



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 994 685 171
Organisasjonsform: Aksjeselskap
Foretaksnavn: J.RAY MCDERMOTT (NORWAY), AS
Forretningsadresse: c/o Wikborg Rein Advokatfirma AS
Dronning Mauds gate 11
0250 OSLO

Regnskapsår

Årsregnskapets periode: 01.01.2021 - 31.12.2021

Konsern

Morselskap i konsern: Ja
Konsernregnskap lagt ved: Ja

Regnskapsregler

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

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Neil Gunnion
Dato for fastsettelse av årsregnskapet: 13.09.2022

Grunnlag for avgivelse

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

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

Brønnøysundregistrene, 26.03.2024



Resultatregnskap

| Beløp i: USD | Note | 2021 | 2020 |
|---|------|-------------------|--------------------|
| RESULTATREGNSKAP | | | |
| Inntekter | | | |
| Annen driftsinntekt | 9 | 16 962 280 | 17 008 752 |
| Sum inntekter | | 16 962 280 | 17 008 752 |
| Kostnader | | | |
| Avskrivning | 8 | 731 469 | 3 167 394 |
| Nedskrivning av varige driftsmidler og immaterielle eiendeler | 8 | | 41 234 953 |
| Annen driftskostnad | 2 | 49 456 | 78 148 |
| Sum kostnader | | 780 925 | 44 480 495 |
| Driftsresultat | | 16 181 355 | -27 471 743 |
| Finansinntekter og finanskostnader | | | |
| Annen finansinntekt | 9 | | 3 400 |
| Sum finansinntekter | | | 3 400 |
| Nedskrivning av finansielle eiendeler | | | 15 537 475 |
| Rentekostnad til foretak i samme konsern | | 252 425 | |
| Annen finanskostnad | 9 | | 254 371 |
| Sum finanskostnader | | 252 425 | 15 791 846 |
| Netto finans | | -252 425 | -15 788 446 |
| Ordinært resultat før skattekostnad | | 15 928 930 | -43 260 189 |
| Skattekostnad på ordinært resultat | 7 | 2 402 | 2 402 |
| Ordinært resultat etter skattekostnad | | 15 926 528 | -43 262 591 |
| Årsresultat | | 15 926 528 | -43 262 591 |
| Overføring til/fra annen egenkapital | 5 | | |



Balanse

| Beløp i: USD | Note | 2021 | 2020 |
|--|------|-------------------|-------------------|
| BALANSE - EIENDELER | | | |
| Anleggsmidler | | | |
| Immaterielle eiendeler | | | |
| Sum immaterielle eiendeler | | 0 | |
| Varige driftsmidler | | | |
| Skip, rigger, fly og lignende | 8 | 12 719 431 | 13 450 900 |
| Sum varige driftsmidler | | 12 719 431 | 13 450 900 |
| Finansielle anleggsmidler | | | |
| Investering i datterselskap | 3 | 14 821 516 | 14 821 516 |
| Sum finansielle anleggsmidler | | 14 821 516 | 14 821 516 |
| Sum anleggsmidler | | 27 540 947 | 28 272 416 |
| Omløpsmidler | | | |
| Varer | | | |
| Fordringer | | | |
| Kundefordringer | 6 | 59 333 751 | 54 984 229 |
| Andre fordringer | | | 106 116 |
| Sum fordringer | | 59 333 751 | 55 090 345 |
| Bankinnskudd, kontanter og lignende | | | |
| Bankinnskudd, kontanter og lignende | | | 30 |
| Sum bankinnskudd, kontanter og lignende | | | 30 |
| Sum omløpsmidler | | 59 333 751 | 55 090 375 |
| SUM EIENDELER | | 86 874 698 | 83 362 791 |

BALANSE - EGENKAPITAL OG GJELD

Egenkapital

Innskutt egenkapital



Balanse

| Beløp i: USD | Note | 2021 | 2020 |
|-----------------------------------|-------------|-------------------|-------------------|
| Aksjekapital | 4, 5 | 34 321 | 34 321 |
| Annen innskutt egenkapital | 5 | 29 815 313 | 29 815 313 |
| Sum innskutt egenkapital | | 29 849 634 | 29 849 634 |
| Opptjent egenkapital | | | |
| Annen egenkapital | 5 | 56 870 945 | 40 944 417 |
| Sum opptjent egenkapital | | 56 870 945 | 40 944 417 |
| Sum egenkapital | | 86 720 579 | 70 794 051 |
| Gjeld | | | |
| Langsiktig gjeld | | | |
| Annen langsiktig gjeld | | | |
| Øvrig langsiktig gjeld | 6 | | 12 416 364 |
| Sum annen langsiktig gjeld | | | 12 416 364 |
| Sum langsiktig gjeld | | 0 | 12 416 364 |
| Kortsiktig gjeld | | | |
| Leverandørgjeld | | 1 744 | 16 011 |
| Betalbar skatt | 7 | 2 402 | 2 402 |
| Annen kortsiktig gjeld | 6 | 149 973 | 133 962 |
| Sum kortsiktig gjeld | | 154 119 | 152 375 |
| Sum gjeld | | 154 119 | 12 568 739 |
| SUM EGENKAPITAL OG GJELD | | 86 874 698 | 83 362 790 |



Brønnøysundregistrene

ÅRSREGNSKAP FOR REGNSKAPSÅRET 2021 - GENERELL INFORMASJON

Journalnummer: 2022 944948

Enheten

Organisasjonsnummer: 994 685 171
Organisasjonsform: Aksjeselskap
Foretaksnavn: J.RAY MCDERMOTT (NORWAY), AS
Forretningsadresse: c/o Wikborg Rein Advokatfirma AS
Dronning Mauds gate 11
0250 OSLO

Regnskapsår

Årsregnskapets periode: 01.01.2021 - 31.12.2021

Konsern

Mørselskap i konsern: Ja
Konsernregnskap lagt ved: Ja

Regnskapsregler

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

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Neil Gunnion
Dato for fastsettelse av årsregnskapet: 13.09.2022

Revisjon

Ekstern autorisert regnskapsfører har i løpet av regnskapsåret bistått ved den løpende regnskapsføringen eller utført andre tjenester for selskapet enn å utarbeide årsregnskapet: Ja

Grunnlag for avgivelse

År 2021: Årsregnskap er elektronisk innlevert.
År 2020: Tall er hentet fra elektronisk innlevert årsregnskap fra 2021.

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

Brønnøysundregistrene, 30.11.2022

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



Organisasjonsnr: 994 685 171
J.RAY MCDERMOTT (NORWAY), AS

RESULTATREGNSKAP

| Beløp i: USD | Note | 2021 | 2020 |
|---|-------------|-------------------|--------------------|
| RESULTATREGNSKAP | | | |
| Inntekter | | | |
| Annen driftsinntekt | 9 | 16 962 280 | 17 008 752 |
| Sum inntekter | | 16 962 280 | 17 008 752 |
| Kostnader | | | |
| Avskrivning | 8 | 731 469 | 3 167 394 |
| Nedskrivning av varige driftsmidler og immaterielle eiendeler | 8 | | 41 234 953 |
| Annen driftskostnad | 2 | 49 456 | 78 148 |
| Sum kostnader | | 780 925 | 44 480 495 |
| Driftsresultat | | 16 181 355 | -27 471 743 |
| Finansinntekter og finanskostnader | | | |
| Annen finansinntekt | 9 | | 3 400 |
| Sum finansinntekter | | | 3 400 |
| Nedskrivning av finansielle eiendeler | | | 15 537 475 |
| Rentekostnad til foretak i samme konsern | | 252 425 | |
| Annen finanskostnad | 9 | | 254 371 |
| Sum finanskostnader | | 252 425 | 15 791 846 |
| Netto finans | | -252 425 | -15 788 446 |
| Ordinært resultat før skattekostnad | | 15 928 930 | -43 260 189 |
| Skattekostnad på ordinært resultat | 7 | 2 402 | 2 402 |
| Ordinært resultat etter skattekostnad | | 15 926 528 | -43 262 591 |
| Årsresultat | | 15 926 528 | -43 262 591 |
| Overføring til/fra annen egenkapital | 5 | | |



| | | | |
|-----------------------------------|---|-------------------|-------------------|
| Sum egenkapital | | 86 720 579 | 70 794 051 |
| Gjeld | | | |
| Langsiktig gjeld | | | |
| Annen langsiktig gjeld | | | |
| Øvrig langsiktig gjeld | 6 | | 12 416 364 |
| Sum annen langsiktig gjeld | | | 12 416 364 |
| Sum langsiktig gjeld | | 0 | 12 416 364 |
| Kortsiktig gjeld | | | |
| Leverandørgjeld | | 1 744 | 16 011 |
| Betalbar skatt | 7 | 2 402 | 2 402 |
| Annen kortsiktig gjeld | 6 | 149 973 | 133 962 |
| Sum kortsiktig gjeld | | 154 119 | 152 375 |
| Sum gjeld | | 154 119 | 12 568 739 |
| SUM EGENKAPITAL OG GJELD | | 86 874 698 | 83 362 790 |



Organisasjonsnr: 994 685 171
J.RAY MCDERMOTT (NORWAY), AS

NOTEOPPLYSNINGER - SELSKAP - alle poster oppgitt i hele tall

Note
1

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

Note
4, 5

Antall aksjer og aksjeeiere

Note

Antall årsverk i regnskapsåret

Virksomheten har hatt følgende antall årsverk:
0.00

Note

Lån og sikkerhetsstillelse til ledende personer og aksjeeiere

Er det gitt lån eller sikkerhetsstillelse til ledende personer: Nei

Omløpsmidler Startdato Sluttdato Endring

Skattemessig fremf.undersk. Startdato Sluttdato Endring

Kortsiktig gjeld Startdato Sluttdato Endring



Årsberetning 2021

J. Ray McDermott (Norway) AS

Virksomhetens art og lokalisering

J. Ray McDermott (Norway), AS ("Selskapet") har registrert adresse i Oslo. Selskapets virksomhet er å investere i offshore og tilknyttede industrier, herunder investering i andre selskaper og sammenslutninger. Selskapet eier skipet North Ocean 102.

Fortsatt drift

Årsregnskapet er utarbeidet under forutsetning om fortsatt drift, og det forventes at eiendeler realiseres og forpliktelser innfris under normal drift. Morselskapets finansielle resultater de siste kvartalene har blitt påvirket av signifikante utfordringer særlig påvirket av utfordringer knyttet til pandemien (COVID-19) samt andre makroøkonomiske utfordringer og utfordringer knyttet til forsinkelser i den finansielle restruktureringen som har hatt påvirkning på muligheten til å få nye kontrakter. Likviditetskrav i kredittavtalen har vært særlig i fokus for selskapet etter avslutningen av Chapter 11-forhandlingene. Til tross for at de siste kvartalene har vært kommersielt og økonomisk utfordrende for McDermott har nylig suksess i markedet, særlig i andre halvdel av 2021, indikert positive framtidsutsikter. Det er tatt hensyn til risiko i vår forecast, likevel antar vi at planen som er lagt i MB'22 er beste estimat og at det er gjennomførbart på datoen for denne analysen. På visse måter, slik som nye kortsiktige kontrakter og tilgjengelighet av bilateral LC støtte, er forecastet mer sikkert enn det har vært tidligere. Helhetlig vurdert forventer ledelsen at risikoen og usikkerheten som er inkludert i forecastet ikke gir grunnlag for substansiell usikkerhet når det gjelder fortsatt drift. Derfor har ikke morselskapet inkludert en egen note om fortsatt drift i regnskapet for 2021.

Directors' report 2021

J. Ray McDermott (Norway) AS

Operations and location

J. Ray McDermott (Norway), AS (the "Company") has its registered address in Oslo. The objective of the Company is to invest in offshore and related industries, including investment in other companies and entities. The Company owns the Vessel North Ocean 102.

Going concern

The Financial Statements have been prepared assuming that we will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. The Parent Company's financial performance over the past several quarters has been impacted by significant challenges in execution, exacerbated by the effects of the coronavirus pandemic ("COVID-19"), and challenges imposed by the macroeconomy and lingering effects of our financial restructuring on our ability to book new work. Given the liquidity covenants in our credit agreement, this analysis has been a particular focus for the Company since emergence from Chapter 11. Although the last several quarters have proven to be commercially and economically troublesome for McDermott, our recent success in the market, in particular in the second half of 2021, indicates a positive outlook for McDermott. While we certainly stipulate there is risk in our forecast, we believe the plan contained within our MB'22 is our best estimate and is a deliverable plan as of the date of this analysis. In certain ways, such as near-term new awards and availability of bilateral LC support, the forecast is much more certain than it has been in the past. On the whole, management believes the risks and uncertainties contained in the forecast do not give rise to a substantial doubt about our ability to continue as a going concern, therefore The Parent Company did not include a going concern footnote in their 2021 financial statements.



Redegjørelse for årsregnskapet

Selskapet var ikke utsatt for særskilte faktorer som påvirker virksomheten utover hva som er vanlig for en virksomhet i offshorebransjen.

Årsresultatet var - USD 15 926 528

Totalkapitalen ved utgangen av året var USD 86 874 698

Bokført egenkapitalgrad per 31. desember 2021 var 99.82%.

Selskapet har ingen utlegg til forskning og utvikling.

Arbeidsmiljø og likestilling

Selskapet har ingen ansatte. Selskapets styre består av 2 menn. Selskapet kjenner til samfunnets forventinger, men Selskapet har ikke satt i verk spesielle tiltak.

Ytre miljø

Alle skip i 100 serie blir klassifisert i henhold til DNVs Clean Class regelverk for minimalisert utslipp til ytre miljø.

Rederiets utslipp til luft er i hovedsak forbrenningsgasser fra skipets hovedmaskineri. Det gjennomsnittlige innhold av svovel i forbrukt bunkers er lavere enn 0.2% i Europa, men noe høyere i andre geografiske områder. Avfallshåndteringen blir utført i henhold til MARPOL – regelverket.

Discussion on the financial statements

The Company is not subject to any specific factors influencing its business beyond what is normal for a company in the offshore industry.

The annual result was - USD 15 926 528

Total assets by the end of the year were USD 86 874 698

Equity ratio as of 31 December 2021 was 99.82%.

The Company has no research and development expenses.

Work environment and equal opportunities

There are no employees in the Company and the board consists of two men. The Company is aware of the community's expectations, but no special effort has been made.

External environment

All vessels in the 100 series are classified after DNV's Clean Class regulation to keep external pollution at a minimum. Engines of the vessel are the main source of pollution to the environment. On average, bunkering being used in Europe consists of less than 0.2% Sulphur. This might be higher in other geographic areas. Waste Disposal is carried out in accordance with the MARPOL Convention.

Oslo, 13 September 2022

Tareq Kawash
Director/styremedlem

Anthony C. Brown
Chairman/styrets leder



ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS For the annual period ended December 31, 2021

MCDERMOTT INTERNATIONAL, LTD

BERMUDA
(State or Other Jurisdiction of
Incorporation or Organization)

98-1541353
(I.R.S. Employer
Identification No.)

915 N. Eldridge Parkway
HOUSTON, TEXAS
(Address of Principal Executive Offices)

MCDERMOTT

77079
(Zip Code)

The number of Ordinary Shares of McDermott International, Ltd outstanding at March 21, 2022 was 580,492,754.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
McDermott International, Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of McDermott International, Ltd. (the Company), as of December 31, 2021 and 2020 (Successor), and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for the year ended December 31, 2021 (Successor), six-month periods ended December 31, 2020 (Successor) and June 30, 2020 (Predecessor), and year ended December 31, 2019 (Predecessor), and the related notes (collectively referred to as the "financial statements"). In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the year ended December 31, 2021 (Successor), six-month periods ended December 31, 2020 (Successor) and June 30, 2020 (Predecessor), and year ended December 31, 2019 (Predecessor) in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition under long-term contracts

Description of the Matter

As described in Note 2 to the financial statements, the Company generally recognizes revenue for fixed price contracts over time using an input method described as the cost-to-cost approach to determine the extent of progress towards completion of performance obligations and an estimate of total contract revenue. Under the cost-to-cost approach, the determination of the progress towards completion requires management to prepare estimates of the costs to complete. These estimates are subject to considerable judgment and could be impacted by such items as changes to the project schedule; the cost of labor, material and subcontractors; and productivity. In addition, management must also estimate the total contract revenue the Company expects to receive for the Company's contracts that include variable consideration, such as increases to transaction prices for approved and



unapproved change orders, claims, incentives and bonuses, and reductions to transaction price for liquidated damages or penalties.

Auditing management's estimates of the progress towards completion of its projects was complex and subjective because of the considerable judgment required to evaluate management's determination of the forecasted costs to complete its fixed price contracts as future results depend on many uncertain variables. In addition, auditing the Company's measurement of variable consideration was also complex and highly judgmental as increases to transaction prices for approved and unapproved change orders, claims, incentives and bonuses, and reductions to transaction price for liquidated damages or penalties can have a material effect on the amount of revenue recognized and may require significant estimation by management regarding various possible outcomes.

*How We Addressed
the Matter in Our
Audit*

To test the Company's cost estimates, our audit procedures included, among others, evaluating the appropriate application of the cost-to-cost method; testing the significant assumptions discussed above used to develop the estimated cost to complete; and testing the completeness and accuracy of the underlying data. To assess management's estimated costs, we performed audit procedures that included, among others, agreeing the estimates to supporting documentation; engaging internal engineering specialists to review certain estimates, as needed; conducting interviews with and reviewing questionnaires prepared by project personnel; attending selected project review meetings; obtaining visual evidence of selected projects to observe progress; analyzing trends of productivity; reviewing support for estimates of project contingencies; and performing lookback analyses to compare historical estimates to actual costs to assess management's ability to estimate.

To test the estimated variable consideration, we performed audit procedures that included, among others, obtaining and reviewing executed contracts including any significant amendments, change orders or claims; confirming key terms directly with the Company's customers; and evaluating management's estimates related to pending change orders, claims, liquidated damages or penalties by obtaining management's probability assessments; corroborating key data points to contractual language and entitlement clauses; and assessing historical price recovery rates on similar variable consideration contracts.

Ernst + Young LLP

We have served as the Company's auditor since 2018.

Houston, Texas
March 22, 2022



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

**McDERMOTT INTERNATIONAL, LTD
CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Successor | | Predecessor | |
|--|------------------------------------|--|-----------------------------------|------------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| Revenues | \$ 4,887 | \$ 2,870 | \$ 3,387 | \$ 7,847 |
| Costs and expenses: | | | | |
| Cost of operations | 5,183 | 2,842 | 3,380 | 7,859 |
| Project intangibles amortization | 8 | 5 | 7 | 17 |
| Total cost of operations | 5,191 | 2,847 | 3,387 | 7,876 |
| Selling, general and administrative expenses | 212 | 130 | 114 | 262 |
| Research and development expenses | 8 | 5 | 5 | 10 |
| Restructuring costs | 35 | 61 | 58 | 114 |
| Other intangibles amortization | 68 | 34 | 16 | 44 |
| Property, plant and equipment and operating lease right-of-use assets impairment | 7 | 37 | 884 | 18 |
| Transaction costs | - | - | 36 | 57 |
| Goodwill impairment | - | 972 | 91 | 1,430 |
| Loss on asset disposals | (2) | 1 | 64 | 104 |
| Intangible assets impairment | - | - | 3 | 162 |
| Total expenses | 5,519 | 4,087 | 4,658 | 10,077 |
| Loss from investments in unconsolidated affiliates | 1 | 4 | (11) | 7 |
| Investment in unconsolidated affiliates-related amortization | 13 | 7 | (1) | (3) |
| Operating loss from continuing operations | (618) | (1,206) | (1,283) | (2,226) |
| Other (expense) income: | | | | |
| Interest expense, net | (132) | (64) | (76) | (735) |
| Other non-operating income (expense), net | 125 | 17 | 26 | (34) |
| Reorganization items, net | - | (33) | 2,742 | - |
| Total other (expense) income, net | (7) | (80) | 2,692 | (769) |
| (Loss) income from continuing operations before provision for income taxes | (625) | (1,286) | 1,409 | (2,995) |
| Income tax expense | 42 | 5 | 34 | 32 |
| Net (loss) income from continuing operations | (667) | (1,291) | 1,375 | (3,027) |
| Net income from discontinued operations | - | - | 379 | 143 |
| Net (loss) income | (667) | (1,291) | 1,754 | (2,884) |
| Less: Net income attributable to noncontrolling interests ("NCI") | - | 23 | 6 | 25 |
| Net (loss) income attributable to McDermott | (667) | (1,314) | 1,748 | (2,909) |
| Dividends on redeemable preferred stock | (20) | - | (3) | (44) |
| Accretion of redeemable preferred stock | (19) | - | (1) | (16) |
| Net (loss) income after preferred stock dividends and accretion | \$ (706) | \$ (1,314) | \$ 1,744 | \$ (2,969) |

See accompanying Notes to these Consolidated Financial Statements.



CONSOLIDATED FINANCIAL STATEMENTS

**McDERMOTT INTERNATIONAL, LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

| | Successor | | Predecessor | |
|--|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| Net (loss) income | \$ (667) | \$ (1,291) | \$ 1,754 | \$ (2,884) |
| Other comprehensive (loss) income, net of tax: | | | | |
| (Loss) income on derivatives | (60) | 53 | (11) | 28 |
| Foreign currency translation | (11) | (1) | (23) | (7) |
| Deferred gain on investments | 1 | - | - | - |
| Other comprehensive loss from discontinued operations, net of tax: | | | | |
| Foreign currency translation | - | - | - | (17) |
| Total comprehensive (loss) income | (737) | (1,239) | 1,720 | (2,880) |
| Less: Comprehensive income attributable to NCI | - | 23 | 6 | 25 |
| Comprehensive (loss) income attributable to McDermott | <u>\$ (737)</u> | <u>\$ (1,262)</u> | <u>\$ 1,714</u> | <u>\$ (2,905)</u> |

See accompanying Notes to these Consolidated Financial Statements.



CONSOLIDATED FINANCIAL STATEMENTS

McDERMOTT INTERNATIONAL, LTD CONSOLIDATED BALANCE SHEETS

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|---|--------------------------|
| | (In millions, except per share amounts) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (\$168 and \$220 related to variable interest entities ("VIEs")) | \$ 813 | \$ 1,400 |
| Restricted cash and cash equivalents | 13 | 27 |
| Accounts receivable—trade, net (\$18 and \$85 related to VIEs) | 557 | 656 |
| Accounts receivable—other (\$32 and \$17 related to VIEs) | 133 | 148 |
| Contracts in progress (\$72 and \$4 related to VIEs) | 1,135 | 1,175 |
| Project-related intangible assets, net | 42 | 82 |
| Other current assets (\$15 and \$33 related to VIEs) | 171 | 191 |
| Total current assets | <u>2,864</u> | <u>3,679</u> |
| Property, plant and equipment, net | 1,100 | 1,105 |
| Operating lease right-of-use assets | 204 | 252 |
| Accounts receivable—long-term retainages | 40 | 33 |
| Investments in unconsolidated affiliates | 89 | 63 |
| Other intangibles, net | 579 | 646 |
| Other non-current assets | 341 | 321 |
| Total assets | <u>\$ 5,217</u> | <u>\$ 6,099</u> |
| Liabilities, Mezzanine Equity and Stockholders' Equity | | |
| Current liabilities: | | |
| Operating lease obligations | \$ 60 | \$ 76 |
| Current portion of long-term debt | 22 | - |
| Finance lease obligations | - | 56 |
| Accounts payable (\$31 and \$172 related to VIEs) | 715 | 931 |
| Advance billings on contracts (\$125 and \$85 related to VIEs) | 1,167 | 861 |
| Project-related intangible liabilities, net | 48 | 80 |
| Accrued liabilities (\$119 and \$49 related to VIEs) | 1,224 | 1,236 |
| Total current liabilities | <u>3,236</u> | <u>3,240</u> |
| Long-term debt | 607 | 468 |
| Long-term operating lease obligations | 192 | 219 |
| Deferred income taxes | 90 | 95 |
| Other non-current liabilities | 592 | 849 |
| Total liabilities | <u>4,717</u> | <u>4,871</u> |
| Mezzanine equity: | | |
| Redeemable preferred stock | 168 | 129 |
| Stockholders' equity: | | |
| Ordinary shares, par value \$0.001 per share, authorized 800 shares; issued 580 and 575 shares, respectively | 1 | 1 |
| Capital in excess of par value | 2,371 | 2,362 |
| Accumulated deficit | (2,020) | (1,314) |
| Accumulated other comprehensive (loss) income ("AOCI") | (18) | 52 |
| Total McDermott stockholders' equity | <u>334</u> | <u>1,101</u> |
| Noncontrolling interest | (2) | (2) |
| Total stockholders' equity | <u>332</u> | <u>1,099</u> |
| Total liabilities and stockholders' equity | <u>\$ 5,217</u> | <u>\$ 6,099</u> |

See accompanying Notes to these Consolidated Financial Statements.



