. Even though first half saw an overall decline in revenue, we saw sequential improvement in second quarter. We began to see recovering trends in our client-based volumes as well as in our base portfolio. Signings were down year to year with strong signings in the first-quarter 2020 driven by large renewals in both countries mentioned above. Gross profit margin percent improved 1.9 points and 0.9 points, in the second quarter and first half of 2021, respectively, as compared to the prior -year period, primarily due to lower costs in the current year as a result of 2020 workforce rebalancing actions. We saw recovering trends in our base portfolio in the second quarter of 2021 which contributed to the margin expansion in first half of the current year. We were also still experiencing negative margin contribution in the first quarter of 2021 from lower client volumes which did improve in the second quarter but overall impacted first half performance. Pre-tax loss of \$49 million in the second quarter of 2021 and \$122 million in the first six months of 2021 decreased \$29 million and \$95 million, respectively, when compared to the prior-year periods. Pre-tax margin of (2.8) percent and (3.4) percent improved by 1.5 points and 2.5 points in the three and six months ended June 30, 2021, respectively, when compared to the prior-year periods. Pre-tax loss and pre-tax margin reflect the benefits from the productivity actions taken in 2020 to improve the profit and margin profile of the business.

Europe/Middle East/Africa

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Europe/Middle East/Africa			
Revenue	\$1,819	\$1,764	3.1%
Gross profit	4	25	(83.3)
Gross profit margin	0.2%	1.0%	(0.7)pts.
Pre-tax income/(loss)	\$ (321)	\$ (296)	8.8
Pre-tax income/(loss) margin	(17.7)%	(16.8)%	(0.9)pts.

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(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Europe/Middle East/Africa			
Revenue	\$3,630	\$3,557	2.0%
Gross profit/(loss)	(54)	34	nm
Gross profit/(loss) margin	(1.5)%	1.0%	(2.4)pts.
Pre-tax income/(loss)	\$ (745)	\$ (820)	(9.1)
Pre-tax income/(loss) margin	(20.5)%	(23.0)%	2.5pts.

nm — not meaningful

In the second quarter of 2021, EMEA revenue of \$1,819 million increased 3.1 percent when compared to the prior-year period mainly due to improvements in Spain. For the first six months of 2021, EMEA revenue of \$3,630 million increased 2.0 percent as compared to the prior-year period mainly due to improvements in Spain. Revenue growth in the second quarter and the first half of 2021 was primarily driven by improvements in the base portfolio due to increased client-based business volumes and project activity. For the first six months of 2021, gross profit margin percent declined by 0.7 points and 2.4 points to 0.2 percent and (1.5) percent, in the second quarter and first half of 2021, respectively, as compared to the prior-year periods, in part driven by contract terminations and scope reductions. Although we saw margin decline in second quarter and first half of 2021 on a year-to-year basis, when we look at our base portfolio, we see modest improving trend compared to first quarter, including benefits from the productivity actions taken in 2020 which started to be realized in late second quarter of 2021. Overall, gross profit margins within the EMEA segment are typically lower than those in other reportable segments due to a higher labor resource cost profile. Pre-tax loss of \$321 million in the second quarter of 2021 and \$745 million in the first six months of 2021 increased \$26 million in the three months ended June 30, 2021 but improved \$74 million in the first half of 2021, when compared to the prior-year periods. Pre-tax margin of (17.7) percent and (20.5) percent declined by 0.9 points in the three months ended June 30, 2021 but improved by 2.5 points in the first half of 2021, when compared to the prior-year periods. The pre-tax loss and pre-tax margin improvements in first half 2021 compared to the prior-year period are the result of higher workforce rebalancing charges in first half 2020.

Japan

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Japan			
Revenue	\$ 746	\$ 751	(0.7)%
Gross profit	163	158	3.2
Gross profit margin	21.9%	20.4%	1.5pts.
Pre-tax income/(loss)	\$ 27	\$ 43	(36.4)
Pre-tax income/(loss) margin	3.6%	5.7%	(2.0)pts.

(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Japan			
Revenue	\$1,507	\$1,488	1.3%
Gross profit	322	303	6.0
Gross profit margin	21.3%	20.4%	1.0pts.
Pre-tax income/(loss)	\$ 55	\$ 75	(26.8)
Pre-tax income/(loss) margin	3.7%	5.1%	(1.4)pts.

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In the second quarter of 2021, Japan revenue of \$746 million decreased 0.7 percent but increased 1.3 percent to \$1,507 million in the first six months of 2021, when compared to the prior-year periods due to second quarter 2020 headwinds. Gross profit margin percent increased 1.5 points and 1.0 points to 21.9 percent and 21.3 percent, in the second quarter and first half of 2021, respectively, as compared to the prior-year periods, primarily due to lower costs in the current year as a result of 2020 workforce rebalancing actions. We are also beginning to reap the benefit of new signings which are contributing to the profit improvement. Pre-tax income of \$27 million in the second quarter of 2021 and \$55 million in the first six months of 2021 decreased \$16 million and \$20 million, respectively, when compared to the prior-year periods. Pre-tax margin of 3.6 percent and 3.7 percent declined by 2.0 points and 1.4 points in the three and six months ended June 30, 2021, respectively, when compared to the prior-year periods.

Asia Pacific

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Asia Pacific			
Revenue	\$ 393	\$ 395	(0.4)%
Gross profit	55	62	(11.4)
Gross profit margin	14.0%	16.0%	(2.0)pts.
Pre-tax income/(loss)	\$ 25	\$ 47	(46.7)
Pre-tax income/(loss) margin	6.4%	11.9%	(5.5)pts.

(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent/Margin Change
Asia Pacific			
Revenue	\$ 790	\$ 812	(2.7)%
Gross profit	137	130	5.7
Gross profit margin	17.4%	16.0%	1.4pts.
Pre-tax income/(loss)	\$ 90	\$ 83	9.0
Pre-tax income/(loss) margin	11.4%	10.2%	1.2pts.

In the second quarter and first half of 2021, Asia Pacific revenue of \$393 million and \$790 million, decreased 0.4 percent and 2.7 percent, respectively, when compared to the prior-year periods driven primarily by declines in India and Korea partially offset by improvements in Australia. While we see improving trends in our base, we were up against headwinds from negotiations made with our clients. While we see the impacts in our revenue decline from these negotiations, we aim to build a portfolio with strong client relationships. Gross profit margin percent declined by 2.0 points to 14.0 percent in the second quarter of 2021 as compared to the prior-year period but increased by 1.4 points to 17.4 percent, in first six months of 2021. Pre-tax income of \$25 million in the second quarter of 2021 and \$90 million in the first six months of 2021 decreased \$22 million in the three months ended June 30, 2021 but increased \$7 million in the first half of 2021, when compared to the prior-year periods. Pre-tax margin of 6.4 percent and 11.4 percent declined by 5.5 points in the three months ended June 30, 2021 but improved 1.2 points in the first half of 2021, when compared to the prior-year periods. The pre-tax loss and pre-tax margin improvements in the first half of 2021 compared to the prior-year period are the result of higher workforce rebalancing charges in first half 2020.

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Spin-off-related Charges

(\$ in millions)	For the Three Months Ended June 30, 2021	For the Six Months Ended June 30, 2021
Cost of services	\$ 58	\$ 61
Selling, general and administrative	115	167
Workforce rebalancing charges	3	3
Research, development and engineering	0	0
Total costs and expenses	<u>\$177</u>	<u>\$232</u>

The process of completing the business separation has been and is expected to continue to be time-consuming and involves significant costs and expenses. Spin-off-related charges are primarily related to costs to establish certain stand-alone functions and information technology systems, professional services fees and other transaction-related costs during the Company's transition to being a stand-alone public company. These charges are primarily recorded within Selling, general and administrative and cost of services in the Combined Income Statement. These costs primarily include finance, IT, consulting and legal fees, real estate, and other items that are incremental and one-time in nature. During the three and six months ended June 30, 2021, we recorded spin-off-related charges of \$177 million and \$232 million, respectively. There were no spin-off-related charges recorded in the second quarter and first half of 2020.

Total Expense and Other Income

(\$ in millions)			Yr.-to-Yr. Percent Change
For the three months ended June 30:	2021	2020	
Expense and other (income)			
Selling, general and administrative	\$814*	\$707	15.1%
Workforce rebalancing charges/(benefit)	(11)**	58	nm
Research, development and engineering	15	19	(19.5)
Interest expense	15	16	(0.5)
Other (income) and expense	11	3	291.2
Total expense and other (income)	<u>\$845***</u>	<u>\$803</u>	<u>5.3%</u>

* Includes \$115 million of pre-tax spin-off-related charges.

** Includes \$3 million of pre-tax spin-off-related charges.

*** Includes \$119 million of pre-tax spin-off-related charges.

nm — not meaningful

(\$ in millions)			Yr.-to-Yr. Percent Change
For the six months ended June 30:	2021	2020	
Expense and other (income)			
Selling, general and administrative	\$1,567*	\$1,469	6.7%
Workforce rebalancing charges	41**	356	(88.5)
Research, development and engineering	29	39	(26.0)
Interest expense	29	31	(4.6)
Other (income) and expense	34	9	265.3
Total expense and other (income)	<u>\$1,700***</u>	<u>\$1,903</u>	<u>(10.7)%</u>

* Includes \$167 million of pre-tax spin-off-related charges.

** Includes \$3 million of pre-tax spin-off-related charges.

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*** Includes \$171 million of pre-tax spin-off-related charges.

Total expense and other (income) year-to-year results for the three and six months ended June 30, 2021 were impacted by lower workforce rebalancing charges and a benefit from expected credit loss expense, partially offset by spin-off-related charges recorded in 2021.

Total expense and other (income) increased 5.3 percent in the second quarter of 2021 versus the prior year primarily driven by spin-off-related charges recorded in the quarter, partially offset by lower workforce rebalancing charges.

Total expense and other (income) declined by 10.7 percent in the six months ended June 30, 2021 versus the prior year primarily driven by lower workforce rebalancing charges and a benefit from expected credit loss expense, partially offset by spin-off-related charges recorded in 2021.

For additional information regarding total expense and other (income) for both periods, see the following analyses by category.

Selling, General and Administrative Expense

(\$ in millions)			Yr.-to-Yr. Percent Change
For the three months ended June 30:	2021	2020	
Selling, general and administrative expense			
Selling, general and administrative-other	\$374	\$395	(5.3)%
Allocation of corporate expenses	313	271	15.4
Related party intangible assets fee	12	12	2.7
Stock-based compensation	11	9	29.1
Advertising and promotional expense	6	6	(0.4)
Provision for/(benefit from) expected credit loss expense	(22)	10	nm
Spin-off-related charges	115	—	nm
Amortization of acquired intangible assets	5	5	(3.8)
Total selling, general and administrative expense	<u>\$814</u>	<u>\$707</u>	<u>15.1%</u>

nm — not meaningful

(\$ in millions)			Yr.-to-Yr. Percent Change
For the six months ended June 30:	2021	2020	
Selling, general and administrative expense			
Selling, general and administrative-other	\$ 726	\$ 778	(6.6)%
Allocation of corporate expenses	630	594	6.0
Related party intangible assets fee	25	24	2.1
Stock-based compensation	19	17	14.9
Advertising and promotional expense	13	18	(26.9)
Provision for/(benefit from) expected credit loss expense	(24)	28	nm
Spin-off-related charges	167	—	nm
Amortization of acquired intangible assets	9	10	(4.3)
Total selling, general and administrative expense	<u>\$1,567</u>	<u>\$1,469</u>	<u>6.7%</u>

nm — not meaningful

Total SG&A expense increased 15.1 percent in the second quarter of 2021 versus the prior year, primarily driven by the following factors:

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- Spin-off-related charges in the current-year period of \$115 million, partially offset by
- A benefit from expected credit loss expense of \$22 million compared to a provision of \$10 million in the prior-year period.

Total SG&A expense increased 6.7 percent in the first six months of 2021 versus the prior year driven primarily by the following factors:

- Spin-off related charges in the current-year period of \$167 million, partially offset by
- A benefit from expected credit loss expense of \$24 million compared to a provision of \$28 million in the prior-year period.

Provisions for expected credit loss expense decreased \$51 million year to year in the first six months of 2021, primarily driven by decreases in both specific and general reserves in the current year compared with increases in the prior-year period. In the prior year, the global pandemic resulted in some deterioration in customer credit quality and/or bankruptcies which had an impact to provisions in the first half of 2020. The receivables provision coverage was 3.8 percent at June 30, 2021, decreased from 5.9 percent at December 31, 2020 driven by both an increase in receivables year to year and lower customer specific provisions.

Workforce Rebalancing

Our second quarter performance reflects a modest margin expansion resulting from the productivity actions taken in 2020 to improve the profit and margin profile of the business. We continue to expect the majority of the employee exits to be completed by the end of 2021.

The prior-year periods included workforce rebalancing charges of \$58 million and \$356 million for the three and six months ended June 30, respectively. Workforce rebalancing charges are recorded in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements. The impact to pre-tax income by segment for the six months ended June 30, 2020 was as follows: EMEA \$235 million, Americas \$88 million, Asia Pacific \$18 million, and Japan \$15 million. The current year financial results include a year-to-year improvement in workforce rebalancing charges of \$69 million and \$315 million for the three and six months ended June 30, 2021 respectively.

Research, Development and Engineering Expense

(\$ in millions)			Yr.-to-Yr. Percent Change
For the three months ended June 30:	2021	2020	
Research, development and engineering expense	\$15	\$19	(19.5)%
Allocation of corporate expenses	0	1	(129.6)
For the six months ended June 30:	2021	2020	
Research, development and engineering expense	\$29	\$39	(26.0)%
Allocation of corporate expenses	0	3	(119.2)

Research, development and engineering (RD&E) expense was \$15 million and \$29 million in the three and six months ended June 30, 2021, a decrease of \$4 million and \$10 million compared to the prior-year periods. Within these amounts, software-related expense was \$12 million and \$23 million in the second quarter and first half of 2021, respectively.

RD&E expense was less than 1 percent of total revenue in all periods presented.

Other (Income) and Expense

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent Change
Other (income) and expense			
Retirement-related costs/(income)	\$ 7	\$ 6	6.6%
Allocation of corporate expenses/(income)	2	(2)	nm
Net(gain)/loss from derivatives	2	(3)	nm
Other (income) and expense	(1)	2	nm
Total other (income) and expense	<u>\$ 11</u>	<u>\$ 3</u>	<u>291.2%</u>

nm — not meaningful

(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent Change
Other (income) and expense			
Retirement-related costs/(income)	\$14	\$13	10.8%
Allocation of corporate expenses/(income)	9	3	173.0
Net(gain)/loss from derivatives	7	(9)	nm
Other (income) and expense	3	2	68.4
Total other (income) and expense	<u>\$34</u>	<u>\$ 9</u>	<u>265.3%</u>

nm — not meaningful

Total other (income) and expense was \$11 million and \$34 million of expense in the second quarter and first half of 2021, increased by \$8 million and \$24 million, respectively, when compared to the prior-year periods. The year-to-year change was primarily driven by net exchange losses (including impacts from IBM derivative instruments) in the current year-periods versus net exchange gains (including impacts from IBM derivative instruments) in the prior-year periods as well as higher allocation of corporate expenses in the current year.

Interest Expense

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent Change
Total interest expense	\$15	\$16	(0.5)%
Allocation of corporate expenses	15	16	(1.3)

(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent Change
Total interest expense	\$29	\$31	(4.6)%
Allocation of corporate expenses	29	31	(5.1)

Interest expense was essentially flat in the second quarter of 2021 compared to the prior-year period and decreased \$1 million in the first six months of 2021 versus prior-year period. We share in a portion of the interest expense incurred by IBM as IBM's debt balance supports the operations of our business. Interest expense was allocated on a pro rata basis based on our portion of total assets compared to IBM.

Retirement-Related Plans

The following table provides the total pre-tax cost for retirement-related plans. Service cost, multi-employer plans and cost of defined contribution plans are included in the Combined Income Statement

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within the caption (e.g., Cost, SG&A, RD&E) relating to the job function of the plan participants. The other components of net periodic pension costs are included in other (income) and expense in the Combined Income Statement.

(\$ in millions) For the three months ended June 30:	2021	2020	Yr.-to-Yr. Percent Change
Retirement-related plans – cost			
Service cost	\$23	\$28	(15.2)%
Multi-employer plans*	2	2	5.1
Cost of defined contribution plans	44	49	(11.4)
Interest cost	2	3	(27.2)
Expected return on plan assets	(6)	(6)	(1.1)
Recognized actuarial losses	10	9	18.1
Amortization of prior service costs/(credits)	0	0	3.0
Other costs	1	1	(41.0)
Total retirement-related plans – cost	\$76	\$85	(11.0)%

* Represents third-party plans.

(\$ in millions) For the six months ended June 30:	2021	2020	Yr.-to-Yr. Percent Change
Retirement-related plans – cost			
Service cost	\$ 47	\$ 55	(14.2)%
Multi-employer plans*	3	3	3.9
Cost of defined contribution plans	90	95	(5.2)
Interest cost	4	5	(28.0)
Expected return on plan assets	(12)	(12)	(1.5)
Recognized actuarial losses	21	17	18.0
Amortization of prior service costs/(credits)	0	0	3.3
Curtailments/settlements	0	—	nm
Other costs	2	3	(29.3)
Total retirement-related plans – cost	\$155	\$166	(6.8)%

* Represents third-party plans.

nm — not meaningful

Total pre-tax retirement-related plan cost decreased \$9 million and \$11 million in the second quarter and first half of 2021, respectively, when compared to the prior-year periods. The decline was primarily driven by lower service costs and lower cost for defined contribution plans.

Income Taxes

The provision for income taxes for the second quarter of 2021 was \$74 million, compared to \$89 million in the second quarter of 2020. The provision for income taxes for the first six months of 2021 was \$165 million, compared to \$176 million for the first six months of 2020. The provision for income taxes for the periods presented was attributable to jurisdictions generating taxable income as well as jurisdictions in which losses do not generate a benefit for the Company. The decrease in provision for income taxes was primarily driven by a change in the geographic mix of income before taxes, net of change in valuation allowance.

Financial Position**Dynamics**

Cash, restricted cash and marketable securities at June 30, 2021 were \$43 million, essentially flat when compared to prior year end. Total assets of \$11.1 billion decreased by \$0.1 billion from December 31, 2020 predominantly driven by declines in property and equipment of \$0.4 billion partially offset by an increase in notes and accounts receivable of \$0.2 billion and deferred costs of \$0.1 billion. Total liabilities of \$6.2 billion decreased by \$0.1 billion from year-end 2020 primarily as a result of a decrease in workforce rebalancing liabilities of \$0.2 billion partially offset by an increase in debt of \$0.1 billion. Total equity of \$4.9 billion declined \$0.1 billion from year-end 2020, mainly driven by a net loss of \$0.9 billion, an increase in foreign currency translation losses of \$0.1 billion, partially offset by net transfers from IBM of \$0.9 billion.

Net cash used in operating activities of (\$0.5) billion and free cash flow deficit of (\$0.8) billion includes approximately \$0.5 billion of cash outflows consisting of payments for our structural actions initiated in the fourth quarter of 2020 and spin-off-related charges.

Overall pension funded status as of the end of June was fairly consistent with year-end 2020.

Working Capital

(\$ in millions)	At June 30, 2021	At December 31, 2020
Current assets	\$ 3,115	\$ 2,843
Current liabilities	3,752	3,910
Working capital	\$ (637)	\$(1,067)
Current ratio	0.84:1	0.73:1

Working capital improved \$430 million from the year-end 2020 position. The key changes are described below:

Current assets increased \$272 million (\$328 million adjusted for currency) due to:

- An increase of \$170 million in notes and accounts receivable, and
- An increase of \$54 million in deferred costs.

Current liabilities decreased \$158 million (decreased \$62 million adjusted for currency) as a result of:

- A decrease in workforce rebalancing liabilities of \$224 million primarily due to payments related to the action taken in 2020, and
- A decrease in accounts payable of \$116 million; partially offset by
- An increase in deferred income of \$85 million.

Receivables and Allowances

Roll Forward of Receivables Allowance for Credit Losses

(\$ in millions)	January 1, 2021	Additions / (Releases)	Write-offs	Other*	June 30, 2021
	\$91	\$(24)	\$(4)	\$ 1	\$65

* Primarily represents translation adjustments and reclassifications.

The receivables provision coverage was 3.8 percent at June 30, 2021, decreased from 5.9 percent at December 31, 2020 driven by both an increase in receivables year to year and lower customer specific provisions.

Non-Current Assets and Liabilities

Non-current assets of \$7,951 million at June 30, 2021 declined by \$412 million (\$239 million adjusted for currency) when compared to December 31, 2020, primarily driven by a decline in property and equipment of \$359 million which includes the impact from the sale of a datacenter in Japan of \$101 million.

Non-current liabilities of \$2,438 million at June 30, 2021 increased \$74 million (\$131 million adjusted for currency) when compared to December 31, 2020, mainly driven by an increase in long-term debt of \$145 million.

Equity

Total equity of \$4,875 million at June 30, 2021 decreased by \$63 million from December 31, 2020 primarily due to net losses of \$887 million and an increase in foreign currency translation losses of \$63 million, partially offset by net transfers from IBM within Net Parent investment of \$900 million.

Cash Flow

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

(\$ in millions)		2021	2020
For the six months ended June 30:			
Net cash provided by/(used in) continuing operations			
Operating activities		\$(489)	\$ 90
Investing activities		(311)	(433)
Financing activities		807	332
Effect of exchange rate changes on cash, cash equivalents and restricted cash		(2)	(2)
Net change in cash, cash equivalents and restricted cash		<u>\$ 5</u>	<u>\$ (13)</u>

Net cash from operating activities declined \$579 million in the first six months of 2021 when compared to the prior-year period driven by the following key factors:

- A decrease in cash provided by receivables of \$353 million driven by strong collections performance in the prior year period, and
- Payments associated to spin-off-related charges in the current-year period of \$209 million, and
- A higher level of workforce rebalancing payments of \$152 million; partially offset by.
- A decrease in litigation liabilities of approximately \$100 million as result of the settlement with the State of Indiana in the prior year period.

Net cash used in investing activities decreased \$121 million in the first six months of 2021 when compared to the prior-year period driven by:

- Lower spending on property and equipment of \$64 million, and
- Higher proceeds from the disposition of property and equipment of \$70 million, driven by the sale of a datacenter in Japan.

Net cash provided by financing activities increased \$475 million in the first six months of 2021 when compared to the prior-year period driven by:

- An increase in net transfers from IBM of \$343 million, and
- An increase in third-party debt of \$140 million.

YEARS IN REVIEW**Results of Operations****Segment Details**

The following is an analysis of the 2020, 2019 and 2018 reportable segment results. The table below presents each reportable segment's external revenue and gross margin results. Segment revenue and pre-tax income/(losses) exclude any transactions between the segments.

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent/Margin Change	
				2020–2019	2019–2018
Revenue					
Americas	\$ 7,401	\$ 7,951	\$ 8,581	(6.9)%	(7.3)%
Gross profit margin	16.3%	17.4%	17.6%	(1.1)pts.	(0.2)pts.
Europe/Middle East/Africa	\$ 7,289	\$ 7,566	\$ 8,162	(3.7)%	(7.3)%
Gross profit margin	1.6%	4.5%	3.5%	(2.9)pts.	1.0pts.
Japan	\$ 3,037	\$ 2,925	\$ 2,936	3.8%	(0.4)%
Gross profit margin	20.8%	19.3%	15.7%	1.5pts.	3.6pts.
Asia Pacific	\$ 1,625	\$ 1,838	\$ 2,117	(11.6)%	(13.2)%
Gross profit margin	15.8%	17.0%	14.0%	(1.2)pts.	3.0pts.
Total revenue	\$19,352	\$20,279	\$21,796	(4.6)%	(7.0)%
Total gross profit	\$ 2,210	\$ 2,596	\$ 2,557	(14.9)%	1.5%
Total gross profit margin	11.4%	12.8%	11.7%	(1.4)pts.	1.1pts.

Americas

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent/Margin Change	
				2020–2019	2019–2018
Americas					
Revenue	\$7,401	\$7,951	\$8,581	(6.9)%	(7.3)%
Gross profit	1,205	1,381	1,514	(12.7)	(8.7)
Gross profit margin	16.3%	17.4%	17.6%	(1.1)pts.	(0.3)pts.
Pre-tax income/(loss)	\$ (313)	\$ (22)	\$ 130	nm	nm
Pre-tax income/(loss) margin	(4.2)%	(0.3)%	1.5%	(3.9)pts.	(1.8)pts.

nm — not meaningful

2020 Performance

Americas revenue of \$7,401 million in 2020 declined by 6.9 percent when compared to the prior-year period driven by declines across the contract portfolio and impacts from the COVID-19 pandemic, mainly in the United States, Canada and Brazil. Gross profit margin of 16.3 percent declined 1.1 points when compared to 2019. Pre-tax loss of \$313 million increased \$290 million when compared to the prior-year period. Pre-tax margin of (4.2) percent worsened by 3.9 points when compared to the prior-year period. Pre-tax loss and pre-tax margin reflect the impact of workforce rebalancing actions taken in 2020 to simplify and optimize our operating model.

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Pursuant to 17 C.F.R. Section 200.83**

2019 Performance

Americas revenue of \$7,951 million in 2019 declined by 7.3 percent when compared to 2018 mainly driven by declines in the United States partially offset by increases in Canada and Mexico. Gross profit margin of 17.4 percent declined 0.2 points when compared to 2018. In 2019, we took discrete contract and portfolio actions to exit lower value offerings which also had an impact on revenue. Pre-tax income declined by \$152 million to a loss of \$22 million in 2019. Pre-tax margin of (0.3) percent worsened by 1.8 points when compared to the prior-year period.

Europe/Middle East/Africa

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent/Margin Change	
				2020 – 2019	2019 – 2018
Europe/Middle East/Africa					
Revenue	\$ 7,289	\$7,566	\$ 8,162	(3.7)%	(7.3)%
Gross profit	116	339	286	(65.8)	18.5
Gross profit margin	1.6%	4.5%	3.5%	(2.9)pts.	1.0pts.
Pre-tax income/(loss)	\$(1,825)	\$ (926)	\$(1,006)	97.0%	(7.9)
Pre-tax income/(loss) margin	(25.0)%	(12.2)%	(12.3)%	(12.8)pts.	0.1pts.

2020 Performance

EMEA revenue of \$7,289 million in 2020 declined by 3.7 percent when compared to the prior-year period driven by declines across the contract portfolio and impacts from the COVID-19 pandemic, mainly in the United Kingdom, the Netherlands and Germany. Gross profit margin of 1.6 percent declined 2.9 points when compared to 2019, which can be attributed to declines in client business volumes impacted by the macroeconomic environment. Overall, gross profit margins within the EMEA segment are typically lower than those in our other reportable segments due to a higher labor resource cost profile. Pre-tax loss of \$1,826 million increased by \$899 million when compared to the prior-year period. Pre-tax margin of (25.0) percent worsened by 12.8 points when compared to the prior-year period. Pre-tax loss and pre-tax margin reflect the impact of workforce rebalancing actions taken in 2020 to simplify and optimize our operating model.

2019 Performance

EMEA revenue of \$7,566 million in 2019 declined by 7.3 percent when compared to 2018 driven by declines across the contract portfolio, mainly in Germany, France, Italy and Belgium. Gross profit margin of 4.5 percent improved 1.0 point when compared to 2018. 2019 performance was impacted by the restructuring of low margin contracts which was a headwind to revenue but a help to profit. Pre-tax losses declined by \$79 million to a loss of \$926 million in 2019. Pre-tax margin of (12.2) percent improved by 0.1 points when compared to the prior-year period.

Japan

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent/Margin Change	
				2020 – 2019	2019 – 2018
Japan					
Revenue	\$3,037	\$2,925	\$2,936	3.8%	(0.4)%
Gross profit	632	564	462	12.1	21.9
Gross profit margin	20.8%	19.3%	15.7%	1.5pts.	3.5pts.
Pre-tax income/(loss)	\$ 195	\$ 179	\$ 105	9.3%	70.8%
Pre-tax income/(loss) margin	6.4%	6.1%	3.6%	0.3pts.	2.5pts.

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2020 Performance

Japan revenue of \$3,037 million in 2020 increased by 3.8 percent when compared to the prior-year period driven by strong performance in new client contracts. Gross profit margin of 20.8 percent increased 1.5 points when compared to 2019. Pre-tax income of \$195 million increased by \$16 million when compared to the prior-year period. Pre-tax margin of 6.4 percent improved by 0.3 points when compared to the prior-year period.

2019 Performance

Japan revenue of \$2,925 million in 2019 was flat when compared to the prior-year period. Gross profit margin of 19.3 percent improved 3.5 points when compared to 2018. Pre-tax income of \$179 million in 2019 increased by 70.8 percent when compared to 2018. Pre-tax margin of 6.1 percent improved by 2.5 points when compared to the prior-year period.

Asia Pacific

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent/Margin Change	
				2020 – 2019	2019 – 2018
Asia Pacific					
Revenue	\$1,625	\$1,838	\$2,117	(11.6)%	(13.2)%
Gross profit	257	313	296	(17.8)	5.8
Gross profit margin	15.8%	17.0%	14.0%	(1.2)pts.	3.1pts.
Pre-tax income/(loss)	\$ 176	\$ 191	\$ 141	(7.7)	35.4
Pre-tax income/(loss) margin	10.8%	10.4%	6.6%	0.5pts.	3.7pts.

2020 Performance

Asia Pacific revenue of \$1,625 million in 2020 decreased by 11.6 percent when compared to the prior-year period driven by declines across the contract portfolio, mainly in Australia and India. Gross profit margin of 15.8 percent decreased 1.2 points when compared to 2019. Pre-tax income of \$176 million decreased by 7.7 percent when compared to the prior-year period. Pre-tax margin of 10.8 percent improved by 0.5 points when compared to the prior-year period.

2019 Performance

Asia Pacific revenue of \$1,838 million in 2019 declined 13.2 percent compared to the prior-year period, primarily driven by Australia and India. Performance was impacted by the decision to move away from lower value workloads and shift into higher value offerings. Gross profit margin of 17.0 percent improved 3.1 points when compared to 2018. Pre-tax income of \$191 million in 2019 increased by 35.4 percent when compared to 2018. Pre-tax margin of 10.4 percent improved by 3.7 points when compared to the prior-year period.

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Total Expense and Other Income

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent Change	
				2020 – 2019	2019 – 2018
Expense and other (income)					
Selling, general and administrative	\$2,893	\$2,887	\$2,924	0.2%	(1.3)%
Workforce rebalancing charges	918	159	116	476.1	37.1
Research, development and engineering	76	83	69	(9.3)	20.9
Interest expense	63	76	85	(16.8)	(10.7)
Other (income) and expense	25	(29)	(7)	nm	339.8
Total expense and other (income)	\$3,975	\$3,176	\$3,187	25.1%	(0.3)%

nm — not meaningful

Total expense and other (income) year-to-year results for the year ended December 31, 2020 were impacted by pre-tax workforce rebalancing charges of \$0.9 billion to simplify and optimize our operating model.

Total expense and other (income) increased 25.1 percent in 2020 versus the prior year primarily driven by higher charges for workforce rebalancing and decreases in other income, partially offset by lower interest expense, and reductions in travel and other expenses associated with COVID-19 restrictions.

Total expense and other (income) was essentially flat when comparing 2019 versus 2018, primarily driven by higher charges for workforce rebalancing partially offset by declines in total selling, general and administrative (SG&A) expense.

For additional information regarding total expense and other (income) for both expense presentations, see the following analyses by category.

Selling, General and Administrative Expense

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent Change	
				2020 – 2019	2019 – 2018
Selling, general and administrative expense					
Selling, general and administrative-other	\$1,493	\$1,524	\$1,602	(2.0)%	(4.8)%
Allocation of corporate expenses	1,216	1,178	1,206	3.2	(2.3)
Related party intangible assets fee	49	23	—	109.7	nm
Stock-based compensation	36	34	40	4.5	(13.6)
Advertising and promotional expense	34	55	40	(39.3)	37.5
Provision for expected credit loss expense	25	51	16	(50.6)	228.0
Spin-off-related charges	20	—	—	nm	nm
Amortization of acquired intangible assets	20	20	20	(0.6)	0.2
Total selling, general and administrative expense	\$2,893	\$2,887	\$2,924	0.2%	(1.3)%

nm — not meaningful

Total SG&A expense was flat when comparing 2020 versus 2019, driven primarily by the following factors:

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- Spending reductions associated with COVID-19 restrictions as well as lower employee compensation expense as a result of the workforce rebalancing actions taken in 2019, and
- Lower provisions for expected credit losses; partially offset by
- Higher fees for the use of IBM's acquired intangible assets of \$26 million, and
- Higher allocations of IBM corporate overhead of \$38 million.

Provisions for expected credit loss expense decreased \$26 million in 2020 compared to 2019 driven by lower contract-specific reserve requirements. The receivables provision coverage was 5.9 percent at December 31, 2020, an increase of 158 basis points from December 31, 2019. The higher coverage rate at December 31, 2020 reflects the overall decline in total receivables.

Total SG&A expense decreased 1.3 percent in 2019 as compared to 2018, driven primarily by the following factors:

- Lower allocations of IBM corporate overhead of \$28 million, partially offset by
- Higher provisions for expected credit losses.

Provisions for expected credit loss expense increased \$36 million in 2019 compared to 2018 driven by higher contract-specific reserve requirements. The receivables provision coverage was 4.4 percent at December 31, 2019, a decrease of 127 basis points from December 31, 2018. The lower coverage rate at December 31, 2019 reflects the write-off of previously reserved receivables.

Workforce Rebalancing

In 2020, we recorded \$918 million in workforce rebalancing charges in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements, an increase of \$759 million compared to 2019. The increase was primarily driven by structural actions taken in the fourth quarter to simplify and optimize our operating model. The impact to pre-tax income by segment for the year ended December 31, 2020 was as follows: EMEA \$722 million, Americas \$117 million, Asia Pacific \$51 million, and Japan \$28 million. We expect the majority of the employee exits to be completed by the end of 2021.

Workforce rebalancing charges of \$159 million increased by \$43 million in 2019 compared to 2018 driven by structural actions taken in the year to improve our cost competitiveness.

Research, Development and Engineering Expense

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent Change	
				2020 – 2019	2019 – 2018
Research, development and engineering expense	\$76	\$83	\$69	(9.3)%	20.9%
Allocation of corporate expenses	4	7	0	(44.1)	nm

nm — not meaningful

Research, development and engineering (RD&E) expense was \$76 million in 2020, \$83 million in 2019 and \$69 million in 2018. Within these amounts, software-related expense was \$50 million, \$44 million and \$30 million in 2020, 2019 and 2018, respectively.

RD&E expense was less than 1 percent of total revenue in all periods presented.

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Other (Income) and Expense

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent Change	
				2020–2019	2019–2018
Other (income) and expense					
Retirement-related costs/(income)	\$27	\$ 27	\$ 46	(1.6)%	(41.3)%
Allocation of corporate expenses/(income)	4	(31)	(53)	nm	(41.8)
Net(gain)/loss from derivatives	(6)	(20)	1	(70.6)	nm
Other (income) and expense	<u>0</u>	<u>(6)</u>	<u>(1)</u>	<u>nm</u>	<u>405.4</u>
Total other (income) and expense	<u>\$25</u>	<u>\$(29)</u>	<u>\$ (7)</u>	<u>nm%</u>	<u>339.8%</u>

nm — not meaningful

Total other (income) and expense was expense of \$25 million in 2020 compared to income of \$29 million in 2019. The year-to-year change was primarily driven by net exchange losses (including impacts from IBM derivative instruments) in the current year versus net exchange gains (including impacts from IBM derivative instruments) in the prior-year period. Underlying foreign exchange gains/losses are included within the allocation of corporate expenses line in the table above.

Total other income of \$29 million in 2019 increased by \$22 million when compared to 2018. The year-to-year change was primarily driven by lower retirement-related costs of \$19 million.

Interest Expense

(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent Change	
				2020–2019	2019–2018
Total interest expense	\$63	\$76	\$85	(16.8)%	(10.7)%
Allocation of corporate expenses	63	76	85	(16.3)	(10.6)

Interest expense decreased \$13 million in 2020 and \$9 million in 2019 when compared to the prior-year periods. We share in a portion of the interest expense incurred by IBM as IBM's debt balance supports the operations of our business. Interest expense was allocated on a pro rata asset balance between IBM and us.

