Risk Factors Comparison 2023-05-26 to 2022-03-10 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text Moved Text Section

Risks Relating to Our Business ~~A lack of~~ **An inability to attract** new customers, **retain** ~~retention of~~ existing customers and **sell** ~~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 **or, in the case of accounts with substandard margins, services with greater** gross ~~margin~~ **margins** ~~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, **including as part of our initiative to address existing accounts that have substandard margins,** our revenue and results of operations may decrease. Our ~~outsourcing~~ customer contracts typically have an average duration of over five years and, unless terminated, may be renewed or automatically extended on a month- to- month basis. Our customers have no obligation to renew their services after their initial contract periods expire **,** and any termination fees associated with an early termination may not be sufficient to recover our costs associated with such contracts. The loss of business from any of our major customers, whether by the cancellation of existing contracts, the failure to obtain new business or lower overall demand for our services, could adversely impact our revenue and results of operations. We may not meet our growth and productivity objectives. Our goals for profitability and growth rely upon a number of assumptions, including our ability to make successful investments to grow and further develop our business and simplify our operations. The risks and challenges we face in connection with our strategies include expanding our professional services capability, expanding in geographies where we currently have a small presence and ensuring that our services remain competitive in a rapidly changing technological environment. We may invest significantly in key strategic areas to drive long- term revenue growth and share gains. These investments may adversely affect our near- term revenue growth and results of operations, and we cannot guarantee that they will ultimately be successful. Customer adoption rates and viable economic models are less certain in highly competitive segments. Additionally, emerging business and delivery models may unfavorably impact demand and profitability for our solutions or services. If we are unable to find partners to develop cutting- edge innovations in a highly competitive and rapidly evolving environment or are unable to implement and integrate such innovations with sufficient speed and versatility, we could fail in our ongoing efforts to maintain and increase our revenue and profit margins. Competition in the markets in which we operate may adversely impact our results of operations. Our competitors include incumbents that have expanded their offerings to migration and management of cloud- based environments; companies that ~~utilize~~ **use** labor- based models and leverage talent pools primarily in lower- cost countries that have grown to offer a broad range of services with a worldwide presence; and advisory- focused system integrators specializing in bringing together disparate technology environments. Our competitiveness is based on factors including quality of services, technical skills and capabilities, industry knowledge and experience, financial value, ability to innovate, intellectual property and methods, contracting flexibility, and speed of execution. If we are unable to compete based on such factors, our results of operations and business prospects could be harmed. This competition may decrease our revenue and place downward pressure on operating margins in our industry, particularly for contract extensions or renewals. As a result, we may not be able to maintain our current revenue and operating margins, or achieve favorable operating margins, for contracts extended or renewed in the future. If we fail to create and sustain an efficient and effective cost structure that scales with revenues during periods with declining revenues, our margins and results of operations may be adversely affected. Companies with whom we have alliances in certain areas **are** ~~may be~~ or **may** become competitors in other areas. In addition, companies with whom we have alliances also may acquire or form alliances with competitors, which could reduce their business with us. If we are unable to effectively manage these complicated relationships with alliance peers, our business and results of operations could be adversely affected. Our business could be adversely impacted by our relationships with critical suppliers and partners. Our business employs a wide variety of products and services from a number of suppliers and partners around the world. Our relationships with our partners, who supply us with necessary components to the services and solutions we offer our customers, are also critical to our ability to provide many of our services and solutions that address customer demands. There can be no assurance that we will be able to maintain such relationships ~~, including in light of our separation from IBM~~ . Among other things, such partners may in the future decide to compete with us, form exclusive or more favorable arrangements with our competitors or otherwise reduce our access to their products, impairing our ability to provide the services and solutions ~~demanded~~ **16demanded** by customers. Further, changes in the business condition (financial or otherwise) of these suppliers or partners could subject us to losses and affect our ability to bring our offerings to market. Additionally, the failure of our suppliers and partners to deliver products and services in sufficient quantities, in a timely manner, and in compliance with all applicable laws and regulations could adversely affect our business. Any defective products or inadequate services received from suppliers or partners could reduce the reliability of our services and harm our reputation. If we are unable to attract and retain key personnel and other skilled employees, our business could be harmed. If any of our key employees were to leave, we could face substantial difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience. Although we have arrangements with some of our executive officers designed to promote retention, our employment relationships are generally at-will, and key employees may leave us. We intend to continue to hire additional highly qualified personnel but may not be able to attract, assimilate or retain similarly qualified personnel in the future. In addition, much of our future success depends on the continued service, availability and integrity of skilled employees, including technical, sales and staff resources. Skilled and experienced personnel in the areas where we compete **often** are in high demand, and competition for their talents is **often** intense. Our inability to retain skilled employees could intensify the adverse impact of a shortage of critical skills. Changing demographics and labor workforce trends also may result in a shortage of or insufficient knowledge and skills. Further, as global opportunities and industry demand shift, realignment, training and scaling of skilled resources may not be sufficiently rapid or successful. Any failure to attract, integrate, motivate and retain these employees could harm our business **. Alternatively, from time to time, we may have more people than we need in certain skill sets, geographies or compensation levels. In such cases, we have, and may in the future, rebalance our workforce, including reducing the rate of new hires and increasing involuntary terminations, which actions could negatively impact employee engagement and attrition** . 