CONSOLIDATED FINANCIAL STATEMENTS

**McDERMOTT INTERNATIONAL, LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Successor | | Predecessor | |
|---|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| Cash flows from operating activities: | | | | |
| Net (loss) income | \$ (667) | \$ (1,291) | \$ 1,754 | \$ (2,884) |
| Adjustments to reconcile net (loss) income to cash flows from operating activities: | | | | |
| Depreciation and amortization | 153 | 71 | 107 | 267 |
| Property, plant and equipment and operating lease right-of-use assets impairment | 7 | 37 | 884 | 18 |
| Debt issuance cost amortization and debt discount and make-whole accretion | 44 | 2 | 95 | 313 |
| Pension curtailment and actuarial mark to market gain | (86) | - | - | - |
| Reorganization items - claims valuation adjustment and DIP Credit Facility fees | - | - | (2,753) | - |
| Gain on disposal of the Lummus Technology business | - | - | (459) | - |
| Loss on disposal of pipe fabrication business | - | 2 | 63 | 101 |
| Goodwill and intangible assets impairment | - | 972 | 94 | 1,592 |
| Other non-cash items | 10 | (36) | 16 | 38 |
| Changes in operating assets and liabilities, net of effects of businesses disposed: | | | | |
| Accounts receivable | 92 | 4 | 256 | (205) |
| Contracts in progress, net of advance billings on contracts | 346 | (653) | (168) | (627) |
| Accounts payable | (216) | 129 | (262) | 497 |
| Other current and non-current assets | (16) | 13 | (32) | (52) |
| Other current and non-current liabilities | (143) | 56 | (287) | (34) |
| Total cash used in operating activities | (476) | (694) | (692) | (976) |
| Cash flows from investing activities: | | | | |
| Proceeds and payments associated with disposal of the Lummus Technology business, net | 1 | (8) | 2,560 | - |
| Purchases of property, plant and equipment | (210) | (40) | (45) | (92) |
| Investments in unconsolidated affiliates | (27) | (1) | (3) | (4) |
| Proceeds from asset disposals, net | 6 | 4 | - | 83 |
| Advances related to proportionately consolidated consortiums | - | (8) | (78) | (258) |
| Proceeds from disposal of pipe fabrication business | - | - | 26 | - |
| Business combinations, net of cash acquired | - | - | - | (7) |
| Total cash (used in) provided by investing activities | (230) | (53) | 2,460 | (278) |
| Cash flows from financing activities: | | | | |
| Proceeds from share issuance, net of issuance costs | - | 146 | - | - |
| Debt and letter of credit issuance costs | (8) | (30) | - | - |
| Amazon financing | 112 | - | - | - |
| Structured equipment financing | - | (29) | - | - |
| Repayment of other debt and finance lease obligations | - | (11) | (14) | (7) |
| Advances related to equity method joint ventures and proportionately consolidated consortiums | - | 9 | 97 | 237 |
| Proceeds from debt | - | - | - | 800 |
| DIP Term Facility borrowings | - | - | 1,200 | - |
| DIP Term Facility repayment | - | - | (2,021) | - |
| DIP Term Facility fees | - | - | (118) | (160) |
| Revolving credit facility borrowings, net | - | - | - | 801 |
| Distributions to joint venture members | - | (14) | (2) | (43) |
| Repurchase of common stock | - | - | - | (4) |
| Total cash provided by (used in) financing activities | 104 | 71 | (858) | 1,624 |
| Effects of exchange rate changes on cash, cash equivalents and restricted cash | 1 | 2 | (2) | (22) |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (601) | (674) | 908 | 348 |
| Cash, cash equivalents and restricted cash at beginning of period | 1,427 | 2,101 | 1,193 | 845 |
| Cash, cash equivalents and restricted cash at end of period | 826 | 1,427 | 2,101 | 1,193 |
| Cash, cash equivalents and restricted cash at end of period, discontinued operations | - | - | - | 10 |
| Cash, cash equivalents and restricted cash at end of period, continuing operations | \$ 826 | \$ 1,427 | \$ 2,101 | \$ 1,183 |
| Supplemental Cash Flow Information: | | | | |
| Cash paid for interest | 8 | 25 | 45 | 283 |
| Cash paid for income taxes, net | 55 | 22 | 16 | 96 |
| Supplemental Disclosure of Noncash Financing Activities: | | | | |
| Preferred stock issued | - | 129 | - | - |
| Capital lease | (56) | 17 | - | - |

See accompanying Notes to these Consolidated Financial Statements.



CONSOLIDATED FINANCIAL STATEMENTS

McDERMOTT INTERNATIONAL, LTD CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock Par Value | Capital in Excess of Par Value | Accumulated Deficit | AOCI | Treasury Stock | Stockholders' Equity | NCI | Total Equity |
|---|------------------------------|--------------------------------------|------------------------|----------|-------------------|-------------------------|---------|-----------------|
| | (In millions) | | | | | | | |
| Balance at January 1, 2019 (Predecessor) | \$ 183 | \$ 3,539 | \$ (2,719) | \$ (107) | \$ (96) | \$ 800 | \$ 23 | \$ 823 |
| Net (loss) income | - | - | (2,909) | - | - | (2,909) | 25 | (2,884) |
| Other comprehensive loss, net of tax | - | - | - | 4 | - | 4 | - | 4 |
| Stock-based compensation charges | - | 20 | - | - | - | 20 | - | 20 |
| Accretion and dividends on redeemable preferred stock | - | - | (60) | - | - | (60) | - | (60) |
| Conversion of non-controlling interest | - | 2 | - | - | - | 2 | (48) | (46) |
| Common stock and treasury shares | 12 | (16) | - | - | - | (4) | - | (4) |
| Other | 1 | 8 | (5) | - | - | 4 | - | 4 |
| Balance at December 31, 2019 (Predecessor) | \$ 196 | \$ 3,553 | \$ (5,693) | \$ (103) | \$ (96) | \$ (2,143) | \$ - | \$ (2,143) |
| Adoption of ASU 2016-13 | - | - | (7) | - | - | (7) | - | (7) |
| Balance at January 1, 2020 (Predecessor) | \$ 196 | \$ 3,553 | \$ (5,700) | \$ (103) | \$ (96) | \$ (2,150) | \$ - | \$ (2,150) |
| Net income | - | - | 1,748 | - | - | 1,748 | 6 | 1,754 |
| Other comprehensive loss, net of tax | - | - | - | (34) | - | (34) | - | (34) |
| Stock-based compensation charges | - | 23 | - | - | - | 23 | - | 23 |
| Accretion and dividends on redeemable preferred stock | - | - | (4) | - | - | (4) | - | (4) |
| Other | - | - | - | - | - | - | 1 | 1 |
| Disposal of NCI | - | - | - | - | - | - | (13) | (13) |
| Balance at June 30, 2020 (Predecessor) | 196 | 3,576 | (3,956) | (137) | (96) | (417) | (6) | (423) |
| Cancellation of Predecessor equity | (196) | (3,576) | 3,956 | 137 | 96 | 417 | - | 417 |
| Issuance of Successor equity | - | 2,217 | - | - | - | 2,217 | - | 2,217 |
| NCI fair value adjustment | - | - | - | - | - | - | (16) | (16) |
| Balance at June 30, 2020 (Successor) | \$ - | \$ 2,217 | \$ - | \$ - | \$ - | \$ 2,217 | \$ (22) | \$ 2,195 |
| Net (loss) income | - | - | (1,314) | - | - | (1,314) | 23 | (1,291) |
| Other comprehensive income, net of tax | - | - | - | 52 | - | 52 | - | 52 |
| Share issuance | 1 | 145 | - | - | - | 146 | - | 146 |
| Other | - | - | - | - | - | - | (3) | (3) |
| Balance at December 31, 2020 (Successor) | \$ 1 | \$ 2,362 | \$ (1,314) | \$ 52 | \$ - | \$ 1,101 | \$ (2) | \$ 1,099 |
| Net loss | - | - | (667) | - | - | (667) | - | (667) |
| Stock compensation expense | - | 9 | - | - | - | 9 | - | 9 |
| Other comprehensive loss, net of tax | - | - | - | (70) | - | (70) | - | (70) |
| Accretion and dividends on redeemable preferred stock | - | - | (39) | - | - | (39) | - | (39) |
| Balance at December 31, 2021 (Successor) | \$ 1 | \$ 2,371 | \$ (2,020) | \$ (18) | \$ - | \$ 334 | \$ (2) | \$ 332 |

See accompanying Notes to these Consolidated Financial Statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | |
|--|----|
| Note 1—Nature of Operations and Organization | 9 |
| Note 2—Basis of Presentation | 12 |
| Note 3— Emergence from Voluntary Reorganization Under Chapter 11 | 19 |
| Note 4—Fresh Start Accounting | 20 |
| Note 5—Divestitures | 28 |
| Note 6—Revenue Recognition | 31 |
| Note 7—Project Changes in Estimates | 33 |
| Note 8—Accounts Receivable—Trade, net | 34 |
| Note 9—Intangible Assets and Goodwill | 34 |
| Note 10—Joint Venture and Consortium Arrangements | 35 |
| Note 11—Supplemental Balance Sheet Details | 38 |
| Note 12—Restructuring and Transaction Costs | 38 |
| Note 13—Debt | 39 |
| Note 14—Lease obligations | 42 |
| Note 15—Pension and Postretirement Benefits | 44 |
| Note 16—Fair Value Measurements | 49 |
| Note 17—Derivative Financial Instruments | 51 |
| Note 18—Income Taxes | 52 |
| Note 19—Stockholders' Equity and Equity-Based Incentive Plans | 55 |
| Note 20—Redeemable Preferred Stock | 56 |
| Note 21—Commitments and Contingencies | 57 |
| Note 22—Segment Reporting | 61 |
| Note 23—Subsequent Events | 65 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—NATURE OF OPERATIONS AND ORGANIZATION

On January 21, 2020 (the “Petition Date”), McDermott International, Inc. (“MII” or the “Predecessor”), a corporation incorporated under the laws of the Republic of Panama in 1959, and certain of its subsidiaries (collectively, the “Debtors”): (1) entered into a Restructuring Support Agreement (together with all exhibits and schedules thereto, the “RSA”) with certain of their lenders, letter of credit issuers and holders of the 10.625% senior notes due 2024 (the “Senior Notes”) issued by certain of the Debtors and guaranteed by MII and certain of the other Debtors (such lenders, letter of credit issuers and holders of the Senior Notes are referred to as the “Consenting Parties”); and (2) filed voluntary petitions (the “Bankruptcy Petitions”) for reorganization under Chapter 11 of the United States Bankruptcy Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”) to pursue a joint prepackaged Chapter 11 Plan of Reorganization of the Debtors (as amended, the “Plan of Reorganization”). The Chapter 11 cases were jointly administered under the caption *In re McDermott International, Inc.*, Case No. 20-30336 (the “Chapter 11 Cases”). On March 14, 2020, the Bankruptcy Court issued an amended order (the “Confirmation Order”) approving the Debtor’s disclosure statement and confirming the second amended Plan of Reorganization. Until the emergence from bankruptcy, the Debtors continued to operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. On June 30, 2020 (the “Effective Date”), MII met all conditions precedent to emergence in accordance with its Plan of Reorganization and successfully emerged from bankruptcy as a reorganized enterprise comprised of McDermott International, Ltd (“MIL” or the “Successor”), established under the laws of Bermuda, and the majority of MII’s pre-emergence subsidiaries and affiliates (together with MIL, the “McDermott Group” or “McDermott”). In addition, in accordance with the Plan of Reorganization, MII completed the sale of its Lummus Technology business (“Lummus Technology”) on the Effective Date. Under the Plan of Reorganization confirmed by the Bankruptcy Court, the McDermott Group generally assumed the assets and liabilities of MII post-emergence from bankruptcy.

In accordance with the Plan of Reorganization, all previously issued and outstanding equity interests in MII (which include common stock, par value \$1.00 per share) were automatically cancelled and extinguished as of the Effective Date and the registration of the common stock of MII under Section 12(g) of the Securities Exchange Act of 1934, as amended, was terminated.

In addition, in connection with its emergence from bankruptcy, the McDermott Group implemented legal reorganizational changes, as a result of which MII and its direct subsidiaries were removed from the consolidated McDermott Group legal structure. However, the business activities of MII and its direct subsidiaries will remain closely associated with the McDermott Group, and McDermott Group executives serve, or will serve, as directors of these entities. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic No. 810, Consolidation (“ASC 810”), and the variable interest model, MIL is considered the primary beneficiary, and therefore, MII and its direct subsidiaries will continue to be consolidated within the consolidated McDermott Group financial statements.

See Note 2, *Basis of Presentation*, and Note 3, *Emergence from Voluntary Reorganization Under Chapter 11*, for more details on the emergence from bankruptcy and the resulting impact on the accompanying consolidated financial statements (“Financial Statements”).

Subsequent to the emergence from bankruptcy, we implemented a new decentralized regional operating model (the “New Operating Model”), with a leaner corporate center and areas having clear accountability for project execution and area operating results, with a key focus on liquidity. Under the New Operating Model we combined our Europe, Africa, Russia and Caspian (“EARC”) and the Middle East and North Africa (“MENA”) reporting segments into a single reporting segment, titled: “Europe, Middle East, and Africa” (“EMEA”). Our Chief Executive Officer, who is the chief operating decision maker (the “CODM”), reviews the operating results, assesses the performance and makes decisions about resources to be allocated based on this model. In addition, as part of this decentralized operating model and to promote enhanced area accountability for project execution, effective July 1, 2020, we revised our reporting segment gross profit and net working capital allocation methodology for certain projects executed by and across multiple reporting segments. The financial results for these projects are allocated across the segments based on their respective execution models. The allocation model for these projects considers, as a determinant, the segment of customer origin and the segment responsible for leading engineering, fabrication and project management.

On May 10, 2018, we completed our business combination with Chicago Bridge & Iron Company N.V. (“CB&I”) through a series of transactions (the “Combination”). In the third quarter of 2019, we terminated the previously announced sale process for our industrial storage tank business acquired in the Combination, as we concluded that the net cash proceeds from the sale, if completed, would likely be significantly below initial expectations. As a result of our decision to retain this business, starting January 1, 2020, we changed the structure of our internal organization and formed a new reporting segment for our industrial storage tank business (“Storage Solutions”). Effective July 1, 2020, we revised our methodology of allocating the gross profit between the segments for the projects where the Storage Solutions segment is not the primary contractor.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

We now report financial results under four operating groups, which represent our reporting segments consisting of: North, Central and South America (“NCSA”); EMEA; Asia Pacific (“APAC”); and Storage Solutions. We also report certain corporate and other non-operating activities under the heading Corporate and Other, primarily comprised of corporate expenses, certain centrally managed initiatives (such as reorganization and restructuring activities), impairments, year-end actuarial pension mark to market gains and losses and costs not attributable to a particular reporting segment.

Additionally, effective July 1, 2020 we: (1) now record unallocated direct operating expenses associated with the underutilization of vessels, fabrication facilities and engineering resources, which were previously recorded in Corporate and Other, in the operating results of the reporting segments; and (2) revised our financial statements presentation policy to present foreign exchange remeasurement impacts associated with intercompany balances, previously reported within Cost of operations, in Other non-operating income (expense), net, in our Consolidated Statements of Operations (“Statements of Operations”).

Previously reported segment financial information for the Predecessor for the six months ended June 30, 2020 and the year ended December 31, 2019 have been restated to conform to the new reporting segment alignment and allocation methodologies, as well as the presentation of the foreign exchange remeasurement impacts associated with intercompany balances. The restatement did not have a material effect on our consolidated results of operations. See Note 22, *Segment Reporting*, for further discussion.

As further discussed in Note 2, *Basis of Presentation*, and Note 5, *Divestitures*, our former Technology reporting segment, which consisted primarily of Lummus Technology, was sold during the second quarter of 2020 and was classified as a discontinued operation in the Predecessor Statements of Operations for the six months ended June 30, 2020 and the year ended December 31, 2019, as the sale represented a strategic shift and had a material effect on our operations and financial results.

The successor company, MIL, is a fully integrated provider of engineering, procurement, construction and installation (“EPC”) solutions to the energy industry. We design and build end-to-end infrastructure solutions to transport and transform oil and gas into a variety of products. Our proprietary technologies, integrated expertise and comprehensive solutions are utilized for offshore, subsea, power, liquefied natural gas (“LNG”) and downstream energy projects around the world. Our customers include national, major integrated and other oil and gas companies as well as producers of petrochemicals and electric power, and we operate in most major energy-producing regions throughout the world. We execute our contracts through a variety of methods, including fixed-price, cost-reimbursable and hybrid, which has both cost-reimbursable and fixed-price characteristics.

Credit Agreement Amendment

On February 28, 2022, we entered into an amendment to the Exit Credit Agreement (as defined and described in Note 13, *Debt*). This amendment, which temporarily reduces our minimum liquidity covenant, provides the company meaningful working capital flexibility to manage the business.

Recent Developments Affecting Industry Conditions and Our Business

The ongoing coronavirus (“COVID-19”) pandemic has resulted in adverse impacts on the global economy and financial markets, and on our employees, customers, subcontractors, suppliers and other parties with whom we have business relations. The global spread of COVID-19 has caused widespread illness and significant loss of life, leading governments across the world to impose severely stringent limitations on movement and human interaction, with certain countries being forced to impose multiple shelter-in-place and stay-at-home orders. We have experienced some resulting disruptions to our business operations, including delays in the delivery of materials and supplies, schedule prolongations from government restrictions and safety protocols, negative impacts on our ongoing projects, and detrimental impacts on awards of new LNG import and export, offshore, subsea and downstream projects by our customers. Some governments began lifting restrictions in the latter part of 2020, and this continued throughout 2021. However, some governmental authorities continue to impose some level of restrictions due in part to new outbreaks, including those related to new variants of the virus such as Delta and Omicron. We have incurred incremental direct and indirect costs across our project portfolio related to quarantines, productivity losses due to local restrictions, difficulties in deploying resources, volatility in the cost of labor and materials, and supply chain disruptions. Where we believe we have contractual entitlement, we have submitted claims to our customers for recovery of these costs. Where we believe it is probable we will recover these costs, we have included such amounts in our remaining performance obligations. Timing and amount of collections from our customers related to COVID-19 claims are uncertain. Additionally, the prolongation of projects has exposed us to claims for liquidated damages under several of our contracts. We have been successful to date in obtaining relief from liquidated damages due to these prolongations, generally through extensions of time for performance agreed to by our customers, however, the future outcome of discussions with our customers is uncertain.

The extent of the full impact of the COVID-19 pandemic will depend largely on future developments and factors beyond our control, which are highly uncertain and cannot be predicted. These include, among others, the emergence of more infectious strains of the virus,



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

the consequences of governmental and other measures designed to prevent the spread of the virus, the timely global distribution and effectiveness of treatments and vaccines against current strains and new variants of the virus and the duration of the outbreak. While we have taken actions to address various challenges presented by the pandemic, there are no assurances we won't suffer additional losses from unforeseen future developments.

Our industry was also adversely affected by geopolitical events that increased the supply of low-priced oil to the global market at the same time that worldwide demand weakened due to the effects of the pandemic, leading to a collapse in oil prices during March 2020. On July 18, 2021, OPEC reached an agreement to phase out 5.8 million barrels per day of oil production cuts by September 2022 as prices of crude oil reached their highest levels in more than two years. Coordinated increases in oil supply by OPEC began in August 2021, increasing overall oil production by 400,000 barrels per day on a monthly basis from that point forward. Further, on January 4, 2022, OPEC agreed to continue to raise its output target by 400,000 barrels per day in February 2022, which further boosted oil supply in response to rising demand. In its report issued on February 10, 2022, OPEC noted its expectation that world oil demand will rise by 4.15 million barrels per day in 2022, as the global economy continues to post a strong recovery from the COVID-19 pandemic. Although this demand outlook is expected to underpin oil prices, which have already seen a sharp increase since March 2020, we cannot predict the ultimate impact of these events on commodity prices and we expect to see continued volatility in oil and natural gas prices for the foreseeable future due to near-term production instability, potential sanctions and embargos, and supply chain disruption resulting from, among other things, the Russia-Ukraine crisis.

We have suffered losses due to the COVID-19 pandemic. The effects on our industry have been negative and significant. Since the onset of the COVID-19 pandemic, we have recorded cumulative changes in estimates directly attributable to COVID-19 across our portfolio of approximately \$226 million, net of recovery from customers. We estimate the indirect impact of the COVID-19 pandemic to our portfolio to be much greater. However, despite ongoing negative effects of COVID-19, business activity around the world and in our industry continues to adjust and has started to recover. With the current shortage of other sources of safe, affordable, reliable and efficient energy, and economic growth associated with the beginnings of a global emergence from the COVID-19 pandemic, the demand for and prices of oil and natural gas have increased. Absent any further significant COVID-19-related disruption, it is expected the demand for oil and natural gas in 2022 will continue to exceed pre-COVID-19 pandemic levels and further strengthen in 2023. During the quarter ended September 30, 2021, crude oil prices returned to pre-COVID-19 pandemic levels. During the quarter ended December 31, 2021, West Texas Intermediate oil prices reached a high for the year of \$85 per barrel and averaged approximately \$77 per barrel, Brent crude oil prices averaged \$80 per barrel, and the international average rig count increased 6% as compared to the quarter ended September 30, 2021. As of March 18, 2022, West Texas Intermediate and Brent crude oil prices were approximately \$105 and \$108 per barrel, respectively. Prices for natural gas in various markets exhibited even greater improvement and various petrochemicals margins have also improved. While we believe that demand for hydrocarbon resources for both fuel and other downstream activities will continue increasing in 2022, we expect to see continued volatility in oil and natural gas prices for the foreseeable future due to, among other things, the Russia-Ukraine crisis, which could, over the long term, adversely impact our industry and create uncertainty in our business.

With respect to our business and our forecast of 2022, we expect to complete much of the existing backlog that was placed under contract before we commenced financial restructuring and before the onset of the COVID-19 pandemic. As described further in Note 7, *Project Changes in Estimates*, we recorded net unfavorable changes in estimates of \$417 million during the year ended December 31, 2021, primarily on a focused group of projects in our portfolio. These unfavorable changes in estimates drove a significant negative impact on our liquidity during 2021 and are expected to do so until these projects are completed. A number of our most challenging projects, including those described in Note 7, *Project Changes in Estimates*, are expected to be completed by early 2023. The risks and uneven timing of backlog completion, uncertainty of collectability of claims from our customers, and uncertainties in timing and amount of new work, could result in continued downward pressure on our financial performance, including challenges to our liquidity, through the end of 2022.

Regarding new work, we have booked, and we expect to continue to book, a significant number of new projects aligned with our corporate strategy. We have also received indications from current and prospective customers that lead us to believe there will be an acceleration of the processes leading to final investment decisions on new projects, representing attractive opportunities for us in the near term. We saw evidence of this during the fourth quarter of 2021. We anticipate that work we are booking and projects we are pursuing near-term will provide us with improved liquidity and better margins and that we have, or will secure, sufficient letter of credit capacity to book these projects. These assumptions, however, are subject to uncertainty.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2—BASIS OF PRESENTATION

Basis of Presentation

We have presented our Financial Statements in U.S. dollars in accordance with accounting principles generally accepted in the United States (“GAAP”). These Financial Statements reflect all wholly owned subsidiaries and those entities we are required to consolidate. See the discussion below under the caption “Joint Venture and Consortium Arrangements” in this footnote for further discussion of our consolidation policy for those entities that are not wholly owned. In the opinion of our management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. Intercompany balances and transactions are eliminated in consolidation. Values presented within tables (excluding per share data) are in millions and may not sum due to rounding.

Effective July 1, 2020, concurrent with emergence from bankruptcy, we made certain changes to our segment reporting and allocation methodologies, as well as the presentation of the foreign exchange remeasurement impacts associated with intercompany balances, discussed in Note 1, *Nature of Operations and Organization*, and Note 22, *Segment Reporting*. The Predecessor periods for the six months ended June 30, 2020 and the year ended December 31, 2019 have been restated to conform to those changes.