Stock-Based Compensation

Pre-tax stock-based compensation cost of \$64 million increased \$10 million compared to 2019. Stock-based compensation cost, and the year-to-year change, was reflected in the following categories: Cost: \$26 million, up \$11 million; SG&A expense: \$36 million, down \$1 million; and RD&E expense: \$1 million, down \$1 million.

Retirement-Related Plans

The following table provides the total pre-tax cost for retirement-related plans. Service cost, multi-employer plans and cost of defined contribution plans are included in the Combined Income Statement within the caption (e.g., Cost, SG&A, RD&E) relating to the job function of the plan participants. The other components of net periodic pension costs are included in other (income) and expense in the Combined Income Statement.

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(\$ in millions) For the year ended December 31:	2020	2019	2018	Yr.-to-Yr. Percent Change	
				2020–2019	2019–2018
Retirement-related plans – cost					
Service cost	\$112	\$105	\$122	6%	(13)%
Multi-employer plans*	7	9	11	(16)	(21)
Cost of defined contribution plans	194	207	208	(6)	(1)
Interest cost	11	18	17	(37)	1
Expected return on plan assets	(25)	(28)	(22)	(12)	31
Recognized actuarial losses	36	27	28	35	(7)
Amortization of prior service costs/(credits)	(1)	(0)	(1)	nm	(96)
Curtailments/settlements	(0)	0	—	nm	nm
Other costs	6	11	22	(45)	(52)
Total retirement-related plans – cost	\$341	\$348	\$387	(2)%	(10)%

* Represents third-party plans.

nm — not meaningful

Total pre-tax retirement-related plan cost decreased by \$7 million in 2020 and by \$39 million in 2019 when compared to the prior-year periods. The decline in 2020 was primarily driven by lower costs for defined contribution plans and lower interest cost. The decline in 2019 was driven by lower service cost and other retirement-related costs.

Income Taxes

The provision for income taxes for 2020 was \$246 million compared to \$364 million in 2019. The decrease in the provision was primarily driven by higher pre-tax losses in 2020 partially offset by an increase in valuation allowances in jurisdictions with losses. The provision for income taxes for 2019 was \$364 million compared to \$350 million in 2018. The increase in the provision was primarily driven by lower pre-tax losses in 2019 and a change in valuation allowance associated with jurisdictions with losses. For more information, see note E, “Taxes,” in our combined financial statements.

Financial Position

Dynamics

Cash, restricted cash and marketable securities at December 31, 2020 were \$38 million, a decrease of \$12 million compared to prior year end. Notes and accounts receivables declined \$345 million to \$1,444 million as of December 31, 2020 reflective of lower business volumes and strategic mitigation actions. In 2020, we took actions to simplify and optimize our operating model which resulted in an increase in workforce rebalancing liabilities of \$549 million when compared to December 31, 2019.

At December 31, 2019, cash, restricted cash and marketable securities were \$50 million, an increase of \$5 million from the prior-year period. Our balance sheet position at December 31, 2019 reflects an increase in right-of-use assets and operating lease liabilities as a result of the implementation of the new accounting lease standard.

During 2020, we generated \$628 million in cash from operating activities, a decrease of \$506 million compared to 2019. The year-to-year decrease was primarily driven by the workforce rebalancing actions taken in 2020. During 2019, we generated \$1,134 million in cash from operating activities, an increase of \$674 million when compared to 2018. The increase was predominantly driven by a lower amount of spending on contract setup costs when compared to 2018. Our free cash flow was negative for 2020 at (\$324) million and for 2018 at (\$775) million while our free cash flow was positive for 2019 at \$8 million.

Consistent with accounting standards, we remeasured the funded status of our retirement and postretirement plans at December 31. At December 31, 2020, the overall net underfunded position was

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\$548 million, an increase of \$60 million from December 31, 2019, driven by lower discount rates partially offset by strong asset returns. At December 31, 2019, the overall net underfunded position was \$488 million, an increase of \$63 million from December 31, 2018, driven by lower discount rates partially offset by strong asset returns.

Working Capital

(\$ in millions) At December 31:	2020	2019
Current assets	\$ 2,843	\$ 3,151
Current liabilities	3,910	3,408
Working capital	\$(1,067)	\$ (256)
Current ratio	0.73:1	0.93:1

At December 31, 2020, working capital decreased \$811 million from the year-end 2019 position. The key changes are described below:

Current assets decreased \$308 million (\$379 million adjusted for currency) due to:

- A decrease of \$345 million in notes and accounts receivable; partially offset by
- An increase of \$71 million in deferred costs.

Current liabilities increased \$503 million (\$358 million adjusted for currency) as a result of:

- An increase in workforce rebalancing liabilities of \$549 million, and
- An increase in accounts payable of \$92 million; partially offset by
- A decrease in deferred income of \$43 million, and
- A decrease in accrued contract costs of \$38 million.

At December 31, 2019, working capital decreased \$521 million from the year-end 2018 position. The key changes are described below:

Current assets decreased \$149 million (\$125 million adjusted for currency) due to:

- A decrease of \$107 million in deferred costs, and
- A decrease of \$71 million in notes and accounts receivable

Current liabilities increased \$372 million (\$390 million adjusted for currency) as a result of:

- An increase in operating lease liabilities of \$328 million and an increase in short-term debt of \$42 million due to the implementation of the new lease standard, and
- An increase in accounts payable of \$32 million; partially offset by
- A decrease in employee compensation liabilities of \$45 million.

Receivables and Allowances

Roll Forward of Receivables Allowance for Credit Losses

(\$ in millions)				
January 1, 2020	Additions / (Releases)	Write-offs	Other*	December 31, 2020
\$82	\$25	\$(7)	\$(9)	\$91
January 1, 2019	Additions / (Releases)	Write-offs	Other*	December 31, 2019
\$111	\$51	\$(78)	\$(3)	\$82

* Primarily represents translation adjustments and reclassifications.

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The receivables provision coverage was 5.9 percent at December 31, 2020, an increase of 158 basis points from December 31, 2019. The higher coverage rate at December 31, 2020 reflects the overall decline in total receivables. The receivables provision coverage was 4.4 percent at December 31, 2019, a decrease of 127 basis points from December 31, 2018. The lower coverage rate at December 31, 2019 reflects the write-off of previously reserved receivables.

Non-Current Assets and Liabilities

Non-current assets of \$8,362 million at December 31, 2020 declined by \$230 million (\$565 million adjusted for currency) when compared to December 31, 2019. The decline was driven by the following:

- A decline in property and equipment of \$134 million, and
- A decline in deferred costs of \$120 million, and
- A decline in operating right-of-use assets of \$87 million; partially offset by
- An increase in deferred taxes of \$76 million, and
- An increase in goodwill of \$67 million which was driven by currency.

Non-current assets of \$8,592 million at December 31, 2019 increased by \$1,008 million (\$1,017 million adjusted for currency) when compared to December 31, 2018. The increase was driven by the following:

- An increase in operating right-of-use assets of \$1,218 million driven by the adoption of the new lease standard, and
- An increase in deferred taxes of \$56 million; partially offset by
- A decline in deferred contract costs of \$196 million, and
- A decline in property and equipment of \$55 million.

Non-current liabilities of \$2,364 million at December 31, 2020 declined by \$24 million (\$150 million adjusted for currency) when compared to December 31, 2019. The decline was driven by the following:

- A decline in deferred income of \$72 million, and
- A decline in operating lease liabilities of \$40 million; partially offset by
- An increase in pension and post-retirement liabilities of \$61 million, and
- An increase in workforce rebalancing liabilities of \$52 million.

Non-current liabilities of \$2,388 million at December 31, 2019 increased by \$854 million (\$872 million adjusted for currency) when compared to December 31, 2018. The increase was driven by the following:

- An increase in operating lease liabilities of \$890 million and debt of \$100 million primarily due to the adoption of the new lease standard, and
- An increase in pension and post-retirement liabilities of \$63 million; partially offset by
- A decline in deferred income of \$146 million.

Equity

Total equity of \$4,931 million at December 31, 2020 decreased by \$1,017 million from December 31, 2019, primarily due to net losses of \$2,011 million, partially offset by net transfers from IBM within Net Parent investment of \$872 million.

Total equity of \$5,948 million at December 31, 2019 decreased by \$367 million from December 31, 2018, primarily due to net losses of \$943 million, partially offset by net transfers from IBM within Net Parent investment of \$598 million.

Cash Flow

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

(\$ in millions) For the year ended December 31:	2020	2019	2018
Net cash provided by/(used in) continuing operations			
Operating activities	\$ 628	\$ 1,134	\$ 674
Investing activities	(953)	(1,128)	(1,451)
Financing activities	312	0	791
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1	(1)	(5)
Net change in cash, cash equivalents and restricted cash	<u>\$ (13)</u>	<u>\$ 5</u>	<u>\$ 10</u>

2020 Cash Flow Performance

Net cash provided by operating activities decreased \$506 million in 2020 when compared to the prior-year period driven by the following key factors:

- Performance-related declines within net income, and
- A higher level of workforce rebalancing payments of \$226 million, and
- An increase in spending related to contract setup costs of \$93 million; partially offset by
- An increase in cash provided by receivables of \$364 million.

Net cash used in investing activities decreased \$175 million in 2020 when compared to the prior-year period driven by:

- Lower spending on property and equipment of \$153 million, and
- Higher proceeds from the disposition of property and equipment of \$21 million.

Net cash provided by financing activities increased \$312 million in 2020 when compared to the prior-year period driven by:

- An increase in net transfers from IBM of \$359 million, offset by
- An increase in capital lease payments of \$48 million.

2019 Cash Flow Performance

Net cash provided by operating activities increased \$460 million in 2019 when compared to 2018 driven by the following key factors:

- Lower spending related to contract setup costs,
- Performance-related increases within net income, partially offset by
- A decrease in cash provided by receivables of \$197 million.

Net cash used in investing activities decreased \$323 million in 2019 when compared to the prior-year period driven by:

- Lower spending on property and equipment of \$373 million; partially offset by
- Lower proceeds from the disposition of property and equipment of \$51 million.

Net cash provided by financing activities decreased \$791 million in 2019 when compared to the prior-year period driven by:

- A decrease in net transfers from IBM of \$773 million, and
- An increase in capital lease payments of \$18 million.

Other Information**Signings**

(\$ in billions)				Yr.-to-Yr. Percent Change
For the three months ended June 30:	2021	2020		
Total signings	\$3.8	\$3.9		(3.0)%

(\$ in billions)				Yr.-to-Yr. Percent Change
For the six months ended June 30:	2021	2020		
Total signings	\$6.3	\$8.1		(23.0)%

The estimated signings for the three and six months ended June 30, 2021 was \$3.8 billion and \$6.3 billion, a decrease of 3.0 percent and 23.0 percent on a year-to-year basis, impacted by the strong signings in the first-quarter 2020 driven by large renewals of existing client contracts. While the sales cycle for new logo clients is elongating, our performance with existing clients remains strong.

(\$ in billions)			Yr.-to-Yr. Percent Change		Yr.-to-Yr. Percent Change
For the year ended December 31:	2020	2019		2018	
Total signings	\$17.8	\$18.1	(1.8)%	\$22.4	(19.2)%

The estimated signings for the years ended December 31, 2020, 2019 and 2018 was \$17.8 billion, \$18.1 billion and \$22.4 billion, respectively, a decrease of 1.8 percent and 19.2 percent on a year-to-year basis. The decline in 2019 compared to 2018 was mainly attributed to the strong signings in the fourth-quarter 2018 driven by transactions over \$100 million within our existing client base.

Signings have historically been used by IBM's management as an initial estimate of the value of a customer's commitment under a contract. Our management continues to evaluate the metrics that we will utilize to assess business performance moving forward as an independent company.

IBM's management believes that the estimated values of signings provide insight into the Company's potential future revenue, which has been historically used by management as a tool to monitor the performance of the business including the business' ability to attract new customers and sell additional scope into our existing customer base, as well as viewed as useful decision-making information for investors. There are no third-party standards or requirements governing the calculation of signings. The calculation historically used by IBM's management 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.

Liquidity and Capital Resources

Over the past three years, cash flow from operations provided a source of funds ranging between \$628 million and \$1,134 million per year. We have generated positive net cash flow from operations in each of the three years presented, despite incurring net losses in each of those years. For the year ended December 31, 2020, we incurred significant workforce rebalancing charges, and, more recently, have undertaken other productivity actions in anticipation of becoming a separate stand-alone public company. For the first six months of 2021, net cash used in operating activities of (\$0.5) billion includes approximately \$0.5 billion of cash outflows consisting of payments for our structural actions initiated in the fourth quarter of 2020 and spin-off-related charges. After considering the effects of those charges and actions, and the resulting ongoing operating cash flow savings, IBM believes Kyndryl's cash flow from operations as an autonomous entity will be sufficient to fund ongoing operations and recurring capital expenditures through at least the end of 2022. Looking forward, IBM expects that Kyndryl will have additional liquidity through

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several sources: maintaining an adequate cash balance from operations, access to global funding sources including debt, leasing, and term loan markets, a committed global credit facility and other committed and uncommitted lines of credit worldwide. In addition to these resources, IBM expects that Kyndryl will have improved cash flows resulting from stronger operating performance, savings from structural actions to reduce infrastructure and overhead costs, and optimized asset management post Spin-Off. The following table provides a summary of the major sources of liquidity for the years ended December 31, 2018 through 2020.

Cash Flow and Liquidity Trends

(\$ in millions)	2020	2019	2018
Net cash from operating activities	\$628	\$1,134	\$674
Cash and cash equivalents, restricted cash and short-term marketable securities	\$ 38	\$ 50	\$ 46

The Combined Statement of Cash Flows is prepared in accordance with applicable accounting standards for cash flow presentation and highlight causes and events underlying sources and uses of cash in that format.

IBM management has used free cash flow as a measure to evaluate its operating results, to plan strategic investments and assess its ability and need to incur and service debt. The entire free cash flow amount is not necessarily available for discretionary expenditures. We define free cash flow as net cash from operating activities less the change in net capital expenditures. Free cash flow guidance will be derived using an estimate of profit, working capital and operational cash flows.

(\$ in millions)	2021	2020
For the six months ended June 30:		
Net cash from/(used in) operating activities per GAAP*	\$(489)	\$ 90
Capital expenditures, net	(298)	(432)
Free cash flow (FCF)*	(786)	342
Change in cash, cash equivalents, restricted cash and short-term marketable securities	\$ 5	\$ (13)

* Includes approximately \$0.5 billion of cash outflows consisting of payments for structural actions initiated in the fourth quarter of 2020 and spin-off-related charges.

(\$ in millions)	2020	2019	2018
For the year ended December 31:			
Net cash from operating activities per GAAP	\$ 628	\$ 1,134	\$ 674
Capital expenditures, net	(952)	(1,126)	(1,449)
Free cash flow (FCF)	(324)	8	(775)
Change in cash, cash equivalents, restricted cash and short-term marketable securities	\$ (13)	\$ 5	\$ 10

Contractual Obligations

(\$ in millions)	Total Contractual Payment Stream	Payments Due In			
		2021	2022–23	2024–25	After 2025
Finance lease obligations ⁽¹⁾	\$ 209	\$ 69	\$ 109	\$ 31	\$ 0
Operating lease obligations ⁽¹⁾	1,246	353	458	219	215
Purchase obligations ⁽²⁾	3,062	825	1,452	785	—
Other long-term liabilities:					
Long-term termination benefits ⁽³⁾	671	597	56	12	7
Other	50	21	12	15	2
Total	\$5,238	\$1,865	\$2,087	\$1,062	\$225

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- (1) Finance lease obligations are presented on a discounted cash flow basis, whereas operating lease obligations are presented on an undiscounted cash flow basis.
 - (2) Includes amounts committed for the purchase of goods and services under legally enforceable contracts. Where it is not practically feasible to determine the legally enforceable portion of our obligation under certain long-term purchase agreements, we include additional expected purchase obligations beyond what may be legally enforceable.
 - (3) Related primarily to structural actions in the fourth quarter of 2020, most of which is expected to be paid in 2021.

The previous table summarizes our contractual obligations requiring future cash payments as of December 31, 2020 on a historical basis. Certain contractual obligations exclude the effects of time value and therefore, may not equal the amounts reported in the Combined Balance Sheet. Certain noncurrent liabilities are excluded from the previous table as their future cash outflows are uncertain. This includes deferred taxes, deferred income, disability benefits and other sundry items.

Purchase obligations include all commitments to purchase goods or services of either a fixed or minimum quantity that meet any of the following criteria: (1) they are noncancelable, (2) we would incur a penalty if the agreement was canceled, or (3) we must make specified minimum payments even if we do not take delivery of the contracted products or services (take-or-pay). If the obligation to purchase goods or services is noncancelable, the entire value of the contract is included in the previous table. If the obligation is cancelable, but we would incur a penalty if canceled, the dollar amount of the penalty is included as a purchase obligation. Contracted minimum amounts specified in take-or-pay contracts are also included in the table as they represent the portion of each contract that is a firm commitment.

In the ordinary course of business, we enter into contracts that specify that we will purchase all or a portion of our requirements of a specific product, commodity or service from a supplier or vendor. These contracts are generally entered into in order to secure pricing or other negotiated terms. They do not specify fixed or minimum quantities to be purchased and, therefore, we do not consider them to be purchase obligations.

Off-Balance Sheet Arrangements

From time to time, we may enter into 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."

At December 31, 2020, and December 31, 2019, 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. See the table above for our contractual obligations, and note K, "Commitments and Contingencies," to our combined financial statements for detailed information about our guarantees, financial commitments, and indemnification arrangements. We do not have retained interests in assets transferred to unconsolidated entities or other material off-balance sheet interests or instruments.

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. An accounting estimate is considered critical if both (a) the nature of the estimate or assumption is material due to the levels of subjectivity and judgment involved, and (b) the impact within a reasonable range of outcomes of the estimate and assumption is material to our financial condition. Our significant accounting policies are described in note A, "Significant Accounting Policies," to our combined financial statements.

In 2020, the inputs into certain of our critical accounting estimates considered the macroeconomic impacts of the 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 2020 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 the Information Statement to understand a general direction cause and 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.

Pension Assumptions

For self-sponsored defined benefit pension plans, the measurement of the benefit obligation to plan participants and net periodic pension (income)/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 (gain)/loss amortization and interest cost components of the net periodic pension (income)/cost calculation and the projected benefit obligation (PBO). If the average discount rate assumption for the non-U.S. defined benefit pension plans (Plans) had increased or decreased by 25 basis points from 0.62 percent on December 31, 2020, this would not result in a material change to pre-tax income recognized in 2021. 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 cause a corresponding decrease or increase, respectively, in the Plans' PBO of an estimated \$40 million based upon December 31, 2020 data.

The expected long-term return on plan assets assumption is used in calculating the net periodic pension (income)/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 pension (income)/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 pension (income)/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 pre-tax net periodic pension (income)/cost (based upon plan assets at December 31, 2020 and assuming no contributions are made in 2021).

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 N, "Retirement-Related Benefits," to our combined financial statements.

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 judgments 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, 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 2020, 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 measures of 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. Contract loss provisions recorded as a component of other accrued expenses and liabilities were immaterial at December 31, 2020 and 2019.

Capitalization of Outsourcing Contract Costs

In connection with outsourcing 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. Key factors reviewed to estimate the undiscounted cash flows are future labor costs and product costs and expected productivity efficiencies. 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.

Income Taxes

Our operations have historically been included in certain tax returns filed by IBM. The income tax provisions included in the combined financial statements have been calculated using the separate return basis, as if we filed separate tax returns. Post separation, our operating footprint as well as tax return elections and assertions are expected to be different and therefore, our hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of our future income taxes. Current income tax liabilities including amounts for unrecognized tax benefits related to our 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 Combined Balance Sheet and reflected in Net transfers from Parent in the Combined Statement of Cash Flows.

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgments are required in determining the combined provision for income taxes.

During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. As a result, we recognize tax expense based on estimates of whether additional taxes will be due. The related tax liabilities are settled through the Net Parent investment account and are not reflected in the Combined Balance Sheet. However, the income tax expense related to these tax liabilities is reflected in provision for income taxes in the Combined Income Statement. Upon separation, liabilities related to unrecognized tax benefits for which we are liable and that are not included within our Combined Balance Sheet are expected to be reported within the post-spin balance sheet based upon tax authorities' ability to assert that we may be the primary obligor for historical taxes, among other factors.

Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets on a hypothetical separate return basis. 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/actions. However, amounts presented on the hypothetical separate return basis, including valuation allowances, are expected to differ from the deferred tax assets reported within our post-spin financial statements, based upon the impacts of the separation and application of local law, among other factors.

Valuation of Assets

The application of 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.

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.

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 loss of key personnel;
- A significant adverse shift in the operating environment of the reporting unit such as unanticipated competition;
- A significant pending litigation;
- 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. Fair value is estimated by using a discounted cash flow model. We evaluated goodwill for impairment for all reporting units for all periods presented which resulted in no impairment. As of December 31, 2020, the estimated fair value of the EMEA reporting unit, which had goodwill of \$288 million, exceeded its carrying amount by 23 percent. Each of the other reporting units with goodwill had a fair value that was substantially in excess of its carrying value. Management's cash flow projections for the reporting unit with less significant headroom (EMEA or the "**Reporting Unit**"), included significant judgments and assumptions relating to projected EBITDA margins and the discount rate. We evaluated the sensitivity of the significant assumptions used in the discounted cash flow model to estimate fair value for the Reporting Unit. A decline in the projected EBITDA margins of

100 basis points or an increase in the discount rate of 100 basis points would not have resulted in an impairment of the Reporting Unit.

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.

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, 2020, currency changes resulted in assets and liabilities denominated in local currencies being translated into more dollars than at year-end 2019. During periods of sustained movements in currency, the marketplace and competition adjust to the changing rates. 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. Currency movements impacted our year-to-year revenue growth. Based on the currency rate movements in 2020, total revenue decreased 5.0 percent as reported and 5.1 percent at constant currency versus 2019. 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. During 2018, the three-year cumulative inflation rates in Argentina, using a combination of monthly indices, exceeded the 100 percent threshold for hyperinflation. As a result, effective July 1, 2018, we changed the functional currency from local currency to U.S. dollar functional for Argentina with no material impact. In 2019 and 2020, the Argentinean economy continued to experience high inflation. The ongoing impact is not material given the size of our operations in the country (less than 1 percent of total 2020 and 2019 revenue, respectively).

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, other example of risk includes 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 foreign currency exchange rates on market-sensitive instruments. The market values for interest and foreign 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, 2020, and 2019. 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, 2020 and 2019 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 an immaterial decrease in the fair value of our financial instruments at December 31, 2020 and 2019.

Foreign Currency Exchange Rate Risk

A hypothetical 10 percent adverse change in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant, would result in an immaterial decrease in the fair value of our financial instruments at December 31, 2020 and 2019.

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. 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 draw heavily on our own commercial security solutions and services to mitigate cybersecurity risks. 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.

MANAGEMENT

The following table presents information concerning our executive officers and directors following the Spin-Off, including a five-year employment history.

Name	Age	Position
Martin Schroeter	56	Chief Executive Officer and Director
David Wyshner	54	Chief Financial Officer
Elly Keinan	56	Group President
Maryjo Charbonnier	51	Chief Human Resources Officer
Edward Sebold	56	General Counsel
Dominic J. Caruso	64	Director
John D. Harris II		Director
Stephen A. M. Hester	60	Director
Shirley Ann Jackson	75	Director
Janina Kugel	51	Director
Denis Machuel	57	Director
Rahul Merchant	65	Director
Jana Schreuder	63	Director
Howard I. Ungerleider	53	Director

The following are brief biographies describing the backgrounds of our executive officers and directors.

Martin Schroeter. Mr. Schroeter was appointed our inaugural Chief Executive Officer in January 2021 and will be appointed to our Board in connection with the Spin-Off. Previously, Mr. Schroeter served in a variety of business line and finance executive positions at IBM including Senior Vice President and Chief Financial Officer from 2014 until 2017, leading IBM's shift in spending profile to align with IBM strategic initiatives, and Senior Vice President of Global Markets from 2018 until 2020, responsible for IBM's global sales, customer relationships and satisfaction and worldwide geographic operations and overseeing IBM's marketing and communication functions and building IBM's brand and reputation globally. Earlier in his career, Mr. Schroeter served as General Manager of IBM global financing, managing a total asset base in excess of \$37 billion, and had served numerous roles in Japan, the United States and Australia. Previously, Mr. Schroeter served as a director of the American Australian Association. Mr. Schroeter received his MBA from Carnegie Mellon University and his undergraduate degree from Temple University. Mr. Schroeter's global business and leadership experience and financial expertise make him a well-qualified addition to our Board.

David Wyshner. Mr. Wyshner will be appointed our Chief Financial Officer in September 2021. From March 2020 until his appointment, Mr. Wyshner served as the Chief Financial Officer at XPO Logistics, Inc., where he led all financial functions for the global transportation and contract logistics company that manages supply chains for customers worldwide. Prior to that, Mr. Wyshner served as the Chief Financial Officer at Wyndham Hotels & Resorts, Inc. from May 2018 to December 2019, and as its senior advisor from December 2019 to March 2020. He served as Executive Vice President and Chief Financial Officer of Wyndham Worldwide Corporation, from which Wyndham Hotels was spun-off, from August 2017 to May 2018. From August 2006 to June 2017, Mr. Wyshner served as the Chief Financial Officer of Avis Budget Group and also served as Avis Budget Group's president from January 2016 to June 2017. Mr. Wyshner received his MBA from the Wharton School of the University of Pennsylvania and his bachelor's degree from Yale University.

Elly Keinan. Mr. Keinan was appointed our Group President in March 2021. From September 2020 until his appointment as our Group President, Mr. Keinan serves as a venture partner at Pitango Venture Capital, Israel's leading venture capital group, focused on scaling the success of growth stage technology companies. Prior to that, Mr. Keinan served a variety of executive roles at IBM from July 1987 to June 2020, including General Manager of IBM North America and Chairman of IBM Japan, and held top leadership

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roles in Latin America and Europe. Mr. Keinan currently serves on the boards of Cellebrite, Otopia and United Way of New York City. Mr. Keinan received his MBA from University of Miami Herbert Business School and his Bachelor of Science in Computer Science and Electrical Engineering from Rensselaer Polytechnic Institute.

Maryjo Charbonnier. Ms. Charbonnier was appointed our Chief Human Resources Officer in July 2021. From January 2015 until her appointment, Ms. Charbonnier served as the Chief Human Resources Officer at Wolters Kluwer, where she was responsible for the design and implementation of all human resources strategies, policies and processes. Prior to that, Ms. Charbonnier served as the Chief Human Resources Officer at Broadridge Financial Solutions from August 2008 to December 2014. From August 1995 to August 2008, Ms. Charbonnier was an HR executive in a variety of leadership roles at PepsiCo, including Vice President for Talent Sustainability for PepsiCo Foods Americas. Ms. Charbonnier received her MBA from Southern Methodist University and her undergraduate degree from Catholic University.

Edward Sebold. Mr. Sebold will be appointed our General Counsel in connection with the Spin-Off. From March 2012 until his appointment as our General Counsel, Mr. Sebold served as Assistant General Counsel at IBM, leading several global legal functions at IBM, including teams that worked with services, IBM's Watson Health, litigation and mergers and acquisitions. Prior to joining IBM in 2012, Mr. Sebold was a partner at Jones Day in the firm's Cleveland and Houston offices. Mr. Sebold serves on the board of the Pro Bono Partnership. Mr. Sebold received his JD from University of Michigan and his undergraduate degree from John Carroll University.

Dominic J. Caruso. Mr. Caruso will be appointed to our Board in connection with the Spin-Off. Mr. Caruso served as the Executive Vice President and Chief Financial Officer of Johnson & Johnson from 2007 until his retirement in 2018. Earlier in his career, Mr. Caruso served Centocor, Inc. as Vice President, Finance and Chief Financial Officer from 1994 to 1998, and as Senior Vice President and Chief Financial Officer from 1998 until the acquisition of Centocor by Johnson & Johnson in 1999. Mr. Caruso then joined Johnson & Johnson and served in various executive positions until his appointment as the Executive Vice President and Chief Financial Officer in 2007. Mr. Caruso is a director of McKesson Corporation. Mr. Caruso previously served as the Co-Chair of the U.S. Chamber of Commerce Global Initiative on Health and the Economy and currently serves on the Board of Trustees of The Children's Hospital of Philadelphia and the Cystic Fibrosis Foundation. Mr. Caruso received his BS from Drexel University. Mr. Caruso's global business experience and financial expertise will make him a well-qualified addition to our Board.

John D. Harris II. Mr. Harris will be appointed to our Board in connection with the Spin-Off. Mr. Harris served as Chief Executive Officer of Raytheon International Inc. from 2013 until 2020. Mr. Harris also served as Vice President of Business Development for Raytheon Company during his tenure. Mr. Harris joined Raytheon in 1983 and held positions of increasing responsibility, including Vice President of Operations and Contracts for Raytheon's former electronic systems business, Vice President of Contracts for the company's government and defense businesses until 2003, and Vice President of Contracts and Supply Chain for Raytheon Company until 2010, when he was named president of the Raytheon Technical Services Company, a role he served until 2013. Mr. Harris served on the Radio Technical Commission for Aeronautics NextGen Advisory Committee, the National Advisory Council on Minority Business Enterprise with the U.S. Department of Commerce and the Association of the United States Army's Council of Trustees. Mr. Harris serves as a board member for Cisco Systems Inc. and Flex Ltd. He received his undergraduate degree from Boston University. Mr. Harris' global business experience and technology, digital and cybersecurity expertise will make him a well-qualified addition to our Board.

Stephen A. M. Hester. Mr. Hester will be appointed to our Board in connection with the Spin-Off. Mr. Hester joined RSA Insurance Group in 2014, and was the Chief Executive Officer until his retirement in June 2021. Prior to joining RSA, he was group Chief Executive of Royal Bank of Scotland from 2008 to 2013, Chief Executive of British Land Plc from 2004 to 2008, and Chief Operating Officer and Chief Financial Officer of Abbey National plc from 2002 to 2004. Mr. Hester began his career at Credit Suisse First Boston in 1982 and held positions of increasing responsibility including Chief Financial Officer and Head of Support Division from 1996 until 2000, when he was appointed as Global Head of the Fixed Income Division, a role he served until 2001. Mr. Hester currently serves as a director of Centrica plc. Additionally, during the past five years, he served as a director of RSA Insurance Group plc. Mr. Hester was formerly

a director of the Royal Bank of Scotland, Northern Rock and Abbey National plc. Mr. Hester received his undergraduate degree from Oxford University. Mr. Hester's global business experience and financial expertise will make him a well-qualified member of our Board.

Shirley Ann Jackson. Dr. Jackson will be appointed to our Board in connection with the Spin-Off. Since 1999, Dr. Jackson has served as the President of Rensselaer Polytechnic Institute. From 1995 until she assumed her current position, Dr. Jackson was the Chairwoman of the U.S. Nuclear Regulatory Commission. From 1991 to 1995 Dr. Jackson served as a consultant to the former AT&T Bell Laboratories and was also a professor of theoretical physics at Rutgers University. Prior to such roles, Dr. Jackson was a theoretical physicist at the former AT&T Bell Laboratories from 1976 to 1991. She has been Co-Chair of the President's Intelligence Advisory Board, a member of the International Security Advisory Board to the United States Secretary of State, and a member of the United States Secretary of Energy Advisory Board. Dr. Jackson is a fellow of the Royal Academy of Engineering (U.K.), the American Academy of Arts and Sciences, and a member of the U.S. National Academy of Engineering and the American Philosophical Society. Dr. Jackson is a recipient of the National Medal of Science, the highest award in science and engineering awarded by the U.S. Government. Dr. Jackson is a member of the Council on Foreign Relations. She is a Regent Emerita and former Vice-Chair of the Board of Regents of the Smithsonian Institution, a past president of the American Association for the Advancement of Sciences, and an honorary trustee of the Brookings Institution. Dr. Jackson is a director of FedEx Corporation and Public Service Enterprise Group Incorporated. Additionally, during the past five years, she served as a director of IBM. Dr. Jackson received her PhD and BS degrees from MIT. Dr. Jackson's extensive leadership and technology experience will make her a well-qualified member of our Board.

Janina Kugel. Ms. Kugel will be appointed to our Board in connection with the Spin-Off. Ms. Kugel served as the Chief Human Resources Officer and member of the Managing Board of Siemens AG from 2015 until 2020. Ms. Kugel joined Siemens AG in 2001 as Vice President of Communications Group Strategy and in 2005, was appointed Director of Global Commercial Excellence before becoming Director of Human Resources in 2009. Ms. Kugel joined Osram in 2012, where she served as the Chief Human Resources Officer until 2013, when she was appointed Corporate Vice President of Human Resources and Chief Diversity Officer at Siemens AG. Ms. Kugel serves on the Board of Konecranes Plc and TUI AG and is a member of the Advisory Council of the German Pension Benefit Guaranty Association (Pensions-Sicherungs-Verein) and the Executive Committee of the Supervisory Board of the Confederation of German Employers' Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände). Ms. Kugel is also trustee of the Hertie School of Governance in Germany, a member of the International Advisory Board of the IESE Business School in Spain and, the University Council of the Technical University of Applied Sciences in Germany. Since 2020, Ms. Kugel has served as senior advisor to EQT, AB Group and Boston Consulting Group, Inc. She received her MS from the Johannes Gutenberg University Mainz. Ms. Kugel's global business experience and government service will make her a well-qualified addition to our Board.

Denis Machuel. Mr. Machuel will be appointed to our Board in connection with the Spin-Off. Mr. Machuel has served as Chief Executive Officer of Sodexo S.A. since 2018. Mr. Machuel joined Sodexo in 2007 as the Managing Director of Benefits and Rewards Services for Central and Eastern Europe. In 2012, he became Chief Executive Officer of Sodexo benefits and rewards worldwide. Mr. Machuel joined the Sodexo Group Executive Committee in 2014, and from 2015 until 2018, served as Group Chief Digital Officer and since 2017, he has served as Deputy Chief Executive Officer of Sodexo. Additionally, between 2016 and 2017, Mr. Machuel served as Chief Executive Officer of Personal and Home Services at Sodexo. Mr. Machuel is also a member of the G7 Business for Inclusive Growth Coalition and the Consumer Goods Forum. Mr. Machuel received his MS from Texas A&M University and his undergraduate degree from ENSIMAG College of Engineering. Mr. Machuel's global business experience and technology and digital expertise will make him a well-qualified addition to our Board.

Rahul N. Merchant. Mr. Merchant will be appointed to our Board in connection with the Spin-Off. Mr. Merchant has served as Senior Executive Vice President and Head of Client Services and Technology at TIAA since 2015. Prior to serving this role, Mr. Merchant served as citywide Chief Information and Innovation Officer for the City of New York from 2012 until 2014. From 2006 until 2009, Mr. Merchant served as Executive Vice President, Chief Information and Operations Officer and member of the Executive Committee at the Federal National Mortgage Association (Fannie Mae), and Senior Vice President, Chief

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Information Officer and Chief Technology Officer at Merrill Lynch, Pierce, Fenner & Smith Incorporated from 2000 until 2006. Mr. Merchant also serves as a director for Juniper Networks, Inc. Mr. Merchant received his MBA from Temple University, his MS from Memphis State University and his BS from Bombay University. Mr. Merchant's global business and technology experience will make him a well-qualified addition to our Board.

Jana Schreuder. Ms. Schreuder will be appointed to our Board in connection with the Spin-Off. Ms. Schreuder served as Executive Vice President and Chief Operating Officer of Northern Trust Corporation from 2014 until she retired from that role in 2018. Ms. Schreuder joined Northern Trust in 1980 and during her tenure held multiple roles as a member of the management team, including service as Chief Risk Officer from 2005 to 2006, President of Operations and Technology from 2006 to 2011, and President of Wealth Management from 2011 to 2014. Ms. Schreuder is a member of the Global Governance Committee of Women Corporate Directors. Ms. Schreuder currently sits on the board of Blucora, Inc. and The Bank of N.T. Butterfield & Son Limited. Additionally, during the past five years, she served as a director of LifePoint Health Inc. Ms. Schreuder received her MBA from Northwestern University and her BA from Southern Methodist University. Ms. Schreuder's technology, digital and cybersecurity expertise will make her a well-qualified addition to our Board.