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~~ **and services sectors** . Our results of operations also could be affected by economic and political changes in those countries and by macroeconomic changes, including recessions, inflation, currency fluctuations between the U. S. dollar and non- U. S. currencies and adverse changes in trade relationships among those countries. As we expand our customer base and the scope of our offerings, both within the United States and globally, we may be further impacted by additional regulatory ~~15or~~ **or** other risks, including compliance with U. S. and foreign data privacy requirements, data localization requirements, labor relations laws, enforcement of intellectual property protection laws, laws relating to anti- corruption, anti- competition regulations, ~~and~~ **corporate taxation,** import, export and trade restrictions **on technology and services** . 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. **17A** ~~Additionally, customers' short- term priorities, as well as quarantines, limitations on travel, supply chain disruptions and other factors associated with the COVID- 19 pandemic have resulted and may continue to result in delays in some services projects. A~~ downturn in the economic environment and customer spending budgets could adversely impact our business. Our overall performance depends in part on global macroeconomic and geopolitical conditions, which can change suddenly and unpredictably. Because we operate globally and have significant businesses in many markets, an economic slowdown in any of those markets could adversely affect our results of operations. If overall demand for our solutions decreases, or if customers decide to reduce their spending budgets as a result of such conditions ~~, including those associated with the COVID- 19 pandemic~~ , our revenue and profit could be materially and adversely impacted. Damage to our reputation could adversely impact our business. Our reputation may be susceptible to damage by events such as significant disputes with customers, internal control deficiencies, delivery failures, cybersecurity incidents, government investigations or legal proceedings or actions of current or former customers, directors, employees, competitors, vendors, alliance partners or joint venture partners. If we fail to gain a positive reputation as leader in our field, or if our brand image is tarnished by negative perceptions, our ability to attract and retain customers and talent could be impacted. If we are unable to accurately estimate the cost of services and the timeline for completion of contracts, the profitability of our contracts may be materially and adversely affected. Our commercial contracts are typically awarded on a competitive or " sole- source " basis. Our bids are priced upon, among other items, the expected cost to provide the services. We are dependent on our internal forecasts and predictions about our projects and the marketplace **,** and, to generate an acceptable return on our investment in these contracts, we must be able to accurately estimate our costs to provide the services required by the contract and to complete the contracts in a timely manner. We face a number of risks when pricing our contracts, as many of our projects entail the coordination of operations and workforces in multiple locations and utilizing workforces with different skill sets and competencies across geographically diverse service locations. In addition, revenues from some of our contracts are recognized using the percentage- of- completion method, which requires estimates of total costs at completion, fees earned on the contract, or both. This estimation process, particularly due to the technical nature of the services being performed and the long- term nature of certain contracts, is complex and involves significant judgment. Adjustments to original estimates are often required as work progresses, experience is gained, and additional information becomes known, even though the scope of the work required under the contract may not change. Moreover, **as** inflation can ~~adversely affect us by increasing~~ **increase both** our **labor and non- labor input** costs ~~and~~ , **the profitability of our contracts could be negatively impacted** if we are unable to adjust our pricing ~~, revenue~~ or costs **to take inflation into account** ~~, can adversely affect the profitability of our contracts~~ . ~~If~~ **Furthermore, 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. ~~16Service~~ -- **Service** delivery issues could adversely impact our business and operating results. We have customer agreements in place that include certain service- level commitments. If we are unable to meet such commitments, we may be contractually obligated to pay penalties or provide these customers with service credits for a portion of the service fees paid by our customers. However, we cannot be assured that our customers will accept these penalties or credits in lieu of other legal remedies that may be available to them. Our failure to meet our commitments could also result in customer dissatisfaction or loss and have an adverse effect on our business, financial condition and results of operations. Risks from acquisitions, alliances and dispositions include integration challenges, failure to achieve objectives, the assumption of liabilities and higher debt levels. Subject in certain circumstances to the consent of IBM under the Tax Matters Agreement, as discussed in "- Risks Relating to our ~~Recent~~ Spin- off from IBM, " we may decide to make acquisitions, alliances and dispositions in furtherance of our strategy. Such transactions can present significant challenges and risks, and there can be no assurances that we will identify or manage such transactions successfully or that strategic opportunities will be available to us on acceptable terms or at all. The related risks include our failure to achieve strategic objectives, our failure to achieve anticipated revenue improvements and cost savings, our failure to retain key strategic relationships of acquired companies, our ~~failure~~ **18failure** to retain key personnel and our assumption of liabilities related to litigation or other legal proceedings involving the businesses in such