References in the Financial Statements to “Predecessor” or “Predecessor Company” relate to the consolidated financial position and results of operations of MII and its subsidiaries during the six months ended June 30, 2020 and the year ended December 31, 2019.

Bankruptcy and Fresh Start Accounting

In accordance with ASC Topic No. 852, Reorganizations (“ASC 852”), upon emergence from bankruptcy, we adopted fresh start accounting (“Fresh Start Accounting”), becoming a new entity for financial reporting purposes. In order to adopt Fresh Start Accounting, we met the following conditions as of the Effective Date: (1) holders of existing shares of the Predecessor immediately before the Effective Date received, collectively, less than 50 percent of the voting shares of the Successor; and (2) the reorganization value of the Successor was less than its postpetition liabilities and estimated allowed claims immediately before the Effective Date. Upon the adoption of Fresh Start Accounting, our assets and liabilities were recorded at their June 30, 2020 fair values. In accordance with ASC 852, adjustments to assets and liabilities subsequent to the adoption of Fresh Start Accounting were treated as post-emergence events, and, therefore, were included in the results of operations during the six months ended December 31, 2020.

Discontinued Operations and Disposals

As required by the Plan of Reorganization, on the Effective Date, we completed the sale of Lummus Technology (primarily represented by our former Technology reporting segment), to a joint partnership between The Chatterjee Group and Rhône Capital (the “Joint Partnership”). Under the terms of the Share and Asset Purchase Agreement for the sale transaction (the “SAPA”), the Joint Partnership acquired, subject to certain conditions, the Lummus Technology business for a purchase price of \$2.725 billion. No price adjustments were recorded subsequent to June 30, 2020. Operating results of our former Technology reporting segment have been classified as a discontinued operation within the Predecessor Statements of Operations for the six months ended June 30, 2020, as the sale represented a strategic shift and had a material effect on our operations and financial results. Cash flows of the Technology segment are not reported separately within the Consolidated Statement of Cash Flow for the six months ended June 30, 2020 (“Statement of Cash Flows”). Unless otherwise noted, the footnotes to the Financial Statements relate to our continuing operations.

See Note 5, *Divestitures*, for further discussion.

Use of Estimates and Judgments

The preparation of financial statements in conformity with GAAP requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. We believe the most significant estimates and judgments are associated with:

- revenue recognition for our contracts, including estimating costs to complete each contract and the recognition of incentive fees and unapproved change orders and claims;
- fair value and recoverability assessments that must be periodically performed with respect to long-lived tangible assets and other intangible assets;
- valuation of deferred tax assets and financial instruments;



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- the determination of liabilities related to loss contingencies, self-insurance programs and income taxes;
- the determination of pension-related obligations; and
- consolidation determinations with respect to our joint venture and consortium arrangements.

Actual amounts may differ from those included in the Financial Statements if the underlying estimates and assumptions differ from actual experience.

Significant Accounting Policies

Revenue Recognition—Our revenue is primarily derived from long-term contracts with customers, and we determine the appropriate accounting treatment for each contract at inception in accordance with Accounting Standards Update (“ASU”) 2014-09 (ASC Topic 606), *Revenue from Contracts with Customers*. Our contracts primarily relate to offshore, subsea, LNG, power and downstream energy projects around the world. Additionally, our services may be provided between or among our reporting segments.

Contracts—Our contracts are awarded on a competitively bid and negotiated basis, and the timing of revenue recognition is impacted by the terms of such contracts. We use a range of contracting options, including fixed-price, cost-reimbursable and hybrid, which has both cost-reimbursable and fixed-price characteristics. Fixed-price contracts, and hybrid contracts with a more significant fixed-price component, tend to provide us with greater control over project schedule and the timing of when work is performed and costs are incurred, and, accordingly, when revenue is recognized. Cost-reimbursable contracts, and hybrid contracts with a more significant cost-reimbursable component, generally provide our customers with greater influence over the timing of when we perform our work, and, accordingly, such contracts often result in less predictability regarding the timing of revenue recognition. Additionally, services for a contract may be provided between our reporting segments.

- **Performance Obligations**—A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account in ASC Topic 606. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our contract costs and related revenues are generally recognized over time as work progresses due to continuous transfer to the customer. To the extent a contract is deemed to have multiple performance obligations, we allocate the transaction price of the contract to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. In addition, certain contracts may be combined and deemed to be a single performance obligation. Our EPCI contracts are generally deemed to be single performance obligations and our contracts with multiple performance obligations were not material as of December 31, 2021.
 - **Performance Obligations Satisfied Over Time**—Revenues for our contracts that satisfy the criteria for over time recognition are recognized as the work progresses. Revenues for contracts recognized over time include revenues for contracts to provide: EPCI services; engineering services; construction services; pipe and steel fabrication services; engineered and manufactured products; technology licensing; and “non-generic” catalysts supply associated with operations of our former Technology reporting segment, classified as discontinued operations during the six months ended June 30, 2020. We measure transfer of control utilizing an input method to measure progress of the performance obligation based upon the cost-to-cost measure of progress, as it best depicts the transfer of assets to the customer, with Cost of operations including direct costs, such as materials and labor, and indirect costs that are attributable to contract activity. Under the cost-to-cost approach, the use of estimated costs to complete each performance obligation is a significant variable in the process of determining recognized revenues and is a significant factor in the accounting for such performance obligations. Significant estimates impacting the cost to complete each performance obligation are: costs of engineering, materials, components, equipment, labor and subcontracts; vessel costs; labor productivity; schedule durations, including subcontractor or supplier progress; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Additionally, external factors such as weather, customer requirements and other factors outside of our control, may affect the progress and estimated cost of a project’s completion and, therefore, the timing and amount of recognition of revenues and income. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which could result in material changes to our Financial Statements and related disclosures.
 - **Performance Obligation Satisfied at a Point-in-Time Method**—Contracts with performance obligations that do not meet the criteria to be recognized over time are required to be recognized at a point in time, whereby revenues and gross profit are recognized only when a performance obligation is complete and a customer has obtained control of a promised asset. Revenues for contracts recognized at a point in time included our “generic” catalysts supply and certain manufactured products (which were recognized upon shipment), associated with operations of our former Technology reporting segment, classified as discontinued operations during the six months ended June 30, 2020, and



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

certain non-engineering and non-construction oriented services (which are recognized when the services are performed). In determining when a performance obligation is complete for contracts with revenues recognized at a point in time, we measure transfer of control considering physical possession of the asset, legal transfer of title, significant risks and rewards of ownership, customer acceptance and our rights to payment.

- *Remaining Performance Obligations (“RPOs”)*— RPOs represent the amount of revenues we expect to recognize in the future from our contract commitments on projects. RPOs include the entire expected revenue for joint ventures we consolidate and our proportionate value for consortiums we proportionately consolidate. We do not include expected revenues of contracts related to unconsolidated joint ventures in our RPOs, except to the extent of any subcontract awards we receive from those joint ventures. When deemed significant, currency risks associated with RPOs which are not mitigated within the contracts are generally mitigated with the use of foreign currency derivative (hedging) instruments to the extent we have capacity with our hedging counterparties, which can fluctuate with activity levels and market conditions and our counterparties’ willingness to transact with us. However, these actions may not eliminate all currency risk exposure included within our long-term contracts. RPOs may not be indicative of future operating results, and projects included in RPOs may be cancelled, modified or otherwise altered by customers.
- *Variable Consideration*—Transaction prices for our contracts may include variable consideration, which includes increases to transaction prices for approved and unapproved change orders, claims, incentives and bonuses, and reductions to transaction price for liquidated damages or penalties. Change orders, claims and incentives are generally not distinct from the existing contracts due to the significant integration service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation. We estimate variable consideration for a performance obligation at the most likely amount to which we expect to be entitled (or the most likely amount we expect to incur in the case of liquidated damages), utilizing estimation methods that best predict the amount of consideration to which we will be entitled (or will be incurred in the case of liquidated damages). We include variable consideration in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenues recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determinations of whether to include estimated amounts in transaction prices are based largely on assessments of our anticipated performance and all information (historical, current and forecasted) reasonably available to us. The effect of variable consideration on the transaction price of a performance obligation is recognized as an adjustment to revenues on a cumulative catch-up basis. To the extent unapproved change orders and claims reflected in transaction price (or excluded from transaction price in the case of liquidated damages) are not resolved in our favor, or to the extent incentives reflected in transaction price are not earned, there could be reductions in, or reversals of, previously recognized revenue.
- *Warranty*—Certain contracts include an assurance-type warranty clause to guarantee that the products comply with agreed specifications. We provide limited warranties to customers for work performed under our contracts that typically extend for a limited duration following substantial completion of our work on a project. Such warranties are not sold separately and do not provide customers with a service in addition to assurance of compliance with agreed-upon specifications. Accordingly, these types of warranties are not considered to be separate performance obligations. Historically, warranty claims have not been material.
- *Loss Recognition*—Revenues from customers may not cover increases in our costs or our total estimated costs. It is possible that current estimates could materially change for various reasons. For all contracts, if a current estimate of total contract cost indicates a loss (“Loss Project”), the projected loss is recognized in full immediately and reflected in Cost of operations in the Statements of Operations. It is possible that these estimates could change due to unforeseen events, which could result in adjustments to overall contract revenues and costs. Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. In our Consolidated Balance Sheets (our “Balance Sheets”), accruals of provisions for estimated losses on all active, uncompleted projects are included in Advance billings on contracts.
- *Accounts Receivable and Contract Balances*—The timing of when we bill our customers is generally dependent upon advance billing terms, milestone billings based on the completion of certain phases of the work, or when the services are provided or products are shipped.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- *Accounts Receivable*—Any uncollected billed amounts for our performance obligations recognized over time, including contract retainages to be collected within one year, are recorded within Accounts receivable-trade, net. Any uncollected billed amounts, unbilled receivables for which we have an unconditional right to payment, and unbilled receivables for our performance obligations recognized at a point in time are also recorded within Accounts receivable-trade, net. Contract retainages to be collected beyond one year are recorded within Accounts receivable—long-term retainages. We establish allowances for doubtful accounts based on our assessments of collectability.
- *Contracts in Progress*—*Contracts in Progress*—Projects with performance obligations recognized over time that have revenues recognized to date in excess of cumulative billings are reported within Contracts in progress on our Balance Sheets. While at times certain of our contracts are structured such that we pay internal costs, vendors, and subcontractors in advance of collecting related revenue from our clients, we typically do not include explicit financing components within our contracts.
- *Advance Billings on Contracts*—Projects with performance obligations recognized over time that have cumulative billings in excess of revenues are reported within Advance billings on contracts on our Balance Sheets. Our Advance billings on contracts balance also includes our accruals of provisions for estimated losses on all active projects.

Concentration of Credit Risk—Our principal customers are businesses in the oil and gas exploration and development, petrochemical, natural resources and power industries. This concentration of customers may impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic or other conditions. In addition, we and many of our customers operate worldwide and are therefore exposed to risks associated with the economic and political forces of various countries and geographic areas. We generally do not obtain any collateral for our receivables.

The use of joint ventures and consortiums exposes us to a number of risks, including concentration of credit risk, toward our co-venturers.

Bidding and Proposal Costs—Effective July 1, 2020, we began classifying bidding and proposal costs in the Statement of Operations in the “Selling, general and administrative expenses” section to better represent how those costs are managed and controlled. For periods prior to July 1, 2020, these costs were included in Cost of operations as incurred. During the six months ended June 30, 2020, bidding and proposal costs included in Cost of operations were \$44 million. In certain cases recognition may be deferred if specific probability criteria are met. We had no significant deferred bidding and proposal costs as of December 31, 2021.

Cash, Cash Equivalents and Restricted Cash—Our cash and cash equivalents are highly liquid investments with maturities of three months or less when we purchase them. We record cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes.

Leases—We classify an arrangement as a lease at inception if we have the right to control the use of an identified asset we do not legally own for a period of time in exchange for consideration. In general, leases with an initial term of 12 months or less are not recorded on our Balance Sheet unless it is reasonably certain we will renew the lease. Leases with an initial term of more than 12 months, whether classified as operating or finance, are also generally recorded on our Balance Sheets based on the present value of lease payments over the lease term, determined at lease commencement. Determination of the present value of lease payments requires a discount rate. We use the implicit rate in the lease agreement when available. Most of our leases do not provide an implicit interest rate; therefore, we use an incremental borrowing rate based on information available at the commencement date.

Our lease terms may include options to extend or terminate the lease. Lease expense for operating leases and the amortization of the right-of-use asset for operating leases are recognized primarily on a straight-line basis over the lease terms, in each case taking into account such option when it is reasonably certain we will exercise that option.

We have lease agreements with lease and non-lease components, which are generally accounted for separately for all leases other than leases at our construction project sites. Non-lease components included in assets and obligations under operating leases are not material to our Financial Statements.

For our joint ventures, consortiums and other collaborative arrangements (referred to as “joint ventures” and “consortiums”), the right-of-use asset and lease obligations are generally recognized by the party that enters into the lease agreement, which could be the joint venture directly, one of our co-ventures or us. We have recognized our proportionate share of leases entered into by our joint ventures, where the joint venture has the right to control the use of an identified asset.

Property, Plant and Equipment—We carry our property, plant and equipment at depreciated cost. Except for major marine vessels, we depreciate our property, plant and equipment using the straight-line method, over the estimated economic useful lives of three to 46 years for buildings and three to 28 years for machinery and equipment. We do not depreciate property, plant and equipment classified as held for sale.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

We depreciate major marine vessels using the units-of-production method based on the utilization of each vessel. Our units-of-production method of depreciation involves the calculation of depreciation expense on each vessel based on the product of actual utilization for the vessel for the period and the applicable daily depreciation value (which is based on vessel book value, standard utilization and vessel life) for the vessel. Our actual utilization is determined based on the actual days that the vessel was working or otherwise actively engaged (other than in transit between regions) under a contract, as determined by daily vessel operating reports prepared by the crew of the vessel. Our standard utilization is determined by vessel at least annually based on recent actual utilization combined with an expectation of future utilization, both of which allow for idle time. In periods of very low utilization, a minimum amount of depreciation expense of at least 25% of an equivalent straight-line depreciation expense (which is based on an initial 25-year life) is recorded.

We capitalize drydocking costs in other current assets and other assets when incurred and amortize the costs over the period of time between two drydock periods, which is generally five years. We expense the costs of other maintenance, repairs and renewals, which do not materially prolong useful life of an asset, as we incur them.

Goodwill—Successor goodwill represented the excess of reorganization value over the fair value of our identifiable tangible and intangible assets and liabilities in the Successor Balance Sheet as of June 30, 2020. In the third quarter of 2020, we fully impaired goodwill in all reporting segments that had an allocated goodwill balance.

Intangible and Other Long-Lived Assets—Our Successor finite-lived intangible assets resulted from the adoption of Fresh Start Accounting and are amortized over their estimated remaining useful economic lives. Our project-related intangible assets are amortized as the applicable projects progress, and our other intangibles are amortized utilizing a straight-line method.

We review tangible assets and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. If a recoverability assessment is required, the estimated future undiscounted cash flow associated with the asset or asset group will be compared to its respective carrying amount to determine if an impairment exists. If the asset or asset group fails the recoverability test, we will perform a fair value measurement to determine and record an impairment charge.

Foreign Currency—The nature of our business activities involves the management of various financial and market risks, including those related to changes in foreign currency exchange rates. The effects of translating financial statements of foreign operations into our reporting currency are recognized as a cumulative translation adjustment in accumulated other comprehensive income (loss) (“AOCI”), which is net of tax, where applicable.

Derivative Financial Instruments—We utilize derivative financial instruments in certain circumstances to mitigate the effects of changes in foreign currency exchange rates and interest rates, as described below.

- *Foreign Currency Rate Derivatives*— We do not engage in currency speculation. However, we utilize foreign currency exchange rate derivatives on an ongoing basis to hedge against certain foreign currency related operating exposures. We generally apply hedge accounting treatment for contracts used to hedge operating exposures and designate them as cash flow hedges. Therefore, gains and losses are included in AOCI until the associated underlying operating exposure impacts our earnings, at which time the impact of the hedge is recorded within the Statement of Operations line item associated with the underlying exposure. Changes in the fair value of instruments that we do not designate as cash flow hedges are recognized in the Statement of Operations line item associated with the underlying exposure.
- *Interest Rate Derivatives*— We entered into a U.S. dollar interest rate swap arrangement to mitigate exposure associated with cash flow variability on the Term Loan Exit Facility in an aggregate notional value \$500 million. The swap arrangement has been designated as a cash flow hedge. See Note 17, *Derivative Financial Instruments*, for further discussion.

Joint Ventures and Consortiums—In the ordinary course of business, we execute specific projects and conduct certain operations through joint ventures and consortiums. We have various ownership interests in these joint ventures and consortiums, with such ownership typically proportionate to our decision making and distribution rights. The joint ventures and consortiums generally contract directly with their third-party customers; however, services may be performed directly by the joint ventures and consortium, us, our co-venturers, or a combination thereof.

Joint venture and consortium net assets consist primarily of working capital and property and equipment, and assets may be restricted from use for obligations outside of the joint ventures or consortiums. These joint ventures and consortiums typically have limited third-party debt or have debt that is non-recourse in nature. They may provide for capital calls to fund operations or require participants in the joint ventures or consortiums to provide additional financial support, including advance payment or retention letters of credit.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Each joint venture or consortium is assessed at inception and on an ongoing basis as to whether it qualifies as a Variable Interest Entity (“VIE”) under the consolidations guidance in ASC Topic 810, *Consolidations*. A venture generally qualifies as a VIE when it (1) meets the definition of a legal entity, (2) absorbs the operational risk of the projects being executed, creating a variable interest, (3) lacks sufficient capital investment from the co-venturers, potentially resulting in the joint venture or consortium requiring additional subordinated financial support to finance its future activities, (4) structured with non-substantive voting rights, and (5) the equity holders, as a group, lack the characteristics of a controlling financial interest.

If at any time a joint venture or consortium qualifies as a VIE, we perform a qualitative assessment to determine whether we are the primary beneficiary of the VIE and, therefore, need to consolidate the VIE. We are the primary beneficiary if we have (1) the power to direct the economically significant activities of the VIE and (2) the right to receive benefits from and obligation to absorb losses of the VIE. If the joint venture or consortium is a VIE and we are the primary beneficiary, or we otherwise have the ability to control the joint venture or consortium, it is consolidated. If we determine we are not the primary beneficiary of the VIE or only have the ability to significantly influence, rather than control the joint venture or consortium, it is not consolidated.

We account for joint ventures and consortium arrangements which are not fully consolidated using either: (1) proportionate consolidation for both the Balance Sheet and Statement of Operations when we meet the applicable accounting criteria to do so; or (2) the equity method. For joint ventures and consortiums where we utilize the equity method of accounting, we record our share of the profit or loss of the investments, net of income taxes, within Income (loss) from investments in unconsolidated affiliates in the Statements of Operations. We evaluate our equity method investments for impairment when events or changes in circumstances indicate the carrying value of such investments may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare the estimated fair value of our investment to the carrying value of our investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and we consider the decline in value to be other-than-temporary, the excess of the carrying value over the estimated fair value is recognized in the Financial Statements as an impairment.

Insurance and Self-Insurance—Our wholly owned “captive” insurance subsidiaries provide coverage for our retentions under employer’s liability, general and products liability, automobile liability and workers’ compensation insurance and, from time to time, builder’s risk and marine hull insurance within certain limits. We may also have business reasons in the future to arrange for our insurance subsidiaries to insure other risks which we cannot or do not wish to transfer to outside insurance companies. Premiums charged and reserves related to these insurance programs are based on the facts and circumstances specific to the insurance claims, our past experience with similar claims, loss factors and the performance of the outside insurance market for the type of risk at issue. The actual outcome of insured claims could differ significantly from estimated amounts. We maintain actuarially determined accruals in our Consolidated Balance Sheets to cover self-insurance retentions for the coverages discussed above. These accruals are based on various assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted as required based upon reported claims, actual claim payments and settlements and claim reserves. These loss estimates and accruals recorded in our Financial Statements for claims have historically been reasonably accurate. Claims as a result of our operations, if greater in frequency or severity than actuarially predicted, could adversely impact the ability of our captive insurance subsidiaries to respond to all claims presented.

Pension and Postretirement Benefit Plans—We have both defined benefit (funded and unfunded) and defined contribution plans. For the defined benefit plans, a projected benefit obligation is calculated annually by independent actuaries using the unit credit method. We recognize actuarial mark to market gains and losses on pension and postretirement benefit plans immediately in our operating results. These gains and losses are generally measured annually, as of December 31, and, accordingly, will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years. Pension costs primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, offset by expected return on plan assets.

We estimate income or expense related to our pension and postretirement benefit plans based on actuarial assumptions, including assumptions regarding discount rates and expected returns on plan assets, adjusted for current period actuarial gains and losses. We determine our discount rate based on a review of published financial data and discussions with our third-party actuary regarding rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of our pension obligations. Based on historical data and discussions with our investment consultant, we determine our expected return on plan assets, utilizing the expected long-term rate of return on our plan assets and the market value of our plan assets. The expected long-term rate of return is based on the expected return of the various asset classes held in the plan, weighted by the target allocation of the plan’s assets. Changes in these assumptions can result in significant changes in our estimated pension income or expense and our consolidated financial condition. We revise our assumptions annually based on changes in current interest rates, return on plan assets and the underlying demographics of our workforce. These assumptions are reasonably likely to change in future periods and may have a material impact on our future earnings.

For defined contribution plans, we make employer contributions pursuant to the terms of those plans. The employer contributions are recognized as employee benefit expense when due.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Loss Contingencies—We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed by a material amount the recorded provision or if the loss is not reasonably estimable but is expected to be material to our financial results. We are currently involved in litigation and other proceedings, as discussed in Note 21, *Commitments and Contingencies*. We have accrued our estimates of the probable losses associated with these matters, and associated legal costs are generally recognized as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

Income Taxes—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted income tax rates for the years in which the differences are expected to reverse. We provide for income taxes based on the tax laws and rates in the countries in which we conduct our operations. We operate in numerous taxing jurisdictions around the world. Each of these jurisdictions has a regime of taxation that varies, not only with respect to statutory rates, but also with respect to the basis on which these rates are applied. These variations, along with changes in our mix of income or loss from these jurisdictions, may contribute to shifts, sometimes significant, in our effective tax rate.

On a periodic and ongoing basis, we evaluate our net deferred tax assets (“DTAs”) (including our net operating loss (“NOL”) DTAs) and assess the appropriateness of our valuation allowances (“VAs”). A VA is provided to offset any net DTAs if, based on the available evidence, it is more likely than not that some or all of the DTAs will not be realized. The realization of our net DTAs depends on our ability to generate sufficient future taxable income of the appropriate character and in the appropriate jurisdictions. In assessing the need for a VA, we consider both positive and negative evidence related to the likelihood of realization of the DTAs. If, based on the weight of available evidence, our assessment indicates it is more likely than not a DTA will not be realized, we record a VA. Our assessments include, among other things, the amount of taxable temporary differences which will result in future taxable income, evaluations of existing and anticipated market conditions, analysis of recent and historical operating results (including cumulative losses over multiple periods) and projections of future results, strategic plans and alternatives for associated operations, as well as asset expiration dates, where applicable.

Income tax and associated interest and penalty reserves, where applicable, are recorded in those instances where we consider it more likely than not that additional tax will be due in excess of amounts reflected in income tax returns filed worldwide, irrespective of whether we have received tax assessments. We continually review our exposure to additional income tax obligations and, as further information becomes known or events occur, changes in our tax, interest and penalty reserves may be recorded within income tax expense.

Recently Adopted Accounting Guidance

Income Taxes—In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). This ASU simplifies the accounting for income taxes by removing exceptions, including:

- to the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or a gain from other items (for example, discontinued operations or other comprehensive income);
- to the requirement to recognize a deferred tax liability for equity-method investments when a foreign subsidiary becomes an equity-method investment;
- to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity-method investment becomes a subsidiary; and
- to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year.

In addition, ASU 2019-12 does not require that an entity allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; however, an entity may elect to do so (on an entity-by-entity basis) for a legal entity that is both not subject to tax and disregarded by the applicable taxing authority. The standard does require that an entity:

- recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax;
- evaluate when a step up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction; and



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date.

The ASU is effective for annual and interim periods beginning after December 15, 2020. We adopted the new standard effective January 1, 2021. The adoption of this ASU did not have a material impact on the Financial Statements or related disclosures.