Howard I. Ungerleider. Mr. Ungerleider will be appointed to our Board in connection with the Spin-Off. Mr. Ungerleider has served as President and Chief Financial Officer of Dow Inc. since April 2019. In 1990, he joined The Dow Chemical Company and subsequently held various positions, including Chief Financial Officer from 2014 to 2015. In 2016, he was appointed Chief Financial Officer of DowDuPont effective upon the merger of The Dow Chemical Company and E.I. du Pont de Nemours and Company. Mr. Ungerleider served in this role from 2017 until April of 2019, when Dow Inc. separated from DowDuPont. Mr. Ungerleider is Chairman of the Dow Company Foundation and serves on the board of directors of FCLTGlobal, the Michigan Israel Business Bridge and Keep America Beautiful. Mr. Ungerleider is also a member of the Executive Committee of the Business Leaders for Michigan business roundtable and the Michigan Climate Executive Advisory Group. Additionally, during the past five years, he served as a director of Wolverine Bancorp, Inc. Mr. Ungerleider received his MBA from UCLA and his BBA from The University of Texas at Austin. Mr. Ungerleider's global business and leadership experience and financial expertise will make him a well-qualified member of our Board.

Our Board Following the Spin-Off and Director Independence

Upon completion of the Distribution, our Board is expected to consist of 10 members.

Until the conclusion of the 2027 annual meeting, our Board will be divided into three classes, with each class consisting, as nearly as may be possible, of one-third of the total number of directors. The directors designated as Class I directors will have terms expiring at the first annual meeting of stockholders following the Distribution, which we expect to hold in 2022. The directors designated as Class II directors will have terms expiring at the following year's annual meeting, which we expect to hold in 2023, and the directors designated as Class III directors will have terms expiring at the following year's annual meeting, which we expect to hold in 2024. Any director elected at the 2022, 2023 or 2024 annual meeting will belong to the class whose term expires at such annual meeting and will hold office for a three-year term until his or her successor has been duly elected and qualified or until his or her earlier resignation or removal.

, and will serve as Class I directors,
and will serve as Class II directors and,
, and serve as Class III directors.

Beginning at the 2025 annual meeting and at each annual meeting thereafter, all of our directors up for election at such meeting will be elected annually and will hold office until the next annual meeting and until his or her successor has been duly elected and qualified or until his or her earlier resignation or removal. Effective as of the conclusion of the 2027 annual meeting, our Board will therefore no longer be divided into three classes. Before our Board is declassified, it would take at least two elections of directors for any individual or group to gain control of our Board. Accordingly, while the classified board is in effect, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to control us. This temporary classified Board structure is intended to provide better continuity

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of leadership during Kyndryl's first years of operation as an independent, publicly held business, versus annually elected directors. We have not yet set the date of the first annual meeting to be held following the Distribution.

A majority of our directors will meet the independence requirements set forth in the listing standards of the _____ at the time of the Spin-Off.

Committees of the Board

Effective upon the completion of the Spin-Off, our Board will have the following committees, each of which will operate under a written charter that will be posted on our website prior to the Spin-Off.

Audit Committee

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

- selecting the independent registered public accounting firm, approving all related fees and compensation, overseeing the work of the independent accountant, and reviewing its selection with the Board;
- annually preapproving the proposed services to be provided by the accounting firm during the year;
- reviewing the procedures of the independent registered public accounting firm for ensuring its independence and other qualifications with respect to the services performed for us;
- reviewing any significant changes in accounting principles or developments in accounting practices and the effects of those changes upon our financial reporting;
- assessing the effectiveness of our internal audit function and overseeing the adequacy of internal controls and risk management processes; and
- meeting with management prior to each quarterly earnings release and periodically to discuss the appropriate approach to earnings press releases and the type of financial information and earnings guidance to be provided to analysts and rating agencies.

The Audit Committee will have at least three members and will consist entirely of independent directors, each of whom will meet the independence requirements set forth in the listing standards of the _____, Rule 10A-3 under the Exchange Act and our Audit Committee charter. Each member of the Audit Committee will be financially literate, and at least one member of the Audit Committee will have accounting and related financial management expertise and satisfy the criteria to be an "audit committee financial expert" under the rules and regulations of the SEC, as those qualifications are interpreted by our Board in its business judgment. The initial members of the Audit Committee will be determined prior to the Spin-Off.

Compensation Committee

The Compensation Committee will have responsibility for defining and articulating our overall executive compensation philosophy and key compensation policies, and administering and approving all elements of compensation for corporate officers. Concurrent with that responsibility, as set out more fully in the Compensation Committee charter, the Compensation Committee will perform other functions, including:

- reviewing and approving the corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluating performance in light of those goals and objectives and, together with the other independent directors, determining and approving the Chief Executive Officer's compensation based on this evaluation;
- reviewing our management resources programs (including our human capital management and diversity and inclusion practices) and recommending qualified candidates for election as officers;

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- approving, by direct action or through delegation, participation in and all awards, grants, and related actions under our various equity plans;
- reviewing the compensation structure for our officers and providing oversight of management’s decisions regarding performance and compensation of other employees; and
- monitoring compliance with stock ownership and clawback guidelines.

The initial members of our Compensation Committee will be determined prior to the Spin-Off.

Nominating and Governance Committee

The Nominating and Governance Committee will be devoted primarily to the continuing review, definition and articulation of our governance structure and practices. Concurrent with that responsibility, as set out more fully in the Nominating and Governance Committee charter, the Nominating and Governance Committee will perform other functions, including:

- leading the search for qualified individuals for election as our directors, including for inclusion in the slate of directors that the Board proposes for election by stockholders at the Annual Meeting, recommending qualified candidates to the Board for election as directors based on each such candidate’s business or professional experience, the diversity of their background (including gender and ethnic diversity), and their talents and perspectives, reviewing and assessing the independence of each director nominee, and planning for future Board and Committee refreshment actions;
- advising and making recommendations to the Board on all matters concerning directorship practices, and on the function, composition and duties of the committees of the Board;
- assessing transactions with related persons under our related person transactions policy and reviewing the policy at least annually;
- reviewing our non-management director compensation practices;
- developing and making recommendations to the Board regarding a set of corporate governance guidelines;
- reviewing and considering our position and practices on significant issues of corporate social responsibility; and
- reviewing and considering stockholder proposals and director nominees.

The initial members of the Nominating and Governance Committee will be determined prior to the Spin-Off.

Code of Ethics

Prior to the completion of the Spin-Off, we will adopt a written code of ethics for directors, executive officers and employees. The code will be designed to deter wrongdoing and to promote, among other things:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- protection of client and third party information in compliance with applicable privacy and data security requirements;
- full, fair, accurate, timely and understandable disclosure in reports and documents that we file with the SEC and other regulators and in our other public communications;
- compliance with applicable laws, rules and regulations; and
- accountability for adherence to the code and prompt internal reporting of any possible violation of the code.

Director Nomination Process

Our initial Board will be selected through a process involving both IBM and us. The initial directors who will serve after the Spin-Off will begin their terms at the time of the Distribution, with the exception of

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one independent director who will begin his or her term prior to the date on which “when-issued” trading of our common stock commences and will serve on our Audit Committee, Compensation Committee and Nominating and Governance Committee.

Corporate Governance Guidelines

The Board will adopt a set of Corporate Governance Guidelines in connection with the separation to assist it in guiding our governance practices, which will be regularly reviewed by the Nominating and Governance Committee. These guidelines will cover a number of areas, including Board independence, leadership, composition (including director qualifications and diversity), responsibilities and operations; director compensation; Chief Executive Officer evaluation and succession planning; Board committees; director orientation and continuing education; director access to management and independent advisers; annual Board and committee evaluations; the Board’s communication policy and others. A copy of our corporate governance guidelines will be posted on our website.

Communications with Non-Management Members of the Board

After the Spin-Off, stockholders and other interested parties may communicate with the Board, individual directors, the non-management directors as a group, or with the Chair, by writing in care of our Secretary or sending an email to .

DIRECTOR COMPENSATION**Compensation of Directors**

We expect that our Board will approve an initial director compensation program, as described below, pursuant to which each of our non-employee directors will receive an annual director fee and an annual equity award in connection with their services. In addition, each director will be reimbursed for out-of-pocket expenses in connection with his or her services. The initial director compensation program set out below was approved by IBM's Directors and Corporate Governance Committee and Board of Directors, based upon the recommendations by Semler Brossy, the third-party compensation consultant of IBM's Directors and Corporate Governance Committee. The program will be designed to enable continued attraction and retention of highly qualified directors and to address the time, effort, expertise and accountability required of active Board membership.

Following the Spin-Off, we expect that our Nominating and Governance Committee will periodically review and make recommendations to our Board regarding the form and amount of compensation for non-employee directors. Directors who are also our employees are expected to receive no additional compensation for service on our Board.

Annual Compensation

In general, we believe that annual compensation for non-employee directors should consist of both a cash component, designed to compensate members for their service on the Board and its committees, and an equity component, designed to align the interests of directors and stockholders and, by vesting over time, to create an incentive for continued service on the Board.

Board of Directors' Annual Compensation

Cash Retainer	\$100,000
Board Committee Chairmanship – Additional Cash Retainer	Audit Committee Chair: \$30,000 Compensation Committee Chair: \$22,500 Nominating and Governance Committee Chair: \$22,500
Annual Equity Grants RSUs vest on the first anniversary of the date of grant.	Each non-employee director receives an annual RSU grant with a target value of \$200,000

Cash elements are expected to be paid in installments and prorated for partial years of service. In addition, if the Equity Plan is approved by IBM, as our sole stockholder, and our Board, it is expected that the maximum aggregate number of shares of our common stock that may be issued under all stock-based awards granted under such plan to non-employee directors would be

Stock Ownership Guidelines

We expect to adopt a stock ownership policy pursuant to which each non-employee director, while serving as a director of the Company, must hold our common stock with a market value of at least five times the annual cash retainer (or \$500,000) before being permitted to sell any of our common stock holdings, including net shares from vesting of RSU grants (i.e., shares vested less shares required to pay applicable taxes).

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion & Analysis (“**CD&A**”) sets forth prospective compensation arrangements for individuals who we expect to be our Named Executive Officers. Each of these individuals was either newly hired to become one of our executive officers or was formerly an IBM employee who was not primarily dedicated to our business. While certain of our executive officers will have been employed by IBM prior to the Spin-Off, their executive roles and compensation structures with us will differ in many respects from their most recent positions with IBM. Accordingly, we have not disclosed historical IBM compensation information with respect to such executive officers because the IBM compensation to any such individual was not representative of compensation for services to our business. We have adopted and will continue to develop our own compensation plans and programs and anticipate that each of our executive officers will be covered by these programs following the Spin-Off.

As discussed above, we are currently part of IBM and not an independent company, and our Compensation Committee has not yet been formed. Decisions about our executive compensation and benefits to date have been made by the Executive Compensation and Management Resources Committee of the IBM Board (the “**IBM Compensation Committee**”) and IBM senior management. Following the Spin-Off, we expect that our Compensation Committee will review our executive compensation and benefit programs and determine the appropriate compensation and benefits for our executive officers. Accordingly, our executive compensation and benefits programs following the Spin-Off may not be the same as those discussed below.

For purposes of this CD&A and the disclosure that follows, our “Named Executive Officers” (or “**NEOs**”) are listed below. Prior to the effectiveness of the registration statement of which this Information Statement forms a part, the other NEOs will be identified in this Compensation Discussion and Analysis.

- Martin Schroeter, Chief Executive Officer
- David Wyshner, Chief Financial Officer
- Elly Keinan, Group President
- Maryjo Charbonnier, Chief Human Resources Officer
- Edward Sebold, General Counsel

2021 Compensation Opportunities

The following table sets forth, on an annualized basis for 2021, the annual base salary and other compensation expected to be payable to each of our NEOs in accordance with their offer letters. See “Offer Letters” below for a summary of these agreements.

NEO	Base Salary	Transaction Bonus	Sign-On Bonus	RRSU Grant⁽¹⁾	PSU Grant⁽¹⁾
Martin Schroeter Chief Executive Officer	\$1,000,000	\$2,000,000	N/A	N/A	\$10,500,000 ⁽²⁾
David Wyshner Chief Financial Officer	\$ 780,000	\$ 975,000	N/A	\$3,500,000	\$4,000,000
Elly Keinan Group President	\$ 800,000	\$1,600,000	\$2,000,000	N/A	\$5,600,000 ⁽²⁾
Maryjo Charbonnier Chief Human Resources Officer	\$ 615,000	\$ 770,000	\$ 875,000	\$ 700,000	\$1,000,000
Edward Sebold General Counsel	\$ 666,667	\$ 833,333	N/A	N/A	\$1,000,000

(1) Retention Restricted Share Unit (“**RRSU**”) and Performance Share Unit (“**PSU**”) grant values reflect the planned value of the grant. In the case of the planned grant value, the number of shares granted are

determined by dividing the planned value by the average of IBM's closing stock price for the 30 active trading days prior to the date of grant.

- (2) If, as of the closing of the Spin-Off, the fair market value of the IBM shares underlying Mr. Schroeter's or Mr. Keinan's target PSU award ("**IBM PSU Share Value**") is less than the PSU planned grant value by \$50,000 or more, then immediately after the closing of the Spin-Off, provided that the applicable performance criteria have been met or excused, the executive officer will receive a Restricted Share Unit ("RSU") award with respect to the number of shares of our common stock with a value on the date of grant equal to the difference between the target PSU grant value and the IBM PSU Share Value.

Our Compensation Programs Following the Spin-Off

Although executive compensation determinations following the Spin-Off will be made by the Compensation Committee, we expect that the primary objectives of our executive compensation will be to meet five key objectives: (1) align the interests of our leaders with those of our investors by varying compensation based on both long-term and annual business results and delivering a large portion of the total pay opportunity in our stock; (2) balance rewards for both short-term results and the long-term strategic decisions needed to ensure sustained business performance over time; (3) attract and retain the highly qualified senior leaders needed to drive a global enterprise to succeed in today's highly competitive marketplace; (4) motivate our leaders to deliver a high degree of business performance without encouraging excessive risk taking; and (5) differentiate rewards to reflect individual and team performance. To fulfill these objectives, we also expect that we will have an executive compensation program that includes three major elements—base salary, annual bonus incentives and long-term equity incentives, which may include restricted stock and performance-based equity awards. Other than the offer letters and initial equity grants, which are described below, we have not adopted any compensation policies, procedures or plans with respect to NEO compensation and any such determinations remain subject to the review and approval of the Compensation Committee.

Offer Letters with our Named Executive Officers

CEO Offer Letter. On January 2, 2021, IBM entered into an offer letter with Mr. Schroeter appointing him as our Chief Executive Officer, which became effective when he was hired on January 15, 2021, and which will be assumed by us following the Spin-Off. The offer letter provides Mr. Schroeter with an annual base salary of \$1,000,000, prorated for 2021 based on Mr. Schroeter's actual service for IBM during such year, a \$2,000,000 transaction bonus and a new hire PSU award of \$10,500,000 in planned value.

Mr. Schroeter's transaction bonus will be paid no later than February 1, 2022, subject to the closing of the Spin-Off and Mr. Schroeter remaining actively employed through the closing of the Spin-Off. Although the Spin-Off is expected to occur prior to December 31, 2021, Mr. Schroeter may still receive the transaction bonus if the Spin-Off is not complete by such date if (i) IBM's Chief Executive Officer, in his sole discretion, decides to pay the bonus in full prior to February 1, 2022 (provided Mr. Schroeter is an active employee on the payment date) or (ii) the Spin-Off was not completed for reasons beyond Mr. Schroeter's reasonable control and his employment is terminated without Cause (as defined below). In addition, if prior to December 31, 2021, for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Schroeter's performance in moving the Spin-Off to closure, then Mr. Schroeter will still be eligible to receive the transaction bonus within one month after the later of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer, subject to Mr. Schroeter's continued employment through such announcement or closing, as applicable.

Mr. Schroeter's new hire PSU award was granted on February 1, 2021 and will become eligible to vest if (i) the Spin-Off is completed as envisioned by January 1, 2023 (i.e., as described in this Information Statement) and (ii) immediately following the closing of the Spin-Off, Mr. Schroeter accepts employment as our Chief Executive Officer. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date, subject to continued employment on such dates (except as provided below). In addition, if for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer

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determines that such announcement or sale was not made as a result of Mr. Schroeter's performance in moving the Spin-Off to closure, then Mr. Schroeter will still be eligible to receive the PSUs on the six-month, first and second anniversaries of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer (in the case of a sale, also if Mr. Schroeter was not selected to become our Chief Executive Officer or was selected to become the Chief Executive Officer, but declines the offer), as applicable. Furthermore, if Mr. Schroeter's employment is terminated without Cause prior to the Spin-Off or the sale to a third party, or if the Spin-Off is completed and Kyndryl's offer of employment is not comparable in the aggregate to the terms of his offer letter (including with respect to annual salary, bonus and equity awards) or our Board does not appoint Mr. Schroeter as Chairman of our Board, then Mr. Schroeter will still be eligible to receive the PSUs on the six-month, first and second anniversaries of the termination date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Mr. Schroeter's death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

If, as of the closing of the Spin-Off, the IBM PSU Share Value of Mr. Schroeter's PSU award is less than \$10,500,000 by \$50,000 or more, then immediately after the closing of the Spin-Off, provided that the applicable performance criteria have been met or excused, Mr. Schroeter will receive an RSU award with respect to the number of shares of Kyndryl common stock with a value on the date of grant equal to the difference between \$10,500,000 and the IBM PSU Share Value, with such RSUs vesting on the same schedule as the PSU award. If the Spin-Off does not occur and we are instead sold to another buyer and as of the sale date the IBM PSU Share Value of Mr. Schroeter's PSU award is less than \$10,500,000 by \$50,000 or more, and Mr. Schroeter accepts employment with the buyer, then the buyer will grant an RSU award, or substantially equivalent cash or equity-based award in an affiliate of buyer, with a value equal to the difference between \$10,500,000 and the IBM PSU Share Value, with the award vesting on the same schedule as the PSU award.

For purposes of Mr. Schroeter's offer letter, Cause means, as reasonably determined by IBM, the occurrence of any of the following: (i) embezzlement, misappropriation of corporate funds or other material acts of dishonesty; (ii) commission or conviction of any felony or of any misdemeanor involving moral turpitude, or entry of a plea of guilty or nolo contendere to any felony or misdemeanor (other than a minor traffic violation or other minor infraction); (iii) engagement in any activity that Mr. Schroeter knows or should know could harm our business or reputation; (iv) failure to adhere to our corporate codes, policies or procedures; (v) a breach of any covenant in any employment agreement or any intellectual property agreement, or a breach of any other provision of Mr. Schroeter's employment agreement, in either case if the breach is not cured to our satisfaction within a reasonable period after Mr. Schroeter is provided with notice of the breach (no notice and cure period is required if the breach cannot be cured); (vi) failure by Mr. Schroeter to perform his duties or follow management direction, which failure is not cured to our satisfaction within a reasonable period of time after a written demand for substantial performance is delivered to Mr. Schroeter (no notice or cure period is required if the failure to perform cannot be cured); (vii) violation of any statutory, contractual or common law duty or obligation to us, including, without limitation, the duty of loyalty; or (viii) rendering of services for any organization or engaging directly or indirectly in any business which is or becomes competitive with us, or which organization or business, or the rendering of services to such organization or business, is or becomes otherwise prejudicial to or in conflict with our interests; or (ix) acceptance of an offer to engage in or associate with any business which is or becomes competitive with us; provided, however, that the mere failure to achieve performance objectives shall not constitute Cause.

CFO Offer Letter. On July 25, 2021, IBM entered into an offer letter with Mr. Wyshner appointing him as our Chief Financial Officer, which became effective on _____, 2021, and which will be assumed by us following the Spin-Off. The offer letter provides Mr. Wyshner with an annual base salary of \$780,000, prorated for 2021 based on Mr. Wyshner's actual service for IBM during such year, a \$975,000 transaction bonus, a new hire PSU award of \$4,000,000 in planned value and a sign-on equity RRSU award of \$3,500,000 in planned value.

Mr. Wyshner's transaction bonus will be paid no later than February 1, 2022, subject to the closing of the Spin-Off and Mr. Wyshner remaining actively employed through the closing of the Spin-Off. Although

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the Spin-Off is expected to occur prior to December 31, 2021, Mr. Wyshner may still receive the transaction bonus if the Spin-Off is not complete by such date (i) no later than February 1, 2022, if IBM's Chief Executive Officer, in his sole discretion, decides to pay the bonus in full or in part prior to February 1, 2022 (provided Mr. Wyshner is an active employee on the payment date) or (ii) within one month following the date of termination, if the Spin-Off was not completed for reasons beyond Mr. Wyshner's reasonable control and his employment is terminated without Cause (as defined below). In addition, if prior to December 31, 2021, for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that (i) Mr. Wyshner's performance in moving the Spin-Off to closure was not a contributing factor in the decision to make such announcement or sale and (ii) Mr. Wyshner's performance is otherwise satisfactory, then Mr. Wyshner will still be eligible to receive the transaction bonus within one month after the later of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer, subject to Mr. Wyshner's continued employment through such announcement or closing, as applicable.

Mr. Wyshner's new hire PSU award was granted on _____, 2021 and will become eligible to vest if (i) the Spin-Off is completed as envisioned by January 1, 2023 (i.e., as described in this Information Statement) and (ii) if the Spin-Off is completed, immediately following the closing of the Spin-Off, Mr. Wyshner accepts employment as our Chief Financial Officer. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date, subject to continued employment on such dates (except as provided below). In addition, if for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Wyshner's performance in moving the Spin-Off to such closure, then Mr. Wyshner will still be eligible to receive the PSUs on the six-month, first and second anniversaries of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer (in the case of a sale, also if Mr. Wyshner was not selected to become our Chief Financial Officer or a substantially comparable role), as applicable. Furthermore, if Mr. Wyshner's employment is terminated without Cause prior to the Spin-Off or the sale to a third party, or if the Spin-Off is completed and our offer of employment is not comparable in the aggregate to the terms of his offer letter (including with respect to annual salary, bonus and equity awards or Mr. Wyshner was not selected to become our Chief Financial Officer or a substantially comparable role), then Mr. Wyshner will still be eligible to receive the PSUs on the six-month, first and second anniversaries of the termination date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Mr. Wyshner's death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

Mr. Wyshner's sign-on RRSU award was granted on _____, 2021, will vest in an amount of \$250,000 in planned value on the first anniversary of the grant date, \$250,000 in planned value on the second anniversary of the grant date and \$3,000,000 in planned value on the third anniversary of the grant date and will be converted upon the Spin-Off in a manner consistent with similar IBM awards. If Mr. Wyshner's employment is terminated without Cause prior to the third anniversary of the grant date, and his performance is otherwise satisfactory, Mr. Wyshner will still be eligible to receive the RRSU award as scheduled. Upon Mr. Wyshner's death, the RRSU award will vest immediately, and upon Mr. Wyshner's disability, the RRSU award will remain eligible to vest as scheduled.

For purposes of Mr. Wyshner's offer letter, Cause has the same meaning as in Mr. Schroeter's offer letter.

Group President Offer Letter. On March 1, 2021, IBM entered into an offer letter with Mr. Keinan appointing him as our Group President, which became effective on March 8, 2021, and which will be assumed by us following the Spin-Off. The offer letter provides Mr. Keinan with an annual base salary of \$800,000, prorated for 2021 based on Mr. Keinan's actual service for IBM during such year, a \$1,600,000 transaction bonus, a new hire equity PSU award of \$5,600,000 in planned value and a \$2,000,000 sign-on bonus.

Mr. Keinan's transaction bonus will be paid no later than February 1, 2022, subject to the closing of the Spin-Off and Mr. Keinan remaining actively employed through the closing of the Spin-Off. Although

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the Spin-Off is expected to occur prior to December 31, 2021, Mr. Keinan may still receive the transaction bonus if the Spin-Off is not complete by such date if (i) IBM's Chief Executive Officer, in his sole discretion, decides to pay the bonus in full prior to February 1, 2022 (provided Mr. Keinan is an active employee on the payment date) or (ii) the Spin-Off was not completed for reasons beyond Mr. Keinan's reasonable control and his employment is terminated without Cause (as defined below). In addition, if prior to December 31, 2021, for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Keinan's performance in moving the Spin-Off to closure, then Mr. Keinan will still be eligible to receive the transaction bonus within one month after the later of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer, subject to Mr. Keinan's continued employment through such announcement or closing, as applicable.

Mr. Keinan's new hire PSU award was granted on April 1, 2021 and will become eligible to vest if (i) the Spin-Off is completed as envisioned by January 1, 2023 (i.e., as described in this Information Statement) and (ii) immediately following the closing of the Spin-Off, Mr. Keinan accepts employment as our Group President. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date, subject to continued employment on such dates (except as provided below). In addition, if for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Mr. Keinan's performance in moving the Spin-Off to such closure, then Mr. Keinan will still be eligible to receive the PSUs on the six-month, first and second anniversaries of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer (in the case of a sale, also if Mr. Keinan was not selected to become our Group President or a substantially comparable role), as applicable. Furthermore, if Mr. Keinan's employment is terminated without Cause prior to the Spin-Off or the sale to a third party, or if the Spin-Off is completed and our offer of employment is not comparable in the aggregate to the terms of his offer letter (including with respect to annual salary, bonus and equity awards), then Mr. Keinan will still be eligible to receive the PSUs on the six-month, first and second anniversaries of the termination date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Mr. Keinan's death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

If, as of the closing of the Spin-Off, the IBM PSU Share Value of Mr. Keinan's PSU award is less than \$5,600,000 by \$50,000 or more, then immediately after the closing of the Spin-Off, provided that the applicable performance criteria have been met or excused, Mr. Keinan will receive an RSU award with respect to the number of shares of Kyndryl common stock with a value on the date of grant equal to the difference between \$5,600,000 and the IBM PSU Share Value, with such RSUs vesting on the same schedule as the PSU award. If the Spin-Off does not occur and we are instead sold to another buyer and as of the sale date the IBM PSU Share Value of Mr. Keinan's PSU award is less than \$5,600,000 by \$50,000 or more, and Mr. Keinan accepts employment with the buyer, then the buyer will grant an RSU award or substantially equivalent cash or equity-based award in an affiliate of buyer, with a value equal to the difference between \$5,600,000 and the IBM PSU Share Value, with the award vesting on the same schedule as the PSU award.

Mr. Keinan's sign-on bonus was paid within two months of his hire date, and must be repaid if Mr. Keinan's employment with IBM, or us after the closing of the Spin-Off, ends within two years after his hire date. Mr. Keinan will not be required to repay his sign on bonus upon his termination of employment from IBM and us if: (i) IBM formally announces that it will not complete the Spin-Off, and IBM's Chief Executive Officer determines that such decision was not made as a result of Mr. Keinan's performance in moving the Spin-Off to closure; (ii) we are purchased by another buyer, and (a) IBM's Chief Executive Officer determines that such decision was not made as a result of Mr. Keinan's performance and (b) Mr. Keinan is not selected for a substantially comparable role at the new company; or (iii) such termination was without Cause.

For purposes of Mr. Keinan's offer letter, Cause has the same meaning as in Mr. Schroeter's offer letter.

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Chief Human Resources Officer Offer Letter. On May 28, 2021, IBM entered into an offer letter with Ms. Charbonnier appointing her as our Chief Human Resources Officer, which became effective on July 6, 2021, and which will be assumed by us following the Spin-Off. The offer letter provides Ms. Charbonnier with an annual base salary of \$615,000, prorated for 2021 based on Ms. Charbonnier's actual IBM start date and termination date during such year, a \$770,000 transaction bonus, a new hire equity PSU award of \$1,000,000 in planned value, a sign-on equity RRSU award of \$700,000 in planned value and a \$875,000 sign-on bonus.

Ms. Charbonnier's transaction bonus will be paid no later than February 1, 2022, subject to the closing of the Spin-Off and Ms. Charbonnier remaining actively employed through the closing of the Spin-Off, although IBM, in its sole discretion, may decide to provide Ms. Charbonnier with a partial payment of \$200,000 if she is terminated without Cause (as defined below) prior to the closing of the Spin-Off. Although the Spin-Off is expected to occur prior to December 31, 2021, Ms. Charbonnier may still receive the transaction bonus if the Spin-Off is not complete by such date if (i) IBM's Chief Executive Officer, in his sole discretion, decides to pay the bonus in full or in part prior to February 1, 2022 (provided Ms. Charbonnier is an active employee on the payment date) or (ii) the Spin-Off was not completed for reasons beyond Ms. Charbonnier's reasonable control and her employment is terminated without Cause, payable by February 1, 2022. In addition, if prior to December 31, 2021, for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that (i) Ms. Charbonnier's performance in moving the Spin-Off to closure was not a contributing factor in the decision to make such announcement or sale and (ii) Ms. Charbonnier's performance is otherwise satisfactory, then Ms. Charbonnier will still receive the transaction bonus within one month after the later of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer, subject to Ms. Charbonnier's continued employment through such announcement or closing, as applicable.

Ms. Charbonnier's new hire PSU award was granted on August 1, 2021 and will become eligible to vest if (i) the Spin-Off is completed as envisioned by January 1, 2023 (i.e., as described in this Information Statement) and (ii) if the Spin-Off is completed as envisaged, immediately following the closing of the Spin-Off, Ms. Charbonnier accepts employment as our Chief Human Resources Officer. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date, subject to continued employment on such dates (except as provided below). In addition, if for strategic business reasons, IBM formally announces it will not complete the Spin-Off or if we are sold to another buyer, and IBM's Chief Executive Officer determines that such announcement or sale was not made as a result of Ms. Charbonnier's performance in moving the Spin-Off to such closure, then Ms. Charbonnier will still be eligible to receive the PSUs on the six-month, first and second anniversaries of (i) the announcement not to complete the Spin-Off or (ii) the closing of the sale to another buyer (in the case of a sale, also if Ms. Charbonnier was not selected to become our Chief Human Resources Officer or a substantially comparable role), as applicable. Furthermore, if Ms. Charbonnier's employment is terminated without Cause prior to the Spin-Off or the sale to a third party, if the Spin-Off is completed and our offer of employment is not comparable in the aggregate to the terms of her offer letter (including with respect to annual salary, bonus and equity awards) or the Spin-Off is completed and her geographic location is greater than 50 miles from her work location, then Ms. Charbonnier will still be eligible to receive the PSUs on the six-month, first and second anniversaries of the termination date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Ms. Charbonnier's death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

Ms. Charbonnier's sign-on RRSU award was granted on August 1, 2021, will vest on the second anniversary of the grant date and will be converted upon the Spin-Off in a manner consistent with similar IBM awards. If Ms. Charbonnier's employment is terminated without Cause prior to the second anniversary of the grant date, and her performance is otherwise satisfactory, Ms. Charbonnier will still be eligible to receive the RRSU award as scheduled. Upon Ms. Charbonnier's death, the RRSU award will vest immediately, and upon Ms. Charbonnier's disability, the RRSU award will remain eligible to vest as scheduled.

Ms. Charbonnier's sign-on bonus will be paid within 60 days of her hire date, and must be repaid if Ms. Charbonnier's employment with IBM, or us after the closing of the Spin-Off, ends within one year

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after her hire date. Ms. Charbonnier will not be required to repay her sign on bonus upon her termination of employment from IBM and us if: (i) IBM formally announces that it will not complete the Spin-Off, and IBM's Chief Executive Officer determines that Ms. Charbonnier's performance in moving the Spin-Off to closure was not a contributing factor in the decision not to complete the Spin-Off, and her performance was otherwise satisfactory; (ii) we are purchased by another buyer, and (a) IBM's Chief Executive Officer determines that Ms. Charbonnier's performance was not a contributing factor in such decision and her performance was otherwise satisfactory and (b) Ms. Charbonnier is not selected for a substantially comparable in the aggregate role at the new company (including annual salary, bonus, equity awards and geographic location, which cannot be greater than 50 miles from her work location); or (iii) such termination was without Cause.

For purposes of Ms. Charbonnier's offer letter, Cause has the same meaning as in Mr. Schroeter's offer letter.

General Counsel. Mr. Sebold has not entered into an offer letter or employment agreement with us. As discussed above, although Mr. Sebold had previously been employed by IBM, we have not disclosed his historical IBM compensation information since we do not believe such disclosure would accurately reflect the compensation plans and philosophies that we intend to implement as a separate publicly traded company. While Mr. Sebold was employed by IBM prior to the Spin-Off, his executive role and compensation structure with us will differ in many respects from his most recent positions with IBM. We have adopted and will continue to develop our own compensation plan and program and anticipate that Mr. Sebold will be covered by these programs following the Spin-Off.

Mr. Sebold's annual base salary is \$666,667, and Mr. Sebold is eligible to receive a transaction bonus equal to \$833,333 no later than February 1, 2022, subject to the successful completion of the Spin-Off by December 31, 2021 and Mr. Sebold remaining an active employee through such date. If the Spin-Off is not completed by December 31, 2021, IBM's Chief Executive Officer may, in his discretion, decide to pay the bonus in full or in part, and such payment will be made no later than February 1, 2022, so long as Mr. Sebold is an active employee of IBM or Kyndryl on such payment date.

Mr. Sebold also received a PSU award on May 3, 2021, with a planned value of \$1,000,000. The PSU award will become eligible to vest upon: (i) successful completion of the Spin-Off as envisaged by no later than January 1, 2023, and (ii) immediately following the closing of the Spin-Off, Mr. Sebold accepts employment with us as General Counsel. If the performance criteria are achieved, the PSU award vests 33% on the six-month anniversary of the Spin-Off closing date, 33% on the first anniversary of the Spin-Off closing date and 34% on the second anniversary of the Spin-Off closing date. If, other than by death or disability described below, the performance conditions are not met for any other reason by January 1, 2023, the PSUs will be canceled. Upon Mr. Sebold's death or disability, the PSU award will remain eligible to vest in accordance with its terms and will vest if the Spin-Off does not occur as envisaged by January 1, 2023.

Treatment of IBM Equity Awards Held by Kyndryl Employees in the Spin-Off

Treatment of IBM RSUs in the Spin-Off. In connection with the Spin-Off, each outstanding IBM RSU held by a Kyndryl employee will be converted into an RSU in respect of Kyndryl common stock and will otherwise be subject to the same terms and conditions (including the vesting schedule), except that the number of shares of Kyndryl common stock to which such Kyndryl RSU relates will be equal to the product (rounded up to the nearest whole number of shares in most countries) of (i) the number of shares of IBM common stock to which such IBM RSU related prior to the Spin-Off by (ii) a quotient obtained by dividing (a) the closing price of IBM common stock on the last trading day prior to the Spin-Off by (b) the opening price of Kyndryl common stock on the first trading day following the Spin-Off, carried out to six decimal places (such quotient, the "equity award exchange ratio").

Treatment of IBM PSUs in the Spin-Off. In connection with the Spin-Off, each outstanding IBM PSU held by a Kyndryl employee will be converted into an RSU in respect of Kyndryl common stock subject solely to time-based vesting conditions and will otherwise be subject to the same terms and conditions (including the vesting schedule, but not any performance conditions), except that the number of shares of Kyndryl common stock to which such Kyndryl RSU relates will be equal to the product (rounded up to the nearest whole number of shares in most countries) of (i) the number of shares of IBM common stock to

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which such IBM PSU related prior to the Spin-Off assuming (a) for IBM PSUs related to performance periods that began prior to January 1, 2021, actual achievement of the relevant performance goals as of the Spin-Off as determined by IBM's compensation committee, or (b) for IBM PSUs related to the 2021 to 2023 performance period, target-level achievement of the relevant performance goals, by (ii) the equity award exchange ratio.

Treatment of IBM Stock Options in the Spin-Off. In connection with the Spin-Off, each outstanding IBM stock option (whether vested or unvested) held by a Kyndryl employee will be converted into a Kyndryl stock option and will otherwise be subject to the same terms and conditions (including the vesting schedule), except that: (i) the number of shares of Kyndryl common stock subject to such Kyndryl stock option will be equal to the product (rounded down to the nearest whole number of shares) of (A) the number of shares of IBM common stock subject to such IBM stock option prior to the Spin-Off by (B) the equity award exchange ratio; and (ii) the per share exercise price of such Kyndryl stock option will be equal to the quotient (rounded up to the nearest whole cent) obtained by dividing (A) the per share exercise price of such IBM stock option prior to the Spin-Off by (B) the equity award exchange ratio.