transactions, as well as our failure to close planned transactions. Such transactions may require us to secure financing, and our indebtedness may limit the availability of financing to us or the favorability of the terms of available financing. If we do acquire other companies, we may not realize all the economic benefit from those acquisitions, which could cause an impairment of goodwill or intangible assets. If our goodwill or net intangible assets become impaired, we may be required to record a charge to our income statement ~~as we did in the quarter ended December 31, 2021~~ . ~~See " —— We have recorded significant goodwill impairment charges and may be required to record additional charges to future earnings if our goodwill or long- lived assets become impaired. "~~ We could be adversely impacted by our business with government customers. Our customers include numerous governmental entities within and outside the United States, including foreign governments and U. S. state and local entities. Some of our agreements with these customers may be subject to periodic funding approval. Funding reductions or delays could adversely impact public sector demand for our services. Also, government contracts tend to have additional requirements beyond commercial contracts and, for example, may contain provisions providing for higher liability limits for certain losses **and non- performance** . **Also** ~~In addition~~ , ~~we could be suspended~~ **compliance violations in one state** or ~~debarred~~ **locality could result in suspension or debarment** as a governmental contractor and could incur civil and criminal fines and penalties, which could negatively impact our results of operations, financial results and reputation. Intellectual property matters could adversely impact our business. Our intellectual property rights may not prevent competitors from independently developing services similar to or duplicative of ours, nor can there be any assurance that the resources invested by us to protect our intellectual property will be sufficient or that our intellectual property portfolio will adequately deter misappropriation or improper use of our technology. Our ability to protect our intellectual property could also be impacted by changes to existing laws, legal principles and regulations governing intellectual property. Further, we rely on third- party intellectual property rights, open- source software, and other third- party software in providing some of our services and solutions, and there can be no assurances that we will be able to obtain from third parties the licenses we need in the future. If we cannot obtain licenses to third party intellectual property on commercially reasonable terms, or if we must obtain alternative or substitute technology or redesign services, our business may be adversely affected. Additionally, we cannot be sure that our services and solutions, or the solutions of others that we offer to our customers, do not infringe on the intellectual property rights of third parties (including competitors as well as non- practicing holders of intellectual property assets), and these third parties could claim that we, our customers or parties indemnified by us are infringing upon their intellectual property rights. In addition, we may be the target of aggressive and opportunistic enforcement of patents by third parties, including patent assertion entities and non- practicing entities. These claims, even if we believe they have no merit, could subject us to a temporary or permanent injunction or damages, harm our reputation, divert management ~~17attention~~ -- **attention** and resources, and cause us to incur substantial costs or prevent us from offering some services or solutions in the future. Even if we have an agreement providing for third parties to indemnify us for the foregoing claims, the indemnifying parties may be unwilling or unable to fulfill their contractual obligations. We have recorded significant goodwill impairment charges and may be required to record additional charges to future earnings if our goodwill or long- lived assets become impaired. We are required under accounting principles generally accepted in the United States of America (" GAAP ") to review our goodwill for impairment at least annually, and to review goodwill and long- lived assets when events or changes in circumstances indicate the carrying value may not be recoverable. Some factors that may be considered events or changes in circumstances that would require our long- lived assets and / or goodwill to be reviewed for impairment include a sustained decline in stock price, a substantial decline in business performance or other entity- specific events such as changes in business management and strategy. ~~In the fourth quarter of 2021, we reviewed our long- lived assets and goodwill for impairment and identified certain reporting units in which the carrying value of the reporting unit exceeded the fair value. Consequently, the Company recorded a non- cash impairment charge of $ 469 million in the fourth quarter.~~ We may be required to record ~~additional~~ non- cash impairment charges during any period in which we determine that our goodwill or long- lived assets are impaired, which could adversely affect our results of operations. As of ~~December~~ **March** 31, ~~2021~~ **2023** , our goodwill balance was $ ~~732~~ **812** million, which represented ~~6~~ **7** % of total consolidated assets. See Note 10 – Intangible Assets Including Goodwill to our financial statements included elsewhere in this report for additional information about our ~~2021~~ goodwill impairment. ~~Risks~~ **19Risks** Relating to Cybersecurity and Data Privacy Cybersecurity and privacy considerations could adversely impact our business. We maintain information, including confidential and proprietary information, in digital form regarding our business and ~~information~~ **the business** of our customers ~~,~~ ~~contractors~~ , business partners, vendors, employees, ~~competitors~~ **contractors** and other third parties. We also rely on third- party vendors to provide certain digital services in connection with our business. There are numerous and evolving risks **relating** to ~~our~~ cybersecurity and **data** privacy, including risks originating from intentional acts of criminal hackers, ~~hacktivists and~~ nation states **and hacktivists** ; from intentional and unintentional acts of customers, ~~contractors,~~ business partners, vendors, employees **, contractors** , competitors and other third parties; and from errors **and omissions** in processes or technologies, as well as the risks associated with an increase in the number of customers, ~~contractors,~~ business partners, vendors, employees **, contractors** 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 **, contractors** 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 **, contractors** and other third parties. Cyber threats are continually evolving, making it ~~difficult~~ **challenging** 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 **other third- party** 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~~ **proprietary or confidential data, regulated data, personal information and** 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~~ **Cybersecurity** attacks or other security incidents **relating** ~~with respect~~ to our systems or those of our third- party vendors could result in, for example, one or more of the following: unauthorized access to, disclosure, modification, misuse, loss or destruction of Company, customer or other third- party data or systems; theft or import or export of sensitive, regulated or confidential data including personal information and intellectual property; the loss of access to critical data or systems through ransomware, ~~crypto mining,~~ destructive attacks or other means; and business delays, service or system disruptions or denials of service. In the event of such actions, we, our customers and other third parties could be exposed ~~18to~~ **to** liability, litigation, and regulatory or other government action, as well as the loss of existing or potential customers, damage to brand and reputation, damage to our competitive position, and other financial loss. The cost and operational consequences of responding to cybersecurity incidents and implementing remediation measures could be significant. In our industry, security vulnerabilities are increasingly discovered, publicized and exploited across a broad range of hardware, software or other infrastructure, elevating the risk of attacks and the potential cost of response and remediation for us and our customers. In addition, the fast- paced, evolving, pervasive, and sophisticated nature of certain cyber threats and vulnerabilities, as well as the scale and complexity of ~~the~~ **our** 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 **, employees, contractors** 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~~ , **to** ~~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~~ **experienced a** cybersecurity ~~incidents~~ - **incident** that ~~have~~ **has** had a material adverse effect on us **and we continuously take significant steps to mitigate cybersecurity risk across a range of functions** , ~~though~~ **such measures cannot eliminate** ~~there~~ -- **the** ~~is no assurance that there will not be~~ **risk entirely or provide absolute security. While we continue to monitor for, identify, investigate, respond to, remediate and develop plans to quickly recover from** cybersecurity incidents **, notwithstanding our efforts, we may be subject to a cybersecurity incident in the future** that **has** ~~will have~~ a material adverse **impact** ~~effect in the future~~ . ~~As~~ **20As** we are a global enterprise, the regulatory environment with regard to cybersecurity ~~,~~ **and data** privacy ~~and data protection~~ issues to which we are subject is increasingly complex and will continue to impact our business, including through increased risk, increased **compliance** 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 **cybersecurity and** 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 **increased** risks. Any additional costs and penalties associated with increased compliance, enforcement and risk reduction could make certain offerings less profitable or increase the difficulty of bringing certain offerings to market. Risks Relating to Laws and Regulations Our global operations expose us to numerous and sometimes conflicting legal and regulatory requirements, and violation of these regulations could harm our business. We are subject to numerous **, evolving** , and sometimes conflicting, legal regimes on matters as diverse as anticorruption, import / export controls, content requirements, **cybersecurity and data privacy,** trade restrictions, tariffs, taxation, sanctions, immigration, internal and disclosure control obligations, securities regulation, ESG initiatives, anti- competition, anti- money- laundering, ~~data privacy and protection,~~ wage- and- hour standards, employment and labor relations and human rights. The global nature of our operations, including **jurisdictions** ~~emerging markets~~ where legal systems may be less developed or understood by us **, business practices and standards which deviate from international standards** , and the diverse nature of our operations across a number of regulated industries, further increase the difficulty of compliance **. Additionally, certain laws and regulations including the U. S. Foreign Corrupt Practices Act and the U. K. Bribery Act 2010 could make us responsible for acts of our employees, subcontractors, vendors, agents, alliance or joint venture partners, the companies we may acquire and their employees, subcontractors, vendors and agents, and other third parties with which we associate if they take actions that violate**

applicable anti- corruption laws or regulations (whether or not we participated or knew about the actions leading to the violations) . Compliance with diverse legal requirements is costly and time- consuming and requires significant resources. Violations of one or more of these regulations in the conduct of our business could result in significant fines, **and penalties, disgorgement of profits,** enforcement actions or criminal sanctions against us and / or our employees, prohibitions on doing business, unfavorable publicity and damage to our reputation. Violations of these regulations in connection with the performance of our obligations to our customers also could result in liability for significant monetary damages and restrictions on our ability to effectively carry out our contractual obligations and thereby expose us to potential claims from our customers. Due to the varying degrees of development of the legal systems of the countries in which we operate, local laws may not be well developed or provide sufficiently clear guidance and may be insufficient to protect our rights ~~. 