Accounting Guidance Issued but Not Adopted as of December 31, 2021

Debt – In August 2020, the FASB issued ASU 2020-06, *Debt: Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40)*. This ASU eliminates the beneficial conversion and cash conversion accounting models in ASC 470-20 that require separate accounting for embedded conversion features; simplifies the settlement assessment that issuers perform to determine whether a contract in their own equity qualifies for equity classification; and requires entities to use the if-converted method to calculate earnings per share for all convertible instruments and generally requires them to include the effect of share settlement for instruments that may be settled in cash or shares. ASU 2020-06 is effective for annual periods beginning after December 15, 2021. We are evaluating the impact of the new guidance on our future Financial Statements and related disclosures.

Reference Rate Reform – In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848)*. This ASU provides temporary optional expedients and exceptions to ease the financial reporting burden of the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. The guidance is applicable to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met and to other derivative instruments if there is a change in the interest rate used for discounting, margining and contract price alignment. The guidance was effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. We continue to evaluate our contractual arrangements and hedging relationships that reference LIBOR.

NOTE 3— EMERGENCE FROM VOLUNTARY REORGANIZATION UNDER CHAPTER 11

Restructuring Support Agreement and Plan of Reorganization

On January 21, 2020, the Debtors: (1) entered into the RSA with certain of their lenders, letter of credit issuers and holders of the Senior Notes issued by certain of the Debtors and guaranteed by MII and certain of the other Consenting Parties; and (2) filed the Bankruptcy Petitions for reorganization under Chapter 11. On March 14, 2020, the Bankruptcy Court issued the Confirmation Order approving the Debtor's disclosure statement and confirming the second amended Plan of Reorganization. On June 30, 2020 the conditions precedent to the Debtors' emergence from bankruptcy were satisfied in full and the Debtors' emerged from bankruptcy.

Upon emergence from bankruptcy, we consummated the Plan of Reorganization, which incorporated the provisions of the RSA. On the Effective Date the following resolutions occurred with respect to the reorganization:

- we settled with the holders of claims arising under the Debtors' Debtor-in-Possession Credit Agreement (the "DIP Credit Agreement") as follows:
 - the Term Facility under the DIP Credit Agreement (the "DIP Term Facility"), other than the make-whole amount referred to in the DIP Credit Agreement (the "Make-Whole Amount"), received cash from proceeds from the Lummus Technology sale; and
 - the Term Loans under the DIP Credit Agreement (the "DIP Term Loans"), constituting the Make-Whole Amount, received their respective pro rata shares of the Make Whole Exit Facility (defined in Note 13, *Debt*).
- holders of cash secured letters of credit issued under the DIP Credit Agreement (the "Cash Secured Letters of Credit") received participation in the Cash Secured LC Exit Facility (defined in Note 13, *Debt*) in amounts equal to their respective claims;
- holders of claims arising under the Letters of Credit issued under the DIP Credit Agreement (other than the DIP Cash Secured Letters of Credit) received participation in the Super Senior Exit Facility in amounts equal to their respective commitments;
- holders of letter of credit claims arising under the Debtor's prior letter of credit and credit facilities (the "2021 LC Facility", the "2023 LC Facility" and the "Revolving Credit Facility"), received participation rights in the Roll-Off LC Facilities (defined in Note 13, *Debt*);
- holders of claims arising under the Lloyds' LC Facility were reissued their claims as senior secured claims and certain fee claims were paid in full in cash;
- holders of claims arising under the Debtor's prior term facility and credit agreement hedging claims, other than hedging obligations rolled into facilities under the DIP Credit Agreement and the Exit Facilities (defined in Note 13, *Debt*), and holders



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of non-letter of credit claims under the Debtor’s prior revolving credit facility received pro rata shares of the “Secured Creditor Funded Debt Distribution”, which comprised approximately 94% of the Successor Company equity, prior to dilution on account of the MIP and Warrants (both defined and described in Note 19, *Stockholders’ Equity and Equity-Based Incentive Plans*);

- holders of claims arising under the Senior Notes received their pro rata shares of the new common equity interests in the Successor equal to 6% of the Successor prior to dilution on account of the MIP and the Warrants;
- holders of general unsecured claims either had their claims reinstated to be paid in full after the Effective Date or were paid in full in cash;
- each existing equity interest in any of the Debtors other than MII were reinstated or cancelled; and
- each existing equity interest in MII was cancelled, released and extinguished without any distribution.

Reorganization Items

In accordance with ASC 852, any incremental expenses, gains and losses that are realized or incurred as of or subsequent to the Petition Date and as a direct result of the Chapter 11 proceedings are recorded under reorganization items.

In the Plan of Reorganization, the completion of the Lummus Technology sale was a condition precedent to emergence from the Chapter 11 proceedings. After the Petition Date, incremental costs directly related to the Lummus Technology sale, totaling approximately \$23 million incurred during the six months ended June 30, 2020, were also included in reorganization items and were allocated to discontinued operations, as further disclosed in Note 5, *Divestitures*.

For the six months ended June 30, 2020, reorganization items pertaining to continuing operations consisted of the following items:

| | Predecessor Six months ended June 30, 2020 (In millions) |
|---|---|
| Claims valuation adjustments | \$ 121 |
| Professional fees and other | 114 |
| DIP Credit Facility fees | 87 |
| Success Fees | 19 |
| Accelerated and unvested stock compensation | 14 |
| Consent fee | 9 |
| Gain from settlement of liabilities subject to compromise | (1,886) |
| Fresh Start Adjustments, net | (1,220) |
| Reorganization items, gain, net | <u>\$ (2,742)</u> |

Payments of DIP Credit Agreement fees (\$118 million) and professional fees (\$119 million) were included in cash outflows from financing and operating activities, respectively, in our Statement of Cash Flows for the six months ended June 30, 2020.

NOTE 4 – FRESH START ACCOUNTING

Fresh Start Accounting

Upon emergence from bankruptcy, we met the criteria and were required to adopt Fresh Start Accounting in accordance with ASC 852, which resulted in the predecessor entity becoming a new entity for financial reporting purposes on the Effective Date because (1) the holders of the then existing common shares of the Predecessor received less than 50 percent of the new common shares of the Successor outstanding upon emergence from bankruptcy and (2) the reorganization value of the McDermott Group’s assets immediately prior to confirmation of the Plan of Reorganization was less than the total of all post-petition liabilities and allowed claims.

The reorganization value derived from the range of enterprise values associated with the Plan of Reorganization was allocated to the McDermott Group’s identifiable tangible and intangible assets and liabilities based on their fair values (except for deferred income taxes) with the remaining excess value allocated to goodwill in accordance with ASC 852. The amount of deferred income taxes recorded was determined in accordance with ASC 740, Income Taxes. The Effective Date fair values of the Successor’s assets and liabilities differ materially from their recorded values as reflected on the historical balance sheets of the Predecessor.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reorganization Value

Under ASC 852, reorganization value generally approximates the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for the assets immediately after the effects of the restructuring. The value of the reconstituted entity (i.e., the Successor) was based on management projections and the valuation models as determined by our financial advisors in setting an estimated range of enterprise values. Per the Plan of Reorganization and disclosure statement, the valuation analysis presented an enterprise value between \$2 billion and \$2.5 billion, with a mid-point of \$2.25 billion, for an estimated valuation date of June 30, 2020, which matched the actual Effective Date used for fair value purposes. For GAAP purposes, we, with the assistance of third-party valuation advisors, valued the Successor's individual assets, liabilities, and equity instruments and determined the value of the enterprise was approximately \$2 billion as of the Effective Date, which fell within the Bankruptcy Court-approved range. Specific valuation approaches and key assumptions used to arrive at reorganization value and the discrete assets and liabilities resulting from the application of Fresh Start Accounting are described below in greater detail within the valuation process. The value of \$2 billion was at the low end of the valuation range due to the significant economic influences occurring after the range was established in the Plan of Reorganization and related disclosure statement. The COVID-19 pandemic and significant disruption and volatility experienced in the oil and natural gas markets were significant factors in the enterprise value conclusion at the low end of the range and resulted in the \$964 million of goodwill recognized in the Successor Balance Sheet as of June 30, 2020.

Subsequent to the Effective Date, in the third quarter of 2020, due to further continued adverse conditions in the oil and natural gas markets, we noted increases to our risk premium assumptions and market indicators of increases in the cost of capital. We concluded there were indicators of goodwill impairment, and performed quantitative impairment tests for all reporting units with goodwill balances. In the third quarter of 2020, we recorded a \$972 million goodwill impairment.

The following table reconciles the enterprise value to the estimated fair value of our Successor common shares as of the Effective Date:

| | <u>June 30, 2020</u> <u>(in millions)</u> |
|--|--|
| Enterprise value | \$ 2,000 |
| Plus: Cash and cash equivalents ⁽¹⁾ | 920 |
| Less: Fair value of debt and vessel modification liabilities | (725) |
| Total stockholders' equity | 2,195 |
| Less: Fair value of warrants | 148 |
| Less: Fair value of non-controlling interest | (22) |
| Fair value of Successor's ordinary shares | <u>\$ 2,069</u> |

⁽¹⁾ Cash and cash equivalents reflect the amount of cash available for equity holders. Certain unrestricted funds included in Cash and cash equivalents are excluded from the valuation of equity as they are specifically reserved to fund future forecasted cash requirements and other reserve items such as insurance liability claims. Therefore unrestricted cash and cash equivalents reflects cash available to the equity holders as of the Effective Date and is not the full unrestricted balance on the Successor balance sheet. The unrestricted cash amount has been determined on a consistent basis with the Valuation Analysis as approved by the Court.

The following table reconciles enterprise value to reorganization value of the Successor (i.e., value of the reconstituted entity) and total reorganization value:

| | <u>June 30, 2020</u> <u>(in millions)</u> |
|---|--|
| Enterprise value | \$ 2,000 |
| Plus: Cash and cash equivalents | 920 |
| Plus: Current liabilities excluding debt and lease obligations | 3,447 |
| Plus: Operating lease liabilities less vessel modification liabilities | 307 |
| Plus: Other non-interest bearing non-current liabilities less vessel modification liabilities | 783 |
| Reorganization value of the reconstituted Successor Company | <u>\$ 7,457</u> |

With the assistance of third-party valuation advisors, we determined the enterprise and corresponding equity value of the Successor using various valuation approaches and methods, including: (1) the income approach using a calculation of the present value of future cash flows based on our financial projections; (2) the market approach using a peer group trading analysis; and (3) where applicable for certain tangible assets such as construction in progress, recent cost-based approaches.

The income approach was developed using future unlevered after tax cash flows to be generated by the business. The cash flows were then discounted at a weighted-average cost of capital of (13.5%) which considered market participant inputs for size and risk as well as



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

objective measures for inputs such as the risk free rate. Our forecast period for measuring discrete cash flows was approximately 4.5 years. The income approach also included the calculation of a terminal value that was based on the perpetual growth rate and a multiple of the terminal year's projected earnings before interest, taxes, depreciation, and amortization. The terminal value was also discounted to present value to arrive at a view of enterprise value. The market approach considered peer group trading analyses based on recent and forecasted results of financial and operating metrics, with the most prominent metric being earnings before interest, taxes, depreciation, and amortization. Under this approach, enterprise value was derived for each selected public peer based on examining the trading value of the equity of each entity and adding the aggregate amount of outstanding net debt to arrive at enterprise value for each peer. The peer multiples were then analyzed for averages and other statistical results and then applied to our metrics to indicate the enterprise value under this approach. The use of each approach provides corroboration for the other approaches.

The enterprise value and corresponding equity value are dependent upon achieving the future financial results set forth in our valuations, as well as the realization of certain other assumptions. All estimates, assumptions, valuations and financial projections, including the fair value adjustments, the financial projections, the enterprise value and equity value projections, are inherently subject to significant uncertainties and the resolution of contingencies beyond our control. Accordingly, we cannot assure that the estimates, assumptions, valuations or financial projections will be realized, and actual results could vary materially.

Valuation Process

The fair values of the McDermott Group's principal assets, including marine assets, real estate, construction in progress, lease assets and liabilities, intangible assets and liabilities, pension and self-insurance obligations, equity warrants and options associated with the sale of the Lummus Technology business were estimated with the assistance of third-party valuation advisors.

Property, Plant and Equipment

The fair value of the McDermott Group's marine assets was estimated using the discounted cash flow method (income approach). A discount rate of 10% was used to discount the cash flows.

In estimating the fair value of other property and equipment, we used the market approach. The fair value of construction in progress was estimated using the cost approach as these costs were recent and reflective of recent fair value indications.

Intangible Assets and Liabilities

We recognized project-related assets and liabilities and other intangible assets at estimated current values using the discounted cash flow method (income approach). Discount rates ranging from 10% to 15.5%, depending on the reporting unit, were used to discount the cash flows.

Lease liabilities and right-of-use assets

The fair value of lease liabilities was measured as the present value of the remaining lease payments, as if the lease were a new lease as of the Effective Date. We used our incremental borrowing rate ("IBR") as the discount rate in determining the present value of the remaining lease payments. The IBR ranged from 7.55% to 11%, based upon the corresponding lease term and location.

Term Loan Exit Facility and Make-Whole Exit Facility

The fair value of each of the Term Loan Exit Facility and the Make-Whole Exit Facility was determined based on the trading price of these instruments as of June 30, 2020. As a result, as of June 30, 2020, we recorded a discount of \$82 million and \$6 million to reflect the fair value of the Term Loan Exit Facility and Make-Whole Exit Facility, respectively.

Warrants

The fair value of the Warrants issued upon emergence from Bankruptcy was estimated by applying a Black-Scholes model. The Black-Scholes model is a pricing model used to estimate the theoretical price or fair value for a European-style call or put option/warrant based on current stock price, strike price, time to maturity, risk-free rate, volatility and dividend yield.

The time to maturity of the Warrants was estimated based on the contractual terms of the warrants agreement of seven years. Volatility assumptions were estimated based on the equity and asset volatilities of peer companies. Risk-free interest rates were based on U.S. Treasury constant maturity rates. The dividend yield was based on our past and expected dividend policy.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheet

The following fresh start balance sheet represents the effects on the Successor's Balance Sheet due to reorganization adjustments (reflected in the column "Reorganization Adjustments"), and fair value and other required accounting adjustments resulting from the adoption of Fresh Start Accounting (reflected in the column "Fresh Start Adjustments"). The explanatory notes provide additional information and significant assumptions with regards to the adjustments recorded and methodology used to determine fair values.

| | as of June 30, 2020 (in millions) | | | |
|---|--------------------------------------|-------------------------------|----------------------------|----------------------|
| | Predecessor Company | Reorganization Adjustments | Fresh Start Adjustments | Successor Company |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 1,213 | \$ 411 (a) | \$ - | \$ 1,624 |
| Restricted cash and cash equivalents | 399 | 78 (b) | - | 477 |
| Accounts receivable—trade, net | 645 | - | - | 645 |
| Accounts receivable—other | 176 | 28 (c) | - | 204 |
| Contracts in progress | 952 | - | - | 952 |
| Project-related intangible assets, net | 21 | - | 87 (o) | 108 |
| Current assets of discontinued operations | 2,447 | (2,447) (d) | - | - |
| Other current assets | 200 | 2 (d) | (32) (p) | 170 |
| Total current assets | 6,053 | (1,928) | 55 | 4,180 |
| Property, plant and equipment, net | 1,140 | - | (50) (q) | 1,090 |
| Operating lease right-of-use assets | 239 | - | 43 (o) | 282 |
| Accounts receivable—long-term retainages | 48 | - | - | 48 |
| Investments in unconsolidated affiliates | 65 | - | (6) (o) | 59 |
| Goodwill | 55 | - | 909 (r) | 964 |
| Other intangibles, net | 160 | - | 520 (s) | 680 |
| Other non-current assets | 158 | 44 (e) | (48) (t) | 154 |
| Total assets | 7,918 | (1,884) | 1,423 | 7,457 |
| Liabilities, Mezzanine Equity and Stockholders' Equity | | | | |
| Current liabilities: | | | | |
| Debt | 2,080 | (2,047) (f) | 1 (u) | 34 |
| Lease obligations | 125 | - | (7) (v) | 118 |
| Accounts payable | 821 | (19) (g) | - | 802 |
| Advance billings on contracts | 1,291 | - | - | 1,291 |
| Project-related intangible liabilities, net | 5 | - | 96 (w) | 101 |
| Current liabilities of discontinued operations | 386 | (386) (d) | - | - |
| Accrued liabilities | 1,162 | 93 (h) | (2) (x) | 1,253 |
| Total current liabilities | 5,870 | (2,359) | 88 | 3,599 |
| Long-term debt | - | 544 (i) | (88) (u) | 456 |
| Long-term lease obligations | 201 | - | 31 (v) | 232 |
| Deferred income taxes | 41 | 7 (j) | 62 (v) | 110 |
| Other non-current liabilities | 876 | - | (11) (y) | 865 |
| Total liabilities not subject to compromise | 6,988 | (1,808) | 82 | 5,262 |
| Liabilities subject to compromise | 4,606 | (4,606) (k) | - | - |
| Commitments and contingencies | | | | |
| Mezzanine equity: | | | | |
| Redeemable preferred stock | 294 | (294) (l) | - | - |
| Stockholders' equity: | | | | |
| Common stock (Predecessor) | 196 | (196) (l) | - | - |
| Ordinary shares (Successor) | - | - | - | - |
| Capital in excess of par (Predecessor) | 3,561 | (3,561) (l) | - | - |
| Capital in excess of par (Successor) | - | 2,217 (m) | - | 2,217 |
| Accumulated deficit | (7,473) | 6,253 (n) | 1,220 (z) | - |
| Accumulated other comprehensive loss | (152) | 15 (d) | 137 (aa) | - |
| Treasury stock | (96) | 96 (l) | - | - |
| Total McDermott Stockholders' Equity | (3,964) | 4,824 | 1,357 | 2,217 |
| Noncontrolling interest | (6) | - | (16) (bb) | (22) |
| Total stockholders' equity | (3,970) | 4,824 | 1,341 | 2,195 |
| Total liabilities and stockholders' equity | \$ 7,918 | \$ (1,884) | \$ 1,423 | \$ 7,457 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Reorganization Adjustments

(a) Adjustments to Cash and cash equivalents include the following:

| | (In millions) |
|--|---------------|
| Purchase price per SAPA | \$ 2,725 |
| Less: Escrow reserves and other adjustments to purchase price | (138) |
| Net proceeds from the Lummus Technology sale | 2,587 |
| Payment for settlement of DIP Credit Agreement principal | (2,021) |
| Payment for settlement of DIP Credit Agreement interest | (25) |
| Payment of professional fees | (19) |
| Payment of Consent Fee on 10.625% senior notes | (9) |
| Funding of the professional fee escrow for professional fees | (21) |
| Funding of the professional fee escrow account for success fees; \$14 million related to the Lummus Technology sale and \$19 million related to the successful emergence | (33) |
| Funding of the additional collateral on behalf of the Exit Facility LCs | (24) |
| Payment of Exit Facility LC issuance costs | (22) |
| Payment on behalf of prepetition letter of credit fees and other | (2) |
| Change in Cash and cash equivalents | <u>\$ 411</u> |

(b) Adjustments to Restricted cash and cash equivalents include the following:

| | (In millions) |
|---|---------------|
| Funding of the professional fee escrow account | \$ 21 |
| Funding of the success fee escrow account | 33 |
| Funding of the additional collateral on behalf of the Exit Facility LCs | 24 |
| Change in Restricted cash and cash equivalents | <u>\$ 78</u> |

(c) Adjustments to Accounts receivable—other includes the following:

| | (In millions) |
|--|---------------|
| Recognition of the purchase price escrow related to the Lummus Technology Sale | \$ 25 |
| Increase in tax assets as a result of reorganization adjustments | 3 |
| Change in Accounts receivable—other | <u>\$ 28</u> |

(d) This adjustment reflects the removal of the assets and liabilities of Lummus Technology as a result of the sale. See Note 5, *Divestitures*, for information about Lummus Technology: (1) assets and liabilities, classified as discontinued operations within our Predecessor balance sheet as of June 30, 2020; and (2) operating results, including the gain on the sale of Lummus Technology, included in discontinued operations within the Predecessor Statements of Operations for the six months ended June 30, 2020.

(e) Adjustments to Other non-current assets include the following:

| | (In millions) |
|--|---------------|
| Capitalization of debt issuance costs on the Exit Facility letters of credit | \$ 22 |
| Recognition of the additional option related to the Lummus Technology Sale | 22 |
| Change in Other non-current assets | <u>\$ 44</u> |

(f) Adjustments to Debt include the following:

| | (In millions) |
|--|-------------------|
| Accelerated accretion of the Make-Whole term loan | \$ 18 |
| Repayment of indebtedness under the DIP Credit Agreement | (2,021) |
| Make-Whole term loan roll-up into the Exit Facility | (44) |
| Change in Debt | <u>\$ (2,047)</u> |

(g) Adjustment to Accounts payable includes payment of professional fees at the emergence.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(h) Adjustments to Accrued liabilities include the following:

| | (In millions) |
|--|---------------|
| Recognition of the obligations to the buyer of Lummus Technology | \$ 87 |
| Accrual of success fees incurred upon emergence | 33 |
| Reinstatement of lease rejection claims | 3 |
| Payment of the DIP Facility accrued interest | (25) |
| Reduction of current tax liabilities as a result of reorganization adjustments | (4) |
| Payment on behalf of the prepetition letter of credit and other fees | (1) |
| Change in Accrued Liabilities | <u>\$ 93</u> |

(i) Adjustments to Long-term debt include the following:

| | (In millions) |
|--|---------------|
| Issuance of Term Loan Exit Facility | \$ 500 |
| Make-Whole Exit Facility, rolled up from the DIP Term Facility | 44 |
| Change in Long-term debt | <u>\$ 544</u> |

(j) Adjustments to Deferred income taxes includes the recognition of tax expenses related to reorganization adjustments.

(k) Settlement of Liabilities subject to compromise and the resulting pre-tax gain were determined as follows:

| | (In millions) |
|---|-----------------|
| Term Facility | \$ 2,220 |
| 10.625% Senior Notes | 1,300 |
| Revolving credit facility | 801 |
| Accrued and unpaid interest | 114 |
| Allowed claims on Term Facility and Revolving Credit Facility | 121 |
| Interest rate derivative | 47 |
| Rejected lease claims | 3 |
| Total liabilities subject to compromise | <u>4,606</u> |
| Less: Issued Term Loan Exit Facility | (500) |
| Less: Issuance of Common stock and warrants (Successor) | (2,217) |
| Less: Reinstatement of rejected lease claims to accrued liabilities | (3) |
| Pre-tax gain on settlement of Liabilities subject to compromise | <u>\$ 1,886</u> |

(l) Reflects cancellation of Predecessor Redeemable preferred stock, Common stock, Capital in excess of par value and Treasury stock.

(m) The following table reconciles the issuance of Successor ordinary shares and Capital in excess of par value:

| | (In millions) |
|--|-----------------|
| Par value of 235 million ordinary shares issued in settlement of Liabilities subject to compromise | \$ 0.235 |
| Total ordinary shares (Successor) | <u>0.235</u> |
| Additional paid-in-capital value of 58 million new ordinary shares issued to holders of the revolving credit claims | 1,409 |
| Additional paid-in-capital value of 160 million new ordinary shares issued to holders of the term note claims | 507 |
| Additional paid-in-capital value of 3 million new ordinary shares issued to holders of the credit agreement hedging claims | 29 |
| Additional paid-in-capital value of 14 million new ordinary shares issued to holders of the senior note claims | 124 |
| Fair value of warrants issued to holders of the senior note claims ⁽¹⁾ | <u>148</u> |
| Total Capital in excess of par (Successor) | <u>2,217</u> |
| Grand total of ordinary shares (Successor) and additional paid-in-capital (Successor): | <u>\$ 2,217</u> |

⁽¹⁾ The fair value of the Warrants was estimated using a Black-Scholes option pricing model with the following assumptions: implied stock price of the Successor's ordinary shares of \$9.75; initial strike price of per share of \$12.33 and \$15.98 for Series A and B warrants, respectively, expected volatility of 35%, and risk free interest rate using the United States Treasury Constant Maturity rates.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(n) Net change in Predecessor accumulated deficit reflects:

| | (In millions) |
|--|-----------------|
| Gain on settlement of Liabilities subject to compromise | \$ 1,886 |
| Pre-tax gain on sale of Lummus Technology | 459 |
| Cancellation of Predecessor preferred redeemable stock, common stock, Capital in excess of par, and treasury stock | 3,940 |
| Acceleration of unvested stock compensation | 15 |
| Recognition of the success fees expensed upon emergence | (19) |
| Recognition of accelerated accretion of the Make-Whole term loan | (18) |
| Recognition of Consent Fees to the 10.625% Senior Note claims expensed upon emergence and other fees | (10) |
| Net impact to Accumulated deficit | <u>\$ 6,253</u> |

Fresh Start Adjustments

(o) The following reflects the fair value adjustments to Project-related intangible assets, Operating lease right-of-use assets and Investment in unconsolidated affiliates:

| | (In millions) | |
|---|---------------------------------|-------------------------|
| | Predecessor Historical Value | Successor Fair Value |
| Project-related intangible assets | \$ 166 | \$ 108 |
| Accumulated amortization | (145) | - |
| Project-related intangible assets, net | 21 | 108 |
| Operating lease right-of-use assets | 239 | 282 |
| Investment in unconsolidated affiliates | 65 | 59 |

(p) Reflects fair value adjustments to reduce debt issuance costs by \$32 million to \$0 upon emergence. There were no remaining debt issuances costs in the Successor's Balance Sheet as of June 30, 2020.