Treatment of IBM Restricted Stock Awards in the Spin-Off. In connection with the Spin-Off, each outstanding IBM restricted stock award held by a Kyndryl employee will be converted into a Kyndryl restricted stock award and will otherwise be subject to the same terms and conditions (including the applicable vesting schedule) after the Spin-Off, except that the number of shares of Kyndryl common stock to which such Kyndryl restricted stock award relates will be equal to the product (rounded up to the nearest whole number of shares in most countries) of (i) the number of shares of IBM common stock to which such IBM restricted stock award related prior to the Spin-Off by (ii) the equity award exchange ratio. Following the Spin-Off, Kyndryl will be responsible for the payment or settlement of any accrued dividends with respect to IBM restricted stock awards (or the Kyndryl restricted stock awards into which they were converted) held by Kyndryl employees, in accordance with the terms of the applicable IBM restricted stock award.

Treatment of IBM Employees Stock Purchase Plan in the Spin-Off. In connection with the Spin-Off, Kyndryl employees who participate in the IBM's employees stock purchase plan ("**ESPP**") will not be eligible to participate in any future offering periods that begin following the employee's transfer date and any cash remaining in IBM's ESPP account for any Kyndryl employee after the employee's transfer date will be refunded to such employee without interest as soon as practicable.

Kyndryl Excess Plan

In connection with the Spin-Off, we will adopt the Kyndryl Excess Plan (the "Excess Plan"), a nonqualified deferred compensation plan that, starting in 2022, offers eligible employees an opportunity to defer up to 80% of their eligible compensation (including base and performance pay, but not any non-recurring compensation) in excess of the limits imposed by the Code under the Kyndryl 401(k) Plan. Employees are eligible to participate in the Excess Plan if they (i) are hired as an executive or promoted to an executive position by Kyndryl after September 1, 2021 or (ii) directly transferred from IBM to Kyndryl and either (a) made elective deferrals under IBM's excess plan for the 2021 plan year or (b) were hired as an executive by IBM between November 15, 2020 and September 1, 2021. For eligible employees that transferred from IBM, we will make an annual contribution to the Excess Plan equal to 6% of the eligible pay in excess of the limits under the Code, but will not make any contributions to the Excess Plan for new hires. With respect to participants in IBM's excess plan who become participants in the Excess Plan in 2021, the applicable deferral elections and automatic and matching contributions that would have applied under IBM's excess plan for the remainder of 2021 will instead apply to the Excess Plan. However, the Excess Plan will not provide for matching contributions commencing in 2022. Distributions are made based following death (in a lump sum) or following a separation from service (in a lump sum or installments, based on the employee's distribution election), subject to certain exceptions for compliance with Section 409A of the Code.

2021 Long-Term Performance Plan

Prior to the Spin-Off, we expect our Board to adopt, and IBM, as our sole stockholder, to approve, the 2021 Long-Term Performance Plan of Kyndryl and its Affiliates (the "**Equity Plan**") for the benefit of certain

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of our current and future employees. The following summary describes what we anticipate to be the material terms of the Equity Plan.

When approved by IBM, as our sole stockholder, and our Board, the full text of the Equity Plan will be filed with the Securities and Exchange Commission (the “SEC”), and the following discussion is qualified in its entirety by reference to such text.

Purpose of the Equity Plan. The Equity Plan will be designed to attract, motivate and retain certain of our employees and other individuals providing services to us. These objectives will be accomplished by making long-term incentives and other awards under the Equity Plan, thereby providing participants with a proprietary interest in our growth and performance.

Shares Available for Awards. If the Equity Plan is approved by IBM, as our sole stockholder, and our Board, it is expected that the maximum aggregate number of shares of our common stock that may be issued under all stock-based awards granted under the Equity Plan would be _____ plus any IBM awards that are assumed in connection with the Spin-Off or any other awards or shares that are assumed by us in connection with an acquisition of a company. In addition, it is expected that the Equity Plan will contain a limit on the number of shares of our common stock available for grant in the form of incentive stock options and a limit on the maximum aggregate value of shares of our common stock that may be issued under all stock-based awards to non-employee directors. Non-employee directors may not receive awards in any fiscal year with a value (together with any cash fees) in excess of \$750,000.

Under the Equity Plan, it is expected that we will have the flexibility to grant different types of equity compensation awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, cash awards and other awards based, in whole or in part, on the value of our common stock. The grant, vesting, exercise and settlement of awards granted under the Equity Plan may be subject to the satisfaction of time- or performance-based conditions, as determined at or after the date of grant of an award under the Equity Plan. However, awards may not vest prior to the first anniversary of the date of grant, other than awards (i) that are accelerated by our Compensation Committee in connection with a termination of employment or due to a change in control, (ii) with respect to 5% or less of the total shares of common stock available for awards under the Equity Plan, (iii) made to non-employee directors that occur in connection with our annual meeting of stockholders (which may vest on the earlier of the one-year anniversary of the date of grant or the date of our next annual meeting of stockholders which is at least 50 weeks after the immediately preceding year’s annual meeting) or (iv) granted in connection with the assumption of awards of an acquired company that were scheduled to vest within the one-year minimum vesting period.

In the event of any corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation, the Compensation Committee will be authorized to issue or assume stock options, whether or not in a transaction to which Code section 424(a) applies, by means of substitution of new stock options for previously issued stock options or an assumption of previously issued stock options. In such event, the aggregate number of shares of common stock available for issuance under the Equity Plan will be increased to reflect such substitution or assumption.

In the event of any change in our outstanding capital stock by reason of a stock split, stock dividend, combination or reclassification of shares, recapitalization, merger, or similar event, it is expected that our Compensation Committee may adjust proportionately: (a) the number of shares of our common stock (i) available for issuance under the Equity Plan, (ii) available for issuance under incentive stock options, (iii) for which awards may be granted to an individual participant and (iv) covered by outstanding awards denominated in stock or units of stock; (b) the exercise and grant prices related to outstanding awards; and (c) the appropriate fair market value and other price determinations for such awards. Notwithstanding the foregoing, in the event of any change in our outstanding capital stock by reason of a stock split or a reverse stock split, the above-referenced proportionate adjustments, if applicable, will be mandatory. In the event of any other change affecting our capital stock or any distribution (other than normal cash dividends) to holders of our capital stock, such adjustments in the number and kind of shares and the exercise, grant and conversion prices of the affected awards as may be deemed equitable by our Compensation Committee, including adjustments to avoid fractional shares, will be made to give proper effect to such event.

It is expected that shares covered by awards that either wholly or in part are not earned, or that expire or are forfeited, terminated, canceled, settled in cash, payable solely in cash or exchanged for other awards,

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will be available for future issuance under awards. However, shares tendered to or withheld by us in connection with the exercise of stock options or stock appreciation rights, or the payment of tax withholding on any award, will not be available for future issuance under awards.

Eligibility. It is expected that our non-employee directors, current and prospective employees or service providers and current and prospective employees or service providers of our affiliates would be eligible to receive awards under the Equity Plan.

Administration. It is expected that our Compensation Committee would have full power to select participants, to interpret the Equity Plan, to grant waivers of award restrictions, to continue, accelerate or suspend exercisability, vesting or payment of an award and to adopt such rules, regulations and guidelines for carrying out the Equity Plan as it may deem necessary or proper. These powers are expected to include, but would not be limited to, the adoption of modifications, amendments, procedures, subplans and the like as necessary to comply with provisions of the laws and regulations of the countries in which we operate in order to assure the viability of awards granted under the Equity Plan and to enable participants, regardless of where employed, to receive advantages and benefits under the Equity Plan and such laws and regulations. Our Compensation Committee would be able to delegate to our officers, its duties, power and authority under the Equity Plan pursuant to such conditions or limitations as our Compensation Committee may establish, except that only our Compensation Committee or our Board would be able to select, and grant awards to, participants who are subject to Section 16 of the Exchange Act.

Effect of a Change in Control on Awards. Except as otherwise provided in an award agreement or any other agreement between a participant and us or any of our affiliates, in the event of a change in control, notwithstanding any provision of the Equity Plan to the contrary: (i) if the acquirer or successor company in such change in control has agreed to provide for the substitution, assumption, exchange or other continuation of awards granted pursuant to the Equity Plan, then, if the participant's employment with or service to the Company or an affiliate is terminated by the Company or affiliate without cause (and other than due to death or disability) on or within 24 months following a change in control, then unless otherwise provided by the Compensation Committee, all options and stock appreciation rights held by such participant will become immediately exercisable with respect to 100% of the shares subject to such options and stock appreciation rights, and that the restricted period (and any other conditions) will expire immediately with respect to 100% of the shares of restricted stock and restricted stock units and any other awards (other than other cash-based award) held by such participant (including a waiver of any applicable performance conditions); provided that if the vesting or exercisability of any award would otherwise be subject to the achievement of performance conditions, the portion of such award that will become fully vested and immediately exercisable will be based on the assumed achievement of actual or target performance as determined by the Compensation Committee; (ii) if the acquirer or successor company in such change in control has not agreed to provide for the substitution, assumption, exchange or other continuation of awards granted pursuant to the Equity Plan, then unless otherwise provided by the Compensation Committee, all stock options and stock appreciation rights held by such participant will become immediately exercisable with respect to 100% of the shares subject to such stock options and stock appreciation rights, and the restricted period (and any other conditions) will expire immediately with respect to 100% of the shares of restricted stock and restricted stock units and any other awards (other than other cash-based award) held by such participant (including a waiver of any applicable performance conditions); provided that if the vesting or exercisability of any award would otherwise be subject to the achievement of performance conditions, the portion of such award that will become fully vested and immediately exercisable will be based on the assumed achievement of actual or target performance as determined by the Compensation Committee; and (iii) the Compensation Committee may upon at least 10 days' advance notice to the affected participants, cancel any outstanding award and pay to the holders thereof, in cash, securities or other property (including of the acquiring or successor company), or any combination thereof, the value of such awards based upon the price per share received or to be received by other stockholders of the company in the event (it being understood that any stock option or stock appreciation right having a per-share exercise or hurdle price equal to, or in excess of, the fair market value (as of the date specified by the Compensation Committee) of a share subject thereto may be canceled and terminated without any payment or consideration therefor). Notwithstanding the above, the Compensation Committee will exercise such discretion over the timing of settlement of any award subject to Code Section 409A at the time such award is granted. To the extent practicable, these

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provisions will occur in a manner and at a time that allows affected participants the ability to participate in the change in control transaction with respect to the shares subject to their awards.

Additional Compensation-Related Policies

We expect to maintain share ownership requirements for our senior executives. These requirements are intended to reduce risk by aligning the economic interests of executives with those of our shareowners. We also expect to maintain a comprehensive policy on recoupment that applies to both annual and long-term incentive compensation. The policy will allow us to claw back compensation in certain circumstances.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

As of the date of this Information Statement, IBM beneficially owns all of the outstanding shares of our common stock. After the Spin-Off, IBM will not own any shares of our common stock. The following table provides information regarding the anticipated beneficial ownership of our common stock at the time of the Distribution by:

- each of our directors;
- each of our named executive officers;
- all of our directors and executive officers as a group; and
- each of our stockholders whom we believe (based on the assumptions described below) will beneficially own more than 5% of our outstanding common stock.

Except as otherwise noted below, we based the share amounts on each person's beneficial ownership of IBM common stock on _____, giving effect to a Distribution ratio of _____ shares of our common stock for every _____ shares of IBM common stock.

Except as otherwise noted in the footnotes below, each person or entity identified in the table has sole voting and investment power with respect to the securities beneficially owned.

Immediately following the Spin-Off, we estimate that _____ shares of our common stock will be issued and outstanding, based on the approximately _____ shares of IBM common stock outstanding on _____. The actual number of shares of our common stock that will be outstanding following the completion of the Spin-Off will be determined on _____.

	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Class</u>
Directors and Executive Officers		
	Martin Schroeter	
	David Wyshner	
	Elly Keinan	
	Maryjo Charbonnier	
	Edward Sebold	
	Dominic J. Caruso	
	John D. Harris II	
	Stephen A. M. Hester	
	Shirley Ann Jackson	
	Janina Kugel	
	Denis Machuel	
	Rahul Merchant	
	Jana Schreuder	
	Howard I. Ungerleider	
	Directors and Executive Officers as a group	
Principal Stockholders:		
	The Vanguard Group ⁽¹⁾	
	100 Vanguard Blvd. Malvern, PA 19355	
	BlackRock, Inc. ⁽²⁾	
	55 East 52nd Street New York, NY 10055	
	State Street Financial Corporation ⁽³⁾	
	State Street Financial Center One Lincoln Street Boston, MA 02111	

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* Less than 1%.

- (1) Based on the Schedule 13G/A filed with the SEC on February 10, 2021 by The Vanguard Group and certain subsidiaries (“**Vanguard**”) with respect to IBM common stock. Vanguard reported that it had sole voting power over 1,453,904 shares of IBM common stock, shared voting power over 69,861,037 shares of common stock, sole dispositive power over 3,945,354 shares of IBM common stock, and shared dispositive power over 73,806,391 shares of IBM common stock.
- (2) Based on the Schedule 13G/A filed with the SEC on January 29, 2021 by BlackRock, Inc. and certain subsidiaries (“**BlackRock**”) with respect to IBM common stock. BlackRock reported that it had sole voting power over 53,281,831 shares of IBM common stock and sole dispositive power over 62,271,273 shares of IBM common stock.
- (3) Based on the Schedule 13G/A filed with the SEC on February 12, 2021 by State Street Corporation and certain subsidiaries (“**State Street**”) with respect to IBM common stock. State Street reported that it had shared voting power over 42,096,957 shares of common stock and shared dispositive power over 51,941,856 shares of IBM common stock.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**Agreements with IBM**

In order to govern the ongoing relationships between us and IBM after the Spin-Off and to facilitate an orderly transition, we and IBM intend to enter into agreements providing for various services and rights following the Spin-Off, and under which we and IBM will agree to indemnify each other against certain liabilities arising from our respective businesses. The following summarizes the terms of the material agreements we expect to enter into with IBM.

Separation and Distribution Agreement

We intend to enter into a Separation and Distribution Agreement with IBM before the Distribution. The Separation and Distribution Agreement will set forth our agreements with IBM regarding the principal actions to be taken in connection with the Spin-Off. It will also set forth other agreements that govern aspects of our relationship with IBM following the Spin-Off.

Transfer of Assets and Assumption of Liabilities

The Separation and Distribution Agreement will identify certain transfers of assets and assumptions of liabilities that are necessary in advance of our separation from IBM so that we and IBM retain the assets of, and the liabilities associated with, our respective businesses. The Separation and Distribution Agreement generally provides that the assets comprising our business will consist of those exclusively related to our current business and operations (except for intellectual property assets, which are allocated as further described in “— Agreements Governing Intellectual Property”) or otherwise allocated to the business through a process of dividing shared assets. The liabilities we will assume in connection with the Spin-Off will generally consist of those related to the assets comprising our business or to the past and future operations of our business, including our locations used in our current operations. The Separation and Distribution Agreement will also provide for the settlement or extinguishment of certain liabilities and other obligations between us and IBM.

Reorganization Transactions

The Separation and Distribution Agreement will describe certain actions related to our separation from IBM that will occur prior to the Distribution such as the formation of our subsidiaries and certain other internal restructuring actions to be taken by us and IBM, including the contribution by IBM to us of the assets and liabilities that comprise our business.

Intercompany Arrangements

All agreements, arrangements, commitments and understandings, including most intercompany accounts payable or accounts receivable, between us, on the one hand, and IBM, on the other hand, will terminate and/or be repaid effective as of the Distribution Date or shortly thereafter, except specified agreements and arrangements that are intended to survive the Distribution.

Credit Support

We will agree to use reasonable best efforts to arrange, on or prior to the Distribution, for the replacement of all guarantees, covenants, indemnities, surety bonds, letters of credit or similar assurances of credit support, other than certain specified credit support instruments, currently provided by or through IBM or any of its subsidiaries for the benefit of us or any of our subsidiaries.

Representations and Warranties

In general, neither we nor IBM will make any representations or warranties regarding any assets or liabilities transferred or assumed, any consents or approvals that may be required in connection with these transfers or assumptions, the value or freedom from any lien or other security interest of any assets transferred, the absence of any defenses relating to any claim of either party or the legal sufficiency of any conveyance

documents. Except as expressly set forth in the Separation and Distribution Agreement, all assets will be transferred on an “as-is,” “where-is” basis.

Further Assurances

The parties will use reasonable best efforts to effect any transfers contemplated by the Separation and Distribution Agreement that have not been consummated prior to the Distribution. In addition, the parties will use reasonable best efforts to effect any transfer or re-transfer of any asset or liability that was improperly transferred or retained.

The Distribution

The Separation and Distribution Agreement will govern IBM’s and our respective rights and obligations regarding the proposed Distribution. On or prior to the Distribution Date, IBM will deliver all of the issued and outstanding shares of our common stock held by IBM to the distribution agent. On or as soon as practicable following the Distribution Date, the distribution agent will electronically deliver all of the shares of our common stock previously held by IBM to IBM stockholders based on the distribution ratio. The IBM Board may, in its sole and absolute discretion, determine the Record Date, the Distribution Date and the terms of the Spin-Off. In addition, IBM may, at any time until the Distribution, decide to abandon the Distribution or modify or change the terms of the Distribution.

Conditions

The Separation and Distribution Agreement will also provide that several conditions must be satisfied or, to the extent permitted by law, waived by IBM, in its sole and absolute discretion, before the Distribution can occur. For further information about these conditions, see “The Spin-Off — Conditions to the Spin-Off.”

Exchange of Information

We and IBM will agree to provide each other with information reasonably necessary to comply with reporting, disclosure, filing or other requirements of any national securities exchange or governmental authority, for use in judicial, regulatory, administrative and other proceedings and to satisfy audit, accounting, litigation and other similar requests. We and IBM will also agree to use reasonable best efforts to retain such information in accordance with our respective record retention policies applicable to our own information or such longer period as required by law. Each party will also agree to use its reasonable best efforts to assist the other with its financial reporting and audit obligations.

Termination

The IBM Board, in its sole and absolute discretion, may terminate the Separation and Distribution Agreement at any time prior to the Distribution.

Release of Claims

We and IBM will each agree to release the other and its affiliates, successors and assigns, and all persons that prior to the Distribution have been the other’s stockholders, directors, officers, members, agents and employees, and their respective heirs, executors, administrators, successors and assigns, from any and all liabilities that such party is taking on in connection with the Spin-Off, whether at law or in equity (including any right of contribution), whether arising under any contract, by operation of law or otherwise, existing or arising from any acts or events occurring, or failing to occur, or alleged to have occurred, or to have failed to occur, or any conditions existing or alleged to have existed on or before the Distribution, including in connection with the Spin-Off and all other activities to implement the Spin-Off. These releases will be subject to exceptions set forth in the Separation and Distribution Agreement.

Indemnification

We and IBM will each agree to indemnify the other and each of the other’s current and former directors, officers and employees, and each of the heirs, executors, successors and assigns of any of them,

against certain liabilities incurred in connection with the Spin-Off and our and IBM's respective businesses. The amount of either IBM's or our indemnification obligations will be reduced by any net insurance proceeds the party being indemnified receives. The Separation and Distribution Agreement will also specify procedures regarding claims subject to indemnification.

Transition Services Agreement

We intend to enter into a Transition Services Agreement pursuant to which IBM will provide us with certain specified services for a limited time to ensure an orderly transition following the Distribution. The services IBM will provide predominately consist of information technology services, among others. The services are generally intended to be provided for a period no longer than two years following the Distribution. Each party may terminate the agreement in its entirety in the event of a material breach of the agreement by the other party that is not cured within a specified time period. We may also terminate the services on an individual basis upon prior written notice to IBM, provided that a partial termination of a service will require mutual agreement between us and IBM.

The Transition Services Agreement will provide for customary indemnification and limits on liability.

Given the short-term nature of the Transition Services Agreement, we are in the process of increasing our internal capabilities to eliminate reliance on IBM for the transition services it will provide us as quickly as possible following the Spin-Off.

Tax Matters Agreement

We intend to enter into a Tax Matters Agreement with IBM that will govern the respective rights, responsibilities and obligations of IBM and us after the Distribution with respect to all tax matters (including tax liabilities, tax attributes, tax returns and tax contests).

The Tax Matters Agreement will generally provide that we will be responsible and will indemnify IBM for all taxes, including income taxes, sales taxes, VAT and payroll taxes, relating to the Business for all periods following the Distribution; IBM will be responsible and will indemnify us for all taxes relating to the Business for all periods preceding the Distribution, except as otherwise provided in the Tax Matters Agreement. In addition, the Tax Matters Agreement will address the allocation of liability for taxes that are incurred as a result of restructuring activities undertaken to effectuate the Spin-Off.

In addition, the Tax Matters Agreement will provide that we will be required to indemnify IBM for any taxes (and reasonable expenses) resulting from the failure of the Spin-Off and related internal transactions to qualify for their intended tax treatment under U.S. federal, state and local income tax law, as well as foreign tax law, where such taxes result from (a) breaches of covenants and representations we make and agree to in connection with the Spin-Off, (b) the application of certain provisions of U.S. federal income tax law to these transactions or (c) any other action or omission (other than actions expressly required or permitted by the Separation and Distribution Agreement, the Tax Matters Agreement or other ancillary agreements) we take after the Distribution that gives rise to these taxes. IBM will have the exclusive right to control the conduct of any audit or contest relating to these taxes, but we will have the right to review and comment on IBM's conduct of any such audit or contest, to the extent that we could be liable for taxes under the Tax Matters Agreement as a result of such audit or contest.

The Tax Matters Agreement will impose certain restrictions on us and our subsidiaries (including restrictions on share issuances, redemptions or repurchases, mergers or other business combinations, sales of assets and similar transactions) that will be designed to address compliance with Section 355 and related provisions of the Code, as well as state, local and foreign tax law, and are intended to preserve the tax-free nature of the Spin-Off and related transactions. Under the Tax Matters Agreement, these restrictions will apply for two years following the Distribution, unless IBM obtains a private letter ruling from the IRS or we obtain an opinion of counsel, in each case acceptable to IBM in its discretion, that the restricted action would not impact the non-recognition treatment of the Spin-Off or other transaction, or unless IBM otherwise gives its consent for us to take a restricted action in its discretion. Even if such a private letter ruling or opinion is obtained, or IBM does otherwise consent to our taking an otherwise restricted action, we will remain liable to indemnify IBM in the event such restricted action gives rise to an otherwise indemnifiable

liability. These restrictions 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.

Employee Matters Agreement

We intend to enter into an Employee Matters Agreement with IBM that will address employment and employee compensation and benefits matters. The Employee Matters Agreement will address the allocation and treatment of assets and liabilities relating to employees and compensation and benefit plans and programs in which our employees participated prior to the Spin-Off. Except as specifically provided in the Employee Matters Agreement, we will generally be responsible for all employment and employee compensation and benefits-related liabilities relating to our employees, former employees and other service providers. In particular, we will assume certain assets and liabilities with respect to our current and former employees under certain of IBM's non-U.S. defined benefit pension plans (with assets and liabilities allocated based on formulas specified in the Employee Matters Agreement for each pension plan). Generally, except as may be provided in a transition services agreement, each of our employees will cease active participation in IBM compensation and benefit plans as of the Spin-Off. The Employee Matters Agreement also provides that we will establish certain compensation and benefit plans for the benefit of our employees following the Spin-Off, including a 401(k) savings plan, which will accept direct rollovers of account balances from the IBM 401(k) savings plan for any of our employees who elects to do so. Generally, following the Spin-Off, we will assume and be responsible for any annual bonus payments, including with respect to the year in which the Spin-Off occurs, and any other cash-based incentive or retention awards to our current and former employees. The Employee Matters Agreement incorporates the indemnification provisions contained in the Separation and Distribution Agreement. In addition, the Employee Matters Agreement provides that we will indemnify IBM for certain employee-related liabilities associated with the failure to establish benefit plans or in connection with joint-employer liability claims by our employees.

Agreements Governing Intellectual Property

Allocation of Intellectual Property

The agreements we will enter into with IBM governing intellectual property will provide for (i) us to own certain specified patents and patent applications, trademarks, domain names, copyrights in proprietary software and documentation, database rights and certain other intellectual property rights solely developed by or exclusively related to the Business and (ii) IBM to retain any of its other intellectual property rights related to the Business. Intellectual property rights will generally be allocated to us if those rights were solely developed by the Business (including with respect to software, database rights and certain other technologies) or are exclusively related to the Business. Any intellectual property and technologies that are not allocated to us will be retained by IBM.

Intellectual Property Agreement

We intend to enter into an Intellectual Property Agreement with IBM, pursuant to which IBM will grant to us perpetual and irrevocable, non-exclusive, royalty-free licenses to certain proprietary software and documentation, databases, trade secrets, and certain other intellectual property rights (excluding patents and trademarks) that are used in the Business but are being retained by IBM. The foregoing license excludes IBM's commercial software, which will be subject to IBM's standard commercial terms if we choose to use it in the Business. Additionally, we will grant to IBM perpetual and irrevocable, non-exclusive, royalty-free licenses to certain proprietary software and documentation, databases, trade secrets, and certain other intellectual property rights (excluding patents and trademarks) that are allocated to us (other than certain restricted software and research assets, to which IBM will be granted limited or no rights).

The field of use for the licenses granted to us will generally be the Business as conducted immediately prior to the Spin-Off, with natural extensions and evolutions. The field of use for the licenses granted to IBM will generally be all businesses, operations, products and services. The licenses will generally be transferable with any sale or transfer of an entity or line of business that utilizes the relevant intellectual property, and the transferred license will be limited to the business, products and services as conducted by the transferred entity or line of business as of the date of the transfer, with natural extensions and evolutions.

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In addition, pursuant to the Intellectual Property Agreement, we will be permitted to continue using certain of IBM's trademarks, trade names and service marks with respect to the "IBM" brands in connection with certain limited transitional uses. The permitted transitional use will generally not exceed one to two years. The Intellectual Property Agreement will also provide that we will use commercially reasonable efforts to cease using such IBM trademarks as soon as reasonably practicable.

Other Intellectual Property Arrangements

We intend to enter into a patent cross license agreement with IBM, pursuant to which we will grant to IBM, and IBM will grant to us, a non-exclusive, worldwide, fully paid-up license to our respective patent portfolios as of the Spin-Off. The license will continue until the expiration of the last to expire of the licensed patents, unless earlier terminated (as described below). IBM will also separately be licensed under any patents issuing from applications we file based on invention disclosures assigned to us in the Spin-Off.

The field of our license to IBM's patent portfolio will generally cover information handling systems (subject to certain exclusions related to quantum systems, IBM's System z servers, integrated circuits and semiconductor fabrication) and the performance of services, including services for information handling systems. The field of IBM's license to our patent portfolio will generally cover information handling systems and the performance of services, including services for information handling systems. Both licenses will include certain rights to extend new licenses to divested entities or in connection with divested product or service lines, subject to certain limitations on the volume of licensed products and services under the new license and rights of the licensor party to terminate the new license if the counterparty asserts any patent infringement claim against the licensor, its subsidiaries or any of their customers or distributors. In addition, such new license does not include the right to engage in further divestitures. The licenses under the patent cross license agreement are also transferable if a party is acquired and becomes a subsidiary of a third party, but the transferred license is limited to only licensed products and services of the acquired party immediately prior to the acquisition and may also be terminated by the non-acquired party if the acquirer or its affiliates asserts any claim of patent infringement against the acquired party, its subsidiaries or their respective customers or distributors. If either party to the patent cross license agreement is acquired by a third party such that it is no longer a separate legal entity, the license to that party will terminate as of the date of such acquisition.

In addition, we will be granted licenses under certain of IBM's patent cross-license agreements with third parties that have been identified as being relevant to the Business, and IBM will work together with us to extend us rights under these agreements to the extent permitted thereunder.

We also intend to enter into a research master collaboration agreement with IBM, setting forth the general terms and conditions applicable to certain, to be determined, joint research projects between us and IBM's Research Division.

Real Estate Matters Agreement

We intend to enter into a Real Estate Matters Agreement with IBM that will govern the allocation and transfer of real estate between IBM and Kyndryl and the colocation of IBM and Kyndryl following the Spin-Off. Real estate assets will be predominantly allocated such that properties with greater than 50% occupancy by one company will be allocated in full to such company and the non-majority company will move to another location, except that the non-majority company will not be required to vacate earlier than the expiration date of any applicable lease or sublease entered into pursuant to the Real Estate Matters Agreement (the "Allocation Principles"). Certain sites will need to be transferred from one company to the other to ensure conformity with the Allocation Principles. Certain sites will be occupied by both IBM and Kyndryl employees following the spin-off pursuant to a lease, occupancy agreement or sublease. IBM will bear all costs relating to (i) the transfer of owned real property (e.g., transfer taxes and recording fees), (ii) the transfer of leased real property (e.g., the costs of obtaining consents) and (iii) except as stated otherwise in the applicable lease form, sublease form or split lease, any alterations or improvements reasonably required to separate IBM from Kyndryl employees with respect to all properties.

Other Arrangements

We intend to enter into a number of commercial agreements with IBM on arm's length terms, pursuant to which (i) we will purchase from IBM its branded and related hardware, software, and services for use in the delivery of services arrangements with our customers and (ii) we will provide services to IBM, including related to hosting data centers and servicing IBM's information infrastructure. We have historically incurred costs (including their associated depreciation and amortization) for our purchases of IBM's branded and related hardware, software, and services of \$3,227 million, \$3,094 million, and \$3,619 million for the years ended December 31, 2020, 2019 and 2018, respectively, and received revenue for the services we provided to IBM of \$645 million, \$613 million and \$623 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Policy and Procedures Governing Related Party Transactions

Prior to the completion of the Spin-Off, our Board will adopt a written policy regarding the review and approval of transactions with related persons. We anticipate that this policy will provide that our independent directors as a group or a committee comprised solely of independent directors review each of our transactions in which any "related person" had, has or will have a direct or indirect material interest, subject to certain specified exceptions. In general, "related persons" are our directors, director nominees, executive officers and stockholders beneficially owning more than 5% of our outstanding common stock and immediate family members or certain other designated persons.

From time to time, Kyndryl may have employees who are related to our executive officers or directors. The daughter of Mr. Keinan (our Group President), who is currently an IBM employee, will transfer to Kyndryl, to hold a non-executive position. She is expected to receive compensation between \$120,000-150,000 in 2021 (annualized). Her compensation and other terms of employment are determined on a basis consistent with Kyndryl's human resources policies and industry practices.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE SPIN-OFF**Consequences to U.S. Holders of IBM Common Stock**

The following is a summary of the material U.S. federal income tax consequences to holders of IBM common stock in connection with the Distribution. This summary is based on the Code, the Treasury Regulations promulgated under the Code and judicial and administrative interpretations of those laws, in each case as in effect and available as of the date of this Information Statement and all of which are subject to change at any time, possibly with retroactive effect. Any such change could affect the tax consequences described below.

This summary is limited to holders of IBM common stock that are U.S. Holders, as defined immediately below, that hold their IBM common stock as a capital asset. A "U.S. Holder" is a beneficial owner of IBM common stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized under the laws of the United States or any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if (1) a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (2) in the case of a trust that was treated as a domestic trust under law in effect before 1997, a valid election is in place under applicable Treasury Regulations.

This summary is for general information only and is not tax advice. It does not discuss all tax considerations that may be relevant to stockholders in light of their particular circumstances, nor does it address the consequences to stockholders subject to special treatment under the U.S. federal income tax laws, such as:

- dealers or traders in securities or currencies;
- tax-exempt entities;
- banks, financial institutions or insurance companies;
- real estate investment trusts, regulated investment companies or grantor trusts;
- persons who acquired IBM common stock pursuant to the exercise of employee stock options or otherwise as compensation;
- stockholders who own, or are deemed to own, 10% or more, by voting power or value, of IBM equity;
- stockholders owning IBM common stock as part of a position in a straddle or as part of a hedging, conversion, synthetic security, integrated investment, constructive sale transaction or other risk reduction transaction for U.S. federal income tax purposes;
- persons who are subject to the alternative minimum tax;
- persons whose functional currency is not the U.S. Dollar;
- certain former citizens or long-term residents of the United States;
- persons who are subject to special accounting rules under Section 451(b) of the Code;
- persons who own IBM common stock through partnerships or other pass-through entities; or
- persons who hold IBM common stock through a tax-qualified retirement plan.

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This summary is not a complete analysis or description of all potential U.S. federal income tax consequences of the Distribution. It does not address any tax consequences arising under the Medicare tax on net investment income or the Foreign Account Tax Compliance Act (including the Treasury Regulations promulgated thereunder and intergovernmental agreements entered into pursuant thereto or in connection therewith). In addition, it does not address any U.S. state or local or foreign tax consequences or any estate, gift or other non-income tax consequences of the Distribution.

If a partnership, or any other entity treated as a partnership for U.S. federal income tax purposes, holds IBM common stock, the tax treatment of a partner in that partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership is urged to consult its own tax advisor as to its tax consequences.

**EACH HOLDER OF IBM COMMON STOCK IS URGED TO CONSULT ITS OWN TAX ADVISOR
WITH RESPECT TO THE U.S. FEDERAL, STATE AND LOCAL AND FOREIGN TAX CONSEQUENCES
OF THE DISTRIBUTION.**

General

Completion of the Spin-Off is conditioned upon IBM's receipt of a written opinion from Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to IBM, to the effect that the Distribution will qualify for nonrecognition of gain or loss under Section 355 and related provisions of the Code. The opinion will be based on the assumption that, among other things, the representations made, and information submitted, in connection with it are accurate. If the Distribution qualifies for this treatment and subject to the qualifications and limitations set forth herein (including the discussion below relating to the receipt of cash in lieu of fractional shares), for U.S. federal income tax purposes:

- no gain or loss will be recognized by, or be includible in the income of, a U.S. Holder as a result of the Distribution, except with respect to any cash received in lieu of fractional shares;
- the aggregate tax basis of the IBM common stock and our common stock held by each U.S. Holder immediately after the Distribution will be the same as the aggregate tax basis of the IBM common stock held by the U.S. Holder immediately before the Distribution, allocated between the IBM common stock and our common stock in proportion to their relative fair market values on the date of the Distribution (subject to reduction upon the deemed sale of any fractional shares, as described below); and
- the holding period of our common stock received by each U.S. Holder will include the holding period of their IBM common stock, provided that such IBM common stock is held as a capital asset on the date of the Distribution.

U.S. Holders that have acquired different blocks of IBM common stock at different times or at different prices are urged to consult their tax advisors regarding the allocation of their aggregate adjusted tax basis among, and the holding period of, shares of our common stock distributed with respect to such blocks of IBM common stock.

The opinion of counsel will not address any U.S. state or local or foreign tax consequences of the Spin-Off. The opinion will assume that the Spin-Off will be completed according to the terms of the Separation and Distribution Agreement and will rely on the facts as stated in the Separation and Distribution Agreement, the Tax Matters Agreement, the other ancillary agreements, this Information Statement and a number of other documents. In addition, the opinion will be based on certain representations as to factual matters from, and certain covenants by, IBM and us. The opinion cannot be relied on if any of the assumptions, representations or covenants is incorrect, incomplete or inaccurate or are violated in any material respect.

The opinion of counsel will not be 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. If the conclusions expressed in the opinion are challenged by the IRS, and if the IRS prevails in such challenge, the tax consequences of the Spin-Off could be materially less favorable.

If the Distribution were determined not to qualify for non-recognition of gain or loss, the above consequences would not apply and each U.S. Holder who receives our common stock in the Distribution

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would generally be treated as receiving a distribution in an amount equal to the fair market value of our common stock received, which would generally result in:

- a taxable dividend to the U.S. Holder to the extent of that U.S. Holder's pro rata share of IBM's current or accumulated earnings and profits;
- a reduction in the U.S. Holder'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
- a taxable gain from the exchange of IBM common stock to the extent the amount received exceeds the sum of the U.S. Holder's share of IBM's earnings and profits and the U.S. Holder's basis in its IBM common stock.

Cash in Lieu of Fractional Shares

If a U.S. Holder receives cash in lieu of a fractional share of common stock as part of the Distribution, the U.S. Holder will be treated as though it first received a distribution of the fractional share in the Distribution and then sold it for the amount of cash actually received. Provided the fractional share is considered to be held as a capital asset on the date of the Distribution, the U.S. Holder will generally recognize capital gain or loss measured by the difference between the cash received for such fractional share and the U.S. Holder's tax basis in that fractional share, as determined above. Such capital gain or loss will be long-term capital gain or loss if the U.S. Holder's holding period for the IBM common stock is more than one year on the date of the Distribution.