19In particular, in many parts of the world, including countries in which we operate and / or seek to expand, practices in the local business community might not conform to international business standards and could violate anti- corruption laws, or regulations, including the U. S. Foreign Corrupt Practices Act and the U. K. Bribery Act 2010. Our employees, subcontractors, vendors, agents, alliance or joint venture partners, the companies we acquire and their employees, subcontractors, vendors and agents, and other third parties with which we associate could take actions that violate policies or procedures designed to promote legal and regulatory compliance or applicable anti- corruption laws or regulations. Violations of these laws or regulations by us, our employees or any of these third parties could subject us to criminal or civil enforcement actions (whether or not we participated or knew about the actions leading to the violations), including fines or penalties, disgorgement of profits and suspension or disqualification from work, including U. S. federal contracting, any of which could materially adversely affect our business, including our results of operations and our reputation~~ . Changes in laws and regulations could also mandate significant and costly changes to the way we implement our services or could impose additional taxes on our services. For example, changes in laws and regulations to limit using off- shore resources in connection with our work or to penalize companies that use off- shore resources, which have been proposed from time to time in various jurisdictions, could adversely affect our results of operations. Such changes may result in contracts being terminated or work being transferred on- shore, resulting in greater costs to us. **Additionally, changes in laws and regulations, including expanding export controls and sanctions resulting from geopolitical developments, could impact our business, including imposing limits on where we can conduct operations, parties with whom we can conduct business, and the nature of work that can be performed. Such changes may result in limitations on existing or future business operations in certain markets, and violations of such laws and regulations could result in significant fines, penalties and enforcement actions.** 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~~ **21limited** 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 (**the “** OECD **”**) continues to issue guidelines that are different, in some respects, than long- standing international tax principles. As countries unilaterally amend their tax laws to adopt certain parts of the OECD guidelines, this may increase tax uncertainty and may adversely impact our income taxes. Local country, state, provincial or municipal taxation may also be subject to review and potential override by regional, federal, national or similar forms of government, which may also adversely impact our income taxes. In addition, it is likely that our tax returns could be examined by taxing authorities in the jurisdictions in which we do business. While we regularly assess the likelihood of adverse outcomes resulting from these examinations in order to determine the adequacy of our provision for income taxes, there can be no assurance that the outcomes from these examinations will not have an adverse effect on the Company’ s provision for income taxes and cash flows. We are subject to legal proceedings and investigatory risks. As a company with approximately 90, 000 employees and with customers in over 100 countries, we are or may become involved as a party and / or may be subject to a variety of claims, demands, suits, investigations, tax matters and other proceedings that arise from time to time in the ordinary course of our business. **In addition, IBM may obtain indemnity from us for judgments against it relating to events that occurred prior to the Separation pursuant to agreements put in place in connection with the Separation.** The risks associated with such legal proceedings are described in more detail in Note 13 – Commitments and Contingencies in the financial statements elsewhere in this report. We believe that we have adopted appropriate risk management and compliance programs. Legal and compliance risks, however, will continue to exist, and additional legal proceedings and other contingencies, the outcome of which cannot be predicted with certainty, may arise from time to time. We could incur costs for regulated environmental matters. We are subject to various federal, state, local and foreign laws and regulations concerning the discharge of materials into the environment or otherwise related to environmental protection. We could incur costs, including cleanup costs, fines and civil or criminal sanctions, as well as third- party claims for property damage or personal injury, if we ~~20were~~ -- **were** to violate or become liable under environmental laws and regulations. In addition, if we were to violate or become liable under ~~environmental~~ **these** laws and regulations our reputation could be harmed, which could have a negative impact on demand for our products and services. Compliance with environmental laws and regulations is not expected to have a material adverse effect on our financial position, results of operations and competitive position. We could be materially and adversely affected by increased focus on and demands from customers, investors and regulators with respect to climate change and environmental, social and governance **(ESG)** issues **or subject to legal liability with respect to our ESG commitments** . Global climate change is the result of increasing carbon emissions and has been linked to increasing environmental degradation **, loss of biodiversity** and increased incidence of natural disasters ~~. Governments are implementing local, national and international~~

~~regulations, taxes and carbon mechanisms to reduce these emissions. If we do not meet these demands, our business and operations may be negatively impacted. In addition, investors have linked corporate risks and management of ESG to sustainable profits and growth~~ . ESG includes not only environmental issues but also human rights, diversity, responsible supply chain management, ethics, cybersecurity and privacy concerns. ~~We~~ **Our ability to achieve our ESG commitments, including our commitment to achieve net- zero emissions by 2040, may be subject to numerous** ~~risk~~ **risks** ~~divestment~~ **, many of which are beyond our control. Examples of such risks include: the availability** and **cost of resources** ~~challenges to corporate practices~~ and ~~policies if~~ **related technologies; the availability of suppliers that can meet our standards; and our ability to manage natural disasters that could impact our employees, customers and businesses. Governments are implementing local, national and international regulations, taxes and mechanisms to manage cyber, workforce, environmental and human rights risks. Legal and regulatory requirements requiring ESG disclosures are increasing. If** we do not meet ~~the~~ **these demands, our business and operations may be negatively impacted by the loss of customer revenues and market share if we are unable to provide competitive products and services that incorporate these mitigation strategies. In addition, standards for tracking and reporting** ESG **metrics continue to evolve globally. Our processes and controls for reporting ESG metrics across our operations and supply chain are evolving along with multiple disparate standards for identifying, measuring and reporting ESG metrics. 