(q) Changes in Property, plant and equipment, net reflect the fair value adjustment of \$50 million:

| | (In millions) | |
|-------------------------------------|---------------------------------|-------------------------|
| | Predecessor Historical Value | Successor Fair Value |
| Vessels | \$ 434 | \$ 405 |
| Personal property | 953 | 292 |
| Real estate | 108 | 71 |
| Other | 352 | 322 |
| Gross Property, plant and equipment | 1,847 | 1,090 |
| Less: Accumulated depreciation | (707) | - |
| Property, plant and equipment, net | <u>\$ 1,140</u> | <u>\$ 1,090</u> |

(r) Successor goodwill represents the excess of reorganization value over the fair value of our identifiable tangible and intangible assets and liabilities as of June 30, 2020. During the third quarter of 2020, we recognized goodwill impairment of \$972 million.

(s) Changes in Other intangibles, net reflect fair value adjustments:

| | (In millions) | |
|--------------------------------|---------------------------------|-------------------------|
| | Predecessor Historical Value | Successor Fair Value |
| Trade names | \$ 118 | \$ 419 |
| Process technologies | 79 | 261 |
| Customer relationships | 16 | - |
| Trademarks | 4 | - |
| Gross Other Intangibles | 217 | 680 |
| Less: Accumulated amortization | (57) | - |
| Other intangibles, net | <u>\$ 160</u> | <u>\$ 680</u> |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(t) Changes in Other non-current assets reflect the fair value adjustments:

| | (In millions) | |
|---|---------------------------------|-------------------------|
| | Predecessor Historical Value | Successor Fair Value |
| Debt issuance cost (prepetition facilities) | \$ 14 | \$ - |
| Debt issuance costs (exit facilities) | 22 | - |
| Pension assets | 21 | 16 |
| Other assets | 10 | 3 |

(u) The following reflects the fair value adjustments to our debt:

| | (In millions) |
|--------------------------------|---------------|
| Current debt: | |
| Structured Equipment Financing | \$ 1 |
| Long-term debt: | |
| Term Loan Exit Facility | \$ 82 |
| Make-Whole Exit Facility | 6 |
| | <u>\$ 88</u> |

(v) The following reflects the fair value adjustments to Lease obligations, Long-term lease obligations and Deferred income taxes:

| | (In millions) |
|-----------------------------|---------------|
| Lease obligations | \$ (7) |
| Long-term lease obligations | 31 |
| Deferred income taxes | 62 |

(w) The following reflects the fair value adjustments to Project-related intangible liabilities:

| | (In millions) | |
|---|---------------------------------|-------------------------|
| | Predecessor Historical Value | Successor Fair Value |
| Project-related intangible liabilities | \$ 109 | \$ 101 |
| Accumulated amortization | (104) | - |
| Project-related intangible liabilities, net | <u>\$ 5</u> | <u>\$ 101</u> |

(x) Reflects the impact of Fresh Start Accounting adjustments related to the fair value of self-insurance of \$1 million and deferred rent credits of \$1 million.

(y) The following reflects the fair value adjustments to balances within Other non-current liabilities.

| | (In millions) |
|---|----------------|
| Pension obligations | \$ 24 |
| Lease incentive obligations | (49) |
| Self-insurance obligations | (13) |
| Negative equity method investment balance | 27 |
| Change in fair value of Other non-current liabilities | <u>\$ (11)</u> |

(z) Reflects the cumulative impact of Fresh Start Accounting adjustments discussed herein and the elimination of Predecessor accumulated other comprehensive loss and Predecessor accumulated deficit.

(aa) Reflects the impact of Fresh Start Accounting adjustments on AOCI:

| | (In millions) |
|---|---------------|
| Valuation of deferred pension losses | \$ (6) |
| Write off of Accumulated other comprehensive loss to Reorganization items | 143 |
| Cumulative effects of the Fresh start adjustments | <u>\$ 137</u> |

(bb) Reflects the fair value adjustment to noncontrolling ownership interests in a subsidiary.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5— DIVESTITURES

Lummus Technology sale

As discussed in Note 2, *Basis of Presentation*, on June 30, 2020, we completed the sale of Lummus Technology (primarily represented by our Technology reporting segment), to the Joint Partnership. Under the terms of the SAPA, the Joint Partnership acquired, subject to certain conditions, the Lummus Technology business for a purchase price of \$2.725 billion. No price adjustments were recorded subsequent to June 30, 2020.

On June 30, 2020, we also entered into a strategic agreement (the “Strategic Agreement”) with Lummus Technology and the Joint Partnership. The Strategic Agreement creates opportunities for future collaboration and will allow us to use legacy and new Lummus technologies in certain customer contracts and allow the parties to enter into certain joint opportunities in the future. During 2021, we paid approximately \$24 million in fees under the Strategic Agreement, reflected as outflow from the investing activities in the Statement of Cash Flows for the year ended December 31, 2021, under “Proceeds and payments associated with disposal of the Lummus Technology business, net”.

In accordance with the SAPA, we had the option to retain a 10% common equity ownership interest in the Lummus Technology business at any time prior to the date that was six months after the sale closing (the “Retained Stake Option”). If we exercised the Retained Stake Option prior to such date, the purchase price for the 10% common equity interest would equal \$20 million plus an amount that would yield a 12% per annum internal rate of return to the equity holders of the Joint Partnership as calculated from the sale closing date through the date on which the Retained Stake Option is exercised. If we exercised the Retained Stake Option, between the second and fifth anniversary of the Strategic Agreement effective date or immediately prior to the consummation of the Lummus Technology initial public offering (“IPO”) we would have the one-time option to purchase a pro rata portion of common equity and preferred equity in the joint partnership in order to increase our ownership interest up to a maximum of 25% (the “Additional Option”). If exercised, the Additional Option would result in us owning (1) 10% common equity interest in the Joint Partnership as provided by the Retained Stake Option and (2) up to an additional 15% equity interest in the Joint Partnership as provided by the Additional Option. In the event we do not exercise the Additional Option in full (*i.e.*, to increase the ownership interest to the maximum of 25%) prior to the occurrence of an IPO or five years following the Strategic Agreement effective date, whichever occurs earlier, the buyer will have the right to purchase all of our outstanding interests in the Joint Partnership at a price that will provide an internal rate of return of 12% calculated on the implied equity value of the interest held by us as of the Strategic Agreement effective date (the “Buy-back Option”). The Buy-back Option does not expire.

As of December 31, 2020, the Retained Stake Option and the Additional Option were recorded at their June 30, 2020 fair values, determined using the Monte Carlo simulation method, and were approximately \$2 million (included in “Other current assets”) and \$22 million (included in “Other non-current assets”), respectively. The fair value of the Buy-back Option was determined not to be significant.

On January 4, 2021, we exercised the Retained Stake Option to purchase 10% of the common equity in Lummus Technology Holdings I, LLC, a holding company of Lummus Technology LLC. We completed the purchase on March 5, 2021 for \$21.7 million.

We considered the operations of the Technology segment to be a discontinued operation in the Predecessor Financial Statements, as the sale represented a strategic shift and had a material effect on our operations and financial results. Operating results of the Technology reporting segment have been classified as a discontinued operation within the Predecessor Statements of Operations for the six months ended June 30, 2020 and the year ended December 31, 2019.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The results of discontinued operations of Lummus Technology, which have been reflected within discontinued operations in the Predecessor Statements of Operations for the six months ended June 30, 2020 and the year ended December 31, 2019, were as follows:

| | Predecessor | |
|--|-----------------------------------|---------------------------------|
| | Six Months Ended June 30, 2020 | Year Ended December 31, 2019 |
| | (In millions) | |
| Revenues | \$ 270 | \$ 584 |
| Costs and expenses: | | |
| Cost of operations | 152 | 330 |
| Project intangibles and inventory-related amortization | 4 | 17 |
| Total cost of operations | 156 | 347 |
| Research and development expenses | 15 | 26 |
| Selling, general and administrative expenses | 12 | 22 |
| Other intangibles amortization | 21 | 43 |
| Total expenses | 204 | 438 |
| Income from investments in unconsolidated affiliate | 8 | 27 |
| Investment in unconsolidated affiliate-related amortization | (4) | (8) |
| Operating income from discontinued operations | 70 | 165 |
| Interest expense, net ⁽¹⁾ | (112) | - |
| Reorganization items, net ⁽²⁾ | (23) | - |
| Other non-operating (expense) income ⁽³⁾ | (20) | 4 |
| (Loss) income from discontinued operations before provision for income taxes | (85) | 169 |
| Pretax gain on the disposal of the discontinued operations ⁽⁴⁾ | 459 | - |
| Income tax benefit (expense) | 5 | (26) |
| Net income from discontinued operations | \$ 379 | \$ 143 |

⁽¹⁾ Interest expense for the six months ended June 30, 2020 was allocated to the discontinued operations, due to a requirement to use the proceeds from the sale to repay our debtor-in-possession financing, and included: (1) \$81 million of interest expense associated with the DIP Credit Agreement; (2) \$26 million of non-cash charges included in interest expense and associated with the accretion of the make-whole amount owed to the lenders under a prior superpriority credit agreement, which was rolled up and deemed issued under the DIP Credit Agreement; (3) \$33 million of expenses related to amortization of the discount, partially offset by a \$28 million gain resulting from the remeasurement of an embedded derivative liability. The discount and the embedded derivative were associated with the Predecessor indebtedness.

⁽²⁾ Reorganization items allocated to the discontinued operations include professional and other fees associated with the Lummus Technology sale process, which were incurred post-Petition Date.

⁽³⁾ Impact of accelerated amortization of the discount under a prior superpriority credit agreement, rolled up and deemed issued under the DIP Credit Agreement, and settled in full as of June 30, 2020.

⁽⁴⁾ Gain on the disposal of the Lummus Technology business is summarized as follows:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | (In millions) |
|--|---------------|
| Net assets of the Lummus Technology business | \$ 2,061 |
| Cumulative translation adjustment | 15 |
| | <u>2,076</u> |
| Purchase price per SAPA | 2,725 |
| Less: Escrow reserves and other adjustments | (138) |
| Net proceeds from the Lummus Technology sale | <u>2,587</u> |
| Strategic and alliance agreement and other fees | (87) |
| Selling costs | (14) |
| Escrow deposit ⁽¹⁾ | 25 |
| Recognition of Retained Stake Option and Additional Option | <u>24</u> |
| | <u>2,535</u> |
| Gain from the Lummus Technology sale | <u>\$ 459</u> |

⁽¹⁾ During June 2021 the Joint Partnership released to McDermott \$25 million previously held in the third party escrow account, reflected as inflow from the investing activities in the Statement of Cash Flows for the year ended December 31, 2021, under "Proceeds and payments associated with disposal of the Lummus Technology business, net".

Cash flows provided by the operating activities of the discontinued operations of Lummus Technology for the six months ended June 30, 2020 and the year ended December 31, 2019 were \$94 million and \$227 million, respectively. Cash flows associated with investing activities were not significant for either period. Cash flows of the Technology segment are not reported separately within the Predecessor Statements of Cash Flows.

Disposal of Pipe Fabrication Business

In 2019, we performed a review of our business portfolio, which included businesses acquired in the Combination. As a result of our review, we identified our pipe fabrication business as non-core for purposes of our vertically integrated offering model. On June 24, 2019, we entered into an agreement to sell our Alloy Piping Products business ("APP"), the distribution and manufacturing arm of our pipe fabrication business, previously included in our NCSA segment. We completed the APP sale on June 27, 2019.

Loss on the APP sale, included in Loss on asset disposals in the Predecessor Statement of Operations for the year ended December 31, 2019, was \$101 million and is summarized as follows:

| | (In millions) |
|---|---------------|
| Assets | |
| Inventory | \$ 69 |
| Property and equipment | 25 |
| Goodwill | 90 |
| Other assets | 11 |
| Assets sold | <u>195</u> |
| Liabilities | |
| Account payable | 8 |
| Other liabilities | 3 |
| Liabilities sold | <u>11</u> |
| Net assets sold | <u>184</u> |
| Sale proceeds (net of transaction costs of \$2) | 83 |
| Loss on APP disposal | <u>\$ 101</u> |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The sale of the remaining portion of the pipe fabrication business, authorized in the Plan of Reorganization, was approved for sale and completed in the second quarter of 2020. Loss on sale is included in Loss on asset disposals in our Statement of Operations for the six months ended June 30, 2020 and is summarized as follows:

| | (In millions) | |
|------------------------------------|---------------|-----|
| Assets | | |
| Cash and cash equivalents | \$ | 14 |
| Accounts receivable, net | | 19 |
| Contracts in progress | | 11 |
| Property, plant and equipment, net | | 90 |
| Other assets | | 3 |
| Assets sold | | 137 |
| Liabilities | | |
| Account payable | | 14 |
| Noncontrolling interest | | 13 |
| Other liabilities | | 7 |
| Liabilities sold | | 34 |
| Net assets sold | | 103 |
| Sale proceeds | | 40 |
| Loss on disposal | \$ | 63 |

During the third quarter of 2020, we recognized an additional \$2 million loss for closing adjustments associated with the sale of the remaining portion of the pipe fabrication business.

NOTE 6—REVENUE RECOGNITION

Remaining Performance Obligations (“RPOs”)

Our RPOs, by segment, were as follows:

| | December 31, 2021 | | December 31, 2020 | |
|-------------------|-----------------------|------|-------------------|------|
| | (Dollars in millions) | | | |
| NCSA | \$ 4,288 | 22% | \$ 3,971 | 30% |
| EMEA | 11,033 | 56% | 6,320 | 49% |
| APAC | 3,110 | 16% | 1,691 | 13% |
| Storage Solutions | 1,263 | 6% | 1,052 | 8% |
| Total | \$ 19,694 | 100% | \$ 13,034 | 100% |

Our RPOs increased by approximately \$6.7 billion from December 31, 2020 to December 31, 2021, due to new awards and change orders of approximately \$11.6 billion offset by revenues of approximately \$4.9 billion, in each case recognized during the year ended December 31, 2021.

Additionally, our RPOs, by product offering, were as follows:

| | December 31, 2021 | | December 31, 2020 | |
|---------------------|-----------------------|------|-------------------|------|
| | (Dollars in millions) | | | |
| Offshore and subsea | \$ 11,215 | 57% | \$ 6,038 | 46% |
| LNG | 5,371 | 27% | 4,906 | 38% |
| Downstream | 3,105 | 16% | 2,078 | 16% |
| Power | 3 | - | 12 | - |
| Total | \$ 19,694 | 100% | \$ 13,034 | 100% |

Of the December 31, 2021 RPOs, we expect to recognize revenues as follows:

| | 2022 | 2023 | Thereafter |
|------------|---------------|-------|------------|
| | (In millions) | | |
| Total RPOs | 5,497 | 5,654 | 8,543 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Revenue Disaggregation

Our revenues attributable to continuing operations, by product offering, contract type and revenue recognition methodology were as follows:

| | Successor | | Predecessor | |
|---|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| Revenues by product offering: | | | | |
| Offshore and subsea | \$ 2,450 | \$ 1,221 | \$ 1,475 | \$ 2,840 |
| LNG | 962 | 658 | 672 | 1,445 |
| Downstream | 1,425 | 882 | 1,007 | 2,594 |
| Power | 50 | 109 | 233 | 968 |
| | <u>\$ 4,887</u> | <u>\$ 2,870</u> | <u>\$ 3,387</u> | <u>\$ 7,847</u> |
| Revenues by contract type: | | | | |
| Fixed price | \$ 3,772 | \$ 2,306 | \$ 2,770 | \$ 6,320 |
| Reimbursable | 519 | 310 | 248 | 872 |
| Hybrid | 493 | 198 | 260 | 481 |
| Unit-basis and other | 103 | 56 | 109 | 174 |
| | <u>\$ 4,887</u> | <u>\$ 2,870</u> | <u>\$ 3,387</u> | <u>\$ 7,847</u> |
| Revenues by recognition methodology: | | | | |
| Over time | \$ 4,870 | \$ 2,861 | \$ 3,349 | \$ 7,798 |
| At a point in time | 17 | 9 | 38 | 49 |
| | <u>\$ 4,887</u> | <u>\$ 2,870</u> | <u>\$ 3,387</u> | <u>\$ 7,847</u> |

Intercompany revenues have been eliminated in consolidation.

Revenue recognition

Unapproved Change Orders—As of December 31, 2021, we had unapproved change orders included in transaction prices for our projects aggregating to approximately \$279 million, of which approximately \$63 million was included in our RPO balance.

As of December 31, 2020, we had unapproved change orders and claims included in transaction prices for our projects aggregating to approximately \$244 million, of which approximately \$118 million was included in our RPO balance.

Certain of our unapproved change orders are related to claims against our customers for recovery of the direct impact COVID-19 has had on our projects. While we have concluded recovery of these amounts to be probable, we have seen delays in bringing these claims to resolution, resulting in uncertainty in the ultimate timing and amount of recovery.

Incentives—As of December 31, 2021 and 2020, incentives included in transaction prices for our projects aggregated to approximately \$60 million and \$64 million, respectively.

Loss projects—During 2021, a number of projects in our portfolio were impacted by increases in cost estimates, with the most acute impact primarily focused in five loss projects in our portfolio. Changes in cost estimates during the year attributable to these five projects aggregated \$370 million, primarily driven by the impact of COVID-19 pandemic on our operations, degradation in fabrication and construction productivity, lost time due to weather and safety standdowns, supply chain performance, increased subcontractor costs, and financial constraints, all of which necessitated schedule prolongation and changes to certain marine campaigns. These projects, which are approximately 88% complete on a weighted average basis, are expected to be complete by early 2023.

Our accrual of provisions for estimated losses as of December 31, 2021 and 2020 was approximately \$148 million and \$87 million, respectively.

Other—Revenue recognized during 2021 attributable to Advance billings on contracts balance outstanding as of December 31, 2020, was approximately \$566 million.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Some of our contracts contain provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under those provisions. Those contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. As of December 31, 2021, we determined that we had approximately \$593 million of potential liquidated damages exposure based on performance under contracts to date, \$404 million as of December 31, 2020. We included \$4 million and \$3 million, respectively, as reductions in transaction prices related to such exposure as of December 31, 2021 and December 31, 2020. We believe we will be successful in obtaining schedule extensions or other customer-agreed changes that should resolve the potential for the liquidated damages where we have not made a reduction in transaction prices. However, we may not achieve relief on some or all the issues involved and, as a result, could be subject to liquidated damages being imposed on us in the future.

NOTE 7—PROJECT CHANGES IN ESTIMATES

Our RPOs for each of our operating groups generally consist of several hundred contracts, and our results may be impacted by changes in estimated margins. For a discussion of significant changes in estimates resulting from changes in transaction prices, see Note 6, *Revenue Recognition*.

Year ended December 31, 2021

Segment operating results for the year ended December 31, 2021 were impacted by net unfavorable changes in estimates in our NCSA, EMEA and APAC segments, totaling approximately \$417 million, primarily driven by changes in cost estimates on five projects in our portfolio, as well as close-out and warranty cost overruns on our Power portfolio. Changes in cost estimates were attributable to (1) a subsea project: defects in pipe provided by a subcontractor, which ultimately drove a change in the execution plan and a delay in our marine campaign; (2) a petrochemical project: degradation in fabrication and construction productivity, lost time due to weather and safety standdowns, and the resulting schedule prolongation; (3) an offshore project: degradation in fabrication productivity and a combination of lost time due to weather standdowns and welding issues we experienced related to first of a kind specifications, both of which resulted in a change in execution and a delay in our marine campaign; (4) an offshore redevelopment project: degradation in productivity and schedule prolongation; and (5) a petrochemical project: degradation in productivity, increased subcontractor costs and schedule prolongation, primarily in the first quarter of 2021. These results included negative impacts from the COVID-19 pandemic of approximately \$53 million (primarily incurred in the first quarter of 2021). These changes were partially offset by improvements in our Storage Solutions segment of \$60 million. Changes in estimates by operating segment were as follows: (1) \$258 million unfavorable in our NCSA segment; (2) \$91 million unfavorable in our EMEA segment; (3) \$53 million unfavorable in our APAC segment; and (4) \$60 million favorable in our Storage Solutions segment.

The estimated negative impact of the COVID-19 pandemic included in net unfavorable changes in estimates for the year ended December 31, 2021 was approximately \$53 million, primarily incurred in the first quarter of 2021, and was mostly associated with productivity degradation, supply chain inefficiencies, and schedule prolongations for various projects, due to the COVID-19 pandemic.

Successor Six months ended December 31, 2020 and Predecessor six months ended June 30, 2020

Segment operating results, for the Successor, for the six months ended December 31, 2020 were negatively impacted by net unfavorable changes in estimates of approximately \$51 million in our NCSA segment and \$29 million in our EMEA segment and included net unfavorable impacts of the COVID-19 pandemic of \$62 million, primarily in our NCSA and EMEA segments. Our APAC segment results for the six months ended December 31, 2021 were positively impacted by net favorable changes in estimates aggregating approximately \$60 million and related to net cost savings on various projects, change orders and the favorable adjustment of a litigation accrual on our completed project executed by the consolidated joint venture. Our Storage Solutions segment had \$12 million net favorable changes in estimates relating to net cost savings on various projects.

The estimated negative impact of the COVID-19 pandemic included in net unfavorable changes in estimates for the six months ended December 31, 2020 was approximately \$56 million and \$6 million in our NCSA and EMEA segments, respectively. Our APAC and Storage Solutions segments did not have material changes in cost estimates as a result of the COVID-19 pandemic during that period.

Segment operating results, for the Predecessor, for the six months ended June 30, 2020 were impacted by net unfavorable changes in estimates totaling approximately \$200 million, including net negative impacts from the COVID-19 pandemic of approximately \$115 million. Changes in estimates by segment were as follows: (1) \$164 million unfavorable in our NCSA segment; (2) \$15 million unfavorable in our EMEA segment; (3) \$13 million unfavorable in our APAC segment; and (4) \$8 million unfavorable in our Storage Solutions segment.

The estimated negative impact of the COVID-19 pandemic included in net unfavorable changes in estimates for the six months ended June 30, 2020 was approximately \$65 million, \$38 million and \$12 million in our NCSA, EMEA and APAC segments, respectively. Our Storage Solutions segment did not have material changes in cost estimates as a result of the COVID-19 pandemic during that period.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2019

Segment operating results for the year ended December 31, 2019 were impacted by unfavorable changes in cost estimates totaling approximately \$700 million, primarily in our NCSA segment.

Our NCSA segment results in 2019 were negatively impacted by net unfavorable changes in cost estimates aggregating approximately \$689 million, primarily on the LNG and power projects. Unfavorable changes in estimates in our APAC segment of approximately \$40 million were partially offset by net favorable changes in our EMEA segment of approximately \$29 million.

NOTE 8—ACCOUNTS RECEIVABLE—TRADE, NET

Our trade receivable balances included the following:

| | December 31, 2021 | | December 31, 2020 | |
|--------------------------------|-------------------|------|-------------------|------|
| | (In millions) | | | |
| Contract receivables | \$ | 496 | \$ | 575 |
| Retainages ⁽¹⁾ | | 81 | | 95 |
| Less allowances | | (20) | | (14) |
| Accounts receivable—trade, net | \$ | 557 | \$ | 656 |

⁽¹⁾ Retainages classified within Accounts receivable—trade, net are amounts anticipated to be collected within one year and as to which we have an unconditional right to collect from the customer, subject only to the passage of time. Retainages anticipated to be collected beyond one year are classified as Accounts receivable—long-term retainages on our Balance Sheet and totaled \$40 million as of December 31, 2021, of which \$9 million and \$31 million are anticipated to be collected in 2023 and thereafter, respectively.