Payments of cash to U.S. Holders of IBM common stock in lieu of fractional shares of our common stock may be subject to information reporting and backup withholding (currently, at a rate of 24 percent), unless such U.S. Holder delivers a properly completed IRS Form W-9 certifying such U.S. Holder's correct taxpayer identification number and certain other information, or otherwise establishes an exemption from backup withholding. Corporations will generally be exempt from backup withholding, but may be required to provide a certification to establish their entitlement to the exemption. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be refunded or credited against a U.S. Holder's U.S. federal income tax liability, provided that the required information is timely furnished to the IRS.

Information Reporting

Treasury Regulations require each IBM stockholder that, immediately before the Distribution, owned 5% or more (by vote or value) of the total outstanding stock of IBM or stockholders whose basis in their IBM common stock equals or exceeds \$1,000,000 to attach to such stockholder's U.S. federal income tax return for the year in which the Distribution occurs a statement setting forth certain information related to the Distribution.

Consequences to IBM

The following is a summary of the material U.S. federal income tax consequences to IBM in connection with the Spin-Off that may be relevant to holders of IBM common stock.

As discussed above, completion of the Spin-Off is conditioned upon IBM's receipt of separate a written opinion from Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to IBM, to the effect that the Distribution will qualify for nonrecognition of gain or loss under Section 355 and related provisions of the Code. If the Distribution qualifies for nonrecognition of gain or loss under Section 355 and related provisions of the Code, no gain or loss will be recognized by IBM as a result of the Distribution (other than income or gain arising from any imputed income or other adjustment to IBM, us or our respective subsidiaries if and to the extent that the Separation and Distribution Agreement or any ancillary agreement is determined to have terms that are not at arm's length). The opinion of counsel is subject to the qualifications and limitations as are set forth above under "— Consequences to U.S. Holders of IBM Common Stock."

If the Distribution were determined not to qualify for non-recognition of gain or loss under Section 355 and related provisions of the Code, then IBM would recognize gain equal to the excess of the fair market value of our common stock distributed to IBM stockholders over IBM's tax basis in our common stock.

Indemnification Obligation

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. 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 Spin-Off would generally be taxable to IBM, but not to stockholders, under Section 355(e) of the Code, unless it were established that such transactions and the Spin-Off were not part of a plan or series of related transactions. If the Spin-Off 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 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. In addition, we will be liable to indemnify IBM if, as a result of any of representations being untrue or our covenants being breached, transactions related to the Spin-Off that were intended to be tax-free under U.S. or foreign law, are determined instead to be taxable to IBM.

DESCRIPTION OF OUR CAPITAL STOCK**General**

Prior to the Distribution, IBM, as our sole stockholder, will approve and adopt our Amended and Restated Certificate of Incorporation, and our Board will approve and adopt our Amended and Restated By-Laws. The following summarizes information concerning our capital stock, including material provisions of our Amended and Restated Certificate of Incorporation, our Amended and Restated By-Laws and certain provisions of Delaware law. You are encouraged to read the forms of our Amended and Restated Certificate of Incorporation and our Amended and Restated By-Laws, which are filed as exhibits to our Registration Statement on Form 10, of which this Information Statement is a part, for greater detail with respect to these provisions.

Distribution of Securities

During the past three years, we have not sold any securities, including sales of reacquired securities, new issues, securities issued in exchange for property, services or other securities, and new securities resulting from the modification of outstanding securities that were not registered under the Securities Act.

Authorized Capital Stock

Immediately following the Spin-Off, our authorized capital stock will consist of _____ shares of common stock, par value \$0.01 per share, and _____ shares of preferred stock, par value \$0.01 per share.

Common Stock**Shares Outstanding**

Immediately following the Spin-Off, we estimate that approximately _____ shares of our common stock will be issued and outstanding, based on _____ shares of IBM common stock outstanding as of _____. The actual number of shares of our common stock outstanding immediately following the Spin-Off will depend on the actual number of shares of IBM common stock outstanding on the Record Date, and will reflect any issuance of new shares or exercise of outstanding options pursuant to IBM's equity plans and any repurchases of IBM shares by IBM pursuant to its common stock repurchase program, in each case on or prior to the Record Date.

Dividends

Holders of shares of our common stock will be entitled to receive dividends when, as and if declared by our Board at its discretion out of funds legally available for that purpose, subject to the preferential rights of any preferred stock that may be outstanding. The timing, declaration, amount and payment of future dividends will depend on our financial condition, earnings, capital requirements and debt service obligations, as well as legal requirements, regulatory constraints, industry practice and other factors that our Board deems relevant. Additionally, the terms of the indebtedness we intend to incur in connection with the Spin-Off and our obligations under the Indemnification and Reimbursement Agreement each will limit our ability to pay cash dividends. Our Board will make all decisions regarding our payment of dividends from time to time in accordance with applicable law. See "Dividend Policy."

Voting Rights

The holders of our common stock will be entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders.

Other Rights

Subject to the preferential liquidation rights of any preferred stock that may be outstanding, upon our liquidation, dissolution or winding-up, the holders of our common stock will be entitled to share ratably in our assets legally available for distribution to our stockholders.

Fully Paid

The issued and outstanding shares of our common stock are fully paid and non-assessable. Any additional shares of common stock that we may issue in the future will also be fully paid and non-assessable. The holders of our common stock will not have preemptive rights or preferential rights to subscribe for shares of our capital stock.

Preferred Stock

Our Amended and Restated Certificate of Incorporation will authorize our Board to designate and issue from time to time one or more series of preferred stock without stockholder approval. Our Board may fix and determine the preferences, limitations and relative rights of each series of preferred stock. There are no present plans to issue any shares of preferred stock.

Certain Provisions of Delaware Law, Our Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws***Amended and Restated Certificate of Incorporation and Amended and Restated By-Laws***

Certain provisions in our proposed Amended and Restated Certificate of Incorporation and our proposed Amended and Restated By-Laws summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a stockholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price for the shares held by stockholders. These provisions are intended to enhance the likelihood of continuity and stability in the composition of our Board and in the policies formulated by our Board and to discourage certain types of transactions that may involve an actual or threatened change of control.

- *Classified Board.* Our Amended and Restated Certificate of Incorporation will provide that, until the conclusion of the 2027 annual meeting, our Board will be divided into three classes, with each class consisting, as nearly as may be possible, of one-third of the total number of directors. The directors designated as Class I directors will have terms expiring at the first annual meeting of stockholders following the Distribution, which we expect to hold in 2022. The directors designated as Class II directors will have terms expiring at the following year's annual meeting, which we expect to hold in 2023, and the directors designated as Class III directors will have terms expiring at the following year's annual meeting, which we expect to hold in 2024. Any director elected at the 2022, 2023 or 2024 annual meeting will belong to the class whose term expires at such annual meeting and will hold office for a three-year term until his or her successor has been duly elected and qualified or until his or her earlier resignation or removal. Beginning at the 2025 annual meeting and at each annual meeting thereafter, all of our directors up for election at such meeting will be elected annually and will hold office until the next annual meeting and until his or her successor has been duly elected and qualified or until his or her earlier resignation or removal. Effective as of the conclusion of the 2027 annual meeting, our Board will therefore no longer be divided into three classes. Before our Board is declassified, it would take at least two elections of directors for any individual or group to gain control of our Board. Accordingly, while the classified board is in effect, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to control us.
- *Removal.* Our Amended and Restated Certificate of Incorporation will provide that (i) prior to our Board being declassified as discussed above, our stockholders may remove directors only for cause and (ii) after our Board has been fully declassified, our stockholders may remove directors with or without cause. Removal will require the affirmative vote of holders of at least a majority of our voting stock.
- *Vacancies.* Our Amended and Restated By-Laws will provide that any vacancies created on the Board for any reason, including resulting from any increase in the authorized number of directors or the death, resignation, disqualification or removal from office of any director, will be filled exclusively by a majority of the directors then in office, even if less than a quorum, or by the sole remaining

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director. Any director elected to fill a vacancy on our Board will hold office until the expiration of the term of office of the director he or she replaced or until his or her successor is duly elected and qualified.

- *Blank Check Preferred Stock.* Our Amended and Restated Certificate of Incorporation will authorize our Board to designate and issue, without any further vote or action by the stockholders, up to _____ shares of preferred stock from time to time in one or more series and, with respect to each such series, to fix the number of shares constituting the series and the designation of the series, the voting powers (if any) of the shares of the series, and the preferences and relative, participating, optional and other rights, if any, and any qualifications, limitations or restrictions, of the shares of such series. The ability to issue such preferred stock could discourage potential acquisition proposals and could delay or prevent a change in control.
- *No Stockholder Action by Written Consent.* Our Amended and Restated Certificate of Incorporation will expressly exclude the right of our stockholders to act by written consent. Stockholder action must take place at an annual meeting or at a special meeting of our stockholders.
- *Special Stockholder Meetings.* Our Amended and Restated Certificate of Incorporation and our Amended and Restated By-Laws will provide that holders of at least 25% of our outstanding shares or our Board, will be able to call a special meeting of stockholders.
- *Requirements for Advance Notification of Stockholder Nominations and Proposals.* Under our Amended and Restated By-Laws, stockholders of record will be able to nominate persons for election to our Board or bring other business constituting a proper matter for stockholder action only by providing proper notice to our Secretary. In the case of annual meetings, proper notice must be given, generally between 90 and 120 days prior to the first anniversary of the prior year's annual meeting as first specified in the notice of meeting provided, however, that if (A) the annual meeting is advanced by more than 30 days, or delayed by more than 60 days, from the first anniversary of the prior year's annual meeting or (B) no annual meeting was held during the prior year, the notice by the stockholder to be timely must be received (1) no earlier than 120 days before such annual meeting and (2) no later than the later of 90 days before such annual meeting and the tenth day after the day on which the notice of such annual meeting was first made by mail or public disclosure. In the case of special meetings, proper notice must be given no earlier than the 120th day prior to the relevant meeting and no later than the later of the 90th day prior to such meeting or the 10th day following the public announcement of the meeting. Such notice must include, among other information, certain information with respect to each stockholder nominating persons for election to the Board (including, the name and address, the number of shares directly or indirectly held by such stockholder, a description of any agreement with respect to the business to be brought before the annual meeting, a description of any derivative instruments based on or linked to the value of or return on our securities as of the date of the notice, a description of any proxy, contract or other relationship pursuant to which such stockholder has a right to vote any shares of our stock and any profit-sharing or performance-related fees that such stockholder is entitled to, based on any increase or decrease in the value of our securities, as of the date of such notice), a representation that such stockholder is a holder of record of our common stock as of the date of the notice, each stockholder nominee's written consent to being named as a nominee and to serving as a director if elected, completed questionnaire and representation that such person has not and will not give any commitment as to how such person will act or vote if elected as a director, become a party to any agreement with respect to any compensation, reimbursement or indemnification in connection with service as a director, and such person will comply with all policies applicable to directors, a description of all compensation and other monetary agreements during the past three years and a representation as to whether such stockholder intends to solicit proxies.
- *Proxy Access.* Our Amended and Restated By-Laws will allow one or more stockholders (up to 20, collectively), owning at least 3% of our outstanding shares continuously for at least three years, to nominate for election to our Board and to be included in our proxy materials up to the greater of two individuals or 20% of our Board, only by sending proper notice to our Secretary.
- *Cumulative Voting.* The DGCL provides that stockholders are denied the right to cumulate votes in the election of directors unless the Company's certificate of incorporation provides otherwise. Our Amended and Restated Certificate of Incorporation will not provide for cumulative voting.

- *Amendments to Certificate of Incorporation and By-Laws.* The DGCL provides that the affirmative vote of holders of a majority of a company's voting stock then outstanding is required to amend the Company's certificate of incorporation unless the Company's certificate of incorporation provides a higher threshold, and our Amended and Restated Certificate of Incorporation will not provide for a higher threshold. Our Amended and Restated Certificate of Incorporation will provide that our Amended and Restated By-Laws may be amended by our Board or by the affirmative vote of holders of at least a majority of our voting stock.

Delaware Takeover Statute

We are subject to Section 203 of the DGCL, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder.

Limitation on Liability of Directors and Indemnification of Directors and Officers

Delaware law authorizes corporations to limit or eliminate the personal liability of directors to corporations and their stockholders for monetary damages for breaches of directors' fiduciary duties as directors, and our Amended and Restated Certificate of Incorporation will include such an exculpation provision. Our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation will include provisions that indemnify, to the fullest extent allowable under the DGCL, the personal liability of directors or officers for monetary damages for actions taken as a director, officer or agent of Kyndryl, or for serving at our request as a director, officer, employee or agent at another corporation or enterprise, as the case may be. Our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation will also provide that we must indemnify and advance reasonable expenses to our directors, officers and employees, subject to our receipt of an undertaking from the indemnified party as may be required under the DGCL.

The limitation of liability and indemnification provisions that will be included in our Amended and Restated By-Laws and Amended and Restated Certificate of Incorporation may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duty. These provisions may also have the effect of reducing the likelihood of derivative litigation against our directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. However, these provisions will not limit or eliminate our rights, or those of any stockholder, to seek non-monetary relief such as injunction or rescission in the event of a breach of a director's duty of care. The provisions will not alter the liability of directors under the federal securities laws. In addition, your investment may be adversely affected to the extent that, in a class action or direct suit, we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. There is currently no pending material litigation or proceeding against any of our directors, officers or employees for which indemnification is sought.

Exclusive Forum

Our Amended and Restated Certificate of Incorporation will provide, in all cases to the fullest extent permitted by law, that 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, agent, employee or stockholder of Kyndryl 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, any action asserting a claim governed by the internal affairs doctrine, 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. Additionally, our Amended and Restated Certificate of Incorporation will state that the foregoing provision will not apply to claims arising under the Securities Act. 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

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under the Securities Act. The exclusive forum provisions may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or any of our directors, officers or stockholders, which may discourage lawsuits with respect to such claims. Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder as a result of our exclusive forum provisions.

Sale of Unregistered Securities

On December 4, 2020, we issued 1,000 shares of our common stock to IBM pursuant to Section 4(a)(2) of the Securities Act. We did not register the issuance of the issued shares under the Securities Act because such issuance did not constitute a public offering.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock will be _____ .

Listing

We intend to apply to list our common stock on the _____ , under the ticker symbol “ _____ .”

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a Registration Statement on Form 10 with the SEC with respect to the shares of our common stock that IBM's stockholders will receive in the Distribution as contemplated by this Information Statement. This Information Statement is a part of, and does not contain all the information set forth in, the Registration Statement and the other exhibits and schedules to the Registration Statement. For further information with respect to us and our common stock, please refer to the Registration Statement, including its other exhibits and schedules. Statements we make in this Information Statement relating to any contract or other document are not necessarily complete, and you should refer to the exhibits attached to the Registration Statement for copies of the actual contract or document. You may review a copy of the Registration Statement, including its exhibits and schedules, on the Internet website maintained by the SEC at www.sec.gov. Information contained on any website we refer to in this Information Statement does not and will not constitute a part of this Information Statement or the Registration Statement on Form 10 of which this Information Statement is a part.

As a result of the Spin-Off, we will become subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, we will file periodic reports, proxy statements and other information with the SEC.

You may request a copy of any of our filings with the SEC at no cost by writing us at the following address:

We intend to furnish holders of our common stock with annual reports containing financial statements prepared in accordance with U.S. GAAP and audited and reported on by an independent registered public accounting firm.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of International Business Machines Corporation:

Opinion on the Financial Statements

We have audited the accompanying combined balance sheet of Kyndryl (the managed infrastructure services business of IBM) (the “Company”) as of December 31, 2020 and 2019, and the related combined statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “combined financial statements”). In our opinion, the combined financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Changes in Accounting Principles

As discussed in Note B to the combined financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenue from contracts with customers in 2018.

Basis for Opinion

These combined financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s combined 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 combined financial statements in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined 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 combined 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 combined 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 combined 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 combined 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 combined 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 combined 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.

Goodwill Impairment Assessment

As described in Note H to the combined financial statements, the Company’s goodwill balance was \$1,230 million as of December 31, 2020. As disclosed by management, goodwill is reviewed for impairment annually, or whenever events or changes in circumstances indicate that 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

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is less than carrying value. Management assesses qualitative factors to determine whether it is necessary to perform the quantitative goodwill impairment test. The quantitative test is required only if management concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount. Fair value is estimated by management using a discounted cash flow model. Management's cash flow projections for the reporting unit with less significant headroom (the "Reporting Unit"), included significant judgments and assumptions relating to projected EBITDA margins and the discount rate. Management evaluated goodwill for impairment for all reporting units for all periods presented which resulted in no impairment.

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 measurement 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 projected EBITDA margins and the discount rate; 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 combined 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 projected EBITDA margins and the discount rate. Evaluating management's assumptions related to the 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 and the discount rate assumption.

PricewaterhouseCoopers LLP (signed)

New York, New York

June 22, 2021

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

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KYNDRYL
COMBINED INCOME STATEMENT

(\$ in millions)				
For the year ended December 31:	Notes	2020	2019	2018
Revenues (related party revenue of \$645 in 2020, \$613 in 2019 and \$623 in 2018)	C	\$19,352	\$20,279	\$21,796
Cost of services (related party cost of \$3,767 in 2020, \$3,592 in 2019 and \$4,112 in 2018)	C	\$17,143	\$17,682	\$19,238
Selling, general and administrative		2,893	2,887	2,924
Workforce rebalancing charges		918	159	116
Research, development and engineering		76	83	69
Interest expense	I	63	76	85
Other (income) and expense		25	(29)	(7)
Total costs and expenses		<u>\$21,118</u>	<u>\$20,858</u>	<u>\$22,425</u>
Income/(loss) before income taxes		\$ (1,766)	\$ (579)	\$ (630)
Provision for income taxes	E	\$ 246	\$ 364	\$ 350
Net income/(loss)		<u>\$ (2,011)</u>	<u>\$ (943)</u>	<u>\$ (980)</u>

(Amounts may not add due to rounding.)

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

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KYNDRYL
COMBINED STATEMENT OF COMPREHENSIVE INCOME

(\$ in millions)				
For the year ended December 31:	Notes	2020	2019	2018
Net income/(loss)		<u>\$ (2,011)</u>	<u>\$ (943)</u>	<u>\$ (980)</u>
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	L	125	12	(240)
Retirement-related benefit plans	L			
Prior service costs/(credits)		0	(1)	1
Net (losses)/gains arising during the period		(41)	(84)	(33)
Curtailments and settlements		0	0	—
Amortization of prior service (credits)/cost		(1)	0	(1)
Amortization of net (gains)/losses		36	27	28
Total retirement-related benefit plans		<u>(6)</u>	<u>(57)</u>	<u>(4)</u>
Other comprehensive income/(loss), before tax:	L	119	(45)	(244)
Income tax (expense)/benefit related to items of other comprehensive income	L	2	18	2
Other comprehensive income/(loss)	L	<u>121</u>	<u>(27)</u>	<u>(243)</u>
Total comprehensive income/(loss)		<u><u>\$ (1,891)</u></u>	<u><u>\$ (970)</u></u>	<u><u>\$ (1,222)</u></u>

(Amounts may not add due to rounding.)

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

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Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED BALANCE SHEET

(\$ in millions)			
At December 31:	Notes	2020	2019
Assets:			
Current assets:			
Cash and cash equivalents		\$ 24	\$ 36
Restricted cash		14	14
Notes and accounts receivable (net of allowances of \$91 in 2020 and \$82 in 2019)		1,444	1,790
Deferred costs	C	1,205	1,133
Prepaid expenses and other current assets		157	178
Total current assets		\$ 2,843	\$ 3,151
Property and equipment – net	F	\$ 3,991	\$ 4,125
Operating right-of-use assets – net	G	1,131	1,218
Deferred costs	C	1,441	1,561
Deferred taxes	E	424	349
Goodwill	H	1,230	1,162
Intangible assets – net	H	60	87
Other assets		86	90
Total assets		\$11,205	\$11,744
Liabilities and equity:			
Current liabilities:			
Short-term debt	I	\$ 69	\$ 42
Accounts payable		919	826
Compensation and benefits		350	359
Deferred income	C	854	896
Operating lease liabilities	G	333	328
Accrued contract costs		512	550
Other accrued expenses and liabilities	J	874	406
Total current liabilities		\$ 3,910	\$ 3,408
Long-term debt	I	\$ 140	\$ 100
Retirement and nonpension postretirement benefit obligations	N	550	489
Deferred income	C	543	615
Operating lease liabilities	G	850	890
Other liabilities	J	282	294
Total liabilities		\$ 6,274	\$ 5,796
Commitments and contingencies	K		
Net Parent investment		\$ 5,972	\$ 7,112
Accumulated other comprehensive income/(loss)		(1,100)	(1,220)
Total Net Parent investment		4,873	5,892
Noncontrolling interests		58	56
Total equity		\$ 4,931	\$ 5,948
Total liabilities and equity		\$11,205	\$11,744

(Amounts may not add due to rounding.)

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

KYNDRYL
COMBINED STATEMENT OF CASH FLOWS

(\$ in millions)			
For the year ended December 31:	2020	2019	2018
Cash flows from operating activities:			
Net income/(loss)	\$(2,011)	\$ (943)	\$ (980)
Adjustments to reconcile net income/(loss) to cash provided by operating activities:			
Depreciation and amortization			
Depreciation	1,869	1,898	1,496
Amortization of deferred costs	2,061	2,109	2,053
Amortization of intangibles	29	29	29
Stock-based compensation	64	51	57
Deferred taxes	(52)	(33)	40
Net (gain)/loss on asset sales and other	4	1	(31)
Change in operating assets and liabilities:			
Deferred Costs	(1,917)	(1,802)	(2,334)
Right-of-use assets and liabilities	(372)	(418)	—
Workforce Rebalancing	560	27	0
Receivables	387	23	220
Accounts payable	70	33	(29)
Other assets/other liabilities	(62)	159	153
Net cash provided by operating activities	\$ 628	\$ 1,134	\$ 674
Cash flows from investing activities:			
Payments for property and equipment	\$(1,036)	\$(1,190)	\$(1,563)
Proceeds from disposition of property and equipment	84	63	114
Other investing activities, net	(1)	(2)	(2)
Net cash used in investing activities	\$ (953)	\$ (1,128)	\$ (1,451)
Cash flows from financing activities:			
Payments to settle debt	\$ (66)	\$ (18)	\$ —
Net transfers from Parent	377	18	791
Net cash provided by financing activities	\$ 312	\$ 0	\$ 791
Effect of exchange rate changes on cash, cash equivalents and restricted cash	\$ 1	\$ (1)	\$ (5)
Net change in cash, cash equivalents and restricted cash	\$ (13)	\$ 5	\$ 10
Cash, cash equivalents and restricted cash at January 1	50	46	36
Cash, cash equivalents and restricted cash at December 31	\$ 38	\$ 50	\$ 46
Supplemental data			
Income taxes paid – net of refunds received	\$ —	\$ —	\$ —
Interest paid on debt	\$ —	\$ —	\$ —

(Amounts may not add due to rounding.)

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KYNDRYL
COMBINED STATEMENT OF EQUITY

(\$ in millions)	Net Parent Investment	Accumulated Other Comprehensive Income/(Loss)	Total Net Parent Investment	Non-Controlling Interests	Total Equity
Equity – January 1, 2018	\$6,978	\$ (950)	\$ 6,027	\$ 63	\$ 6,090
Cumulative effect of change in accounting principle – Revenue *	154		154		154
Net income/(loss) plus other comprehensive income/(loss):					
Net income/(loss)	(980)		(980)		(980)
Other comprehensive income/(loss)		(243)	(243)		(243)
Total comprehensive income/(loss)			<u>\$(1,222)</u>		<u>\$(1,222)</u>
Net transfers from parent	1,304		1,304		1,304
Changes in non-controlling interests				(11)	(11)
Equity – December 31, 2018	<u>\$7,457</u>	<u>\$(1,193)</u>	<u>\$ 6,264</u>	<u>\$ 52</u>	<u>\$ 6,315</u>

* Reflects the adoption of FASB guidance. Refer to note B, “Accounting Pronouncements.”

(\$ in millions)	Net Parent Investment	Accumulated Other Comprehensive Income/(Loss)	Total Net Parent Investment	Non-Controlling Interests	Total Equity
Equity – January 1, 2019	\$7,457	\$ (1,193)	\$6,264	\$52	\$6,315
Net income/(loss) plus other comprehensive income/(loss):					
Net income/(loss)	(943)		(943)		(943)
Other comprehensive income/(loss)		(27)	(27)		(27)
Total comprehensive income/(loss)			<u>\$ (970)</u>		<u>\$ (970)</u>
Net transfers from parent	598		598		598
Changes in non-controlling interests				4	4
Equity – December 31, 2019	<u>\$7,112</u>	<u>\$(1,220)</u>	<u>\$5,892</u>	<u>\$56</u>	<u>\$5,948</u>

(\$ in millions)	Net Parent Investment	Accumulated Other Comprehensive Income/(Loss)	Total Net Parent Investment	Non-Controlling Interests	Total Equity
Equity – January 1, 2020	\$ 7,112	\$ (1,220)	\$ 5,892	\$56	\$ 5,948
Net income/(loss) plus other comprehensive income/(loss):					
Net income/(loss)	(2,011)		(2,011)		(2,011)
Other comprehensive income/(loss)		121	121		121
Total comprehensive income/(loss)			<u>\$(1,891)</u>		<u>\$(1,891)</u>
Net transfers from parent	872		872		872
Changes in non-controlling interests				2	2
Equity – December 31, 2020	<u>\$ 5,972</u>	<u>\$(1,100)</u>	<u>\$ 4,873</u>	<u>\$58</u>	<u>\$ 4,931</u>

(Amounts may not add due to rounding.)

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

NOTES TO COMBINED FINANCIAL STATEMENTS

NOTE A. SIGNIFICANT ACCOUNTING POLICIES

Background

On October 8, 2020, International Business Machines Corporation (IBM or Parent) announced plans for the complete legal and structural separation of the managed infrastructure services unit of its Global Technology Services (GTS) segment into a new public company. The name of the new company is Kyndryl. The separation is expected to be achieved through a U.S. federal tax-free spin-off to IBM shareholders. It will be subject to customary market, regulatory and other closing conditions, including final IBM Board of Directors' approval.

Prior to separation, IBM's GTS segment includes Infrastructure & Cloud Services and Technology Support Services (TSS). The Infrastructure & Cloud services unit consists of IBM's managed infrastructure services capabilities and the IBM Public Cloud. The components of the GTS segment that will remain with IBM will be the IBM Public Cloud and TSS. Kyndryl will also provide the security, regulatory and risk management services and identity management services offerings which have historically been included within the Security Services unit of IBM's Cloud & Cognitive Software segment.

Basis of Presentation

The accompanying combined financial statements and footnotes of Kyndryl have been prepared in connection with the expected separation and have been derived from the consolidated financial statements and accounting records of IBM as if Kyndryl operated on a standalone basis during the periods presented, and were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). References in these combined financial statements to "the Company" or "Kyndryl" refer to IBM's managed infrastructure services business as it was historically managed.

The combined financial statements 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 allocations may not, however, reflect the expense the Company would have incurred as a standalone company for the periods presented. These costs also may not be indicative of the expenses that the Company will incur in the future or would have incurred if the Company had obtained these services from a third party.

The Combined Balance Sheet of the Company includes IBM's assets and liabilities that are specifically identifiable or otherwise attributable to the Company, including subsidiaries and/or joint ventures conducting managed infrastructure services business in which IBM has a controlling financial interest or is the primary beneficiary.

Cash and cash equivalents held by IBM at the corporate level 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 Combined 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 combined financial statements are those for which the legal obligor is a legal entity of Kyndryl. Interest expense in the Combined 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, are reflected as a component of Net Parent investment in the Combined Balance Sheet and as financing activities in the accompanying Combined Statement of Cash Flows.

IBM maintains various benefit and stock-based compensation plans at a corporate level and other pension and postretirement-related benefit plans at a subsidiary level. The Company's employees participate

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in those programs and a portion of the cost of those plans is included in the Company's combined financial statements. However, the Combined Balance Sheet does not include any net benefit plan assets or obligations unless legally sponsored by the Company. See note M, "Stock-Based Compensation" and note N, "Retirement-Related Benefits," for additional information.

Net Parent investment in the Combined 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). Changes in these non-trade intercompany balances are reflected as Net transfers from Parent in the financing activities section of the Combined Statement of Cash Flows.

As a result of the allocations and carve out methodologies used to prepare these combined financial statements, these results may not be indicative of the Company's future performance, and may not reflect the results of operations, financial position, and cash flows had Kyndryl been a separate, standalone company during the periods presented.

Kyndryl's operations are included in the consolidated U.S. federal, certain state and local and foreign income tax returns filed by IBM, where applicable. The income tax provision included in these combined financial statements has been calculated using the separate return basis, as if Kyndryl filed separate tax returns. Post separation, Kyndryl's operating footprint as well as tax return elections and assertions are expected to be different and therefore, Kyndryl's hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of the Company's future income taxes. 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 Combined Balance Sheet and reflected in Net transfers from Parent in the Combined Statement of Cash Flows.

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.

Noncontrolling interest amounts of \$9 million, \$9 million and \$6 million, net of tax, for the years ended December 31, 2020, 2019 and 2018, respectively, are included as a reduction within other (income) and expense in the Combined Income Statement.

Principles of Combination

The combined financial statements include the Company's net assets and results of operations as described above. All significant intracompany transactions between Kyndryl's businesses have been eliminated. All significant intercompany transactions between Kyndryl and IBM have been included in the combined financial statements. Intercompany transactions between Kyndryl and IBM are considered to be effectively settled in the combined 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 Combined Statement of Cash Flows and in the Combined Balance Sheet within Net Parent investment.

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 combined 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 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 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 product or service 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 contingent revenue.

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 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. Changes in estimates of variable consideration are included in note C, "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 control transfers and/or as services are rendered, 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 Combined 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 in design and build contracts, the right to consideration is typically subject to milestone completion or client acceptance and the unbilled accounts receivable is classified as a contract asset. Refer to note C, "Revenue Recognition," for contract assets for the periods presented. Contract assets are included in prepaid expenses and other current assets in the Combined Balance Sheet. The remaining amount of unbilled accounts receivable of \$358 million and \$389 million at December 31, 2020 and 2019, respectively, is included in notes and accounts receivable in the Combined Balance Sheet. Additionally, in determining the transaction price, the Company adjusts the promised amount of consideration for the effects of the time value of money if the billing terms are not standard and the timing of payments agreed to by the parties to the contract provide the 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 third-party vendor equipment or software in certain integrated services arrangements. In these types of arrangements, revenue from sales of third-party vendor products or services is recorded net of costs when the Company is acting as an agent between the 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.

In addition to the aforementioned general policies, the following are the specific revenue recognition policies for arrangements with multiple performance obligations and for the Company's offerings.

Arrangements with Multiple Performance Obligations

The Company's capabilities as an infrastructure services company include offerings that often encompass multiple types of services and may integrate various IBM or other Original Equipment Manufacturer (OEM)

hardware and/or OEM software components. When an arrangement contains multiple distinct performance obligations, revenue follows the specific revenue recognition policies for each deliverable, depending on the type of offering. To the extent that a product or service in multiple performance obligation arrangements is subject to other specific accounting guidance, such as leasing guidance, that product or service is accounted for in accordance with such specific guidance. For all other products or services in these arrangements, 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.

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 C, "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 IBM or OEM hardware and/or software components. Contracts that include hardware and/or software components are evaluated to determine if they are distinct performance obligations in accordance with the "Arrangements with Multiple Performance Obligations" section 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 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.

Contracts are only determined to have distinct software components when the arrangement includes a license to the software. 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.

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. In most cases, the Company is able to establish SSP based on the observable prices of products or services sold separately in comparable circumstances to similar clients. For third-party hardware or software components, the Company is able to establish SSP based on the cost from the vendor. Historically, SSP for IBM hardware and software components offered in the Company's solutions were based on IBM's SSP for these products and were approved and determined by IBM's management. 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.

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. Amounts paid to clients in excess of the fair value of acquired assets used in outsourcing arrangements are deferred and amortized on a straight-line basis as a reduction of revenue over the expected period of benefit. The Company performs periodic reviews to assess the recoverability of deferred contract

transition and setup costs. If the carrying amount is deemed not recoverable, an impairment loss is recognized. Refer to note C, "Revenue Recognition," for the amount of deferred costs to fulfill a contract at December 31, 2020 and 2019.

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. Additionally, as a practical expedient, the Company expenses costs to obtain a contract as incurred if the amortization period would have been a year or less. These costs are included in selling, general and administrative expenses.

Expense and Other Income

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, workforce rebalancing charges for contractually obligated payments to employees terminated in the ongoing course of business and amortization of certain intangible assets. A portion of SG&A is allocated to the Company by IBM based on direct usage, with the remainder allocated on a pro-rata basis of gross profit, headcount, asset ownership or other measures the Company has determined as reasonable. For further information, see note O, "Related Party Transactions."

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 \$34 million, \$55 million and \$40 million in 2020, 2019 and 2018, respectively, and is recorded in SG&A expense in the Combined Income Statement.

Research, Development and Engineering

Research, development and engineering (RD&E) costs are expensed as incurred and primarily consist of personnel costs as well as an allocation of facilities, depreciation, benefits and internal-use software costs. RD&E expense was \$76 million in 2020, \$83 million in 2019 and \$69 million in 2018.

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 pension/post-retirement benefit costs. Also included are allocations of gains and losses from foreign currency transactions, certain real estate transactions and corporate expenses. For more information, see note O, "Related Party Transactions".

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. Acquisition-related costs, including advisory, legal, accounting, valuation, and pre-close and other costs, are typically expensed in the periods in which the costs are incurred and are recorded in SG&A expense. The results of operations of acquired businesses are included in the combined financial statements from the acquisition date.

Impairment

Long-lived assets, other than goodwill, are tested for impairment 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.

Depreciation and Amortization

Property and equipment are carried at cost and depreciated over their estimated useful lives using the straight-line method. The estimated useful lives of certain depreciable assets are as follows: buildings, 30 to 50 years; land improvements, 20 years; office and other equipment, 2 to 20 years; and 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.

Within the Combined Statement of Cash Flows and in note D, "Segments," the Company also includes the amortization of deferred costs, such as contract setup costs and deferred fulfillment costs, in its depreciation/amortization totals. Capitalized costs are amortized on a straight-line basis over the expected period of benefit.

Environmental

The cost 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.

Asset Retirement Obligations

The Company records the fair value of Asset retirement obligations (ARO), which are legal obligations associated with the retirement of long-lived assets, based on an allocation from IBM using headcount and other reasonable allocation methodologies. The related asset retirement costs are capitalized by increasing the carrying amount of the related assets by the same amount as the liability. Asset retirement costs are subsequently depreciated over the useful lives of the related assets. Subsequent to initial recognition, the

Company records period-to-period changes in the ARO liability resulting from the passage of time in interest expense and revisions to either the timing or the amount of the original expected cash flows to the related assets.

Defined Benefit Pension and Nonpension Postretirement Benefit Plans

The defined benefit plans in which the Company participates relate primarily to plans sponsored by the Parent. The Company accounts for these plans as multi-employer plans, and therefore the related assets and liabilities are not reflected in the Combined Balance Sheet. The Combined Income Statement reflects a proportional allocation of net periodic benefit cost for the multi-employer plans associated with the Company.

The Company also participates in self-sponsored plans (single employer plans). Single employer plans reflected in the combined financial statements represent the historical results of the legal entities that are being transferred to the Company. Refer to note N, "Retirement Related Benefits" for further details on the accounting for multi-employer and single employer plans.

For single employer plans, the funded status is recognized in the Combined Balance Sheet. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation at December 31, the measurement 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 the 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 in an irrevocable trust fund, held for the sole benefit of participants, which are invested by the trust fund. Overfunded plans, with the fair value of plan assets exceeding the benefit obligation, are aggregated and recorded as a prepaid pension asset equal to this excess. Underfunded plans, with the benefit obligation exceeding 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 12 months exceeding the fair value of plan assets, measured on a plan-by-plan basis. This obligation is recorded in compensation and benefits in the Combined Balance Sheet.

Net periodic pension and nonpension postretirement benefit cost/(income) is recorded in the Combined Income Statement and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs/(credits) and (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, SG&A and RD&E in the Combined 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 Combined Income Statement.

(Gains)/losses and prior service costs/(credits) are recognized as a component of OCI in the Combined Statement of Comprehensive Income as they arise. Those (gains)/losses and prior service costs/(credits) are subsequently recognized as a component of net periodic pension and nonpension postretirement cost/(income) pursuant to the recognition and amortization provisions of applicable accounting guidance. (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 pension and nonpension postretirement cost/(income) 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.