22We risk divestment and challenges to corporate practices and policies if our ESG practices do not meet the** expectations of **our** stockholders. Further, employees and customers may seek employment opportunities, products and services that offer ESG benefits and / or minimize ESG risks. If we fail to meet these demands, it may negatively impact our business and damage our reputation. Risks Relating to Financing and Capital Markets Activities A lowering or withdrawal of the ratings, outlook or watch assigned to our debt securities by rating agencies may increase our future borrowing costs, reduce our access to capital and adversely impact our financial performance. Any rating, outlook or watch assigned could be lowered or withdrawn entirely by a rating agency if, in that rating agency' s judgment, current or future circumstances relating to the basis of the rating, outlook or watch, such as adverse changes to our business, so warrant. Any future lowering of our ratings, outlook or watch likely would make it more difficult or more expensive for us to obtain additional debt financing. Moreover, a reduction in our rating to below certain levels could cause certain customers to reduce or cease to do business with us, which would adversely impact our financial performance. The commercial and credit environment may adversely affect our access to capital. Our ability to issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our services or in the solvency of our customers or suppliers or if there are other significantly unfavorable changes in economic conditions. Volatility in the world financial markets could increase borrowing costs or affect our ability to access the capital markets. These conditions may adversely affect our credit ratings. Our financial performance could be adversely impacted by changes in market liquidity conditions and by customer credit risk on receivables. Our ~~financial performance is exposed to a wide variety of industry sector dynamics worldwide, including sudden shifts in regional or global economic activity such as those associated with the COVID- 19 pandemic. Our earnings and cash flows, as well as our access to funding, could be negatively impacted by changes in market liquidity conditions. Our~~ customer base includes many worldwide enterprises, from small and medium businesses to the world' s largest organizations and governments, with a significant portion of our revenue coming from global customers across many sectors. ~~If~~ **As a result, our financial performance is exposed to a wide variety of industry sector dynamics worldwide, including sudden shifts in regional or global economic activity. Our earnings and cash flows, as well as our access to funding, could be negatively impacted by changes in market liquidity conditions. Additionally, 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. ~~21Our~~ -- **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~~ **non- U. S. dollar** currency environments, and ~~those~~ results **from these affiliates** 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, **we have labor and product supply agreements where the currency in which our costs are denominated differs from the currency of the customer contract. Our hedging strategies may not fully mitigate our currency risk or may prove disadvantageous. 23Additionally,** large changes in ~~foreign~~ **currency** exchange rates relative to our functional currencies could increase the costs of our services to customers relative to local competitors, thereby causing us to lose existing or potential customers to these local competitors. ~~Further, as we grow our international operations, our exposure to foreign currency risk could become more significant. Our hedging strategies may not fully mitigate our foreign currency risk or may prove disadvantageous.~~ Risks Relating to our ~~Recent~~ Spin- off from IBM The Spin- off may not achieve some or all of the anticipated benefits. ~~We may not realize some or all of the anticipated strategic, financial, operational, marketing or other benefits from the Spin- off, or such benefits may be delayed by a variety of circumstances, which may be outside of our control.~~ As an independent publicly- traded company, we are smaller and less diversified with a narrower business focus than IBM and may be more vulnerable to changing market conditions, which could materially and adversely affect our business, financial condition and results of operations. ~~The~~ **If the** Spin- off **were** ~~could result in significant tax liability to IBM and its stockholders~~

~~if it is~~ determined **not** to ~~be a taxable transaction. Prior to the Spin- off, IBM received a private letter ruling from the Internal Revenue Service (“ IRS ”) together with a written opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP to the effect that, among other things, the Distribution, including IBM’ s retention of 19. 9 % of the shares of our common stock, will~~ qualify as ~~a transaction that is~~ tax- free for U. S. federal income tax purposes **, we could have** ~~under the Internal Revenue Code of 1986 (the “ Code ”). The opinion of counsel does not address any~~ - **an indemnification obligation to** ~~U. S. state or local or foreign tax consequences of the Spin- off. The opinion of counsel and the private letter ruling rely on certain facts, assumptions, representations and undertakings from~~ IBM **, which could adversely affect our** ~~and us regarding the past and future conduct of the companies’ respective businesses~~ -- **business** ~~and other matters. If any of these facts~~ , **financial condition** ~~assumptions, representations or undertakings are incorrect or not otherwise satisfied, IBM~~ and ~~its stockholders may not be able to rely on the private letter ruling or the opinion of counsel and could be subject to significant tax liabilities. The opinion of counsel is not binding on the IRS or the courts, and there can be no assurance that the IRS or a court will not take a contrary position. Notwithstanding the private letter ruling or opinion of counsel, the IRS could determine on audit that the Distribution or any of certain related transactions is taxable if it determines that any of these facts, assumptions, representations or undertakings are not correct or have been violated or if it disagrees with the conclusions in the opinion that are not covered by the private letter ruling, or for other reasons, including as a result~~ **results** of **operations** ~~certain significant changes in the stock ownership of IBM or us after the Distribution~~ . If the Distribution were determined not to qualify for non- recognition of gain or loss under Section 355 and related provisions of the **Internal Revenue** Code **of 1986 (the “ Code ”)** , each stockholder that is subject to U. S. federal income tax who received our common stock in the Distribution would generally be treated as having received a distribution in an amount equal to the fair market value of our common stock received, which would generally result in: (i) a taxable dividend to such stockholder to the extent of that such stockholder’ s pro rata share of IBM’ s current or accumulated earnings and profits; (ii) a ~~22reduction~~ -- **reduction** in such stockholder’ s basis (but not below zero) in IBM common stock to the extent the amount received exceeds the stockholder’ s share