NOTE 9—INTANGIBLE ASSETS AND GOODWILL

Intangible Assets

Upon emergence from bankruptcy, the reorganization value derived from the range of enterprise values associated with the Plan of Reorganization was allocated to the Successor's identifiable tangible and intangible assets and liabilities based on their fair values.

The components of project-related intangible assets and liabilities were as follows:

| | Weighted Average Useful Life (In years) | December 31, 2021 | | | December 31, 2020 | | |
|--|---|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
| | | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| | | (In millions) | | | | | |
| Project-related intangible assets | 3.5 | \$ 108 | \$ (66) | \$ 42 | \$ 108 | \$ (26) | \$ 82 |
| Project-related intangible liabilities | 3.5 | (101) | 53 | (48) | (101) | 21 | (80) |
| | | \$ 7 | \$ (13) | \$ (6) | \$ 7 | \$ (5) | \$ 2 |

Amortization expense (gain) of project-related intangibles, net is anticipated to be \$4 million and \$(10) million for 2022 and 2023, respectively.

The components of other intangible assets were as follows:

| | Weighted Average Useful Life (In years) | December 31, 2021 | | | December 31, 2020 | | |
|----------------------|---|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
| | | Gross carrying value | Accumulated amortization | Net carrying value | Gross carrying value | Accumulated amortization | Net carrying value |
| | | (In millions) | | | | | |
| Process technologies | 11 | \$ 261 | \$ (39) | \$ 222 | \$ 261 | \$ (13) | \$ 248 |
| Trade names | 10 | 419 | (62) | 357 | 419 | (21) | 398 |
| | | \$ 680 | \$ (101) | \$ 579 | \$ 680 | \$ (34) | \$ 646 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Amortization expense of other intangible assets is anticipated to be \$68 million for each of the years ending December 31, 2022, 2023, 2024, 2025 and 2026.

Goodwill

As discussed in Note 4, *Fresh Start Accounting*, upon emergence from bankruptcy, we recognized goodwill, subsequently adjusted for cumulative translation and other adjustments, of \$972 million in our EMEA, APAC and Storage Solutions reporting segments. During the third quarter of 2020, as a result of further continued adverse conditions in the oil and natural gas industry and COVID-19 impacts, we noted increases to our risk premium assumptions and market indicators of increases in the cost of capital. Accordingly, we performed interim quantitative impairment assessments as of September 30, 2020 on our EMEA, APAC and Storage Solutions reporting segments, and based on these assessments, goodwill for all reporting segments was fully impaired as of September 30, 2020.

NOTE 10—JOINT VENTURE AND CONSORTIUM ARRANGEMENTS

We account for our unconsolidated joint ventures and consortiums using either proportionate consolidation, when we meet the applicable accounting criteria to do so, or the equity method. Further, we consolidate any joint venture or consortium that is determined to be a VIE for which we are the primary beneficiary or which we otherwise effectively control.

Proportionately Consolidated Consortiums

The following is a summary description of our significant ongoing consortiums that have been deemed to be VIEs where we are not the primary beneficiary and are accounted for using proportionate consolidation:

- *McDermott/CTCI*—We have a consortium with a unit of CTCI Corporation (“CTCP”) (McDermott—42.5%/CTCI—57.5%) to perform EPC work for a mono-ethylene glycol facility in Gregory, Texas.
- *CCS JV s.c.a.r.l.*— We have a joint venture with Saipem and Chiyoda (McDermott—24.983% / Saipem— 74.949% / Chiyoda— 0.068%) for the turnkey construction of two LNG liquefaction trains and the relevant supporting structures to be built in the Republic of Mozambique. This project was approximately 21% complete on a post-Chapter 11-emergence basis (approximately 27% on a cumulative basis) as of December 31, 2021. On April 28, 2021, following an escalating security situation in the Cabo Delgado Province in Mozambique, the customer withdrew all Mozambique personnel from the project site and suspended all progressible activities for the project. McDermott continues to work with the customer, our co-venturer in CCS JV, and our subcontractors and vendors to cease all activities on the project and evaluate the project schedule and potential impacts of the suspension and related events. As of the date of this report, the contract has not been terminated. We continue to work with the customer to estimate total costs associated with the suspension, which we expect to be reimbursable. Our results for the year ended December 31, 2021 include approximately \$120 million in revenue related to the suspension. As of December 31, 2021, no changes have been made to our RPOs associated with suspension of the project.

We are also party to three consortiums established to perform engineering, procurement and construction projects for LNG liquefaction trains. These projects were completed as of December 31, 2020 and joint ventures remain in operation to complete various post-project activities.

The following table presents summarized balance sheet information for our share of our proportionately consolidated consortiums:

| | December 31, 2021 | December 31, 2020 |
|-------------------------------|-------------------|-------------------|
| | (In millions) | |
| Current assets ⁽¹⁾ | \$ 284 | \$ 336 |
| Non-current assets | 3 | 17 |
| Total assets | \$ 287 | \$ 353 |
| Current liabilities | \$ 226 | \$ 259 |

⁽¹⁾ Our consortium arrangements may allow for excess working capital of the consortium to be advanced to the consortium participants. Such advances are returned to the ventures for working capital needs as necessary. Accordingly, at the end of a reporting period a consortium may have advances to its participants which are reflected as an advance receivable within current assets of the consortium. As of December 31, 2021 and 2020, Accounts receivable—other included \$1 million and \$10 million, respectively, related to our proportionate share of advances from the consortiums to the other consortium participants.

As of December 31, 2021 and 2020, Accrued liabilities reflected on the Balance Sheets included \$2 million and \$16 million, respectively, related to advances from these consortiums.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Proportionately Consolidated Collaborative Arrangement

The following is a summary description of our significant consortium that has been deemed a collaborative arrangement, in which we are not the primary beneficiary and we record our share of the consortium's revenues, costs and profits.

McDermott/Zachry/Chiyoda—We have a consortium with Zachry and Chiyoda to perform EPC work for a natural gas liquefaction facility in Sabine Pass, Texas. The three parties share equal voting interests in the consortium. Additionally, the parties have joint and several liability to the client. This primary consortium divides the work into separate portions that are performed: jointly by the parties as partners, by each party individually, and by a separate consortium comprised of Zachry and McDermott, respectively. The primary consortium agreement protects McDermott from exposure to increases in overall project costs arising in other parties' scopes of work and from increased quantities due to engineering (another party's scope). McDermott's exposure to significant increases in the overall cost of the project is thus less than in a traditional joint venture. As of December 31, 2021, the project was approximately 25% complete on a post Chapter 11 emergence basis (approximately 31% on a cumulative basis), with approximately 92% of procurement commitments in place. McDermott's December 31, 2021 position incorporates our current assessment of the project's costs and schedule, including consideration of the consortium's schedule re-baseline and ongoing optimization efforts. It should, however, be noted that, while discussions among the parties to the consortium took place during 2021, the consortium has not agreed on the forecast costs, nor on cost allocation under the consortium agreement. There are also ongoing discussions between the consortium and the customer regarding pending change orders, including those related to the impacts of COVID-19, as well as the rebaselined schedule. We believe that an agreement on both the consortium cost forecast with the other parties to the consortium and the relief for pending change orders from the customer may be reached by June 30, 2022. It is thus possible that our current estimates of our forecasted costs may be reassessed in upcoming periods based on a final resolution of cost allocation under the consortium arrangement and recovery for change orders pending with the client.

The following table presents summarized balance sheet information for our share of both primary and subcontract consortiums, as discussed above:

| | December 31, 2021 | | December 31, 2020 | |
|-------------------------------|-------------------|-----|-------------------|-----|
| | (In millions) | | | |
| Current assets ⁽¹⁾ | \$ | 181 | \$ | 206 |
| Non-current assets | | 4 | | 6 |
| Total assets | \$ | 185 | \$ | 212 |
| Current liabilities | \$ | 180 | \$ | 191 |

⁽¹⁾ Includes \$142 million and \$128 million of cash and cash equivalents as of December 31, 2021 and 2020, respectively.

Equity Method Joint Ventures

The following is a summary description of our significant joint ventures accounted for using the equity method:

- *Lummus Technology Holdings I, LLC*—on January 4, 2021, we exercised the Retained Stake Option to purchase 10% of the common equity in Lummus Technology Holdings I, LLC, a holding company of Lummus Technology LLC. We completed the purchase on March 5, 2021 for \$21.7 million. See Note 5, *Divestitures*, for further discussion.
- *NET Power, LLC ("NET Power")*—We have a joint venture with a unit of Exelon Corporation ("Exelon"), 8 Rivers Capital and Oxy Low Carbon Ventures LLC, a subsidiary of Occidental Petroleum Corporation ("Oxy"), (McDermott—30.9% / Exelon—30.9% / 8 Rivers Capital—28.1% / Oxy— 10%) to commercialize a new natural gas power generation system that recovers the carbon dioxide produced during combustion. NET Power is building a first-of-its-kind demonstration plant which is being funded by contributions and services from the joint venture participants and other parties. We have determined the joint venture to be a VIE; however, we are not the primary beneficiary and therefore do not consolidate it.
- *McDermott/CTCI*—We have a 50%/50% joint venture with CTCI to perform EPC work for a liquids ethylene cracker and associated units at Sohar, Oman. We have determined the joint venture to be a VIE; however, we are not the primary beneficiary and therefore do not consolidate it. Our joint venture arrangement allows for excess working capital of the joint venture to be advanced to the joint venture participants. Such advances are returned to the joint venture for working capital needs as necessary. As of December 31, 2021 and 2020, Accrued liabilities on the Balance Sheets included \$88 million and \$95 million related to advances from this joint venture, respectively.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- *io consulting*—We co-own several 50%/50% joint venture entities with Baker Hughes. *io consulting* is a project architect and systems integrator, focused on the early front-end phases of projects in the hydrocarbons and energy transition sectors, bringing specific techno-economic expertise integrated with the access to technology and execution know-how of their parent organizations. This joint venture was not a VIE as of December 31, 2021.
- *Qingdao McDermott Wuchuan Offshore Engineering Company Ltd.*—We have a 50%/50% joint venture with Wuhan Wuchuan Investment Holding Co., Ltd., a leading shipbuilder in China. This joint venture provides project management, procurement, engineering, fabrication, construction and pre-commissioning of onshore and offshore oil and gas structures, including onshore modules, topsides, floating production storage, off-loading modules, subsea structures and manifolds. This joint venture was not a VIE as of December 31, 2021.

Consolidated Joint Ventures

The following is a summary description of our significant joint venture we consolidate due to its designation as a VIE for which we are the primary beneficiary:

- *McDermott/Kentz*—We have a venture with Kentz Engineers & Constructors, a unit of SNC-Lavalin Group “Kentz” (McDermott—65% / Kentz—35%), to perform the structural, mechanical, piping, electrical and instrumentation work on, and to provide commissioning support for, three LNG trains, including associated utilities and a gas processing and compression plant, for the Gorgon LNG project, located on Barrow Island, Australia. The project is complete. The joint venture remains in operation to complete various post-project activities.

The following table presents summarized balance sheet information for our consolidated joint ventures and VIEs, including other consolidated joint ventures that are not individually material to our financial results:

| | December 31, 2021 | December 31, 2020 |
|---------------------|-------------------|-------------------|
| | (In millions) | |
| Current assets | \$ 21 | \$ 23 |
| Non-current assets | 1 | 1 |
| Total assets | \$ 22 | \$ 24 |
| Current liabilities | \$ 50 | \$ 52 |

Other—The use of joint ventures and consortiums exposes us to a number of risks, including the risk that the third-party joint venture or consortium participants may be unable or unwilling to provide their share of capital investment to fund the operations of the joint venture or consortium or complete their obligations to us, the joint venture or consortium, or ultimately, our customer. Differences in opinions or views among joint venture or consortium participants could also result in delayed decision-making or failure to agree on material issues, which could adversely affect the business and operations of a joint venture or consortium. In addition, agreement terms may subject us to joint and several liability for the third-party participants in our joint ventures or consortiums, and the failure of any of those third parties to perform their obligations could impose additional performance and financial obligations on us. These factors could result in unanticipated costs to complete the projects, liquidated damages or contract disputes.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 — SUPPLEMENTAL BALANCE SHEET DETAILS

The components of property, plant and equipment, accrued and other non-current liabilities were as follows:

| | December 31, 2021 (In millions) | December 31, 2020 |
|---|------------------------------------|-------------------|
| Property, plant and equipment | | |
| Marine vessels | \$ 479 | \$ 414 |
| Assets under construction | 364 | 303 |
| Construction and other equipment | 144 | 132 |
| Buildings | 60 | 62 |
| Land | 40 | 43 |
| Assets under finance lease | - | 61 |
| Other | 133 | 125 |
| Total property, plant and equipment | 1,220 | 1,140 |
| Accumulated depreciation ⁽¹⁾ | (120) | (35) |
| Property, plant and equipment, net | \$ 1,100 | \$ 1,105 |
| Accrued liabilities | | |
| Accrued contract costs | \$ 523 | \$ 565 |
| Advances from equity method and proportionally consolidated joint ventures and consortiums ⁽²⁾ | 90 | 111 |
| Income taxes payable | 54 | 60 |
| Other accrued non-income taxes | 101 | 56 |
| Other accrued liabilities ⁽³⁾ | 456 | 444 |
| Accrued liabilities | \$ 1,224 | \$ 1,236 |
| Other non-current liabilities | | |
| Pension, post-retirement medical and other employee benefit obligations | \$ 212 | \$ 296 |
| Self-insurance reserve | 73 | 84 |
| Income tax reserves | 75 | 80 |
| Amazon construction liability ⁽⁴⁾ | 132 | 209 |
| Other | 100 | 180 |
| Other non-current liabilities | \$ 592 | \$ 849 |

(1) Our depreciation expense was approximately \$79 million in 2021, \$35 million and \$50 million during the six months ended December 31, 2020 and June 30, 2020, respectively, and \$128 million in 2019. For a discussion relating to impairments of marine-vessel-related property, plant and equipment, see Note 16, *Fair Value Measurements*.

(2) Represents advances from our joint ventures and consortiums in which we participate. See Note 10, *Joint Venture and Consortium Arrangements*, for further discussion.

(3) Includes \$24 million and \$26 million associated with warranty obligations as of December 31, 2021 and 2020, respectively, and various accruals individually less than 5% of total current liabilities.

(4) Liabilities incurred in connection with the *Amazon* modification agreements, discussed in Note 13, *Debt*.

NOTE 12—RESTRUCTURING AND TRANSACTION COSTS

Restructuring and Integration Costs

Restructuring costs for the year ended December 31, 2021 were \$35 million and were incurred during the first two quarters of 2021. Restructuring costs primarily included severance costs and professional fees incurred in connection with cost efficiency assessments and organizational design services. Restructuring initiatives were substantially complete as of June 30, 2021.

Restructuring costs for the six months ended December 31, 2020 were \$61 million and primarily included severance costs, professional fees incurred in connection with cost efficiency assessments and organizational design services and charges associated with management incentive and retention programs implemented as a result of the Chapter 11 Cases.

Restructuring costs for the six months ended June 30, 2020 were \$58 million and primarily included professional fees incurred in connection with cost efficiency assessments and organizational design services, severance cost, stock compensation expense for six



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

months of 2020 and charges associated with management incentive and retention programs implemented as a result of the Chapter 11 Cases.

Restructuring and integration costs were \$114 million in 2019 and included change-in-control, severance, professional fees and costs of settlement of litigation, as well as costs to achieve our combination profitability initiative program.

Restructuring costs are recorded within our Corporate operating results.

Transaction Costs

Transaction costs for the six months ended June 30, 2020 were \$36 million and primarily related to professional and other fees associated with the Chapter 11 Cases and the Lummus Technology sale incurred prior to the Petition Date, as well as legal and other professional fees associated with the sale process for the pipe fabrication business.

Transaction costs were \$57 million in 2019 and primarily related to legal and other professional fees associated with the sale processes for the pipe fabrication business and the Lummus Technology business and the now-terminated effort to sell our industrial storage tanks business, as well as professional and other fees associated with the Chapter 11 Cases.

Transaction costs are recorded within our Corporate operating results.

NOTE 13—DEBT

The carrying values of our debt obligations were as follows:

| | December 31, 2021 | | December 31, 2020 |
|----------------------------------|-------------------|----|-------------------|
| | (In millions) | | |
| <i>Current debt:</i> | | | |
| <i>Amazon financing facility</i> | | | |
| Financing facility | \$ 24 | \$ | - |
| Facility issuance costs | (2) | | - |
| <i>Total current debt</i> | \$ 22 | \$ | - |
| <i>Long-term debt</i> | | | |
| <i>Exit Facilities</i> | | | |
| Term Loan Exit Facility | \$ 460 | \$ | 429 |
| Make-Whole Exit Facility | 40 | | 39 |
| <i>Amazon financing facility</i> | | | |
| Financing facility | 129 | | - |
| Facility issuance costs | (22) | | - |
| <i>Total long-term debt</i> | \$ 607 | \$ | 468 |

Exit Facilities

On June 30, 2020 (the “Effective Date”), we entered into a credit agreement (the “Exit Credit Agreement”) with a syndicate of lenders and letter of credit issuers and also amended the 2018 Roll-Off Facility (as defined in the Exit Credit Agreement) and the Sidecar Roll-Off Facility (as defined in the Exit Credit Agreement) (the Exit Credit Agreement, the 2018 Roll-Off Facility and the Sidecar Roll-Off Facility, collectively the “Emergence Credit Agreements”).

The Emergence Credit Agreements provide for credit facilities consisting of (1) a super senior exit facility comprised of a letter of credit facility in an amount of \$743 million (the “Super Senior LC Exit Facility”); (2) a super senior term loan facility in an initial principal amount of approximately \$44 million (the “Make-Whole Exit Facility”); (3) a senior secured letter of credit exit facility in an amount up to \$1.326 billion for new letters of credit, subject to an aggregate of \$150 million of commitment step-downs in 2022 (the “Senior LC Exit Facility”); (4) senior secured letter of credit exit facilities reflecting existing letters of credit issued under the 2018 Roll-Off Facility and the Sidecar Roll-Off Facility (collectively, the “Roll-Off LC Facilities”); (5) a senior secured term loan facility in an initial principal amount of \$500 million of take-back debt (the “Term Loan Exit Facility”); and (6) a cash secured letter of credit exit facility in an amount up to \$371 million (the “Cash Secured LC Facility” and, together with the Super Senior LC Exit Facility and the Senior LC Exit Facility, the “LC Exit Facilities”); (the credit facilities described in clauses (1) through (6) above, the “Exit Facilities”). The Cash Secured LC Facility was terminated on December 31, 2020 concurrently with the establishment of the Escrow LC Facility (as defined below). Amounts on deposit previously supporting the Cash Secured LC Facility and previously reflected in Restricted Cash



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

have been returned to us and recorded within Cash and cash equivalents within the Successor Balance Sheet as of December 31, 2020 (approximately \$382 million). The Sidecar Roll-Off Facility was terminated and all the letters of credit thereunder cease to exist.

On February 28, 2022, we entered into an amendment to the Exit Credit Agreement with certain lenders, pursuant to which, (1) the minimum liquidity threshold is reduced from \$300 million to \$100 million and will be increased by the greater of (a) \$50 million at the end of each quarter commencing March 31, 2023 or (b) the cumulative amounts of proceeds applied from capital raise and asset sales from February 28, 2022, in each case, until the minimum liquidity threshold reaches \$300 million (such date, the "Reversion Date"), (2) the minimum liquidity will be tested monthly until the Reversion Date, (3) commencing on February 28, 2022 until the Reversion Date, 25% of the first \$100 million of the proceeds, 50% of the next \$50 million of the proceeds and 75% of any additional proceeds, in each case, of certain capital raise or asset sales shall be applied to increase the minimum liquidity threshold and (4) the commitment of the Senior LC Exit Facility shall be reduced by \$25 million on June 30, 2022, by \$50 million on September 30, 2022 and by \$75 million on December 30, 2022.

On December 31, 2020, we entered into a letter of credit agreement (the "Escrow LC Credit Agreement") with certain participants and issuers of letters of credit. The Escrow LC Credit Agreement provides for a letter of credit facility (the "Escrow LC Facility") for the issuance of up to \$371 million face amount of letters of credit which has been cash collateralized by the participants for the benefit of the letter of credit issuers under the Escrow LC Facility. We incurred approximately \$32 million in fees in connection with the Escrow LC Facility, which were capitalized as issuance costs and will be amortized into interest expense over the term of the facility. As of December 31, 2021, approximately \$390 million was deposited by the participants under the Escrow LC Facility into a segregated escrow account as cash collateral for the benefit of the letter of credit issuers under the Escrow LC Facility. We do not reflect the amount in the escrow account as an asset in our Financial Statements. Concurrent with entering into the Escrow LC Credit Agreement, we amended the Emergence Credit Agreements to accommodate the Escrow LC Facility and document other matters.

As of December 31, 2021, the long-term debt of the Exit Facilities consisted of:

- Term Loan Exit Facility recorded at the fair value of \$417.5 million as of June 30, 2020, further adjusted for the accretion and accrued paid-in-kind ("PIK") interest. Principal under this facility matures in June 2025 and interest is based on McDermott's advanced election of either (1) the Eurodollar rate plus a margin of 4.00% per year or (2) the base rate (the highest of the prime rate, 0.50% per annum plus the Federal Funds Rate or 1% per annum plus the Eurodollar Rate for an interest period of one month) plus a margin of 3.00%. Effective October 1, 2020, instead of paying the full interest amount in cash, we have elected to (1) pay in cash an amount of interest expense equal to the Eurodollar rate plus a margin of 1.00% per year, and (2) pay PIK interest in an amount equal to 3.00% per year. The PIK interest was added to the unpaid principal balance of the Term Loan Exit Facility.
- Make-Whole Exit Facility, rolled up from the DIP Term Facility and recorded at the fair value of \$38 million as of June 30, 2020, further adjusted for the accretion. Principal under this facility matures in June 2024 and interest is based on our advanced election of either (1) the Eurodollar rate plus a margin of 3.00% per year or (2) the base rate (the highest of the prime rate, 0.50% per annum plus the Federal Funds Rate or 1% per annum plus the Eurodollar Rate for an interest period of one month) plus a margin of 2.00%.

Commitments under the Senior LC Exit Facility are activated and increased as letters of credit under the Roll-Off LC Facilities cease to be a letter of credit under the Roll-Off LC Facilities or are reduced. Except for letters of credit issued on the date of the McDermott Group's emergence from bankruptcy, letters of credit cannot be issued under the Roll-Off LC Facilities. The total amount of letters of credit issued under the LC Exit Facilities, Roll-Off LC Facilities and Escrow LC Facility cannot exceed \$2.44 billion, which amount shall decrease by an aggregate of \$150 million over 2022 (\$25 million on June 30, 2022, \$50 million on September 30, 2022 and \$75 million on December 30, 2022) as the Senior LC Exit Facility commitments decrease. This limit may cap the letters of credit that we can issue under the LC Exit Facilities and Escrow LC Facility to be less than the available amounts of commitments with respect to a particular LC Exit Facility. As of December 31, 2021, this cap on the LC Exit Facilities and Escrow LC Facility equaled \$1.792 billion as letters of credit under the Roll-Off LC Facilities equaled \$648 million. As the amount of letters of credit under the Roll-Off LC Facilities decreases, this in turn increases the cap of letters of credit that can be issued under the LC Exit Facilities. We may utilize this increased cap on the LC Exit Facilities and Escrow LC Facility at our discretion to issue letters of credit under the LC Exit Facilities or Escrow LC Facility depending on the type of needed letters of credit. However, letters of credit cannot be issued under the Senior LC Facility if there is sufficient capacity to be issued under the Super Senior LC Facility.