Defined Contribution Plans

The Parent offers various defined contribution plans for U.S. and non-U.S. employees. Contributions are recorded when the employee renders service to the Company. The charge is recorded in Cost, SG&A and RD&E in the Combined Income Statement based on the employees' respective functions.

Stock-Based Compensation

Stock-based compensation represents the cost related to stock-based awards granted to employees under IBM's stock-based compensation plans. The Company measures stock-based compensation cost 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 employee requisite service period. IBM grants the Company's employees Restricted Stock Units (RSUs), including Retention Restricted Stock Units (RRSUs) and Performance Share Units (PSUs); and periodically grants stock options. RSUs are stock awards granted to employees that entitle the holder to shares of IBM common stock as the award vests, typically over a one- to five-year period. PSUs are stock awards where the number of IBM shares ultimately received by the employee depends on the Parent's performance against specified targets and typically vest over a three-year period. Over the performance period, the number of shares that will be issued is adjusted based upon the probability of achievement of performance targets. The ultimate number of IBM shares issued and the related compensation cost recognized as expense will be based on a comparison of the final performance metrics to the specified targets. Dividend equivalents are not paid on the stock awards described above. The fair value of the awards is determined and fixed on the grant date based on IBM's stock price, adjusted for the exclusion of dividend equivalents where applicable and for PSUs assumes that performance targets will be achieved. The Company estimates the fair value of stock options using a Black-Scholes valuation model. Stock-based compensation cost is recorded in Cost, SG&A, and RD&E in the Combined Income Statement based on the employees' respective functions.

The Company records deferred tax assets for awards that result in tax deductions in the combined 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 Combined Income Statement.

Income Taxes

The Company's operations have historically been included in certain tax returns filed by the Parent. Income tax expense and other income tax related information contained in the combined financial statements are presented on a hypothetical 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 combined 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, therefore items of current and deferred taxes may not be reflective of the actual tax balances subsequent to the periods presented. Current income tax liabilities including amounts for unrecognized tax benefits related to Kyndryl's activities included in the Parent's income tax returns are assumed to be immediately settled with Parent and are relieved through the Net Parent investment account in the Combined Balance Sheet and Net transfers from Parent in the Combined Statements of Cash Flows.

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. The U.S. Tax Cuts and Jobs Act (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 (1) recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or (2) account for taxes on GILTI as period costs in the year the tax is incurred. Beginning in 2018, IBM elected to include GILTI in measuring deferred taxes. The combined financial statements for Kyndryl have been prepared using the period

cost method since there is no GILTI inclusion in the periods presented and deferred GILTI does not, and is not expected to have, a significant impact in the combined financial statements or when it is on a stand-alone basis, post separation. Valuation allowances are recognized to reduce deferred tax assets to the amount that will more likely than not be realized on a hypothetical separate return basis. 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/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 expense when it 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. Interest and penalties, if any, related to accrued liabilities for potential tax assessments are included in provision for income taxes.

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.

Inventory, property and equipment — net 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.

Derivative Financial Instruments

Kyndryl does not independently execute derivative financial instruments to manage its foreign currency risk and instead participates 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.

Accordingly, the Combined Income Statement includes the impact of IBM's derivative financial instruments designated as cash flow hedges to manage foreign currency risk that is deemed to be associated with the Company's operations and has been allocated to the Company based on its pro rata share of the underlying items hedged, where applicable, with the remainder allocated on a pro-rata basis of revenue. No assets or liabilities are reflected in the Combined Balance Sheet from amounts related to derivatives and hedging activities. In 2020, 2019 and 2018 the Company recognized net gains from derivatives of \$7 million, \$19 million and \$9 million, respectively, in Cost of services. The Company recognized a net loss from derivatives of \$1 million and net gains of \$12 million and \$1 million in 2020, 2019 and 2018 respectively, in SG&A expense. In 2020 and 2019 the Company recognized net gains from derivatives of \$6 million and \$20 million respectively, and recognized a net loss of \$1 million in 2018 in Other (income) and expense.

Combined Statement of Cash Flows

IBM uses a centralized approach to cash management and the financing of its operations. Cash is managed centrally through bank accounts controlled and maintained by IBM. Accordingly, cash and cash equivalents held by IBM at the corporate level were not attributable to the Company for any of the periods presented. Transfers of cash, both to and from IBM's centralized cash management system are reflected as financing activities in the Combined Statement of Cash Flows.

The Company has generated positive net cash flow from operations in each of the three years presented, despite incurring net losses in each of those years. For the year ended December 31, 2020, the Company incurred significant workforce rebalancing charges, and, more recently, has undertaken other productivity

actions in anticipation of becoming a separate stand-alone public company. After considering the effects of those charges and actions, and the resulting ongoing operating cash flow savings, IBM believes Kyndryl's cash flow from operations will be sufficient to fund ongoing operations and recurring capital expenditures through at least the end of 2022.

Cash Equivalents

All highly liquid investments with maturities of three months or less at the date of purchase are considered to be cash equivalents.

Financial Instruments

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 Measurement

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.

In determining the fair value of financial instruments, the Company considers certain market valuation adjustments to the "base valuations" calculated 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 IBM's credit risk as observed in the credit default swap market.

The Company's financial assets and liabilities measured at fair value on a recurring basis were not material at December 31, 2020 and 2019. Financial assets and liabilities not measured at fair value primarily include short-term receivables and payables with carrying values that approximate fair value. If measured at fair value in the financial statements, these financial instruments would be classified as Level 3 in the fair value hierarchy.

Notes and Accounts Receivable and Contract Assets

The Company classifies the right to consideration in exchange for products or services transferred to a client as either a receivable or a contract asset. A receivable is a right to consideration that is unconditional as compared to a contract asset which is a right to consideration that is conditional upon factors other than the passage of time. The majority of the Company's contract assets represent unbilled amounts related to

design and build services contracts when the cost-to-cost method of revenue recognition is utilized, revenue recognized exceeds the amount billed to the client, and the right to consideration is subject to milestone completion or client acceptance. 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.

Transfers of Financial Assets

The Parent enters into arrangements to sell to third party financial institutions certain financial assets (primarily notes and accounts receivable), a portion of which were generated by Kyndryl. 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. When the true sales 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 Combined Statement of Cash Flows. If the sales criteria are not met, the transfer is considered a secured borrowing and the financial asset remains on the Combined Balance Sheet with proceeds from the sale recognized as debt and recorded as cash flows from financing activities in the Combined Statement of Cash Flows. Arrangements to sell notes and accounts receivable are used in the normal course of business as part of the Parent's cash and liquidity management. IBM facilities primarily in the U.S., Canada and several countries in Europe enable the Company to sell certain notes and accounts receivable, without recourse, to third parties to manage credit, collection, concentration and currency risk. The gross amounts of Kyndryl receivables sold (the gross proceeds) under these arrangements were \$803 million, \$650 million and \$687 million for the years ended December 31, 2020, 2019 and 2018, respectively. Within the notes and accounts receivables sold and derecognized from the Combined Balance Sheet, \$90 million, \$114 million, and \$177 million remained uncollected from customers at December 31, 2020, 2019 and 2018, respectively. The fees and the net gains and losses associated with the transfer of receivables were not material for any of the periods presented.

In addition, the Company has historically assigned receivables with extended payment terms to IBM's Global Financing business. These receivables were assigned prior to inception and therefore were never recognized on the Company's Combined Balance Sheet. Refer to note O, "Related Party Transactions," for more information on assignment of receivables to IBM's Global Financing business.

Allowance for Credit Losses

Effective January 1, 2020, the Company adopted the new accounting standard related to current expected credit losses. 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. For further information regarding the adoption of the new standard, see note B, "Accounting Pronouncements."

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, past experiences of losses, as well as an assessment of potential recoverability of the balance due.

Other Credit-Related Policies

Past Due — The Company views receivables as past due when payment has not been received after 90 days, measured from the original billing date.

Write-Off — 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.

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. The Company recognized right-of-use (ROU) assets and associated lease liabilities in the Combined Balance Sheet for leases with a term of more than 12 months when a majority percentage of utilization was attributed to the Company. Refer to note G, "Leases," for more information on allocation methodologies. The lease liabilities are measured at the lease commencement 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 Parent 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 Parent is the lessee. The ROU asset equals the lease liability adjusted for any initial direct costs (IDCs), 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 Combined Balance Sheet. Finance leases are included in property and equipment, short-term debt and long-term debt in the Combined 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 12 months or less in the Combined 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, 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 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.

NOTE B. ACCOUNTING PRONOUNCEMENTS**New Standards to be Implemented***Simplifying the Accounting for Income Taxes*

Standard/Description — Issuance date: December 2019. This guidance simplifies various aspects of income tax accounting by removing certain exceptions to the general principle of the guidance and clarifies and amends existing guidance to improve consistency in application.

Effective Date and Adoption Considerations — 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.

Effect on Financial Statements or Other Significant Matters — The guidance is not expected to have a material impact in the combined financial results.

Standards Implemented*Simplifying the Test for Goodwill Impairment*

Standard/Description — Issuance date: January 2017. This guidance simplifies the goodwill impairment test by removing Step 2. It also requires disclosure of any reporting units that have zero or negative carrying amounts if they have goodwill allocated to them.

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Effective Date and Adoption Considerations — The guidance was effective January 1, 2020 and early adoption was permitted. The Company adopted the guidance on a prospective basis as of the effective date.

Effect on Financial Statements or Other Significant Matters — The guidance did not have a material impact in the Company's combined financial statements upon adoption.

Leases

Standard/Description — Issuance date: February 2016, with amendments in 2018 and 2019. This guidance requires lessees to recognize right-of-use (ROU) assets and lease liabilities for most leases in the Combined Balance Sheet. The guidance also requires qualitative and quantitative disclosures to assess the amount, timing and uncertainty of cash flows arising from leases.

Effective Date and Adoption Considerations — The Company adopted the guidance on its effective date of January 1, 2019, using the transition option whereby prior comparative periods were not retrospectively presented in the combined financial statements. The Company elected the package of practical expedients not to reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and the lessee practical expedient to combine lease and non-lease components for all asset classes. The Company made a policy election to not recognize ROU assets and lease liabilities for short-term leases for all asset classes.

Effect on Financial Statements or Other Significant Matters — The guidance had a material impact on the Combined Balance Sheet as of the effective date. As a lessee, at adoption, the Company recognized operating ROU assets of \$1,217 million and operating lease liabilities of \$1,226 million. The adoption of the new guidance had an immaterial effect on finance leases. The transition adjustment recognized in Net Parent Investment on January 1, 2019 was not material. None of the other changes to the guidance had a material impact in the Company's combined financial results at the effective date.

Financial Instruments — Credit Losses

Standard/Description — Issuance date: June 2016, with amendments in 2018, 2019, and 2020. This changes the guidance for credit losses based on an expected loss model rather than an incurred loss model. It requires the consideration of all available relevant information when estimating expected credit losses, including past events, current conditions and forecasts and their implications for expected credit losses. It also expands the scope of financial instruments subject to impairment, including off-balance sheet commitments and residual value.

Effective Date and Adoption Considerations — The guidance was effective January 1, 2020 with one-year early adoption permitted. The Company adopted the guidance as of the effective date, using the transition methodology whereby prior comparative periods were not retrospectively presented in the combined financial statements.

Effect on Financial Statements or Other Significant Matters — At January 1, 2020, the guidance did not have a material impact in the Company's combined financial results.

Reclassification of Certain Tax Effects from AOCI

Standard/Description — Issuance date: February 2018. In accordance with its accounting policy, the Company releases income tax effects from AOCI once the reason the tax effects were established cease to exist (e.g., when available-for-sale debt securities are sold or if a pension plan is liquidated). This guidance allows for the reclassification of stranded tax effects as a result of the change in tax rates from the Tax Cuts and Jobs Act (U.S. tax reform) to be recorded upon adoption of the guidance rather than at the actual cessation date.

Effective Date and Adoption Considerations — The guidance was effective January 1, 2019 with early adoption permitted. The Company adopted the guidance effective January 1, 2018.

Effect on Financial Statements or Other Significant Matters — At adoption on January 1, 2018, the amount reclassified from AOCI to Net Parent Investment was not material.

Revenue Recognition — Contracts with Customers

Standard/Description — Issuance date: May 2014 with amendments in 2015 and 2016. Revenue recognition depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires specific disclosures relating to revenue recognition.

Effective Date and Adoption Considerations — The Company adopted the guidance on its effective date of January 1, 2018 using the modified retrospective transition method.

Effect on Financial Statements or Other Significant Matters — As a result of adoption, the Company recorded a cumulative effect net increase to Net Parent investment of \$154 million, primarily due to in-scope sales commissions previously recorded in the Combined Income Statement that were capitalized to deferred costs. The revenue guidance did not have a material impact in the Company's combined financial results. Refer to note C, "Revenue Recognition," for additional information.

For all other standards that the Company adopted in the periods presented, there was no material impact in the combined financial results.

NOTE C. REVENUE RECOGNITION**Disaggregation of Revenue**

The following table provides details of revenue by geography.

Revenue by Geography

(\$ in millions) For the year ended December 31:	2020	2019	2018
Americas*	\$ 7,401	\$ 7,951	\$ 8,581
Europe/Middle East/Africa**	7,289	7,566	8,162
Japan ⁺	3,037	2,925	2,936
Asia Pacific ⁺⁺	1,625	1,838	2,117
Total revenue	\$19,352	\$20,279	\$21,796

* Includes related party revenue of \$382 million in 2020, \$363 million in 2019 and \$369 million in 2018

** Includes related party revenue of \$124 million in 2020, \$118 million in 2019 and \$120 million in 2018

+ Includes related party revenue of \$70 million in 2020, \$67 million in 2019 and \$68 million in 2018

++ Includes related party revenue of \$68 million in 2020, \$65 million in 2019 and \$66 million in 2018

Remaining Performance Obligations

The remaining performance obligation (RPO) 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. The customer is not considered committed when they are able to terminate for convenience without payment of a substantive penalty. The disclosure 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, 2020 the aggregate amount of the transaction price allocated to RPO related to customer contracts that are unsatisfied or partially unsatisfied was \$62 billion. Approximately 50 percent of

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the amount is expected to be recognized as revenue in the subsequent two years, approximately 40 percent in the subsequent three to five years and the balance thereafter.

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

For the year ended December 31, 2020, revenue was reduced by \$21 million for performance obligations satisfied (or partially satisfied) in previous periods.

Reconciliation of Contract Balances

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

(\$ in millions) At December 31:	2020	2019
Notes and accounts receivable (net of allowances of \$91 in 2020 and \$82 in 2019)	\$1,444	\$1,790
Contract assets*	72	72
Deferred income (current)	854	896
Deferred income (noncurrent)	543	615

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

The amount of revenue recognized during the year ended December 31, 2020 that was included within the deferred income balance at December 31, 2019 was \$873 million.

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

(\$ in millions) January 1, 2020	Additions / (Releases)	Write-offs	Other*	December 31, 2020
\$ 82	\$25	\$(7)	\$(9)	\$91
January 1, 2019	Additions / (Releases)	Write-offs	Other*	December 31, 2019
\$ 111	\$51	\$(78)	\$(3)	\$82

* Primarily represents translation adjustments and reclassifications.

The contract assets allowance for expected credit losses was not material in the years ended December 31, 2020 and 2019.

Deferred Costs

(\$ in millions) At December 31:	2020	2019
Capitalized costs to obtain a contract	\$ 269	\$ 204
Deferred costs to fulfill a contract		
Deferred setup costs	1,369	1,439
Other deferred fulfillment costs*	1,006	1,051
Total deferred costs**	\$2,646	\$2,694

* Includes related party cost of \$94 million at December 31, 2020 and \$21 million at December 31, 2019.

** Of the total deferred costs, \$1,205 million was current (related party \$76 million) and \$1,441 million was noncurrent (related party \$18 million) at December 31, 2020 and \$1,133 million was current (related party \$19 million) and \$1,561 million was noncurrent (related party \$2 million) at December 31, 2019.

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The amount of total deferred costs amortized during the year ended December 31, 2020 was \$2,061 million which includes amortization of deferred transition and set-up costs of \$478 million, amortization of prepaid software of \$901 million and amortization of prepaid maintenance and other prepaid items of \$683 million. There were no material impairment losses incurred during 2020. Refer to note A, "Significant Accounting Policies," for additional information on deferred costs to fulfill a contract and capitalized costs of obtaining a contract.

NOTE D. SEGMENTS

The segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker (Infrastructure Services unit leader on a historical basis) in determining how to allocate resources and evaluate performance. The segments are determined based on several factors including client base, homogeneity of services offerings, delivery channels and similar economic characteristics.

Segment revenue and pre-tax income exclude any transactions between the segments and instead focuses on the external client view which is regularly assessed and reviewed by the chief operating decision maker. Intersegment revenue and pre-tax income primarily consists of fees for the utilization of global service delivery centers, and would therefore not be a meaningful metric to the readers of Kyndryl's financial statements.

The Company utilizes globally integrated support organizations to realize economies of scale and efficient use of resources. As a result, a considerable amount of expense is shared by all of the segments. This shared expense includes sales coverage, certain marketing functions, and support functions such as Accounting, Procurement, Legal, Human Resources, and Billing and Collections. Where practical, shared expenses are allocated on measurable drivers of expense, e.g., headcount. When a clear and measurable driver cannot be identified, shared expenses are allocated based on a financial basis that is consistent with the Company's management system, e.g. advertising expense is allocated based on the gross profit of the segments.

The following tables reflect the results of the Company's segments consistent with the management measurement system utilized within the Company. Performance measurement is based on pre-tax income. These results are used, in part, by the chief operating decision maker, both in evaluating the performance of, and in allocating resources to, each of the segments.

In 2020, the company recorded \$918 million in workforce rebalancing charges in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements. The impact to pre-tax income by segment was as follows: EMEA \$722 million, Americas \$117 million, Asia Pacific \$51 million and Japan \$28 million. The company expects the majority of the employee exits to be completed by the end of 2021.

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Management System Segment View

(\$ in millions)	Americas	EMEA	Japan	Asia Pacific	Total Segments
For the year ended December 31, 2020					
External revenue	\$7,018	\$ 7,166	\$2,966	\$1,557	\$18,707
Related party revenue	382	124	70	68	645
Total revenue	<u>\$7,401</u>	<u>\$ 7,289</u>	<u>\$3,037</u>	<u>\$1,625</u>	<u>\$19,352</u>
Pre-tax income/(loss)	<u>\$ (313)</u>	<u>\$(1,825)</u>	<u>\$ 195</u>	<u>\$ 176</u>	<u>\$(1,766)</u>
Revenue year-to-year change	(6.9)%	(3.7)%	3.8%	(11.6)%	(4.6)%
Pre-tax income/loss year-to-year change	nm	97.0%	9.3%	(7.6)%	205.3%
Pre-tax income/(loss) margin	(4.2)%	(25.0)%	6.4%	10.8%	(9.1)%
For the year ended December 31, 2019					
External revenue	\$7,588	\$ 7,448	\$2,858	\$1,773	\$19,666
Related party revenue	363	118	67	65	613
Total revenue	<u>\$7,951</u>	<u>\$ 7,566</u>	<u>\$2,925</u>	<u>\$1,838</u>	<u>\$20,279</u>
Pre-tax income/(loss)	<u>\$ (22)</u>	<u>\$ (926)</u>	<u>\$ 179</u>	<u>\$ 191</u>	<u>\$(579)</u>
Revenue year-to-year change	(7.3)%	(7.3)%	(0.4)%	(13.2)%	(7.0)%
Pre-tax income/loss year-to-year change	nm	(7.9)%	70.8%	35.4%	(8.1)%
Pre-tax income/(loss) margin	(0.3)%	(12.2)%	6.1%	10.4%	(2.9)%
For the year ended December 31, 2018					
External revenue	\$8,211	\$ 8,042	\$2,868	\$2,051	\$21,172
Related party revenue	369	120	68	66	623
Total revenue	<u>\$8,581</u>	<u>\$ 8,162</u>	<u>\$2,936</u>	<u>\$2,117</u>	<u>\$21,796</u>
Pre-tax income/(loss)	<u>\$ 130</u>	<u>\$(1,006)</u>	<u>\$ 105</u>	<u>\$ 141</u>	<u>\$(630)</u>
Revenue year-to-year change	(2.1)%	3.1%	3.9%	(8.9)%	(0.2)%
Pre-tax income/loss year-to-year change	(26.5)%	12.3%	(28.3)%	(20.5)%	59.5%
Pre-tax income/(loss) margin	1.5%	(12.3)%	3.6%	6.6%	(2.9)%

nm — not meaningful

Segment Assets and Other Items

Each of the Company's segments contain similar asset categories such as accounts receivable, deferred contract costs, property and equipment, operating leases, and goodwill. Depreciation expense and capital expenditures that are reported by each segment also are consistent with the landlord ownership basis of asset assignment.

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Management System Segment View

(\$ in millions)	Americas	EMEA	Japan	Asia Pacific	Total Segments
2020					
Assets	\$3,934	\$4,832	\$1,390	\$872	\$11,029
Depreciation/amortization of deferred costs and intangibles	1,688	1,545	360	366	3,959
Capital expenditures/investments in intangibles	383	495	87	73	1,038
Interest expense	24	24	10	5	63
2019					
Assets	\$4,355	\$4,860	\$1,327	\$996	\$11,537
Depreciation/amortization of deferred costs and intangibles	1,824	1,504	318	390	4,036
Capital expenditures/investments in intangibles	472	489	111	120	1,191
Interest expense	30	28	11	7	76
2018					
Assets	\$4,299	\$4,107	\$1,272	\$933	\$10,612
Depreciation/amortization of deferred costs and intangibles	1,472	1,470	228	408	3,578
Capital expenditures/investments in intangibles	583	700	118	166	1,567
Interest expense	33	32	11	8	85

Reconciliations of Kyndryl as Reported

(\$ in millions) At December 31:	2020	2019	2018
Assets			
Total reportable segments	\$11,029	\$11,537	\$10,612
Unallocated amounts			
Property and equipment	21	10	26
Deferred costs	153	197	240
Other	2	0	7
Total assets	<u>\$11,205</u>	<u>\$11,744</u>	<u>\$10,885</u>

Major Clients

No single client represented 10 percent or more of the Company's total revenue in 2020, 2019 or 2018.

Geographic Information

The following provides information for those countries that are 10 percent or more of the specific category.

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Revenue*

(\$ in millions) At December 31:	2020	2019	2018
United States	\$ 5,081	\$ 5,340	\$ 6,081
Japan	3,037	2,925	2,936
Other countries	11,235	12,015	12,779
Total revenue	\$19,352	\$20,279	\$21,796

* Revenues are attributed to countries based on the location of the client.

Property and Equipment — Net

(\$ in millions) At December 31:	2020	2019	2018
United States	\$ 922	\$ 941	\$ 966
Canada	430	454	415
Japan	384	364	372
Other countries	2,254	2,366	2,427
Total	\$3,991	\$4,125	\$4,180

Refer to note F, "Property and Equipment," for more information on allocation methodologies.

Operating Right-of-Use Assets — Net*

(\$ in millions) At December 31:	2020	2019	2018
Belgium	\$ 197	\$ 213	\$ —
Italy	114	109	—
United States	66	69	—
Other countries	755	828	—
Total	\$1,131	\$1,218	\$ —

* Reflects the adoption of the FASB guidance on leases in 2019.

Refer to note G, "Leases," for more information on allocation methodologies.

NOTE E. TAXES

During the periods presented in the combined financial statements, Kyndryl's operations are included in the consolidated U.S. federal, certain state and local and foreign income tax returns filed by IBM, where applicable. The income tax provision included in these combined financial statements has been calculated using the separate return basis, as if Kyndryl filed separate tax returns. Post separation, Kyndryl's operating footprint as well as tax return elections and assertions are expected to be different and therefore, Kyndryl's hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of the Company's future income taxes.

(\$ in millions) For the year ended December 31:	2020	2019	2018
Income/(loss) before income taxes:			
U.S. operations	\$ (974)	\$(732)	\$(555)
Non-U.S. operations	(792)	153	(75)
Total income/(loss) before income taxes	\$(1,766)	\$(579)	\$(630)

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The provision for income taxes by geographic operations was as follows:

(\$ in millions) For the year ended December 31:	2020	2019	2018
U.S. operations	\$ 27	\$ 36	\$ 18
Non-U.S. operations	219	328	332
Total provision for income taxes	\$246	\$364	\$350

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

(\$ in millions) For the year ended December 31:	2020	2019	2018
U.S. federal:			
Current	\$ —	\$ —	\$ —
Deferred	—	—	(13)
	\$ —	\$ —	\$ (13)
U.S. state and local:			
Current	\$ —	\$ —	\$ —
Deferred	—	—	(3)
	\$ —	\$ —	\$ (3)
Non-U.S.			
Current	\$304	\$411	\$312
Deferred	(58)	(47)	54
	\$246	\$364	\$366
Total provision for income taxes	\$246	\$364	\$350

A reconciliation of the provision for/(benefit from) income taxes at the statutory U.S. federal tax rate to the Company's combined provision for income taxes was as follows:

(\$ in millions) For the year ended December 31:	2020	2019	2018
Statutory rate	\$(371)	\$(122)	\$(132)
Tax differential on foreign income	104	109	136
State and local	(49)	(37)	(28)
Valuation allowance	460	342	281
Reserves for uncertain tax positions	86	40	41
Intercompany prepayment	(12)	(3)	27
Undistributed foreign earnings	18	20	19
Other	10	15	6
Total provision for income taxes	\$ 246	\$ 364	\$ 350

The provision for income taxes for the periods presented was attributable to losses in certain jurisdictions that cannot be benefited from and income tax expense in certain jurisdictions where taxable income is generated. The significant components of the provision include net change in valuation allowances recorded on benefits that cannot be recognized, tax differential on foreign income which includes the effects of foreign subsidiaries' earnings taxed at rates other than the U.S. statutory rate, as well as reserves for uncertain tax positions associated with current year activity.

The provision for income taxes for 2020 was \$246 million compared to \$364 million in 2019. The decrease in the provision was primarily driven by higher pre-tax losses in 2020 partially offset by an increase in valuation allowances in jurisdictions with losses. The provision for income taxes for 2019 was \$364 million

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compared to \$350 million in 2018. The increase in the provision was primarily driven by lower pre-tax losses in 2019 and a change in valuation allowance associated with jurisdictions with losses.

U.S. tax reform introduced GILTI, which subjects a U.S. shareholder to current tax on income earned by certain foreign subsidiaries. GAAP allows companies to either (1) recognize deferred taxes for temporary differences that are expected to reverse as GILTI in future years or (2) account for taxes on GILTI as period costs in the year the tax is incurred. Beginning in 2018, IBM elected to include GILTI in measuring deferred taxes. The combined financial statements for Kyndryl have been prepared using the period cost method since there is no GILTI inclusion in the periods presented and deferred GILTI does not, and is not expected to have, a significant impact on the combined financial statements or when it is on a stand-alone basis, post separation.

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

(\$ in millions)	2020	2019	2018
Balance at January 1	\$ —	\$ —	\$ —
Additions based on tax positions related to the current year	86	40	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)	(86)	(40)	(41)
Balance at December 31	\$ —	\$ —	\$ —

The additions to unrecognized tax benefits related to each year presented were primarily attributable to non-U.S. tax matters including transfer pricing, which are immediately settled with Parent and are relieved through the Net Parent investment account in the Combined Balance Sheet and Net transfers from Parent in the Combined Statement of Cash Flows. The income tax provision has been prepared based on the assumption that any subsequent changes to the Company's income tax liability as a result of tax examinations are the responsibility of IBM. Therefore, the impact of any subsequent changes in assessment about the sustainability of related tax positions, including interest and penalties, are not presented in these combined financial statements. In addition, due to this basis of presentation, Kyndryl is deemed to not be subject to tax examination in any jurisdictions that could be reasonably expected to have a material impact on the combined financial statements. Given there are no reserves for unrecognized tax benefits presented, there is no expectation of a significant increase or decrease in the unrecognized tax benefits within the next 12 months. Upon separation, liabilities related to unrecognized tax benefits for which Kyndryl is liable and that are not included within Kyndryl's Combined Balance Sheet are expected to be reported within the post-separation Kyndryl balance sheet based upon tax authorities' ability to assert Kyndryl may be the primary obligor for historical taxes, among other factors.

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

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Deferred Tax Assets

(\$ in millions) At December 31:	2020	2019	2018
Retirement benefits	\$ 126	\$ 107	\$ 87
Leases	380	350	—
Share-based and other compensation	37	40	46
Domestic tax loss/credit carryforwards	643	405	192
Deferred income	50	52	85
Foreign tax loss/credit carryforwards	509	307	207
Bad debt, inventory and warranty reserves	37	51	39
Depreciation	123	128	72
Restructuring charges	59	11	5
Section 163(j) interest limitation	50	33	16
Other	91	71	57
Gross deferred tax assets	<u>\$ 2,105</u>	<u>\$ 1,555</u>	<u>\$ 806</u>
Less: valuation allowance	<u>(1,110)</u>	<u>(650)</u>	<u>(308)</u>
Net deferred tax assets	<u><u>\$ 995</u></u>	<u><u>\$ 905</u></u>	<u><u>\$ 498</u></u>

Deferred Tax Liabilities

(\$ in millions) At December 31:	2020	2019	2018
Depreciation	\$203	\$212	\$206
Goodwill and intangible assets	45	42	45
Leases and right-of-use assets	331	327	—
Undistributed foreign earnings	57	39	19
Other	12	17	11
Gross deferred tax liabilities	<u><u>\$648</u></u>	<u><u>\$637</u></u>	<u><u>\$281</u></u>

Amounts presented in the deferred tax table above, calculated on a hypothetical separate return basis, are expected to be different from the amounts reflected in the opening post-separation balance sheet of Kyndryl, based upon the impacts of the separation and application of local law, among other factors.

The Company has operations in federal and certain state and local and foreign jurisdictions that on a hypothetical separate return basis would have tax credits and net operating loss carryforwards. Tax attributes have been reported based on the hypothetical separate return basis results for the periods presented in the combined financial statements. As of December 31, 2020, the Company had domestic and foreign net operating loss carryforwards, the tax effect of which was \$1,019 million, as well as \$133 million of domestic and foreign credit carryforwards. Substantially all of the carryforwards are not available for use following the separation and therefore the carryforward periods are not relevant.

The valuation allowances as of December 31, 2020, 2019 and 2018 were \$1,110 million, \$650 million and \$308 million, respectively. The additions to valuation allowances for the years ended December 31, 2020, 2019, and 2018 were \$460 million, \$342 million, and \$281 million, respectively, and principally relate to foreign and domestic net operating loss and credit carryforwards determined on a hypothetical separate return basis, which in the opinion of management are not more likely than not to be realized when assessed on a hypothetical separate return basis.

At December 31, 2020 Kyndryl's undistributed after-tax earnings from certain non-U.S. subsidiaries were not indefinitely reinvested for which the Company has a deferred tax liability of \$57 million for the estimated taxes associated with the repatriation of these earnings. Undistributed earnings of approximately

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\$221 million and other outside basis differences in foreign subsidiaries were indefinitely reinvested in foreign operations. Quantification of the deferred tax liability, if any, associated with indefinitely reinvested earnings and outside basis differences was not practicable.

NOTE F. PROPERTY AND EQUIPMENT

(\$ in millions) At December 31:	2020	2019
Information technology equipment	\$10,005	\$ 9,621
Buildings and building and leasehold improvements	2,968	2,858
Office and other equipment	346	369
Land and land improvements	149	140
Property and equipment – gross	\$13,468	\$12,988
Less: Accumulated depreciation	9,478	8,863
Property and equipment – net	<u>\$ 3,991</u>	<u>\$ 4,125</u>

The Company's property and equipment reflected in the Combined Balance Sheet is 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.

NOTE G. LEASES

The following tables presents the various components of lease costs:

(\$ in millions) For the year ended December 31:	2020	2019
Finance lease cost	\$ 61	\$ 18
Operating lease cost	424	429
Short-term lease cost	10	12
Variable lease cost	114	124
Sublease income	(4)	(2)
Total lease cost	<u>\$605</u>	<u>\$581</u>

The Company's ROU assets and lease liabilities reflected in the Combined 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, 2020 and 2019.

Rental expense, including amounts charged to fixed assets and excluding amounts previously reserved, was \$455 million for the year ended December 31, 2018.

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.

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(\$ in millions) For the year ended December 31:	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows from finance leases	\$ 3	\$ 1
Financing cash outflows from finance leases	72	19
Operating cash outflows from operating leases	450	454
ROU assets obtained in exchange for new finance lease liabilities	129	147*
ROU assets obtained in exchange for new operating lease liabilities	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:

At December 31:	2020	2019
Finance leases		
Weighted-average remaining lease term	3.5 yrs.	3.8 yrs.
Weighted-average discount rate	1.35%	1.55%
Operating leases		
Weighted-average remaining lease term	5.7 yrs.	6.0 yrs.
Weighted-average discount rate	2.19%	2.59%

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.

(\$ in millions)	2021	2022	2023	2024	2025	Thereafter	Imputed Interest	Total**
Finance leases	\$ 73	\$ 63	\$ 47	\$ 24	\$ 8	\$ 0	\$ (7)	\$ 209
Operating leases	\$353	\$274	\$185	\$123	\$97	\$215	\$(64)	\$1,183

* 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 \$46 million that have not yet commenced as of December 31, 2020, and therefore are not included in this table.

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

At December 31:	2020	2019
ROU Assets- Property and equipment	\$201	\$130
Lease Liabilities:		
Short-term debt	\$ 69	\$ 42
Long-term debt	\$140	\$100

NOTE H. INTANGIBLE ASSETS INCLUDING GOODWILL**Intangible Assets**

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

(\$ in millions) At December 31, 2020:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible asset class			
Capitalized software	\$ 7	\$ (4)	\$ 3
Client relationships	130	(77)	53
Completed technology	20	(17)	3
Patents/trademarks	2	(2)	0
Total	<u>\$159</u>	<u>\$(99)</u>	<u>\$60</u>

(\$ in millions) At December 31, 2019:	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible asset class			
Capitalized software	\$ 7	\$ (3)	\$ 4
Client relationships	130	(58)	72
Completed technology	38	(27)	10
Patents/trademarks	6	(4)	1
Total	<u>\$181</u>	<u>\$(93)</u>	<u>\$87</u>

There was no impairment of intangible assets recorded in 2020, 2019 and 2018. The net carrying amount of intangible assets decreased \$28 million during the year ended December 31, 2020, primarily due to intangible asset amortization. The aggregate intangible amortization expense was \$29 million for the years ended December 31, 2020, 2019 and 2018. In addition, in the year ended December 31, 2020, the Company retired \$23 million of fully amortized intangible assets, impacting both the gross carrying amount and accumulated amortization by this amount. There was no retirement of intangible assets in the year ended December 31, 2019.

The future amortization expense relating to intangible assets currently recorded in the Combined Balance Sheet is estimated to be the following at December 31, 2020:

(\$ in millions)	Capitalized Software	Acquired Intangibles	Total
2021	\$ 2	\$22	\$24
2022	1	18	19
2023	0	10	11
2024	—	6	6
2025	—	—	—
Thereafter	—	—	—

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. The changes in the goodwill balances by reportable segment for the years ended December 31, 2020 and 2019 are as follows:

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(\$ in millions) Segment	Balance at January 1, 2020	Foreign Currency Translation and Other Adjustments*	Balance at December 31, 2020
Americas	\$ 416	\$24	\$ 440
EMEA	272	16	288
Japan	401	23	424
Asia Pacific	74	4	78
Total	<u>\$1,162</u>	<u>\$67</u>	<u>\$1,230</u>

(\$ in millions) Segment	Balance at January 1, 2019	Foreign Currency Translation and Other Adjustments*	Balance at December 31, 2019
Americas	\$ 418	\$(2)	\$ 416
EMEA	274	(2)	272
Japan	403	(2)	401
Asia Pacific	74	(0)	74
Total	<u>\$1,169</u>	<u>\$(6)</u>	<u>\$1,162</u>

* Primarily driven by foreign currency translation.

There were no goodwill impairment losses recorded during 2020, 2019 or 2018 and the Company has no accumulated impairment losses. As of December 31, 2020, the EMEA reporting unit had an estimated fair value that exceeded its carrying amount by 23 percent. Each of the other reporting units with goodwill had a fair value that was substantially in excess of its carrying value.

NOTE I. BORROWINGS

Short-Term Debt

(\$ in millions) At December 31:	2020	2019
Finance lease obligations	\$69	\$42

Long-Term Debt

(\$ in millions) At December 31:	Maturities	2020	2019
Finance lease obligations (1.3%)	2021 – 2026	\$209	\$142
Less: current maturities		69	42
Total		<u>\$140</u>	<u>\$100</u>

Long-term debt is comprised of finance lease liabilities.