of IBM’ s earnings and profits; and (iii) taxable gain from the exchange of IBM common stock to the extent the amount received exceeded the sum of such stockholder’ s share of IBM’ s earnings and profits and such stockholder’ s basis in its IBM common stock. If ~~the Spin- off were determined not to qualify as tax- free for U. S. federal income tax purposes, we could have an indemnification obligation to IBM, which could adversely affect our business, financial condition and results of operations. If~~ , as a result of any of our representations being untrue or our covenants being breached, the Spin- off were determined not to qualify for non- recognition of gain or loss under Section 355 and related provisions of the Code, we could be required to indemnify IBM for the resulting taxes and related expenses. Those amounts could be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations. In addition, if we or our stockholders were to engage in transactions that resulted in a 50 % or greater change by vote or value in the ownership of our stock during the four- year period beginning on the date that begins two years before the date of the Distribution, the Distribution would generally be taxable to IBM, but not to its stockholders, under Section 355 (e) of the Code, unless it were established that such transactions and the Distribution were not part of a plan or series of related transactions. If the Distribution were taxable to IBM due to such a 50 % or greater change in ownership of our stock, IBM would recognize gain equal to the excess of the fair market value on the Distribution Date of our common stock distributed to IBM stockholders over IBM’ s tax basis in our common stock, and we generally would be required to indemnify IBM for the tax on such gain and related expenses. Those amounts could be material. Any such indemnification obligation could adversely affect our business, financial condition and results of operations. ~~See Part III. Item 13, “ Certain Relationships and Related Transactions, and Director Independence – Agreements with IBM – Tax Matters Agreement. ”~~ We agreed to numerous restrictions to preserve the tax- free treatment of the Spin- off, which may reduce our strategic and operating flexibility. To preserve the tax- free nature of the Spin- off and related transactions, we agreed in the Tax Matters Agreement with IBM to covenants and indemnification obligations that address compliance with Section 355 of the Code and related provisions of the Code, as well as state, local and foreign tax law. These covenants include certain restrictions on our activity for a period of two years following the Spin- off. Specifically, we are subject to certain restrictions on our ability to enter into acquisition, merger, liquidation, sale and stock redemption transactions with respect to our stock or assets. In addition, under the Tax Matters Agreement, we may be required to indemnify IBM against any such tax liabilities as a result of the acquisition of our stock or assets, even if we do not participate in or otherwise facilitate the acquisition. Furthermore, we are subject to specific restrictions on discontinuing the active conduct of our trade or business, the issuance or sale of stock or other securities (including securities convertible into our stock, but excluding certain compensatory arrangements), and sales of assets outside the ordinary course of business. ~~These~~ **24These** 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. **We may experience difficulties in implementing our new enterprise** ~~See Part III, Item 13, “ Certain Relationships and Related Transactions, and Directors Independence – Agreements with IBM – Tax Matters Agreement. ” Our accounting and other management systems and resources~~ - **resource planning system. Since** ~~may not be adequately prepared to meet the financial reporting and other requirements to which we are subject following~~ the Spin- off ~~. As~~ **, we have been dependent on financial and business operations systems that are provided by IBM pursuant to** a **Transition Services Agreement** ~~result of the Spin- off, we are subject to reporting and other obligations under the U. S. Securities and Exchange Act of 1934, as amended~~ (~~the~~ “ **TSA** ~~Exchange Act~~ ”). **We are implementing a new enterprise resource planning system** ~~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~~ “ **ERP** ~~Sarbanes Oxley Act~~ ”), which will **replace these financial and business operations systems. The implementation of this new ERP** ~~require~~ **requires** ~~annual~~ **an investment of significant personnel and financial resources, including substantial expenditures for third- party systems integrators, consultants, licenses and other support. As we implement this ERP, we may experience delays, increased costs and other**

difficulties, including potential design defects, miscalculations, re- work due to changes in business plans or reporting standards and the diversion of management ~~assessments of~~ **’ s attention from day- to- day business operations. Extended delays could also introduce operational and business risk, including cybersecurity risks, business operations risks and other complications. If we are unable to implement this ERP as planned,** the effectiveness of our internal control over financial reporting ~~and a report by~~ **could be adversely affected,** our **ability to assess** ~~independent registered public accounting firm on the~~ **those** ~~effectiveness of internal control~~ **controls adequately could be delayed** ~~over financial reporting. These reporting and other obligations may place significant demands on management~~ , ~~administrative~~ and ~~operational resources, including accounting systems. 23The Exchange Act requires that we file annual, quarterly and current reports with respect to~~ our business ~~and~~ **, results of operations,** 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~~ **flows** ~~. Certain of our employees may have actual or potential conflicts of interest because of their financial interests in IBM. Because of their former positions with IBM, certain of our executive officers own equity interests in both us and IBM. Continuing ownership of IBM shares~~ could **be negatively impacted** ~~create, or appear to create, potential conflicts of interest if we face decisions that could have implications for both us and IBM. For example, potential conflicts of interest could arise in connection with the resolution of any dispute between us and IBM regarding the terms of the agreements governing the separation and distribution and our relationship with IBM. Potential conflicts of interest may also arise out of any commercial arrangements that we or IBM may enter into in the future~~ . We or IBM may fail to perform under various transaction agreements that were executed as part of the Separation. In connection with the Separation, we and IBM entered into various transaction agreements related to the Spin- off. These agreements also govern our relationship with IBM following the Spin- off. We rely on IBM to satisfy its performance obligations under these agreements. **Since the Spin- off, certain contractual disputes have arisen between us and IBM. We and IBM have commenced arbitration proceedings related to certain of these matters.