We paid approximately \$22 million in fees in connection with the LC Exit Facilities, which were capitalized as debt issuance costs, and subsequently recognized in the "Reorganization items, net" in the Predecessor Statements of Operations for the six months ended June 30, 2020. Each letter of credit issued under the Super Senior Exit Facility will accrue a participation fee at a rate equal to 4.75% per annum of the face amount; and each letter of credit issued under the Senior LC Exit Facility will accrue a participation fee at a rate equal to (1) 3.00% per annum until April 30, 2023 and (2) 3.50% per annum thereafter, in each case, of the face amount of such letter of credit. Each letter of credit issued under the Super Senior Exit Facility and Senior LC Exit Facility will also accrue a fronting fee equal to



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

0.70% per annum of the daily maximum amount available to be drawn under such letter of credit. An unused commitment fee will also be payable to the lenders under the Super Senior Exit Facility and the Senior LC Exit Facility in an amount equal to 0.50% per annum of the amount of its unused commitments thereunder. Each letter of credit issued under the Roll-Off Exit Facility prior to October 21, 2019 will accrue a participation fee equal to 4.25% per annum if such letter of credit is a financial letter of credit and 2.125% per annum if such letter of credit is a performance letter of credit and each letter of credit issued (or increased) under the Roll-Off Exit Facility on or after October 21, 2019 will accrue a participation fee of 5.00% per annum (and for any increases, 5.00% per annum on the portion of the letter of credit increased). Each letter of credit issued under the Roll-Off Exit Facility will accrue a fronting fee of 0.25% per annum. Each letter of credit issued under the Escrow LC Facility will accrue a fronting fee of 1.50% per annum. In addition, in connection with the entry into the Escrow LC Credit Agreement, the participants received Series A Preference (as defined in Note 19, *Stockholders' Equity and Equity-Based Incentive Plans*, and as described in more detail in Note 20, *Redeemable Preferred Stock*).

The indebtedness and other obligations under the Exit Facilities and Escrow LC Facility are unconditionally guaranteed by MIL and substantially all of its direct and indirect wholly owned subsidiaries or affiliates, other than several captive insurance subsidiaries and certain other designated or immaterial subsidiaries.

The Exit Credit Agreement requires us to comply with the following financial covenants:

- Fixed Charge Coverage Ratio—if, as of the last day of any fiscal quarter, commencing with the fiscal quarter ending September 30, 2021, the certain permitted debt exceeds \$500 million and liquidity is less than \$450 million then, as of such date, the fixed charge coverage ratio for the four fiscal quarter period then ended cannot be less than (1) 1.00:1.00 for any four fiscal quarter period ending on or before June 30, 2021, (2) 1.20:1.00 for any four fiscal quarter period ending on or after June 30, 2021 and on or before December 31, 2022, (3) 1.40:1.00 for any four fiscal quarter period ending on or after December 31, 2022 on or before June 30, 2023, (4) 1.60:1.00 for any four fiscal quarter period ending on or after June 30, 2023 and on or before December 31, 2023, (5) 1.70:1.00 for any four fiscal quarter period ending on or after December 31, 2023 and on or before December 31, 2024, and (6) 2.00:1.00 for any four fiscal quarter period ending on or after March 31, 2024.
- Liquidity—beginning with the first Fiscal Quarter ending after the Effective Date until February 28, 2022, we are required to maintain minimum Liquidity (generally excludes cash held in VIEs and collaborative arrangements, as defined in the Exit Credit Facility) of not less than \$300 million at the end of each fiscal quarter. Commencing on the last day of each month starting February 28, 2022, we are required to maintain minimum Liquidity of not less than \$100 million which will be increased by the greater of (a) \$50 million at the end of each quarter commencing March 31, 2023 or (b) the cumulative amounts of proceeds applied from capital raise and asset sales from February 28, 2022, in each case, until the minimum liquidity threshold reaches \$300 million, at which point quarterly testing will resume.

As of December 31, 2021, we were in compliance with the Exit Credit Agreement financial covenant requirements.

Amazon Financing Facility

Our finance lease obligations as of December 31, 2020 of \$56 million were related to the amended bareboat charter arrangements for the *Amazon*, a pipelay and construction vessel, purchased by us in February 2017 and then sold to an unrelated third party (the "Amazon Owner") and leased back under a long-term bareboat charter (the "Charter") that gave us the right to use the vessel. On July 27, 2018, we entered into agreements providing for certain modifications to the *Amazon* vessel and related financing and amended bareboat charter arrangements. The Amazon Owner was expected to fund the cost of the modifications of the *Amazon* primarily through an export credit agency ("ECA")-backed senior loan that was provided to it by a group of lenders (the "Finance Parties"), supplemented by our expected direct capital expenditures. On October 1, 2020, the Amazon Owner delivered a put option notice (the "Put Option Notice") requiring us under the Charter to acquire the *Amazon* for approximately \$83 million by November 17, 2020. On December 22, 2020, we entered into a Memorandum of Agreement (the "MOA") with the Amazon Owner to instead purchase the *Amazon* for \$55 million in cash plus refinancing approximately \$19.5 million of amounts associated with the Amazon Owner's current financing into the New Amazon Financing (as described below).

McDermott, the Amazon Owner and the Finance Parties entered into a standstill agreement in which each of the parties agreed for a period of time to refrain from exercising their respective rights against the other parties under the Charter, the Put Option Notice, the Amazon Owner's current financing and other related documents. This allowed additional time for (1) McDermott and the Amazon Owner to negotiate and finalize terms of the MOA and (2) McDermott and the Finance Parties to negotiate and finalize the terms of a new credit facility to fund the continuing vessel modifications.

On February 19, 2021, we entered into a \$285 million ECA-Backed Term Facilities Agreement with McDermott (Amazon Chartering), Inc. as borrower (the "Amazon Borrower"), MIL as parent guarantor and ABN AMRO Capital USA LLC as agent (the "Amazon Financing") with a maturity date of December 31, 2033. The Amazon Financing has an interest rate of LIBOR plus 1.70% per annum,

MCDERMOTT



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

with principal payments due quarterly beginning June 30, 2022 in equal installments of approximately \$6.06 million. Borrowings under the Amazon Financing are irrevocably and unconditionally guaranteed by MIL and are secured by, among others, a pledge of all the equity of the Amazon Borrower, a mortgage on the *Amazon*, and a lien on substantially all the other assets of the Amazon Borrower. The use of proceeds of the New Amazon Financing include funding of the upgrade of the *Amazon*, refinancing the Amazon Owner's current financing, settling a portion of the Swap Obligations associated with previous McDermott guarantees to the Amazon Owner for two separate interest rate swaps associated with the *Amazon*, and paying insurance premiums to the ECA to provide insurance coverage to the lenders. As of December 31, 2021, approximately \$153 million (of which \$24 million was included in "Current portion of long-term debt") was outstanding under the Amazon Financing, comprised of: (1) non-cash financing of \$21 million to settle a portion of the Swap Obligations and non-cash financing of \$20 million for the ECA premium; (2) cash financing of \$6 million for the ECA premium; and (3) cash financing of \$106 million for the partial settlement of the Amazon Owner's financing of the *Amazon* construction. The remaining available amounts under the Amazon Financing may be borrowed to fund the remaining upgrade costs of the *Amazon* and are expected to be drawn during the first half of 2022.

Amazon facility issuance costs were approximately \$26 million and primarily related to the ECA premium, which will be amortized into interest expense over a period of 12 years.

On February 19, 2021, we also purchased the *Amazon* from the Amazon Owner pursuant to the terms of the MOA, comprised of a first cash installment of \$15 million paid at closing and a second cash installment of \$40 million paid during June 2021, and derecognized the associated finance lease obligations outstanding as of December 31, 2020.

Uncommitted Facilities

We are party to a number of short-term uncommitted bilateral credit facilities and surety bond arrangements (the "Uncommitted Facilities") across several geographic regions. As of December 31, 2021, capacity under the Uncommitted Facilities was approximately \$1.8 billion. The financial institutions that provide the Uncommitted Facilities have no obligation to issue letters of credit or bank guarantees, or to post surety bonds, on our behalf, and they may be able to demand that we provide them with cash or other collateral to backstop these liabilities. As of December 31, 2021, we had approximately \$13 million of cash restricted to secure reimbursement obligations in respect of letters of credit issued under the Uncommitted Facilities.

NOTE 14 – LEASE OBLIGATIONS

The following tables summarize our leased assets and lease liability obligations:

| | | December 31, 2021 | December 31, 2020 |
|--------------------|--|-------------------|-------------------|
| | | (In millions) | |
| | Classification | | |
| Assets | | | |
| Operating leases | Operating lease right-of-use assets | \$ 204 | \$ 252 |
| Finance lease | Property, plant and equipment, net | - | 60 |
| | Total leased assets | 204 | 312 |
| Liabilities | | | |
| Current | | | |
| Operating leases | Current portion of long-term lease obligations | 60 | 76 |
| Finance lease | Finance lease obligation | - | 56 |
| | | 60 | 132 |
| Noncurrent | | | |
| Operating leases | Long-term lease obligations | 192 | 219 |
| | | 192 | 219 |
| | Total lease liabilities | \$ 252 | \$ 351 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Operating leases

Our operating leases primarily consist of leases for administrative offices, fabrication yard and certain equipment.

Our lease cost for operating leases was as follows:

| Classification in Statement of Operations | Successor | | Predecessor | |
|---|-------------------|-------------------|------------------|-------------------|
| | Year ended | Six months ended | Six months ended | Year ended |
| | December 31, 2021 | December 31, 2020 | June 30, 2020 | December 31, 2019 |
| | (In millions) | | (In millions) | |
| SG&A Expenses | \$ 44 | \$ 24 | \$ 29 | \$ 46 |
| Cost of operations | 64 | 54 | 83 | 89 |
| Net lease cost ⁽¹⁾ | \$ 108 | \$ 78 | \$ 112 | \$ 135 |

(1) Includes short-term leases and immaterial variable lease costs.

The weighted-average remaining lease term as of December 31, 2021 was approximately 9 years. The weighted-average discount rate used to determine the operating lease liability as of December 31, 2021 was 12.5%.

Future minimum lease payments for our operating lease obligations as of December 31, 2021 were as follows:

| | Operating Leases (In millions) |
|------------------------------------|-----------------------------------|
| 2022 | \$ 62 |
| 2023 | 49 |
| 2024 | 41 |
| 2025 | 31 |
| 2026 | 29 |
| After 2026 | 205 |
| Total lease payments | 417 |
| Less: Interest | (165) |
| Present value of lease liabilities | \$ 252 |

Supplemental information for our operating lease obligations are as follows:

| | Successor | | Predecessor | |
|---|-------------------|-------------------|------------------|-------------------|
| | Year ended | Six months ended | Six months ended | Year ended |
| | December 31, 2021 | December 31, 2020 | June 30, 2020 | December 31, 2019 |
| | (In millions) | | (In millions) | |
| Cash paid for amounts included in the measurement of lease liabilities | | | | |
| Operating cash flows from operating leases | \$ 64 | \$ 47 | \$ 53 | \$ 101 |
| Noncash changes to leased assets resulting from Fresh Start Accounting remeasurements | - | - | 43 | - |

Finance lease

Our finance lease obligations as of December 31, 2020 of \$56 million were related to the amended bareboat charter arrangements for the *Amazon*, a pipelay and construction vessel, purchased by us in February 2017 and then sold to an unrelated third party and leased back under a long-term bareboat charter that gave us the right to use the vessel. See Note 13, *Debt*, "Amazon Financing Facility", for further discussion.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15—PENSION AND POSTRETIREMENT BENEFITS

Defined Contribution Plans

We sponsor multiple defined contribution plans for eligible employees with various features, including voluntary employee pre-tax and Roth-based contributions. Employer matching ceased effective July 1, 2020 and was subsequently reestablished effective January 1, 2022. We expensed \$14 million through June 30, 2020, and \$34 million in 2019 for these plans. We also provide benefits under our Director and Executive Deferred Compensation Plan (the “Deferred Compensation Plan”), which is a non-qualified defined contribution plan. In addition, we sponsor multiple defined contribution plans that cover eligible employees for which we do not provide contributions. The cost of these plans was not significant to us in 2020 or 2019.

Defined Benefit Pension and Other Postretirement Plans

We sponsor various defined benefit pension plans covering eligible employees and provide specific postretirement benefits for eligible retired employees and their dependents through health care and life insurance benefit programs. These plans may be changed or terminated by us at any time.

In December 2021, we resolved to terminate three defined benefit pension plans in the United States effective April 30, 2022. As of December 31, 2021 the projected benefit obligation and net funded status for these plans were approximately \$452 million and \$40 million, respectively. Settlements are expected to be completed by the end of 2023. Current investments include diversified long duration fixed income securities, cash, and derivative investments designed to help hedge interest rate and credit spread risks until all plan assets have been distributed. Former investments in global equities and high yield bonds have been liquidated as part of this termination process.

Components of Net Periodic Benefit Cost

The following table provides a breakdown of the components of the net periodic pension income and cost associated with our defined benefit pension plans (net periodic benefit cost for our post-retirement benefit plans were not material):

| | Successor | | Predecessor | |
|---|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| U.S. pension plans: | | | | |
| Interest cost | \$ 11 | \$ 6 | \$ 7 | \$ 19 |
| Expected return on plan assets | (20) | (10) | (9) | (17) |
| Actuarial mark to market gain ⁽¹⁾ | (3) | (17) | - | (21) |
| Net periodic benefit income | <u>\$ (12)</u> | <u>\$ (21)</u> | <u>\$ (2)</u> | <u>\$ (19)</u> |
| Non-U.S. pension plans: | | | | |
| Service cost | \$ - | \$ 9 | \$ 6 | \$ 10 |
| Interest cost | 8 | 5 | 7 | 16 |
| Expected return on plan assets | (20) | (10) | (11) | (22) |
| Curtailment gain ⁽²⁾ | (34) | - | - | - |
| Actuarial mark to market (gain) loss ⁽³⁾ | (49) | (11) | - | 23 |
| Net periodic benefit (income) cost | <u>\$ (95)</u> | <u>\$ (7)</u> | <u>\$ 2</u> | <u>\$ 27</u> |

⁽¹⁾ Actuarial mark to market gain for 2021 was \$52 million and was primarily associated with gains in the Netherlands and the United Kingdom (\$13 million and \$36 million, respectively). Actuarial mark to market gain for 2020 was \$28 million and was primarily associated with gains in the Netherlands (\$12 million) and in the United States (\$16 million) plans.

⁽³⁾ In January 2021, our defined benefit plan in the Netherlands was closed to further pension benefit accruals. This amendment resulted in a plan curtailment gain of approximately \$34 million recognized in “Other non-operating income, net” in the Statement of Operations for the year ended December 31, 2021. Periodic benefit cost associated with our postretirement plans was not material during the six months ended December 31, 2020 and June 30, 2020 and years ended December 31, 2020 and 2019.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The components of periodic benefit cost (income) are primarily recognized within “Other non-operating expense (income), net” line in our Statements of Operations.

Amounts recognized in balance sheet

| | U. S. Pension Plans | | Non-U. S. Pension Plans | |
|---|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Year ended December 31, 2020 | Year ended December 31, 2021 | Year ended December 31, 2020 |
| | (In millions) | | (In millions) | |
| Amounts recognized in balance sheet consist of: | | | | |
| Prepaid benefit cost within Other non-current assets | \$ 40 | \$ 30 | \$ 50 | \$ 11 |
| Accrued benefit cost within accrued liabilities | (1) | (1) | - | - |
| Accrued benefit cost within Other non-current liabilities | (14) | (17) | (109) | (186) |
| Net funded status recognized | <u>\$ 25</u> | <u>\$ 12</u> | <u>\$ (59)</u> | <u>\$ (175)</u> |

Our postretirement plans were in underfunded position as of December 31, 2021 and 2020 and were \$17 million and \$20 million, respectively, primarily included within the Other non-current liabilities.

Change in Projected Benefit Obligation and Plan Assets

| | U.S. Pension Plans | | Non-U.S. Pension Plans | |
|---|--------------------|---------------|------------------------|-----------------|
| | 2021 | 2020 | 2021 | 2020 |
| | (In millions) | | (In millions) | |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at beginning of year | \$ 519 | \$ 502 | \$ 988 | \$ 886 |
| Service cost | - | - | - | 15 |
| Interest cost | 11 | 15 | 8 | 10 |
| Actuarial loss (gain) | (21) | 37 | (60) | 38 |
| Benefits paid | (35) | (35) | (32) | (27) |
| Settlement and Curtailment | - | - | (34) | - |
| Currency translation | - | - | (52) | 66 |
| Projected benefit obligation at end of year | <u>\$ 474</u> | <u>\$ 519</u> | <u>\$ 818</u> | <u>\$ 988</u> |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | \$ 531 | \$ 492 | \$ 813 | \$ 734 |
| Actual return (loss) on plan assets | 2 | 73 | 9 | 51 |
| Company contributions | 1 | 1 | 9 | 7 |
| Benefits paid | (35) | (35) | (32) | (27) |
| Currency translation | - | - | (40) | 48 |
| Fair value of plan assets at end of year | <u>499</u> | <u>531</u> | <u>759</u> | <u>813</u> |
| Net funded status | <u>\$ 25</u> | <u>\$ 12</u> | <u>\$ (59)</u> | <u>\$ (175)</u> |

Accumulated Benefit Obligations—As of December 31, 2021 and 2020, the accumulated benefit obligation for all defined benefit pension plans was \$1.3 billion and \$1.5 billion, respectively. The following table includes summary information for those defined benefit plans with an accumulated benefit obligation in excess of plan assets:

| | U. S. Pension Plans | | Non-U. S. Pension Plans | |
|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Year ended December 31, 2020 | Year ended December 31, 2021 | Year ended December 31, 2020 |
| | (In millions) | | (In millions) | |
| Projected benefit obligation | 30 | \$ 32 | 520 | \$ 863 |
| Accumulated benefit obligation | 30 | 32 | 520 | 843 |
| Fair value of plan assets | 15 | 15 | 411 | 677 |

Plan Assumptions —The following table presents the weighted-average assumptions used to measure our defined benefit pension and other postretirement plans:



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

| | U. S. Pension Plans | | Non-U. S. Pension Plans | |
|--|---------------------|-------------------|-------------------------|-------------------|
| | Year ended | Year ended | Year ended | Year ended |
| | December 31, 2021 | December 31, 2020 | December 31, 2021 | December 31, 2020 |
| Weighted average assumptions used to determine net periodic benefit obligations at December 31, | | | | |
| Discount rate | 2.65% | 2.20% | 1.40% | 0.90% |
| Rate of compensation increase ⁽¹⁾ | N/A | N/A | N/A | N/A |
| Weighted average assumptions used to determine net periodic benefit cost: | | | | |
| Discount rate | 2.20% | 3.88% | 0.72% | 1.21% |
| Expected return on plan assets ⁽²⁾ | 3.98% | 3.97% | 2.47% | 2.65% |
| Rate of compensation increase ⁽¹⁾ | N/A | N/A | N/A | 1.36% |

- (1) The rate of compensation increase relates solely to the defined benefit plans that factor compensation increases into the valuation.
- (2) The expected long-term rate of return on plan assets was derived using historical returns by asset category and expectations of future performance.

The following table illustrates the sensitivity to changes in certain assumptions, holding all other assumptions constant, for our pension plans.

| | Effect on | |
|--|---|---|
| | Pretax Pension Expense in 2021 ⁽¹⁾ | Pension Benefit Obligation at December 31, 2021 |
| | (in millions) | |
| 25-basis-point change in discount rate | 34 | 42 |

- (1) A 25-basis-point change in the expected rate of return on plan assets would not have a material impact on pretax pension expense in 2021.

Plan assets—Our investment strategy for defined benefit plan assets seeks to optimize the proper risk-return relationship considered appropriate for each respective plan's investment goals, using a global portfolio of various asset classes diversified by market segment, economic sector and issuer. The primary goal is to optimize the asset mix to fund future benefit obligations, while managing various risk factors and each plan's investment return objectives.

Our pension assets are categorized within the valuation hierarchy based on the lowest level of input that is significant to the fair value measurement. Assets that are valued using quoted prices are classified within level 1 of the valuation hierarchy, assets that are valued using internally developed models that use, as their basis, readily observable market parameters, are classified within level 2 of the valuation hierarchy, and assets that are valued based on models with significant unobservable market parameters are classified within level 3 of the valuation hierarchy.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following tables present the fair values of our plan assets by investment category and valuation hierarchy level as of December 31, 2021 and 2020:

| Asset category | December 31, 2021 | | | Total |
|--|-------------------|---------|---------|----------|
| | Level 1 | Level 2 | Level 3 | |
| | (In millions) | | | |
| Fixed income securities: | | | | |
| U.S. fixed income securities | \$ 233 | \$ 181 | \$ - | \$ 414 |
| International government bonds ⁽¹⁾ | - | 200 | - | 200 |
| International corporate bonds ⁽²⁾ | - | 184 | 9 | 193 |
| International mortgage funds ⁽³⁾ | - | 61 | - | 61 |
| All other fixed income securities ⁽⁴⁾ | - | 99 | - | 99 |
| Equity securities: | | | | |
| U.S. equities | - | - | - | - |
| International funds ⁽⁵⁾ | - | 93 | - | 93 |
| Emerging markets growth funds | - | 3 | - | 3 |
| U.S. equity funds | - | 4 | - | 4 |
| Other investments: | | | | |
| Asset allocation funds ⁽⁶⁾ | - | 72 | - | 72 |
| Cash and accrued items | 119 | - | - | 119 |
| Total Investments | \$ 352 | \$ 897 | \$ 9 | \$ 1,258 |

| Asset category | December 31, 2020 | | | Total |
|-----------------------------------|-------------------|----------|---------|----------|
| | Level 1 | Level 2 | Level 3 | |
| | (In millions) | | | |
| Fixed income securities: | | | | |
| U.S. fixed income securities | \$ 164 | \$ 263 | \$ 2 | \$ 429 |
| International government bonds | - | 277 | - | 277 |
| International corporate bonds | - | 104 | - | 104 |
| International mortgage funds | - | 73 | - | 73 |
| All other fixed income securities | - | 44 | - | 44 |
| Equity securities: | | | | |
| U.S. equities | 85 | - | - | 85 |
| International funds | - | 202 | - | 202 |
| Emerging markets growth funds | - | 17 | - | 17 |
| U.S. equity funds | - | 16 | - | 16 |
| Other investments: | | | | |
| Asset allocation funds | - | 85 | - | 85 |
| Cash and accrued items | 10 | - | - | 10 |
| Total Investments | \$ 259 | \$ 1,081 | \$ 2 | \$ 1,342 |

The following provides descriptions for plan asset categories with significant balances in the tables above:

- (1) Investments in predominately EU government securities and U.K. Treasury securities, with credit ratings primarily AAA.
- (2) Investments in European and U.K. fixed interest securities, with credit ratings of primarily BBB and above.
- (3) Investments in international mortgage funds.
- (4) Investments predominantly in various international fixed income obligations that are individually insignificant.
- (5) Investments in various funds that track international indices.
- (6) Investments in fixed income securities, equities and alternative asset classes, including commodities and property assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Benefit Payments —The following table includes the expected defined benefit and other postretirement plan payments for the next ten years:

| | U. S. Pension Plans (In millions) | Non-U. S. Pension Plans (In millions) |
|--|--------------------------------------|--|
| Expected employer contributions to trusts of defined benefit plans: | | |
| 2022 | \$ 1 | \$ 7 |
| Expected benefit payments: | | |
| 2022 | \$ 35 | \$ 32 |
| 2023 | 35 | 33 |
| 2024 | 34 | 33 |
| 2025 | 33 | 33 |
| 2026 | 32 | 33 |
| 2027-2031 | 147 | 169 |

Health Care Cost Inflation—As noted above, we provide specific postretirement health care benefits for eligible retired U.S. employees and their dependents. Eligible current retirees can elect coverage on a retiree-pay-all basis; there is no longer a company subsidy for the cost of coverage. Future retirees and new employees are not eligible for these post-retirement health care benefits. Additionally, there is a closed group of retirees for which we assume some or all of the cost of coverage. For this group, health care cost trend rates are projected at annual rates ranging from 6.25% in 2021 down to 5.0% in 2027 and after. A change in the assumed health care cost trends by one percentage point is estimated to have an immaterial impact on the total service and interest cost components of net postretirement health care cost for 2021 and the accumulated postretirement benefit obligation as of December 31, 2021.