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Contractual obligations of long-term debt outstanding at December 31, 2020, are as follows:

(\$ in millions)	Total
2021	\$ 69
2022	62
2023	47
2024	23
2025	8
Thereafter	—
Total	\$209

Interest on Debt

Interest expense for the years ended December 31, 2020, 2019 and 2018 was \$63 million, \$76 million and \$85 million, respectively. Interest capitalized for the periods presented was immaterial. Interest in the Combined Income Statement reflects the allocation of interest expense on borrowing and funding related activity associated with debt issued by IBM for which a portion of the proceeds benefited Kyndryl. Such Parent debt has not been attributed to the Company for any periods presented because Parent's borrowings are not the legal obligation of the Company. Refer to note O, "Related Party Transactions," for more information on the allocation of Parent's corporate expenses.

NOTE J. OTHER LIABILITIES

(\$ in millions)	2020	2019
At December 31:		
Workforce rebalancing	\$595	\$ 46
Employee related taxes	103	89
Other	176	270
Other accrued expenses and liabilities	\$874	\$406
Workforce rebalancing	\$ 82	\$ 31
Disability benefits	76	87
Asset retirement obligations	21	18
Deferred taxes	78	80
Other	25	78
Other non-current liabilities	\$282	\$294

In response to changing business needs, the Company periodically takes workforce rebalancing actions to improve productivity, cost competitiveness and to rebalance skills. The noncurrent liabilities are workforce 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 passes away. The total amounts accrued for workforce rebalancing, including amounts classified as other accrued expenses and liabilities in the Combined Balance Sheet were \$677 million and \$77 million at December 31, 2020 and 2019, respectively. The increase in the total amount accrued as of December 31, 2020 relates to the workforce rebalancing actions in 2020, of which, \$563 million was recorded in the fourth quarter in selling, general and administrative expense in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements.

As of December 31, 2020, the Company was unable to estimate the range of settlement dates and the related probabilities for certain asbestos remediation AROs. These conditional AROs are primarily related to the encapsulated structural fireproofing that is not subject to abatement unless the buildings are demolished and non-encapsulated asbestos that the Company would remediate only if it performed major renovations of certain existing buildings. Because these conditional obligations have indeterminate settlement dates, the Company could not develop a reasonable estimate of their fair values. The Company will continue to assess its ability to estimate fair values at each future reporting date. The related liability will be recognized once sufficient additional information becomes available. The total amounts accrued for ARO liabilities,

including amounts classified as current in the Combined Balance Sheet were \$29 million at both December 31, 2020 and 2019.

NOTE K. COMMITMENTS AND CONTINGENCIES

Commitments

The Company has applied the guidance requiring a guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. 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 Combined Balance Sheet at December 31, 2020 and December 31, 2019 were not material.

Contingencies

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. As of December 31, 2020, there were no such matters. 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.

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 combined 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.

The following is a summary of a significant legal matter relating to the Company.

On May 13, 2010, IBM and the State of Indiana (acting on behalf of the Indiana Family and Social Services Administration) sued one another in a dispute over a 2006 contract regarding the modernization of

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social service program processing in Indiana, with IBM service provided by the managed infrastructure services business in its GTS segment. Multiple trials and appeals resulted in a net award of \$78 million to the State of Indiana, plus interest. IBM paid the judgment plus interest in full in January and April of 2020, after which the State of Indiana sought additional interest, which both the Indiana Superior Court and the Indiana Court of Appeals denied. The Indiana Supreme Court declined further review.

NOTE L. EQUITY ACTIVITY

The Company had no available-for-sale securities or cash flow hedges during the periods presented in the following tables:

Reclassifications and Taxes Related to Items of Other Comprehensive Income

(\$ in millions) For the year ended December 31, 2020:	Before Tax Amount	Tax (Expense)/ Benefit	Net of Tax Amount
Other comprehensive income/(loss):			
Foreign currency translation adjustments	\$125	\$ —	\$125
Retirement-related benefit plans⁽¹⁾:			
Prior service costs/(credits)	\$ 0	\$ 0	\$ 0
Net (losses)/gains arising during the period	(41)	13	(28)
Curtailments and settlements	0	0	0
Amortization of prior service (credits)/costs	(1)	0	0
Amortization of net (gains)/losses	36	(12)	24
Total retirement-related benefit plans	<u>\$ (6)</u>	<u>\$ 2</u>	<u>\$ (4)</u>
Other comprehensive income/(loss)	<u>\$119</u>	<u>\$ 2</u>	<u>\$121</u>

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note N, "Retirement-Related Benefits," for additional information.

(\$ in millions) For the year ended December 31, 2019:	Before Tax Amount	Tax (Expense)/ Benefit	Net of Tax Amount
Other comprehensive income/(loss):			
Foreign currency translation adjustments	\$ 12	\$—	\$ 12
Retirement-related benefit plans⁽¹⁾:			
Prior service costs/(credits)	\$ (1)	\$—	\$ (1)
Net (losses)/gains arising during the period	(84)	27	(57)
Curtailments and settlements	0	0	0
Amortization of prior service (credits)/costs	0	0	0
Amortization of net (gains)/losses	27	(9)	18
Total retirement-related benefit plans	<u>\$(57)</u>	<u>\$18</u>	<u>\$(39)</u>
Other comprehensive income/(loss)	<u>\$(45)</u>	<u>\$18</u>	<u>\$(27)</u>

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note N, "Retirement-Related Benefits," for additional information.

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(\$ in millions) For the year ended December 31, 2018:	Before Tax Amount	Tax (Expense)/ Benefit	Net of Tax Amount
Other comprehensive income/(loss):			
Foreign currency translation adjustments	\$(240)	\$—	\$(240)
Retirement-related benefit plans⁽¹⁾:			
Prior service costs/(credits)	\$ 1	\$ 0	\$ 1
Net (losses)/gains arising during the period	(33)	10	(23)
Amortization of prior service (credits)/costs	(1)	0	0
Amortization of net (gains)/losses	28	(8)	20
Total retirement-related benefit plans	\$ (4)	\$ 2	\$ (3)
Other comprehensive income/(loss)	<u>\$(244)</u>	<u>\$ 2</u>	<u>\$(243)</u>

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note N, "Retirement-Related Benefits," for additional information.

Accumulated Other Comprehensive Income/(Loss) (net of tax)

(\$ in millions)	Foreign Currency Translation Adjustments*	Net Change Retirement- Related Benefit Plans	Accumulated Other Comprehensive Income/(Loss)
December 31, 2017	<u>\$ (779)</u>	<u>\$ (172)</u>	<u>\$ (950)</u>
Other comprehensive income/(loss)**	(240)	(3)	(243)
December 31, 2018	<u>\$ (1,019)</u>	<u>\$ (175)</u>	<u>\$ (1,193)</u>
Other comprehensive income/(loss)**	12	(39)	(27)
December 31, 2019	<u>\$ (1,007)</u>	<u>\$ (214)</u>	<u>\$ (1,220)</u>
Other comprehensive income/(loss)**	125	(4)	121
December 31, 2020	<u>\$ (882)</u>	<u>\$ (218)</u>	<u>\$ (1,100)</u>

* Foreign currency translation adjustments are presented gross.

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

NOTE M. STOCK-BASED COMPENSATION

The Company participates in various IBM stock-based compensation plans, including incentive compensation plans and employee stock purchase plan. All awards granted under the plans are based on IBM's common shares and, as such, are reflected in the Parent's Consolidated Statement of Stockholders' Equity and not in the Company's Combined Statement of Equity. Stock-based compensation cost is based on the awards and terms previously granted to employees by the Parent.

Compensation cost associated with Kyndryl employees' participation in the Parent's incentive plans have been identified for employees who exclusively support Kyndryl operations. Amounts allocated to the Company from the Parent for shared services are reported within total allocated costs in note O, "Related Party Transactions."

The following table presents stock-based compensation cost associated with employees who exclusively support the Company and is included in net income/(loss).

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(\$ in millions) For the year ended December 31:	2020	2019	2018
Cost	\$ 26	\$ 15	\$ 16
SG&A expense	36	34	40
RD&E expense	1	1	1
Pre-tax stock-based compensation cost	\$ 64	\$ 51	\$ 57
Income tax benefits	(14)	(12)	(13)
Net stock-based compensation cost	<u>\$ 49</u>	<u>\$ 40</u>	<u>\$ 44</u>

The Company's total unrecognized compensation cost related to non-vested awards at December 31, 2020 was \$95 million and is expected to be recognized over a weighted-average period of approximately 2.2 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, 2020, 2019 and 2018.

Incentive Awards

Stock-based incentive awards were provided to employees under the terms of IBM's long-term performance plans (the Plans). Awards under the Plans principally include Restricted Stock Units (RSUs) and Performance Share Units (PSUs).

The following table summarizes RSU and PSU activity under the Plans associated with employees who exclusively support the Company during the years ended December 31, 2020, 2019 and 2018.

	RSUs		PSUs	
	Weighted-Average Grant Price	Number of Units	Weighted-Average Grant Price	Number of Units
Balance at January 1, 2018	\$141	688,048	\$144	151,383
Awards granted	121	386,581	130	51,949
Awards released	148	(207,491)	152	(38,069)
Awards canceled/forfeited/performance adjusted	139	(78,766)	147	(27,000)*
Balance at December 31, 2018	<u>\$130</u>	<u>788,372</u>	<u>\$136</u>	<u>138,262**</u>
Awards granted	119	454,465	117	79,741
Awards released	136	(252,935)	140	(48,379)
Awards canceled/forfeited/performance adjusted	128	(78,970)	131	(6,406)*
Balance at December 31, 2019	<u>\$123</u>	<u>910,932</u>	<u>\$126</u>	<u>163,219**</u>
Awards granted	115	856,672	117	90,434
Awards released	126	(304,102)	137	(36,054)
Awards canceled/forfeited/performance adjusted	121	(104,603)	125	(14,665)*
Balance at December 31, 2020	<u>\$117</u>	<u>1,358,900</u>	<u>\$120</u>	<u>202,934**</u>

* Includes adjustments of (4,005), (488) and (18,749) PSUs for 2020, 2019 and 2018, respectively, because final performance metrics were above or below specified targets.

** Represents the number of shares expected to be issued based on achievement of grant date performance targets. The actual number of shares issued will depend on final performance against specified targets over the vesting period.

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The total fair value of RSUs and PSUs granted and vested to employees wholly dedicated to the Company during the years ended December 31, 2020, 2019 and 2018 were as follows:

(\$ in millions) For the year ended December 31:	2020	2019	2018
RSUs:			
Granted	\$96	\$53	\$46
Vested	\$32	\$29	\$26
PSUs:			
Granted	\$11	\$10	\$ 7
Vested	\$ 4	\$ 5	\$ 4

Stock Options

In 2016, IBM made one grant of 1.5 million premium-priced stock options. As of December 31, 2020, these vested options had a remaining weighted-average contractual life of approximately 5.1 years and had no intrinsic value.

Stock options outstanding as a result of the Parent's conversion of stock-based awards previously granted by acquired entities was immaterial for all periods presented.

IBM Employees Stock Purchase Plan

Prior to the separation, eligible employees may participate in IBM's non-compensatory Employees Stock Purchase Plan (ESPP). The ESPP enables eligible participants to purchase shares of IBM common stock at a discount through payroll deductions of up to 10 percent of eligible compensation during the offer period. The ESPP provides for semi-annual offering periods and continues as long as shares remain available under the ESPP. Individual ESPP participants are restricted from purchasing more than \$25,000 of common stock in one calendar year or 1,000 shares in an offering period.

No stock-based compensation expense was recorded in connection with employee purchases of ESPP because the criteria of a non-compensatory plan were met.

NOTE N. RETIREMENT-RELATED BENEFITS

Description of Plans

The Company sponsors defined benefit pension plans and other nonpension postretirement benefit plans. The defined benefit pension plans cover certain non-U.S. employees and retirees, and the pension 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 combined financial statements. Accordingly, the net benefit plan obligations and the related benefit plan expenses of those plans have been recorded in the Company's combined financial statements. The nonpension postretirement benefit plans cover certain non-U.S. employees and retirees and provides a fixed monthly dollar credit for retiree health care expense. The benefit obligation and related expenses for these plans are included in the combined financial statements.

Additionally, certain Company employees participate in multi-employer defined benefit pension plans and post-retirement health plans as well as defined contribution plans that are sponsored by the Parent, which also includes other participants. Accordingly, the Company does not record an asset or liability to recognize the funded status. 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 Combined Income Statement.

Plan Financial Information

The Company's defined contribution expense for the years ended December 31, 2020, 2019 and 2018 was \$194 million, \$207 million, and \$208 million, respectively.

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The following table presents the components of net periodic (income)/cost of the retirement-related benefit plans recognized in the Combined Income Statement, excluding defined contribution plans.

(\$ in millions)	For the year ended December 31,					
	Defined Benefit Pension Plans			Nonpension Postretirement Benefit Plans		
	2020	2019	2018	2020	2019	2018
Service cost*	\$109	\$101	\$118	\$ 3	\$ 3	\$ 4
Interest cost**	10	17	17	1	1	1
Expected return on plan assets**	(24)	(27)	(21)	(1)	(1)	0
Amortization of prior service costs/(credits)**	(1)	0	(1)	—	—	—
Recognized actuarial losses**	36	26	28	0	0	0
Curtailments and settlements**	0	0	—	—	—	—
Multi-employer plans/other costs ⁺	13	20	34	—	—	—
Total net periodic (income)/cost	<u>\$143</u>	<u>\$138</u>	<u>\$175</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 4</u>

* Represents service costs of \$16 million in both 2020 and 2019, and \$18 million in 2018 attributable to self-sponsored plans as well as \$96 million, \$89 million, and \$104 million in 2020, 2019 and 2018, respectively, attributable to allocations of costs for plans sponsored by the Parent.

** These components of net periodic pension costs are included in other (income) and expense in the Combined Income Statement.

+ Represents third-party plans.

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

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(\$ in millions)	Defined Benefit Pension Plans		Nonpension Postretirement Benefit Plans	
	2020	2019	2020	2019
Change in benefit obligation				
Benefit obligation at January 1	\$1,099	\$1,004	\$ 13	\$ 13
Service cost*	15	15	1	1
Interest cost	10	17	1	1
Plan participants' contributions	—	—	—	—
Acquisitions/divestitures, net	(12)	(3)	—	—
Actuarial losses/(gains)	33	117	(1)	(1)
Benefits paid from trust	(21)	(17)	—	—
Direct benefit payments	(19)	(16)	0	0
Foreign exchange impact	97	(17)	0	0
Amendments/curtailments/settlements/other	0	(1)	0	0
Benefit obligation at December 31	<u>\$1,202</u>	<u>\$1,099</u>	<u>\$ 13</u>	<u>\$ 13</u>
Change in plan assets				
Fair value of plan assets at January 1	\$ 612	\$ 574	\$ 12	\$ 11
Actual return on plan assets	13	61	2	1
Employer contributions	4	4	—	—
Acquisitions/divestitures, net	(10)	—	—	—
Plan participants' contributions	0	0	—	—
Benefits paid from trust	(21)	(17)	—	—
Foreign exchange impact	56	(11)	(1)	0
Amendments/curtailments/settlements/other	0	1	—	0
Fair value of plan assets at December 31	<u>\$ 654</u>	<u>\$ 612</u>	<u>\$ 13</u>	<u>\$ 12</u>
Funded status at December 31	<u>\$ (548)</u>	<u>\$ (488)</u>	<u>\$ 0</u>	<u>\$ (1)</u>
Accumulated benefit obligation**	\$1,171	\$1,066	N/A	N/A

* Represents service costs attributable to self-sponsored plans.

** Represents the benefit obligation assuming no future participant compensation increases.

N/A — Not applicable

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

(\$ in millions)	Non U.S. Plans			
	Defined Benefit Pension Plans		Nonpension Postretirement Benefit Plans	
	2020	2019	2020	2019
At December 31:				
Prepaid pension assets	\$ 0	\$ 0	\$ 1	\$ 0
Current liabilities – compensation and benefits	0	0	—	—
Noncurrent liabilities – retirement and nonpension postretirement benefit obligations	(548)	(487)	(1)	(1)
Funded status – net	<u>\$(548)</u>	<u>\$(488)</u>	<u>\$ 0</u>	<u>\$(1)</u>

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

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(\$ in millions) At December 31:	2020		2019	
	Benefit Obligation	Plan Assets	Benefit Obligation	Plan Assets
PBO in excess of plan assets	\$1,202	\$654	\$1,099	\$612
ABO in excess of plan assets	1,079	561	971	514
Plan assets in excess of PBO	0	0	0	0

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

(\$ in millions) At December 31:	2020		2019	
	Benefit Obligation	Plan Assets	Benefit Obligation	Plan Assets
APBO in excess of plan assets	\$ 1	\$ 0	\$ 1	\$ 0
Plan assets in excess of APBO	12	13	12	12

The following table presents the pre-tax net loss and prior service costs/(credits) recognized in OCI and the changes in pre-tax net loss and prior service costs/(credits) recognized in AOCI for the retirement-related benefits plans.

(\$ in millions)	Defined Benefit Pension Plans		Nonpension Postretirement Benefit Plans	
	2020	2019	2020	2019
	Net loss/(gain) at January 1	\$307	\$ 250	\$ (1)
Current period loss/(gain)	43	84(2)	0	
Curtailments and settlements	0	0	—	—
Amortization of net loss included in net periodic (income)/cost	(36)	(27)	0	0
Net loss/(gain) at December 31	\$314	\$ 307	\$ (2)	\$ (1)
Prior service costs/(credits) at January 1	(3)	(3)	—	—
Current period prior service costs/(credits)	0	1	—	—
Amortization for prior service (costs)/credits included in net periodic (income)/cost	1	0	—	—
Prior service costs/(credits) at December 31	\$ (2)	\$ (3)	\$—	\$—
Total loss/(gain) recognized in accumulated other comprehensive income/(loss)*	\$312	\$ 304	\$ (2)	\$ (1)

* See note L, "Equity Activity," for the total change in AOCI, and the Combined Statement of Comprehensive Income for the components of net periodic (income)/cost, including the related tax effects, recognized in OCI for the retirement-related benefit plans.

Assumptions Used to Determine Plan Financial Information

The following table presents the assumptions used to measure the net periodic (income)/cost and the year-end benefit obligations.

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	Defined Benefit Pension Plans			Nonpension Postretirement Benefit Plans		
	2020	2019	2018	2020	2019	2018
Weighted-average assumptions used to measure net periodic (income)/cost						
Discount rate	0.86%	1.65%	0.64%	8.31%	8.89%	N/A
Expected long-term returns on plan assets	4.03%	4.62%	4.01%	8.20%	9.00%	N/A
Rate of compensation increase	2.25%	1.37%	2.66%	N/A	N/A	N/A
Weighted-average assumptions used to measure benefit obligation						
Discount rate	0.62%	0.86%	1.65%	8.31%	8.31%	8.89%
Rate of compensation increase	2.22%	2.25%	1.37%	N/A	N/A	N/A

N/A — Not applicable

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 and its own historical trends for healthcare costs 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.

Plan Assets

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.

Investment Policies and Strategies

The investment objectives 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 33 percent equity securities, 57 percent fixed-income securities, 6 percent real estate and 4 percent other investments, which is consistent with the allocation decisions made by the Company's management. In some countries, a higher percentage allocation to fixed income is required to manage solvency and funding risks. In others, the responsibility for managing the investments typically lies with a board that may include up to 50 percent of members elected by employees and retirees. This can result in slight differences compared with the strategies previously described. 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.

The Company's nonpension postretirement benefit plans are underfunded or unfunded. For some plans, the Company maintains a nominal, highly liquid trust fund balance to ensure timely benefit payments.

Defined Benefit Plan Assets

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

(\$ in millions)	December 31, 2020				December 31, 2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Fixed income								
Government and related ⁽¹⁾	\$—	\$ 18	\$—	\$ 18	\$—	\$ 18	\$—	\$ 18
Corporate bonds	—	0	—	0	—	0	—	0
Mortgage and asset-backed securities	—	—	—	—	—	0	—	0
Insurance contracts	—	91	—	91	—	96	—	96
Cash and short-term investments ⁽²⁾	1	—	—	1	1	—	—	1
Other mutual funds	7	—	—	7	7	—	—	7
Subtotal	\$ 8	\$110	\$—	\$118	\$ 7	\$114	\$—	\$121
Investments measured at net asset value using the NAV practical expedient ⁽³⁾	—	—	—	537	—	—	—	490
Other ⁽⁴⁾	—	—	—	0	—	—	—	0
Fair value of plan assets	\$ 8	\$110	\$—	\$654	\$ 7	\$114	\$—	\$612

(1) Includes debt issued by national, state and local governments and agencies.

(2) Includes cash, cash equivalents and short-term marketable securities.

(3) Investments measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient, including commingled funds, hedge funds, private equity and real estate partnerships.

(4) Represents net unsettled transactions, relating primarily to purchases and sales of plan assets.

For the year ended December 31, 2020 and 2019, the nonpension postretirement benefit plan assets of \$13 million and \$12 million, respectively, in Mexico, were invested in government debt and corporate bonds, categorized as Level 2 in the fair value hierarchy.

Valuation Techniques

Fixed Income: The fair value of fixed-income securities is typically estimated using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. If available, they are valued using the closing price reported on the major market on which the individual securities are traded.

Cash: 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.

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 include commingled funds, hedge funds, private equity and real estate partnerships, are typically valued using the NAV provided by the administrator of the fund and reviewed by the Company. The NAV is based on the value of the underlying assets owned by the fund, minus liabilities and divided by the number of shares or units outstanding.

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

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2020 and 2019. The cash contributions to the multi-employer plans represent the annual cost included in the net periodic (income)/cost recognized in the Combined Income Statement.

(\$ in millions) At December 31,	2020	2019
Defined benefit plans	\$ 4	\$ 4
Multi-employer plans*	7	9
Defined contribution plans	194	207
Direct payments	19	16
Total	\$225	\$236

* Represents third-party plans.

Defined Benefit Pension Plans

In 2021, the Company is not legally required to make any contributions to the multi-employer plans. However, depending on market conditions, or other factors, the Company may elect to make discretionary contributions to the non-U.S. defined benefit plans during the year.

In 2021, the Company does not expect contributions to its non-U.S. defined benefit and multi-employer plans to be material.

Financial market performance in 2021 could increase the legally mandated minimum contribution in certain countries which 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 Plan and Nonpension Postretirement Benefit Plan Expected Payments

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

(\$ in millions)	Defined Benefit Pension Plans	NonPension Postretirement Benefit Plans
2021	\$ 42	\$0
2022	43	0
2023	44	0
2024	48	0
2025	52	0
2026 – 2030	283	4

The 2021 expected benefit payments to nonpension postretirement benefit plan participants not covered by the respective plan assets represent a component of compensation and benefits, within current liabilities, in the Combined Balance Sheet.

NOTE O. 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 Combined Income Statement. Revenues for these services were \$645 million, \$613 million and \$623 million for the years ended December 31, 2020, 2019 and 2018, respectively. The costs related to these services are reported in cost of

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services in Kyndryl's Combined Income Statement and were \$509 million, \$484 million and \$492 million, for the years ended December 31, 2020, 2019 and 2018, respectively.

IBM historically provided its branded and related hardware, software and services to Kyndryl for use in the delivery of services arrangements with Kyndryl customers. The cost of the hardware and software was reflected at a price indicative of what the Company would have incurred had it operated on a stand-alone basis. These costs and their associated depreciation and amortization were recorded as cost of services in the Company's Combined Income Statement in the amounts of \$3,227 million, \$3,094 million and \$3,619 million, for the years ended December 31, 2020, 2019 and 2018, respectively. The capital expenditures for purchases of IBM hardware were reflected as payments for property and equipment within the investing section of the Combined Statement of Cash Flows in the amounts of \$504 million, \$526 million and \$650 million, for the years ended December 31, 2020, 2019 and 2018, respectively.

Allocation of Corporate Expenses

The Combined Income Statement, Combined Statement of Comprehensive Income and Combined Statement of Cash Flows include an allocation of general corporate expenses from IBM. The financial information in these combined 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. The management of Kyndryl considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to the Company. Allocations for management costs and corporate support services provided to Kyndryl for the years ended December 31, 2020, 2019, and 2018 totaled \$1,287 million, \$1,230 million and \$1,237 million, respectively. These amounts include costs for corporate functions including, but not limited to, senior management, legal, human resources, finance and accounting, treasury, IT 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, asset ownership or other measures determined to be reasonable.

(\$ in millions) For the year ended December 31:	2020	2019	2018
Selling, general and administrative	\$1,216	\$1,178	\$1,206
Research, development and engineering	4	7	0
Other (income) and expense	4	(31)	(53)
Interest expense	63	76	85
Total expense and other (income)	<u>\$1,287</u>	<u>\$1,230</u>	<u>\$1,237</u>

Cash Management and Financing

The Company participates in IBM's centralized cash management and financing programs. Disbursements are made through centralized accounts payable systems, which are operated by IBM. Cash receipts are transferred to centralized accounts, which are also maintained by IBM. As cash is received and disbursed by IBM, it is accounted for by Kyndryl through Net Parent investment. Short and long-term debt is financed by IBM, and financing decisions for wholly and majority owned subsidiaries are determined by IBM. See note A, "Significant Accounting Policies," for additional information. Kyndryl's cash that was not included in the centralized cash management and financing programs is classified as Cash and cash equivalents on the Combined Balance Sheet.

Net Parent Investment

Related party transactions between Kyndryl and IBM have been included within Net Parent investment in the Combined Balance Sheet in the historical periods presented as these related party transactions were not settled in cash. Net Parent investment in the Combined Balance Sheet and Combined 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

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Net Parent investment. The components of Net transfers from IBM and the reconciliation to the corresponding amount presented on the Combined Statement of Cash Flows were as follows:

(\$ in millions) For the year ended December 31:	2020	2019	2018
Cash pooling and general financing activities/other	\$(4,165)	\$(4,390)	\$(4,281)
Allocation of IBM's corporate expenses/other	1,668	1,610	1,713
Related party sales and purchases	2,991	2,944	3,563
Related party intangible assets fee	80	38	—
Income taxes	297	397	310
Total Net transfers from Parent per Combined Statement of Equity	<u>\$ 872</u>	<u>\$ 598</u>	<u>\$ 1,304</u>
Income taxes	(297)	(397)	(310)
Allocation of IBM's stock based compensation	(64)	(51)	(57)
Other	(133)	(132)	(146)
Total Net transfers from Parent per Combined Statement of Cash Flows	<u>\$ 377</u>	<u>\$ 18</u>	<u>\$ 791</u>

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 Combined Balance Sheet. The gross amounts of Kyndryl receivables assigned to IBM Global Financing were \$3,077 million, \$3,006 million and \$2,819 million for the years ended December 31, 2020, 2019 and 2018, respectively. The fees and the net gains and losses associated with the assignment of receivables were not material for any of the periods presented. Refer to note A, "Significant Accounting Policies," for more information on the transfer of financial assets.

Upon completion of the spin off, there is no guarantee that the Company will be able to enter into a similar financing arrangement with a third-party, with similar volumes to the amounts historically financed by IBM. This may result in an increase in accounts receivable balances from those amounts historically presented within the Combined Balance Sheets.

Acquired Intangible Assets

Within the historical periods presented, the Company has been charged a 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 Combined Income Statement for these fees were \$31 million and \$15 million, for the years ended December 31, 2020 and 2019 respectively. The amounts for these fees reflected within SG&A expense within the Combined Income Statement were \$49 million and \$23 million, for the years ended December 31, 2020 and 2019 respectively. No fees were charged to Kyndryl for the year ended December 31, 2018.

NOTE P. SUBSEQUENT EVENTS

The combined financial statements of Kyndryl are derived from the Consolidated Financial Statements of IBM, which issued its financial statements for the year ended December 31, 2020 on February 23, 2021. Accordingly, the Company has evaluated transactions or other events for consideration as recognized subsequent events in the annual financial statements through February 23, 2021. Additionally, Kyndryl has evaluated transactions and other events that occurred through June 22, 2021, the date these combined financial statements were issued, for purposes of disclosure of unrecognized subsequent events.

Confidential Treatment Requested by Kyndryl Holdings LLC
Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED INCOME STATEMENT
(UNAUDITED)

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues (related party revenue for the three and six months: \$146 and \$300 in 2021, \$162 and \$323 in 2020)	\$4,751	\$4,737	\$ 9,523	\$ 9,569
Cost of services (related party cost for the three and six months: \$906 and \$1,912 in 2021, \$900 and \$1,835 in 2020)	\$4,225	\$4,218	\$ 8,545	\$ 8,545
Selling, general and administrative	814	707	1,567	1,469
Workforce rebalancing charges/(benefit)	(11)	58	41	356
Research, development and engineering	15	19	29	39
Interest expense	15	16	29	31
Other (income) and expense	11	3	34	9
Total costs and expenses	<u>\$5,070</u>	<u>\$5,021</u>	<u>\$10,245</u>	<u>\$10,448</u>
Income/(loss) before income taxes	<u>\$ (319)</u>	<u>\$ (284)</u>	<u>\$ (722)</u>	<u>\$ (879)</u>
Provision for income taxes	<u>\$ 74</u>	<u>\$ 89</u>	<u>\$ 165</u>	<u>\$ 176</u>
Net income/(loss)	<u><u>\$ (393)</u></u>	<u><u>\$ (373)</u></u>	<u><u>\$ (887)</u></u>	<u><u>\$ (1,055)</u></u>

(Amounts may not add due to rounding.)

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

Confidential Treatment Requested by Kyndryl Holdings LLC
Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

(\$ in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Net income/(loss)	<u>\$ (393)</u>	<u>\$ (373)</u>	<u>\$ (887)</u>	<u>\$ (1,055)</u>
Other comprehensive income/(loss), before tax:				
Foreign currency translation adjustments	19	131	(78)	(122)
Retirement-related benefit plans				
Net (losses)/gains arising during the period	(5)	—	0	0
Curtailments and settlements	—	—	0	—
Amortization of prior service (credits)/cost	0	0	0	0
Amortization of net (gains)/losses	10	9	21	18
Total retirement-related benefit plans	<u>5</u>	<u>9</u>	<u>21</u>	<u>18</u>
Other comprehensive income/(loss), before tax:	24	140	(57)	(104)
Income tax (expense)/benefit related to items of other comprehensive income	<u>(1)</u>	<u>(3)</u>	<u>(6)</u>	<u>(6)</u>
Other comprehensive income/(loss)	<u>23</u>	<u>137</u>	<u>(63)</u>	<u>(110)</u>
Total comprehensive income/(loss)	<u>\$ (370)</u>	<u>\$ (235)</u>	<u>\$ (951)</u>	<u>\$ (1,164)</u>

(Amounts may not add due to rounding.)

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

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Pursuant to 17 C.F.R. Section 200.83

KYNDRYL
COMBINED BALANCE SHEET
(UNAUDITED)

(\$ in millions)	At June 30, 2021	At December 31, 2020
Assets:		
Current assets:		
Cash and cash equivalents	\$ 29	\$ 24
Restricted cash	14	14
Notes and accounts receivable (net of allowances of \$65 in 2021 and \$91 in 2020)	1,614	1,444
Deferred costs	1,259	1,205
Prepaid expenses and other current assets	199	157
Total current assets	\$ 3,115	\$ 2,843
Property and equipment — net	\$ 3,632	\$ 3,991
Operating right-of-use assets — net	1,125	1,131
Deferred costs	1,420	1,441
Deferred taxes	434	424
Goodwill	1,206	1,230
Intangible assets — net	56	60
Other assets	78	86
Total assets	\$11,066	\$11,205
Liabilities and equity:		
Current liabilities:		
Short-term debt	\$ 109	\$ 69
Accounts payable	803	919
Compensation and benefits	393	350
Deferred income	939	854
Operating lease liabilities	333	333
Accrued contract costs	489	512
Other accrued expenses and liabilities	686	874
Total current liabilities	\$ 3,752	\$ 3,910
Long-term debt	\$ 285	\$ 140
Retirement and nonpension postretirement benefit obligations	516	550
Deferred income	554	543
Operating lease liabilities	805	850
Other liabilities	278	282
Total liabilities	\$ 6,190	\$ 6,274
Net Parent investment	\$ 5,985	\$ 5,972
Accumulated other comprehensive income/(loss)	(1,163)	(1,100)
Total Net Parent investment	4,822	4,873
Noncontrolling interests	53	58
Total equity	\$ 4,875	\$ 4,931
Total liabilities and equity	\$11,066	\$11,205

(Amounts may not add due to rounding.)

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

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KYNDRYL
COMBINED STATEMENT OF CASH FLOWS
(UNAUDITED)

(\$ in millions)	For the Six Months Ended June 30,	
	2021	2020
Cash flows from operating activities:		
Net income/(loss)	\$ (887)	\$(1,055)
Adjustments to reconcile net income/(loss) to cash provided by operating activities:		
Depreciation and amortization		
Depreciation	853	946
Amortization of deferred costs	980	1,008
Amortization of intangibles	17	15
Stock-based compensation	33	28
Deferred taxes	(14)	(12)
Net (gain)/loss on asset sales and other	(5)	(3)
Change in operating assets and liabilities:		
Deferred costs	(1,057)	(1,063)
Right-of-use assets and liabilities	(222)	(238)
Workforce rebalancing	(211)	164
Receivables	(193)	160
Accounts payable	(95)	52
Other assets/other liabilities	313	86
Net cash provided by/(used in) operating activities	\$ (489)	\$ 90
Cash flows from investing activities:		
Payments for property and equipment	\$ (407)	\$ (472)
Proceeds from disposition of property and equipment	109	40
Other investing activities, net	(13)	(1)
Net cash used in investing activities	\$ (311)	\$ (433)
Cash flows from financing activities:		
Proceeds from new debt	\$ 140	\$ —
Payments to settle debt	(35)	(28)
Net transfers from Parent	702	360
Net cash provided by financing activities	\$ 807	\$ 332
Effect of exchange rate changes on cash, cash equivalents and restricted cash	\$ (2)	\$ (2)
Net change in cash, cash equivalents and restricted cash	\$ 5	\$ (13)
Cash, cash equivalents and restricted cash at January 1	38	50
Cash, cash equivalents and restricted cash at June 30	\$ 43	\$ 38

(Amounts may not add due to rounding.)

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

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KYNDRYL
COMBINED STATEMENT OF EQUITY
(UNAUDITED)

(\$ in millions)	Net Parent Investment	Accumulated Other Comprehensive Income/(Loss)	Total Net Parent Investment	Non-Controlling Interests	Total Equity
Equity — April 1, 2021	\$5,976	\$ (1,186)	\$4,791	\$57	\$4,848
Net income/(loss) plus other comprehensive income/(loss):					
Net income/(loss)	(393)		(393)		(393)
Other comprehensive income/(loss)		23	23		23
Total comprehensive income/(loss)			<u>\$ (370)</u>		<u>\$ (370)</u>
Net transfers from parent	402		402		402
Changes in non-controlling interests				(4)	(4)
Equity — June 30, 2021	<u>\$5,985</u>	<u>\$ (1,163)</u>	<u>\$4,822</u>	<u>\$53</u>	<u>\$4,875</u>
(\$ in millions)	Net Parent Investment	Accumulated Other Comprehensive Income/(Loss)	Total Net Parent Investment	Non-Controlling Interests	Total Equity
Equity — April 1, 2020	\$7,043	\$ (1,468)	\$5,575	\$51	\$5,626
Net income/(loss) plus other comprehensive income/(loss):					
Net income/(loss)	(373)		(373)		(373)
Other comprehensive income/(loss)		137	137		137
Total comprehensive income/(loss)			<u>\$ (235)</u>		<u>\$ (235)</u>
Net transfers from parent	29		29		29
Changes in non-controlling interests				3	3
Equity — June 30, 2020	<u>\$6,699</u>	<u>\$ (1,330)</u>	<u>\$5,369</u>	<u>\$54</u>	<u>\$5,423</u>
(\$ in millions)	Net Parent Investment	Accumulated Other Comprehensive Income/(Loss)	Total Net Parent Investment	Non-Controlling Interests	Total Equity
Equity — January 1, 2021	\$5,972	\$ (1,100)	\$4,873	\$58	\$4,931
Net income/(loss) plus other comprehensive income/(loss):					
Net income/(loss)	(887)		(887)		(887)
Other comprehensive income/(loss)		(63)	(63)		(63)
Total comprehensive income/(loss)			<u>\$ (951)</u>		<u>\$ (951)</u>
Net transfers from parent	900		900		900
Changes in non-controlling interests				(5)	(5)
Equity — June 30, 2021	<u>\$5,985</u>	<u>\$ (1,163)</u>	<u>\$4,822</u>	<u>\$53</u>	<u>\$4,875</u>

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(\$ in millions)	Net Parent Investment	Accumulated Other Comprehensive Income/(Loss)	Total Net Parent Investment	Non-Controlling Interests	Total Equity
Equity — January 1, 2020	\$ 7,112	\$ (1,220)	\$ 5,892	\$56	\$ 5,948
Net income/(loss) plus other comprehensive income/(loss):					
Net income/(loss)	(1,055)		(1,055)		(1,055)
Other comprehensive income/(loss)		(110)	(110)		(110)
Total comprehensive income/(loss)			<u>\$ (1,164)</u>		<u>\$ (1,164)</u>
Net transfers from parent	641		641		641
Changes in non-controlling interests				(2)	(2)
Equity — June 30, 2020	<u>\$ 6,699</u>	<u>\$ (1,330)</u>	<u>\$ 5,369</u>	<u>\$54</u>	<u>\$ 5,423</u>

(Amounts may not add due to rounding.)