** If **the outcome of those arbitrations is unfavorable to Kyndryl, if a mutually acceptable commercial resolution cannot be found, or if** we or IBM are **or remain otherwise** unable **or unwilling** 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 Transactions, and Directors Independence ” in Part III, Item 13 of this report.~~ Risks Relating to Our Common Stock and the Securities Market ~~Substantial sales of our common stock may occur in the future, including the disposition by IBM of our shares of common stock that it retained after the Distribution, which could cause our stock price to decline. IBM owns 19. 9 % of our outstanding common stock. We understand that IBM currently intends to dispose of all of our common stock that it retained after the Distribution through one or more subsequent exchanges of our common stock for IBM debt held by one or more investment banks or, if market and general economic conditions and sound business judgment do not support such exchanges during the twelve- month period following the Distribution, IBM may dispose of such common stock (i) through distributions to IBM stockholders as dividends or in exchange for outstanding shares of IBM common stock, in each case during the twelve- month period following the Distribution or (ii) in one or more public or private sale transactions (including potentially through secondary transactions) as soon as practicable, taking into account market and general economic conditions and sound business judgment, but in no event later than five years after the Distribution. Prior to the Distribution, we entered into a stockholder and registration rights agreement under which we agreed, upon the request of IBM, to use our reasonable best efforts to effect a registration under applicable federal and state securities laws of any shares of our common stock retained by IBM, to facilitate IBM’ s disposition of our common stock. See Part III, Item 13, “ Certain Relationships and Related Transactions, and Directors Independence – Agreements with IBM – Stockholder and Registration Rights Agreement. ” The sales of significant amounts of our common stock or the perception in the market that such sales might occur may decrease the market price of our common stock. 24Holders~~ -- **Holders** of our common stock may be diluted due to future equity issuances. In the future, holders of our common stock may be diluted because of equity issuances for acquisitions, capital market transactions or otherwise, including any equity awards that we will grant to our directors, officers and employees. Such awards have a dilutive effect on our earnings per share, which could adversely affect the market price of our common stock. We plan to issue additional stock- based awards, including annual awards, new hire awards and periodic retention awards, as applicable, to our directors, officers and other employees under our employee benefits plans as part of our ongoing equity compensation program. Certain provisions in our Amended and Restated Certificate of Incorporation and Amended and Restated By- Laws and Delaware law may discourage takeovers and limit the power of our stockholders. Several provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By- Laws and Delaware law may discourage, delay or prevent a merger or acquisition. These include, among others, provisions that (i) provide for staggered terms for directors on our Board for a period following the Spin- off; (ii) establish advance notice requirements for stockholder nominations and proposals; (iii) provide for the removal of directors only for cause during the time the Board is classified; (iv) limit the ability of stockholders to call special meetings or act by written consent; and (v) provide the Board the right to issue shares of preferred stock without stockholder approval. In addition, we are subject to Section 203 of the Delaware General Corporation Law (“ DGCL ”), which could have the effect of delaying or preventing a change of control that you may favor. These and other provisions of our Amended and Restated Certificate of Incorporation, Amended and Restated By- Laws and Delaware law may discourage, delay or prevent certain types of transactions involving an actual or a ~~threatened acquisition or change in control, including unsolicited takeover attempts, even though the transaction may offer our stockholders the opportunity to sell their shares of our common stock at a price above the prevailing market price. Our Board believes these provisions will protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirers to negotiate with the Board and by providing the Board with more time to assess any acquisition proposal. These provisions will apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that the Board determines is not in our and our stockholders' best interests. Our Amended and Restated Certificate of Incorporation provides that certain courts in the State of Delaware or the federal district courts of the United States will be the sole and exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees. Our Amended and Restated Certificate of Incorporation provides, in all cases to the fullest extent permitted by law, unless we consent in writing to the selection of an alternative forum, the Court of Chancery located within the State of Delaware will be the sole and exclusive forum for any derivative action or proceeding brought on behalf of us, any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee or stockholder to us or our stockholders, any action asserting a claim arising pursuant to the DGCL or as to which the DGCL confers jurisdiction on the Court of Chancery located in the State of Delaware or any action asserting a claim governed by the internal affairs doctrine or any other action asserting an " internal corporate claim " as that term is defined in Section 115 of the DGCL, or any action asserting a claim arising under the DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated By- Laws. However, if the Court of Chancery within the State of Delaware does not have jurisdiction, the action may be brought in the United States District Court for the District of Delaware. The exclusive forum provision provides that it will not apply to claims arising under the Securities Act, the Exchange Act or other federal securities laws for which there is exclusive federal or concurrent federal and state jurisdiction. Unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of and, to the fullest extent permitted by law, to have consented to the provisions of our Amended and Restated Certificate of Incorporation described above. The choice of forum provision may limit a stockholder' s~~ 25