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

NOTES TO COMBINED FINANCIAL STATEMENTS (UNAUDITED)**1. Basis of Presentation:****Background**

On October 8, 2020, International Business Machines Corporation (IBM or Parent) announced plans for the complete legal and structural separation of the managed infrastructure services unit of its Global Technology Services (GTS) segment into a new public company. The name of the new company is Kyndryl. The separation is expected to be achieved through a U.S. federal tax-free spin-off to IBM shareholders. It will be subject to customary market, regulatory and other closing conditions, including final IBM Board of Directors' approval.

Prior to separation, IBM's GTS segment includes Infrastructure & Cloud Services and Technology Support Services (TSS). The Infrastructure & Cloud services unit consists of IBM's managed infrastructure services capabilities and the IBM Public Cloud. The components of the GTS segment that will remain with IBM will be the IBM Public Cloud and TSS. Kyndryl will also provide the security, regulatory and risk management services and identity management services offerings which have historically been included within the Security Services unit of IBM's Cloud & Cognitive Software segment.

Basis of Presentation

The accompanying unaudited combined financial statements and footnotes of Kyndryl have been prepared in connection with the expected separation and have been derived from the consolidated financial statements and accounting records of IBM as if Kyndryl operated on a standalone basis during the periods presented, and were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). In the opinion of management, these statements include all adjustments, including normal recurring adjustments, necessary to present a fair statement of the Company's results of operations, financial position and cash flows. References in these statements to "the Company" or "Kyndryl" refer to IBM's managed infrastructure services business as it was historically managed.

The combined financial statements 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 allocations may not, however, reflect the expense the Company would have incurred as a standalone company for the periods presented. These costs also may not be indicative of the expenses that the Company will incur in the future or would have incurred if the Company had obtained these services from a third party.

The Combined Balance Sheet of the Company includes IBM's assets and liabilities that are specifically identifiable or otherwise attributable to the Company, including subsidiaries and/or joint ventures conducting managed infrastructure services business in which IBM has a controlling financial interest or is the primary beneficiary.

Cash and cash equivalents held by IBM at the corporate level 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 Combined 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. Third-party debt obligations included in the combined financial statements are those for which the legal obligor is a legal entity of Kyndryl or the debt is expected to transfer to Kyndryl no later than the effective date of the spin off. Interest expense in the Combined 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 the Company. Transfers of cash, both to and from IBM's centralized cash management system, are reflected as a component of Net Parent investment in the Combined Balance Sheet and as financing activities in the accompanying Combined Statement of Cash Flows.

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IBM maintains various benefit and stock-based compensation plans at a corporate level and other pension and postretirement-related benefit plans at a subsidiary level. The Company's employees participate in those programs and a portion of the cost of those plans is included in the Company's combined financial statements. However, the Combined Balance Sheet does not include any net benefit plan assets or obligations unless legally sponsored by the Company. See note M, "Stock-Based Compensation" and note N, "Retirement-Related Benefits," to the Company's audited financial statements for additional information.

Net Parent investment in the Combined 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). Changes in these non-trade intercompany balances are reflected as Net transfers from Parent in the financing activities section of the Combined Statement of Cash Flows.

As a result of the allocations and carve out methodologies used to prepare these combined financial statements, these results may not be indicative of the Company's future performance, and may not reflect the results of operations, financial position, and cash flows had Kyndryl been a separate, standalone company during the periods presented. Further, interim results are not necessarily indicative of financial results for a full year. These unaudited combined financial statements should be read in conjunction with the audited combined financial statements and the corresponding notes thereto included elsewhere in this Information Statement. See "Index to Combined Financial Statements."

Kyndryl's operations are included in the consolidated U.S. federal, certain state and local and foreign income tax returns filed by IBM, where applicable. The income tax provision included in these combined financial statements has been calculated using the separate return basis, as if Kyndryl filed separate tax returns. Post separation, Kyndryl's operating footprint as well as tax return elections and assertions are expected to be different and therefore, Kyndryl's hypothetical income taxes, as presented in the combined financial statements, are not expected to be indicative of the Company's future income taxes. 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 Combined Balance Sheet and reflected in Net transfers from Parent in the Combined Statement of Cash Flows.

The provision for income taxes for the second quarter of 2021 was \$74 million, compared to \$89 million in the second quarter of 2020. The provision for income taxes for the first six months of 2021 was \$165 million, compared to \$176 million for the first six months of 2020. The provision for income taxes for the periods presented was attributable to jurisdictions generating taxable income as well as jurisdictions in which losses do not generate a benefit for the Company. The decrease in provision for income taxes was primarily driven by a change in the geographic mix of income before taxes, net of change in valuation allowance.

The additions to unrecognized tax benefits for the periods presented were immaterial and are primarily attributable to non-U.S. tax matters including transfer pricing, which are immediately settled with Parent and relieved through the Net Parent investment account in the Combined Balance Sheet and Net transfers from Parent in the Combined Statement of Cash Flows. The income tax provision has been prepared based on the assumption that any subsequent changes to the Company's income tax liability as a result of tax examinations are the responsibility of IBM. Therefore, the impact of any subsequent changes in assessment about the sustainability of related tax positions, including interest and penalties, are not presented in these combined financial statements.

Noncontrolling interest amounts of \$2 million, net of tax, for both the three months ended June 30, 2021 and 2020, and \$5 million, net of tax, for both the six months ended June 30, 2021 and 2020, are included as a reduction within other (income) and expense in the Combined Income Statement.

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.

Principles of Combination

The combined financial statements include the Company's net assets and results of operations as described above. All significant intracompany transactions between Kyndryl's businesses have been

eliminated. All significant intercompany transactions between Kyndryl and IBM have been included in the combined financial statements. Intercompany transactions between Kyndryl and IBM are considered to be effectively settled in the combined 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 Combined Statement of Cash Flows and in the Combined Balance Sheet within Net Parent investment.

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 combined 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 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 the macroeconomic impacts of the COVID-19 pandemic (beginning in 2020). Actual results may be different from these estimates.

2. Accounting Pronouncements:

Standards Implemented

Simplifying the Accounting for Income Taxes

Standard/Description — Issuance date: December 2019. This guidance simplifies various aspects of income tax accounting by removing certain exceptions to the general principle of the guidance and also clarifies and amends existing guidance to improve consistency in application.

Effective Date and Adoption Considerations — 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.

Effect on Financial Statements or Other Significant Matters — The guidance did not have a material impact in the combined financial results.

Simplifying the Test for Goodwill Impairment

Standard/Description — Issuance date: January 2017. This guidance simplifies the goodwill impairment test by removing Step 2. It also requires disclosure of any reporting units that have zero or negative carrying amounts if they have goodwill allocated to them.

Effective Date and Adoption Considerations — The guidance was effective January 1, 2020 and early adoption was permitted. The Company adopted the guidance on a prospective basis as of the effective date.

Effect on Financial Statements or Other Significant Matters — The guidance did not have a material impact in the Company's combined financial statements upon adoption.

Financial Instruments — Credit Losses

Standard/Description — Issuance date: June 2016, with amendments in 2018, 2019, and 2020. This changes the guidance for credit losses based on an expected loss model rather than an incurred loss model. It requires the consideration of all available relevant information when estimating expected credit losses, including past events, current conditions and forecasts and their implications for expected credit losses. It also expands the scope of financial instruments subject to impairment, including off-balance sheet commitments and residual value.

Effective Date and Adoption Considerations — The guidance was effective January 1, 2020 with one-year early adoption permitted. The Company adopted the guidance as of the effective date, using the

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transition methodology whereby prior comparative periods were not retrospectively presented in the combined financial statements.

Effect on Financial Statements or Other Significant Matters — At January 1, 2020, the guidance did not have a material impact in the Company's combined financial results.

3. Revenue Recognition:

Disaggregation of Revenue

The following table provides details of revenue by geography.

Revenue by Geography

(\$ in millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Americas*	\$1,794	\$1,827	\$3,596	\$3,712
Europe/Middle East/Africa**	1,819	1,764	3,630	3,557
Japan+	746	751	1,507	1,488
Asia Pacific++	393	395	790	812
Total revenue	\$4,751	\$4,737	\$9,523	\$9,569

* Includes related party revenue of \$87 million and \$96 million for the three months ended June 2021 and 2020, respectively; and \$181 million and \$188 million for the six months ended June 2021 and 2020 respectively

** Includes related party revenue of \$27 million and \$31 million for the three months ended June 2021 and 2020, respectively; and \$54 million and \$63 million for the six months ended June 2021 and 2020 respectively

+ Includes related party revenue of \$15 million and \$19 million for the three months ended June 2021 and 2020, respectively; and \$32 million and \$36 million for the six months ended June 2021 and 2020 respectively

++ Includes related party revenue of \$17 million and \$17 million for the three months ended June 2021 and 2020, respectively; and \$33 million and \$36 million for the six months ended June 2021 and 2020 respectively

Remaining Performance Obligations

The remaining performance obligation (RPO) 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. The customer is not considered committed when they are able to terminate for convenience without payment of a substantive penalty. The disclosure 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 June 30, 2021, the aggregate amount of the transaction price allocated to RPO related to customer contracts that are unsatisfied or partially unsatisfied was \$55 billion. Approximately 50 percent of the amount is expected to be recognized as revenue in the subsequent two years, approximately 35 percent in the subsequent three to five years and the balance thereafter.

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

The revenue recognized for the three and six months ended June 30, 2021 for performance obligations satisfied (or partially satisfied) in previous periods was immaterial.

Reconciliation of Contract Balances

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

(\$ in millions)	At June 30, 2021	At December 31, 2020
Notes and accounts receivable (net of allowances of \$65 in 2021 and \$91 in 2020)	\$1,614	\$1,444
Contract assets*	75	72
Deferred income (current)	939	854
Deferred income (noncurrent)	554	543

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

The amount of revenue recognized during the three and six months ended June 30, 2021 that was included within the deferred income balance at March 31, 2021 and December 31, 2020 was \$456 million and \$525 million, respectively.

The following table provides roll forwards of the notes and accounts receivable allowance for the six months ended June 30, 2021 and the year ended December 31, 2020.

(\$ in millions)				
January 1, 2021	Additions / (Releases)	Write-offs	Other*	June 30, 2021
\$ 91	\$(24)	\$(4)	\$1	\$65
January 1, 2020	Additions / (Releases)	Write-offs	Other*	December 31, 2020
\$ 82	\$25	\$(7)	\$(9)	\$91

* Primarily represents translation adjustments and reclassifications.

The contract assets allowance for expected credit losses was not material in any of the periods presented.

Deferred Costs

(\$ in millions)	At June 30, 2021	At December 31, 2020
Capitalized costs to obtain a contract	\$ 286	\$ 269
Deferred costs to fulfill a contract		
Deferred setup costs	1,301	1,369
Other deferred fulfillment costs*	1,092	1,006
Total deferred costs**	<u>\$2,679</u>	<u>\$2,646</u>

* Includes related party cost of \$73 million at June 30, 2021 and \$94 million at December 31, 2020.

** Of the total deferred costs, \$1,259 million was current (related party \$60 million) and \$1,420 million was noncurrent (related party \$14 million) at June 30, 2021 and \$1,205 million was current (related party \$76 million) and \$1,441 million was noncurrent (related party \$18 million) at December 31, 2020.

The amount of total deferred costs amortized during the second quarter of 2021 was \$497 million, composed of \$245 million amortization of prepaid software, \$97 million amortization of transition and setup costs, and \$156 million of other deferred fulfillment costs. The amount of total deferred costs amortized

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during the first six months of 2021 was \$980 million, composed of \$470 million amortization of prepaid software, \$194 million amortization of transition and setup costs, and \$316 million of other deferred fulfillment costs.

4. Segments:

The following tables reflect the results of the Company's segments consistent with the management measurement system that has been utilized within the Company. Performance measurement is based on pre-tax income. These results are used, in part, by the chief operating decision maker, both in evaluating the performance of, and in allocating resources to, each of the segments.

In the second quarter and first half of 2020, the company recorded \$58 million and \$356 million in workforce rebalancing charges in the Combined Income Statement for severance and employee related benefits in accordance with the accounting guidance for ongoing benefit arrangements. The impact to pre-tax income by segment for the six months ended June 30, 2020 was as follows: EMEA \$235 million, Americas \$88 million, Asia Pacific \$18 million, and Japan \$15 million. The current year financial results include a year-to-year improvement in workforce rebalancing charges of \$69 million and \$315 million for the three and six months ended June 30, 2021 respectively.

(\$ in millions)	Americas	EMEA	Japan	Asia Pacific	Total Segments
For the three months ended June 30, 2021					
External revenue	\$1,706	\$1,792	\$ 731	\$ 376	\$4,605
Related party revenue	87	27	15	17	146
Total revenue	<u>\$1,794</u>	<u>\$1,819</u>	<u>\$ 746</u>	<u>\$ 393</u>	<u>\$4,751</u>
Pre-tax income/(loss)	<u>\$ (49)</u>	<u>\$ (321)</u>	<u>\$ 27</u>	<u>\$ 25</u>	<u>\$ (319)</u>
Revenue year-to-year change	(1.9)%	3.1%	(0.7)%	(0.4)%	0.3%
Pre-tax income/loss year-to-year change	(36.7)%	8.8%	(36.4)%	(46.7)%	12.2%
Pre-tax income/(loss) margin	(2.8)%	(17.7)%	3.6%	6.4%	(6.7)%
For the three months ended June 30, 2020					
External revenue	\$1,732	\$1,733	\$ 732	\$ 378	\$4,575
Related party revenue	96	31	19	17	162
Total revenue	<u>\$1,827</u>	<u>\$1,764</u>	<u>\$ 751</u>	<u>\$ 395</u>	<u>\$4,737</u>
Pre-tax income/(loss)	<u>\$ (78)</u>	<u>\$ (296)</u>	<u>\$ 43</u>	<u>\$ 47</u>	<u>\$ (284)</u>
Revenue year-to-year change	(8.8)%	(6.5)%	4.2%	(15.6)%	(6.7)%
Pre-tax income/loss year-to-year change	nm	(2.3)%	13.5%	66.7%	17.2%
Pre-tax income/(loss) margin	(4.3)%	(16.8)%	5.7%	11.9%	(6.0)%

nm — not meaningful

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(\$ in millions)	Americas	EMEA	Japan	Asia Pacific	Total Segments
For the six months ended June 30, 2021					
External revenue	\$3,415	\$3,575	\$1,475	\$ 757	\$9,223
Related party revenue	181	54	32	33	300
Total revenue	<u>\$3,596</u>	<u>\$3,630</u>	<u>\$1,507</u>	<u>\$ 790</u>	<u>\$9,523</u>
Pre-tax income/(loss)	<u>\$ (122)</u>	<u>\$ (745)</u>	<u>\$ 55</u>	<u>\$ 90</u>	<u>\$ (722)</u>
Revenue year-to-year change	(3.1)%	2.0%	1.3%	(2.7)%	(0.5)%
Pre-tax income/loss year-to-year change	(43.9)%	(9.1)%	(26.8)%	9.0%	(17.9)%
Pre-tax income/(loss) margin	(3.4)%	(20.5)%	3.7%	11.4%	(7.6)%
For the six months ended June 30, 2020					
External revenue	\$3,524	\$3,494	\$1,452	\$ 776	\$9,246
Related party revenue	188	63	36	36	323
Total revenue	<u>\$3,712</u>	<u>\$3,557</u>	<u>\$1,488</u>	<u>\$ 812</u>	<u>\$9,569</u>
Pre-tax income/(loss)	<u>\$ (217)</u>	<u>\$ (820)</u>	<u>\$ 75</u>	<u>\$ 83</u>	<u>\$ (879)</u>
Revenue year-to-year change	(7.7)%	(6.1)%	4.2%	(13.7)%	(6.0)%
Pre-tax income/loss year-to-year change	nm	35.6%	72.7%	32.1%	79.4%
Pre-tax income/(loss) margin	(5.9)%	(23.0)%	5.1%	10.2%	(9.2)%

nm — not meaningful

5. Intangible Assets Including Goodwill:

Intangible Assets

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

(\$ in millions)	At June 30, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible asset class			
Capitalized software	\$ 18	\$ (7)	\$ 11
Client relationships	130	(86)	44
Completed technology	20	(18)	1
Patents/trademarks	2	(2)	0
Total	<u>\$170</u>	<u>\$(113)</u>	<u>\$56</u>
At December 31, 2020			
(\$ in millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible asset class			
Capitalized software	\$ 7	\$ (4)	\$ 3
Client relationships	130	(77)	53
Completed technology	20	(17)	3
Patents/trademarks	2	(2)	0
Total	<u>\$159</u>	<u>\$(99)</u>	<u>\$60</u>

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The net carrying amount of intangible assets decreased \$3 million during the first six months of 2021, primarily due to intangible asset amortization partially offset by additions of capitalized software. The aggregate intangible asset amortization expense was \$9 million and \$17 million for the second quarter and first six months of 2021, respectively, compared to \$7 million and \$15 million for the second quarter and first six months of 2020, respectively. In the first six months of 2021, the company retired \$3 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 Combined Balance Sheet is estimated to be the following at June 30, 2021:

(\$ in millions)	Capitalized Software	Acquired Intangibles	Total
Remainder of 2021	\$ 7	\$ 11	\$ 18
2022	3	18	21
2023	0	10	11
2024	0	6	6
2025	—	—	—
Thereafter	—	—	—

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. The changes in the goodwill balances by reportable segment for the six months ended June 30, 2021 and for the year ended December 31, 2020 were as follows:

(\$ in millions) Segment	Balance at January 1, 2021	Foreign Currency Translation and Other Adjustments*	Balance at June 30, 2021
Americas	\$ 440	\$ (8)	\$ 431
EMEA	288	(1)	287
Japan	424	(8)	416
Asia Pacific	78	(6)	72
Total	<u>\$1,230</u>	<u>\$(24)</u>	<u>\$1,206</u>

(\$ in millions) Segment	Balance at January 1, 2020	Foreign Currency Translation and Other Adjustments*	Balance at December 31, 2020
Americas	\$ 416	\$ 24	\$ 440
EMEA	272	16	288
Japan	401	23	424
Asia Pacific	74	4	78
Total	<u>\$1,162</u>	<u>\$67</u>	<u>\$1,230</u>

* Primarily driven by foreign currency translation.

There were no goodwill impairment losses recorded during the first six months of 2021 or full year 2020 and the company has no accumulated impairment losses.

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6. Borrowings:**Short-Term Debt**

(\$ in millions)	At June 30, 2021	At December 31, 2020
Long-term debt – current maturities	\$109	\$69

Long-Term Debt

(\$ in millions)	Maturities	Balance 6/30/2021	Balance 12/31/2020
U.S. dollar debt (weighted-average interest rate at June 30, 2021):			
Long-term debt (3.0%)	2021-2026	\$140	\$ —
Finance lease obligations (1.3%)	2021-2026	254	209
		\$394	\$209
Less: current maturities		109	69
Total		<u>\$285</u>	<u>\$140</u>

In the second quarter of 2021, IBM entered into a \$140 million loan agreement with a bank to finance a purchase on behalf of Kyndryl. 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. The loan is expected to transfer to Kyndryl no later than the effective date of the spin-off and is included in the Company's financial statements. The carrying amount of the loan approximates fair value. If measured at fair value in the financial statements, the loan would be classified as Level 2 in the fair value hierarchy.

(\$ in millions)	Total
At June 30, 2021:	
Remainder of 2021	\$ 54
2022	106
2023	93
2024	67
2025	52
Thereafter	21
Total	<u>\$394</u>

Interest on Debt

Interest expense for the six months ended June 30, 2021 and 2020 was \$29 million and \$31 million, respectively. Interest capitalized for the periods presented was immaterial. Most of the interest in the Combined Income Statement reflects the allocation of interest expense on borrowing and funding related activity associated with debt issued by IBM for which a portion of the proceeds benefited Kyndryl. Such Parent debt has not been attributed to the Company for any periods presented because Parent's borrowings are not the legal obligation of the Company. Refer to note 12, "Related Party Transactions," for more information on the allocation of Parent's corporate expenses.

7. Commitments:

The Company has applied the guidance requiring a guarantor to disclose certain types of guarantees, even if the likelihood of requiring the guarantor's performance is remote. 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 Combined Balance Sheet at June 30, 2021 and December 31, 2020 were not material.

8. Contingencies:

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. As of June 30, 2021, there were no such matters. 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.

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 combined 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.

9. Equity Activity:**Reclassifications and Taxes Related to Items of Other Comprehensive Income**

(\$ in millions) For the three months ended June 30, 2021:	Before Tax Amount	Tax (Expense)/ Benefit	Net of Tax Amount
Other comprehensive income/(loss):			
Foreign currency translation adjustments	\$19	\$—	\$19
Retirement-related benefit plans⁽¹⁾:			
Net (losses)/gains arising during the period	\$ (5)	\$ 2	\$ (3)
Curtailments and settlements	—	—	—
Amortization of prior service (credits)/costs	0	0	0
Amortization of net (gains)/losses	10	(3)	7
Total retirement-related benefit plans	\$ 5	\$ (1)	\$ 4
Other comprehensive income/(loss)	\$24	\$ (1)	\$23

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note 11, "Retirement-Related Benefits," for additional information.

Reclassifications and Taxes Related to Items of Other Comprehensive Income

(\$ in millions) For the three months ended June 30, 2020:	Before Tax Amount	Tax (Expense)/ Benefit	Net of Tax Amount
Other comprehensive income/(loss):			
Foreign currency translation adjustments	\$131	\$—	\$131
Retirement-related benefit plans⁽¹⁾:			
Net (losses)/gains arising during the period	\$ —	\$—	\$ —
Curtailments and settlements	—	—	—
Amortization of prior service (credits)/costs	0	0	0
Amortization of net (gains)/losses	9	(3)	6
Total retirement-related benefit plans	\$ 9	\$ (3)	\$ 6
Other comprehensive income/(loss)	\$140	\$ (3)	\$137

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note 11, "Retirement-Related Benefits," for additional information.

Reclassifications and Taxes Related to Items of Other Comprehensive Income

(\$ in millions) For the six months ended June 30, 2021:	Before Tax Amount	Tax (Expense)/ Benefit	Net of Tax Amount
Other comprehensive income/(loss):			
Foreign currency translation adjustments	\$(78)	\$—	\$(78)
Retirement-related benefit plans⁽¹⁾:			
Net (losses)/gains arising during the period	\$ 0	\$ 0	\$ 0
Curtailments and settlements	0	0	0
Amortization of prior service (credits)/costs	0	0	0
Amortization of net (gains)/losses	21	(7)	14
Total retirement-related benefit plans	\$ 21	\$ (6)	\$ 14
Other comprehensive income/(loss)	\$(57)	\$ (6)	\$(63)

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note 11, "Retirement-Related Benefits," for additional information.

Reclassifications and Taxes Related to Items of Other Comprehensive Income

(\$ in millions) For the six months ended June 30, 2020:	Before Tax Amount	Tax (Expense)/ Benefit	Net of Tax Amount
Other comprehensive income/(loss):			
Foreign currency translation adjustments	\$(122)	\$—	\$(122)
Retirement-related benefit plans⁽¹⁾:			
Net (losses)/gains arising during the period	\$ 0	\$ (0)	\$ 0
Curtailments and settlements	—	—	—
Amortization of prior service (credits)/costs	0	0	0
Amortization of net (gains)/losses	18	(5)	12
Total retirement-related benefit plans	\$ 18	\$ (6)	\$ 12
Other comprehensive income/(loss)	<u>\$(104)</u>	<u>\$ (6)</u>	<u>\$(110)</u>

(1) These AOCI components are included in the computation of net periodic pension cost. Refer to note 11, "Retirement-Related Benefits," for additional information.

Accumulated Other Comprehensive Income/(Loss) (net of tax)

(\$ in millions)	Foreign Currency Translation Adjustments*	Net Change Retirement- Related Benefit Plans	Accumulated Other Comprehensive Income/(Loss)
January 1, 2021	\$(882)	\$(218)	\$(1,100)
Other comprehensive income/(loss)**	(78)	14	(63)
June 30, 2021	<u>\$(959)</u>	<u>\$(204)</u>	<u>\$(1,163)</u>

* Foreign currency translation adjustments are presented gross.

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

(\$ in millions)	Foreign Currency Translation Adjustments*	Net Change Retirement- Related Benefit Plans	Accumulated Other Comprehensive Income/(Loss)
January 1, 2020	\$(1,007)	\$(214)	\$(1,220)
Other comprehensive income/(loss)**	(122)	12	(110)
June 30, 2020	<u>\$(1,129)</u>	<u>\$(201)</u>	<u>\$(1,330)</u>

* Foreign currency translation adjustments are presented gross.

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

10. Stock-Based Compensation:

Compensation costs associated with Kyndryl employees' participation in the Parent's incentive plans have been identified for employees who exclusively support Kyndryl operations. Amounts allocated to the Company from the Parent for shared services are reported within total allocated costs in note 12, "Related Party Transactions."

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The following table presents stock-based compensation cost associated with employees who exclusively support the Company and is included in net income/(loss):

(\$ in millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Cost	\$ 7	\$ 7	\$14	\$11
SG&A expense	11	9	19	17
RD&E expense	0	0	0	1
Pre-tax stock-based compensation cost	\$18	\$16	\$33	\$28
Income tax benefits	(5)	(3)	(9)	(6)
Net stock-based compensation cost	<u>\$13</u>	<u>\$13</u>	<u>\$25</u>	<u>\$22</u>

Total unrecognized compensation cost related to non-vested awards at June 30, 2021 was \$107 million and is expected to be recognized over a weighted-average period of approximately 2.3 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 June 30, 2021 and 2020.

11. Retirement-Related Benefits:

The Company sponsors defined benefit pension plans and other nonpension postretirement benefit plans primarily consisting of retiree medical benefits. Additionally, certain Company employees participate in multi-employer defined benefit pension plans and post-retirement health plans as well as defined contribution plans that are sponsored by the Parent, which also includes other participants.

The Company's defined contribution expense for the three months ended June 30, 2021 and 2020 was \$44 million and \$49 million, respectively and for the six months ended June 30, 2021 and 2020 was \$90 million and \$95 million, respectively.

The following tables provide the components of the cost/(income) of retirement-related benefit plans recognized in the Combined Income Statement, excluding defined contribution plans.

(\$ in millions)	Defined Benefit Pension Plans		Nonpension Postretirement Benefit Plans	
	2021	2020	2021	2020
For the three months ended June 30:				
Service cost*	\$23	\$27	\$ 1	\$ 1
Interest cost**	2	2	0	0
Expected return on plan assets**	(6)	(6)	0	0
Amortization of prior service costs/(credits)**	0	0	—	—
Recognized actuarial losses**	10	9	0	0
Curtailments and settlements**	—	—	—	—
Multi-employer plans/other costs+	2	3	—	—
Total net periodic (income)/cost	<u>\$31</u>	<u>\$35</u>	<u>\$ 1</u>	<u>\$ 1</u>

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(\$ in millions) For the six months ended June 30:	Defined Benefit Pension Plans		Nonpension Postretirement Benefit Plans	
	2021	2020	2021	2020
Service cost*	\$ 46	\$ 53	\$ 1	\$ 1
Interest cost**	3	5	1	1
Expected return on plan assets**	(11)	(12)	0	0
Amortization of prior service costs/(credits)**	0	0	—	—
Recognized actuarial losses**	21	17	0	0
Curtailments and settlements**	0	—	—	—
Multi-employer plans/other costs+	5	6	0	—
Total net periodic (income)/cost	<u>\$ 63</u>	<u>\$ 69</u>	<u>\$ 1</u>	<u>\$ 2</u>

* Represents service costs of \$3 million and \$4 million for the three months ended June 30, 2021 and 2020, respectively, attributed to self-sponsored plans as well as \$20 million and \$24 million, respectively, attributed to allocations of costs for plans sponsored by the Parent. Represents service costs of \$6 million and \$8 million for the six months ended June 30, 2021 and 2020, respectively, attributed to self-sponsored plans as well as \$41 million and \$47 million, respectively, attributable to allocations of costs for plans sponsored by the Parent.

** These components of net periodic pension cost are included in other (income) and expense in the Combined Income Statement.

+ Represents third party costs.

In 2021, the Company does not expect contributions to its non-U.S. defined benefit and multi-employer plans to be material.

12. 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 Combined Income Statement. Revenues for these services were \$146 million and \$162 million for the three months ended June 30, 2021 and 2020, respectively, and \$300 million and \$323 million for the six months ended June 30, 2021 and 2020, respectively. The costs related to these services are reported in cost of services in Kyndryl's Combined Income Statement and were \$116 million and \$128 million for the three months ended June 30, 2021 and 2020, respectively, and \$237 million and \$255 million for the six months ended June 30, 2021 and 2020, respectively.

IBM historically provided its branded and related hardware, software and services to Kyndryl for use in the delivery of services arrangements with Kyndryl customers. The cost of the hardware and software was reflected at a price indicative of what the Company would have incurred had it operated on a stand-alone basis. These costs and their associated depreciation and amortization were recorded as cost of services in the Company's Combined Income Statement in the amounts of \$782 million and \$763 million, for the three months ended June 30, 2021 and 2020, respectively, and \$1,659 million and \$1,564 million, for the six months ended June 30, 2021 and 2020, respectively. The capital expenditures for purchases of IBM hardware were reflected as payments for property and equipment within the investing section of the Combined Statement of Cash Flows in the amounts of \$211 million and \$253 million, for the first half of 2021 and 2020, respectively.

Allocation of Corporate Expenses

The Combined Income Statement, Combined Statement of Comprehensive Income and Combined Statement of Cash Flows include an allocation of general corporate expenses from IBM. The financial information in these combined financial statements does not necessarily include all of the expenses that would

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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. The management of Kyndryl considers these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided to the Company. Allocations for management costs and corporate support services provided to Kyndryl for the three months ended June 30, 2021 and 2020 totaled \$331 million and \$286 million, respectively, and \$668 million and \$631 million for the six months ended June 30, 2021 and 2020, respectively. These amounts include costs for corporate functions including, but not limited to, senior management, legal, human resources, finance and accounting, treasury, IT 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, asset ownership or other measures determined to be reasonable.

(\$ in millions)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Selling, general and administrative	\$313	\$271	\$630	\$594
Research, development and engineering	0	1	0	3
Other (income) and expense	2	(2)	9	3
Interest expense	15	16	29	31
Total expense and other (income)	<u>\$331</u>	<u>\$286</u>	<u>\$668</u>	<u>\$631</u>

Cash Management and Financing

The Company participates in IBM's centralized cash management and financing programs. Disbursements are made through centralized accounts payable systems, which are operated by IBM. Cash receipts are transferred to centralized accounts, which are also maintained by IBM. As cash is received and disbursed by IBM, it is accounted for by Kyndryl through Net Parent investment. Short and long-term debt is financed by IBM, and financing decisions for wholly and majority owned subsidiaries are determined by IBM. See note 1, "Basis of Presentation," to the Company's audited financial statements for additional information. Kyndryl's cash that was not included in the centralized cash management and financing programs is classified as Cash and cash equivalents on the Combined Balance Sheet.

Net Parent Investment

Related party transactions between Kyndryl and IBM have been included within Net Parent investment in the Combined Balance Sheet in the historical periods presented as these related party transactions were not settled in cash. Net Parent investment in the Combined Balance Sheet and Combined 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 Combined Statement of Cash Flows were as follows:

(\$ in millions)	For the Six Months Ended June 30,	
	2021	2020
Cash pooling and general financing activities/other	\$(1,695)	\$(1,863)
Allocation of IBM's corporate expenses/other	862	810
Related party sales and purchases	1,514	1,467
Related party intangible assets fee	40	39
Income taxes	179	188
Total Net transfers from Parent per Combined Statement of Equity	<u>\$ 900</u>	<u>\$ 641</u>
Income taxes	(179)	(188)
Allocation of IBM's stock based compensation	(33)	(28)
Other	15	(65)
Total Net transfers from Parent per Combined Statement of Cash Flows	<u>\$ 702</u>	<u>\$ 360</u>

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 Combined Balance Sheet. The gross amounts of Kyndryl receivables assigned to IBM Global Financing were \$602 million and \$787 million for the second quarter of 2021 and 2020, respectively, and \$1,300 million and \$1,551 million for the first six months of 2021 and 2020, respectively. The fees and the net gains and losses associated with the assignment of receivables were not material for any of the periods presented.

Upon completion of the spin off, there is no guarantee that the Company will be able to enter into a similar financing arrangement with a third-party, with similar volumes to the amounts historically financed by IBM. This may result in an increase in accounts receivable balances from those amounts historically presented within the Combined Balance Sheets.

Acquired Intangible Assets

Within the historical periods presented, the Company has been charged a 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 Combined Income Statement for these fees were \$8 million for the second quarter of both 2021 and 2020, and \$16 million and \$15 million, for the first six months of 2021 and 2020, respectively. The amounts for these fees reflected within SG&A expense within the Combined Income Statement were \$12 million for the second quarter of both 2021 and 2020, and \$25 million and \$24 million, for the first half of 2021 and 2020, respectively.

13. Subsequent Events:

The combined financial statements of Kyndryl are derived from the Consolidated Financial Statements of IBM, which issued its financial statements for the second quarter 2021 on July 27, 2021. Accordingly, the Company has evaluated transactions or other events for consideration as recognized subsequent events in the interim financial statements through July 27, 2021. Additionally, Kyndryl has evaluated transactions and other events that occurred through August 31, 2021, the date these combined financial statements were issued, for purposes of disclosure of unrecognized subsequent events.

SCHEDULE II

KYNDRYL
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
For the Years Ended December 31:
(Dollars in Millions)

Description	Balance at Beginning of Period	Additions / (Releases)	Write-offs	Other*	Balance at End of Period
Allowance For Credit Losses:					
2020	<u>\$ 82</u>	<u>\$ 25</u>	<u>\$ (7)</u>	<u>\$(9)</u>	<u>\$ 91</u>
2019	<u>\$111</u>	<u>\$ 51</u>	<u>\$ (78)</u>	<u>\$(3)</u>	<u>\$ 82</u>
2018	<u>\$104</u>	<u>\$ 16</u>	<u>\$ (2)</u>	<u>\$(6)</u>	<u>\$111</u>
Revenue Based Provisions:					
2020	<u>\$110</u>	<u>\$167</u>	<u>\$(141)</u>	<u>\$ 3</u>	<u>\$140</u>
2019	<u>\$113</u>	<u>\$103</u>	<u>\$(108)</u>	<u>\$ 2</u>	<u>\$110</u>
2018	<u>\$ 93</u>	<u>\$219</u>	<u>\$(198)</u>	<u>\$(1)</u>	<u>\$113</u>

* Primarily represents translation adjustments and reclassifications.

Additions/(Releases) to the Allowance For Credit Losses represent changes in estimates of unrecoverable amounts in receivables and are recorded to expense accounts. Amounts are written-off when they are deemed unrecoverable by the Company. Additions/(Releases) to Revenue Based Provisions represent changes in estimated reductions to revenue, primarily as a result of revenue-related programs, including customer rebates. Write-offs for Revenue Based Provisions represent reductions in the provision due to amounts remitted to customers. Other primarily comprises currency translation adjustments. See note E, "Taxes," to the combined financial statements for further details about the Company's income tax valuation allowances.