Multi-Employer Pension Plans

We contribute to certain union sponsored multi-employer defined benefit pension plans in the United States and Canada, all resulting from the acquired CB&I operations. Benefits under these plans are generally based upon years of service and compensation levels. Under U.S. legislation regarding such pension plans, the risks of participation are different than single-employer pension plans as (1) assets contributed to the plan by a company may be used to provide benefits to participants of other companies, (2) if a participating company discontinues contributions to a plan, other participating companies may have to cover any unfunded liability that may exist, and (3) a company is required to continue funding its proportionate share of a plan's unfunded vested benefits in the event of withdrawal (as defined by the legislation) from a plan or plan termination. The following table provides additional information regarding our significant multi-employer defined benefit pension plans, including the funding level of each plan (or zone status, as defined by the Pension Protection Act), whether actions to improve the funding level of the plan have been implemented, where required (a funding improvement plan ("FIP") or rehabilitation plan ("RP")), and our contributions to each plan and total contributions for 2021, among other disclosures.

| Pension Fund | EIN/Plan Number | Plan Year End | Pension Protection Act (% Funded) ⁽¹⁾ | | | FIP/RP Plan | Total Company Contributions ⁽²⁾ | | | Expiration Date of Collective-Bargaining Agreement ⁽³⁾ |
|--|-----------------|---------------|--|-----------|---------------|-------------|--|--------------|--------------|---|
| | | | 2021 | 2020 | 2019 | | 2021 | 2020 | 2019 | |
| Boilermaker-Blacksmith National Pension Trust ⁽⁵⁾ | 48-6168020-001 | 12/31 | 65% - 80% | 65% - 80% | Less Than 65% | Yes | \$ 2 | \$ 9 | \$ 11 | Various ⁽⁴⁾ |
| Boilermakers' National Pension Plan (Canada) | 366708 | 12/31 | N/A | N/A | N/A | N/A | 1 | 2 | 2 | 04/19 |
| All Other ⁽⁶⁾ | | | | | | | - | 1 | 2 | |
| Total | | | | | | | <u>\$ 3</u> | <u>\$ 12</u> | <u>\$ 15</u> | |

- (1) Pension Protection Act Zone Status and FIP/RP plans are applicable to our U.S.-registered plans only, as these terms are not defined within Canadian pension legislation. In the United States, plans funded less than 65% are in the red zone, plans funded at least 65%, but less than 80%, are in the yellow zone, and plans funded at least 80% are in the green zone. The requirement for FIP or RP plans in the United States is based on the funding level or zone status of the applicable plan.
- (2) Our 2021 contributions as a percentage of total plan contributions were not available for any of our plans. The level of our contributions to each plan noted above varies from period to period based upon the level of work being performed that is covered under the applicable collective bargaining agreement.
- (3) The expiration dates of our labor agreements associated with the plans noted as "Various" vary based upon the duration of the applicable projects.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- (4) If a revised collective-bargaining agreement has not been concluded before the expiration date of this Agreement, it may be extended beyond that date to whatever extent may be mutually agreed to between the Union and the BCA of Alberta, or as provided by applicable laws, statutes or regulations.
- (5) The plans utilized an amortization extension. Additionally, in 2019 the plan adopted a rehabilitation plan to enable the plan to reach a funded status of 65% or greater by the end of the rehabilitation period ending in December 31, 2031.
- (6) Our remaining contributions in 2021 to various U.S. and Canadian plans were individually immaterial.

We also contribute to our multi-employer plans for annuity benefits covered under the defined contribution portion of the plans as well as health benefits. In 2021, we made contributions to our multi-employer plans of \$3 million for these additional benefits.

NOTE 16—FAIR VALUE MEASUREMENTS

Fair value of financial instruments

Financial instruments are required to be categorized within a valuation hierarchy based upon the lowest level of input that is available and significant to the fair value measurement. The three levels of the valuation hierarchy are as follows:

- Level 1—inputs are based on quoted prices for identical instruments traded in active markets.
- Level 2—inputs are based on quoted prices for similar instruments in active markets, quoted prices for similar or identical instruments in inactive markets and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3—inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar valuation techniques.

The following table presents the fair value of our financial instruments as of December 31, 2021 and 2020 that are (1) measured and reported at fair value in the Financial Statements on a recurring basis and (2) not measured at fair value on a recurring basis in the Financial Statements:

| | December 31, 2021 | | | | |
|--|-------------------|------------|---------|---------|---------|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| | (In millions) | | | | |
| Measured at fair value on recurring basis | | | | | |
| Forward contracts ⁽¹⁾ | \$ (31) | \$ (31) | \$ - | \$ (31) | \$ - |
| Not measured at fair value on recurring basis | | | | | |
| Debt ⁽²⁾ | (653) | (394) | - | (237) | (157) |
| | December 31, 2020 | | | | |
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| | (In millions) | | | | |
| Measured at fair value on recurring basis | | | | | |
| Forward contracts | \$ (9) | \$ (9) | \$ - | \$ (9) | \$ - |
| Not measured at fair value on recurring basis | | | | | |
| Debt and finance lease obligations | (524) | (406) | | (350) | (56) |

(1) The fair value of forward contracts is classified as Level 2 within the fair value hierarchy and is valued using observable market parameters for similar instruments traded in active markets. Where quoted prices are not available, the income approach is used to value forward contracts. This approach discounts future cash flows based on current market expectations and credit risk.

(2) The fair values of the Term Loan Exit Facility and Make-Whole Exit Facility as of December 31, 2021 were determined using a trading price of these instruments as of December 31, 2021 and were classified as Level 2 within the fair value hierarchy. Carrying values of these instruments as of December 31, 2021 were equal to their values as of June 30, 2020 (as a result of the Fresh Start Accounting) adjusted for accretion and PIK interest.

Quoted prices were not available for the Amazon financing facility, therefore, the fair values of this instrument were based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt of similar quality and terms and were classified as Level 3 within the fair value hierarchy.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The carrying amounts that we have reported for our other financial instruments, including cash and cash equivalents, restricted cash and cash equivalents, accounts receivable and accounts payable approximate their fair values due to the short maturity of those instruments.

Fair value of non-financial instruments

Upon emergence from bankruptcy in June 2020, the reorganization value derived from the range of enterprise values associated with the Plan of Reorganization was allocated to the Successor's identifiable tangible and intangible assets and liabilities based on their fair values, determined to be Level 3 fair values, with the remaining excess value allocated to goodwill. See Note 4, *Fresh Start Accounting*, for further discussion.

We evaluate our assets for impairment whenever events or changes in circumstances indicate that indicators of impairment exist. In those evaluations, we compare estimated future undiscounted cash flows generated by each asset (or asset group) to the carrying value of the asset (or asset group) to determine if an impairment charge is required. If the undiscounted cash flows test fails, we estimate the fair value of the asset (or asset group) to determine the impairment.

In the second quarter of 2021, impairment triggers due to changes in the utilization plan were present for our fabrication yard in Dammam, Saudi Arabia. We tested the recoverability of operating lease assets and recorded impairment charges of approximately \$2 million.

In the first quarter of 2021, as a result of the continued impact of the COVID-19 pandemic and changes in prospective work schedules, we early terminated the Aqua Lift bareboat charter agreement, accounted for as an operating lease in our consolidated financial statements. As a result of the early termination, we tested the recoverability of the lease and other fixed assets associated with the vessel and recorded impairment charges of approximately \$2.3 million to the operating lease asset and approximately \$1 million to property and equipment associated with the vessel.

During the six months ended December 31, 2020, as a result of internal reorganizations and cost reduction initiatives, changes in the intended use of certain leased assets, including our administrative headquarters in Houston, Texas, represented indicators of impairment, resulting in impairment charges of \$19 million to lease assets. In addition, we impaired approximately \$9 million of leasehold improvements and various other assets associated with our administrative headquarters. In the fourth quarter of 2020, following a decision to no longer utilize certain assets, we also impaired assets located at the Batam, Indonesia fabrication yard totaling approximately \$7 million.

In the first quarter of 2020, as a result of the impact of the COVID-19 pandemic and significant decline in oil and gas prices, we concluded these events represented impairment triggers to our vessels and fabrication yards. The indicators of impairment were primarily related to downward revisions to our forecast future utilization plans, driven by the current COVID-19 pandemic and low oil and gas price environment. The indicators of impairment in the first quarter of 2020 were present for our global use vessels (*DLV 2000, NO 102, NO 102* and *LV108*), our *Emerald Sea* vessel, used in our EMEA segment, four derrick barges servicing our NCSA, EMEA and APAC segments, and three fabrication yards in Altamira, Mexico, Batam, Indonesia and Jebel Ali, UAE. We determined the aggregate carrying value of these assets (approximately \$1.34 billion) was in excess of their aggregate estimated fair value (\$463 million), and recorded an \$881 million impairment. The fair value was estimated based on the amount and timing of estimated associated net future cash flows, discounted at a risk-adjusted rate of 10%. The fair value measurements were based on inputs that are not observable in the market and thus represent level 3 inputs.

In addition, during the first quarter of 2020, we made a decision to exit one of our leased spoolbase facilities by June 2020. In connection with this decision, we tested the recoverability of the fixed assets located at that facility and determined that the assets were impaired by approximately \$3 million. The remaining carrying amount of fixed assets at that facility was not material.

During the third quarter of 2019, indicators of impairment were present for our *Thebaud Sea* vessel, which was previously impaired in the fourth quarter of 2018, and two of our offshore diving operations saturation support systems. Those indicators of impairment were primarily related to a lack of future utilization plans. We determined the aggregate carrying value of these assets (\$26 million) was in excess of their aggregate estimated fair value, which approximated the estimated market value (\$8 million) and recorded an \$18 million non-cash impairment.

The fair value measurements were based on inputs that are not observable in the market and thus represented level 3 inputs.

The impairment charges were recorded within our Corporate segment.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17—DERIVATIVE FINANCIAL INSTRUMENTS

Foreign Currency Exchange Rate Derivatives—The notional value of our outstanding foreign exchange rate derivative contracts totaled approximately \$1.3 billion as of December 31, 2021, with maturities extending through October 2024. These instruments consist of contracts to purchase or sell foreign-denominated currencies. As of December 31, 2021, the fair value of these contracts was in a net liability position totaling approximately \$15 million. The fair value of outstanding derivative instruments is determined using observable financial market inputs, such as quoted market prices, and is classified as Level 2 in nature. As of December 31, 2021, in connection with these instruments, we deferred approximately \$9 million of net losses in AOCI, and we expect to reclassify approximately \$10 million of deferred losses out of AOCI by December 31, 2022, as the hedged items impact earnings.

Interest Rate Derivative—The notional value of our amended and restated interest rate swap arrangement is \$500 million as of December 31, 2021. The swap arrangement was designated as a cash flow hedge upon emergence as its critical terms matched those of the Term Loan Exit Facility. Accordingly, changes in the fair value of the swap arrangement are included in AOCI until the associated underlying exposure impacts our interest expense. As of December 31, 2021, in connection with the interest rate swap arrangement, we deferred approximately \$2 million of net gains in AOCI.

As of December 31, 2021, the fair value of the \$500 million notional value interest rate swap arrangement was in a liability position totaling \$16 million, of which \$13 million was included in “Accrued liabilities” and \$3 million was included in Other non-current liabilities in our Balance Sheet.

The fair value and balance sheet classification of the derivatives designated as cash flow hedges was as follows:

| | December 31, 2021 | December 31, 2020 |
|-------------------------------|-------------------|-------------------|
| | (In millions) | |
| Other current assets | \$ 7 | \$ 36 |
| Other non-current assets | 2 | 13 |
| Total derivatives asset | <u>\$ 9</u> | <u>\$ 49</u> |
| Accrued liabilities | \$ 33 | \$ 37 |
| Other non-current liabilities | 7 | 21 |
| Total derivatives liability | <u>\$ 40</u> | <u>\$ 58</u> |

Derivatives not designated as cash flow hedges were not material as of December 31, 2021 and 2020.

The following table represents gains and losses reclassified from AOCI to the Statements of Operations in connection with derivatives:

| | Successor | | Predecessor | |
|---|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| Amount of gain (loss) recognized in OCI | | | | |
| Foreign exchange hedges | (59) \$ | 60 | \$ (21) | \$ (13) |
| Interest rate hedges | (3) | - | - | (44) |
| Gain (loss) recognized on derivatives designated as cash flow hedges | | | | |
| Foreign exchange hedges | | | | |
| Revenue | | - | (4) | 8 |
| Cost of operations | 1 | 7 | (5) | 2 |
| Interest rate hedges | | | | |
| Interest expense | 1 | (7) | - | 8 |
| Gain (loss) recognized on derivatives not designated as cash flow hedges | | | | |
| Foreign exchange hedges | | | | |
| Revenue | - | - | - | (2) |
| Cost of operations | - | - | (2) | (1) |
| Interest rate hedges | | | | |
| Interest expense | - | - | (20) | 67 |



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18—INCOME TAXES

The Successor, MIL, is a Bermudian corporation and is not subject to income tax in Bermuda. The Predecessor, MII, was a Panamanian corporation that earned all of its income outside of Panama and, as a result, was not subject to income tax in Panama. During 2018, subsequent to the Combination, MII became a tax resident of the United Kingdom.

We operate in various taxing jurisdictions around the world. Each of these jurisdictions has a regime of taxation that varies, not only with respect to nominal rate, but also with respect to the basis on which these rates are applied. These variations, aligned with the changes in our mix of income or loss from these jurisdictions, may contribute to shifts, sometimes significant, in our effective tax rate.

The components of our income tax expense were as follows:

| | Successor | | Predecessor | |
|-------------------------|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| U.S.: | | | | |
| Current | \$ (1) | \$ (2) | \$ (10) | \$ (16) |
| Other than U.S.: | | | | |
| Current | 48 | 26 | 48 | 44 |
| Deferred | (5) | (19) | (4) | 4 |
| | \$ 42 | \$ 5 | \$ 34 | \$ 32 |

The geographic sources of (loss) income before income taxes are as follows:

| | Successor | | Predecessor | |
|--|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| U.S. | \$ (448) | \$ (496) | \$ 2,312 | \$ (2,174) |
| Other than U.S. | (177) | (790) | (903) | (821) |
| Income before provision for income taxes | \$ (625) | \$ (1,286) | \$ 1,409 | \$ (2,995) |

The following is a reconciliation of the Bermuda statutory federal tax rates for the year ended December 31, 2021 and the six months ended December 2020 and U.K. statutory federal tax rate for the six months ended June 30, 2020 and year ended December 31, 2019 to the consolidated effective tax rates:

| | Successor | | Predecessor | |
|--|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six Months ended June 30, 2020 | Year ended December 31, 2019 |
| Federal statutory rate | - | - | 19% | 19% |
| Rate differentials | 7% | 19% | 51% | 1% |
| Goodwill and intangible assets impairment and amortization | - | (17%) | (13%) | (10%) |
| Change in valuation allowance for deferred tax assets - the U.S. | (17%) | (7%) | (6%) | (5%) |
| Change in valuation allowance for deferred tax assets - Others | (2%) | 1% | 3% | (3%) |
| Outside basis recovery | - | - | (6%) | - |
| Debt discharge excluded from taxation | - | 5% | (18%) | - |
| Goodwill and other Fresh Start adjustments (net of VA) | - | - | (40%) | - |
| Withholding tax | (5%) | (1%) | 1% | (1%) |
| U.K. Tax Law Change | 8% | - | - | - |
| Other | 2% | - | 11% | (2%) |
| Effective tax rate attributable to continuing operations | (7%) | 0% | 2% | (1%) |

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes, as well as operating loss and tax credit carryforwards.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant components of deferred tax assets and liabilities were as follows:

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|--|--------------------------|--------------------------|
| | <u>(In millions)</u> | |
| Deferred tax assets: | | |
| U.S. Federal net operating loss carryforward and other credits | \$ 381 | \$ 307 |
| Non-U.S. net operating losses | 328 | 330 |
| State net operating loss carryforward and other credits | 158 | 143 |
| Debt costs and disallowed interest | 176 | 157 |
| Depreciation and amortization | 90 | 96 |
| Contract revenue and cost/long-term contracts | 55 | 34 |
| Allowance for doubtful accounts | 50 | 50 |
| Partnership investments | 28 | 32 |
| Operating lease liability | 31 | 41 |
| Pension liability | 19 | 46 |
| Insurance and legal reserves | 18 | 19 |
| Accrued liabilities for incentive compensation | 3 | 7 |
| Other | 19 | 9 |
| Total deferred tax assets | <u>1,356</u> | <u>1,271</u> |
| Valuation allowance for deferred tax assets | <u>(1,335)</u> | <u>(1,226)</u> |
| Deferred tax assets | <u>21</u> | <u>45</u> |
| Deferred tax liabilities: | | |
| Depreciation and amortization | \$ 50 | \$ 61 |
| Investments in foreign subsidiaries | 28 | 34 |
| Right of use assets | 22 | 33 |
| Other | 11 | 12 |
| Total deferred tax liabilities | <u>111</u> | <u>140</u> |
| Net deferred tax liabilities | <u>\$ (90)</u> | <u>\$ (95)</u> |

As of December 31, 2021, we did not provide deferred income taxes on temporary differences of our subsidiaries which are indefinitely reinvested. The amount of those temporary differences is approximately \$169 million, the reversal of which would result in withholding tax of approximately \$17 million. We do not foresee having to reverse the outside basis differences in those entities as our cash and debt structure allows us to access funds from sources other than our United States subsidiary and its foreign subsidiaries, which can be used to fund our U.S. and non-U.S. operations and service the debt. Deferred income taxes are provided as necessary with respect to basis differences that are not indefinitely reinvested.

Valuation allowance

At December 31, 2021, we had a VA of approximately \$1.3 billion for DTAs that we expect cannot be realized through carrybacks, future reversals of existing taxable temporary differences or based on our estimate of future taxable income. After completion of the Combination in 2018, we incurred losses primarily resulting from goodwill impairment (see Note 9, *Intangible Assets and Goodwill*) and project charges (see Note 6, *Revenue Recognition*). As a result of such losses, we have a cumulative consolidated loss for the three years ended December 31, 2021. Accordingly, in assessing the positive and negative evidence related to the likelihood of utilizing the U.S. DTAs, and giving consideration to all such evidence, we believe we are precluded from using projections of future book income to support our DTAs because we believe the negative evidence outweighs the positive and have concluded, that it is not more likely than not that we would utilize our DTAs as of December 31, 2021.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Changes in the VA for DTAs were as follows:

| | Year ended December 31, | | |
|---|-------------------------|-----------------|-----------------|
| | 2021 | 2020 | 2019 |
| | (In millions) | | |
| Balance at beginning of period | \$ 1,226 | \$ 1,295 | \$ 1,020 |
| Charged to costs and expenses | 118 | 22 | 248 |
| Charged to other accounts | (9) | (38) | (8) |
| Reduction due to Emergence and Fresh Start Accounting | - | (53) | - |
| Addition due to the Combination | - | - | 35 |
| Balance at end of period | <u>\$ 1,335</u> | <u>\$ 1,226</u> | <u>\$ 1,295</u> |

Other

As of December 31, 2021, our Non-U.S., U.S. and State NOL DTAs, VAs and expiration dates were as follows:

| | NOL DTA | VA | Expiration |
|----------|---------|-------|------------------|
| Non-U.S. | \$ 328 | (323) | 2022- Unlimited |
| U.S. | 255 | (255) | 2032 - Unlimited |
| State | 157 | (157) | 2022-2041 |

We operate under a tax holiday in Malaysia, effective through December 31, 2025. The Malaysian tax holiday reduced our foreign income tax expense by \$14 million and \$0.3 million in 2021 and 2020, respectively.

We conduct business globally and, as a result, we or our various affiliated entities file income tax returns in a number of jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Malaysia, Australia, Indonesia, Saudi Arabia, Kuwait, India, Qatar, Brunei, Mozambique, the United Kingdom, the Netherlands, Canada and the United States. With few exceptions, we are no longer subject to tax examinations for years prior to 2011.

A reconciliation of unrecognized tax benefits is as follows:

| | Year ended December 31, | |
|--|-------------------------|--------------|
| | 2021 | 2020 |
| | (In millions) | |
| Balance at beginning of period | \$ 55 | \$ 56 |
| Increases based on tax positions taken in the current year | 4 | 5 |
| Increases based on tax positions taken in prior years | 12 | 2 |
| Decreases based on tax positions taken in prior years | (11) | (4) |
| Decreases due to lapse of applicable statute of limitation | (6) | (4) |
| Balance at end of period | <u>\$ 54</u> | <u>\$ 55</u> |

Approximately \$52 million of the balance of unrecognized tax benefits at December 31, 2021 would reduce our effective tax rate if recognized. We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. At December 31, 2021 and 2020, we had recorded liabilities of approximately \$16 million and \$14 million, respectively, for the payment of tax-related interest and penalties.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 19—STOCKHOLDERS' EQUITY AND EQUITY-BASED INCENTIVE PLAN

Shares Outstanding —The changes in the number of shares outstanding were as follows:

| | Outstanding shares | Treasury shares | Issued shares |
|------------------------------------|--------------------|-----------------|---------------|
| | (In millions) | | |
| December 31, 2019 (Predecessor) | 193 | 3 | 196 |
| Share issuance | - | - | - |
| June 30, 2020 (Predecessor) | 193 | 3 | 196 |
| Cancellation of Predecessor shares | (193) | (3) | (196) |
| Share issuance | 235 | - | 235 |
| June 30, 2020 (Successor) | 235 | - | 235 |
| Ordinary shares issued | 340 | - | 340 |
| December 31, 2020 (Successor) | 575 | - | 575 |
| Share issuance | 5 | - | 5 |
| December 31, 2021 (Successor) | 580 | - | 580 |

Upon the effectiveness of the Plan of Reorganization, all previously existing equity interests attributable to the Predecessor were cancelled and the holders of those equity interests, including the holders of outstanding shares of common stock, were entitled to no recovery relating to those equity interests.

On June 30, 2020, MIL authorized 800 million shares and issued 235 million ordinary shares, par value \$0.001. Holders of claims arising under the Term Facility, Revolving Credit Facility and Credit Agreement Hedging Claims, other than hedging obligations rolled into the DIP Facilities and the Exit Facilities, received approximately 94% and holders of claims arising under the Senior Notes received approximately 6% of the Successor, subject to dilution for the MIP (defined below) and the equity warrants (the "Warrants").

On December 31, 2020, in connection with the entry into the Escrow LC Credit Agreement, discussed in Note 13, *Debt*, the participants and certain existing shareholders purchased 340 million of our ordinary shares for approximately \$146 million in cash proceeds, net of approximately \$24 million of issuance costs. As consideration for entering into the Escrow LC Credit Agreement, the participants were issued 220,000 shares of newly created Series A Preferred Shares (the "Series A Preferred Shares") (see Note 20, *Redeemable Preferred Stock*, for further discussion).

In addition, during the first quarter of 2021, we sold approximately 3 million ordinary shares to select members of the management team. The sale was partially financed by us and, as a result, shares have been recorded net of \$2 million subscription receivable.

Warrants—On the Effective Date, MIL issued the Warrants (Tranche A and Tranche B) to the extent required to provide for distributions to holders of the Senior Notes claims, as contemplated by the Plan of Reorganization, to purchase up to an aggregate of 59.6 million shares of the Successor, par value \$0.001 at an exercise price per ordinary share for the Tranche A Warrants and the Tranche B Warrants of \$12.33 and \$15.98, respectively, per ordinary share. The Warrants are equity classified and, upon issuance, had a value of \$148 million, and were recorded in Capital in excess of par value. The Warrant fair value was a Level 2 valuation and was estimated using the Black Scholes valuation model. In connection with the issuance of an aggregate of 340 million ordinary shares on December 31, 2020, we opted, on March 4, 2021, to effect an adjustment to the exercise price and the number of ordinary shares into which each of the Tranche A Warrants and Tranche B Warrants is exercisable. As adjusted, the exercise price for the Tranche A Warrants and the Tranche B Warrants is \$6.92 and \$8.97, respectively, and the total number of ordinary shares issuable upon exercise of the Tranche A Warrants and the Tranche B Warrants is 50.3 million and 55.9 million, respectively. The Warrants are exercisable until the expiration date which is the earlier of June 30, 2027 or the date of voluntary or involuntary dissolution, liquidation, or winding up of the affairs of MIL. Each Warrant entitles the holder to purchase one fully paid and non-assessable ordinary share at a price equal to the exercise price.

Management Incentive Plan—The Plan of Reorganization provided for the creation of the management equity incentive plan (the "MIP") for equity awards to management employees and members of our board of directors. During 2021, approximately 37 million Restricted Stock Units and Performance Share Units were awarded, 12 million shares were cancelled or forfeited and 4 million shares vested and were issued under the MIP. As of December 31, 2021, 43.7 million shares were reserved to be issued in connection with awards under the MIP.

Compensation expense associated with the MIP was approximately \$6 million during the year ended December 31, 2021. As of December 31, 2021, the unrecognized compensation expense was approximately \$7 million and will be recognized over a weighted-average period of 2 years.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accumulated Other Comprehensive Income (Loss) — The following table presents the components of AOCI and the amounts that were reclassified during the periods indicated:

| | Foreign currency translation adjustments | Net unrealized gain (loss) on derivative financial instruments ⁽¹⁾ (In millions) | Other | TOTAL |
|---|--|---|-------|----------|
| December 31, 2019 (Predecessor) | \$ (97) | \$ (12) | \$ 6 | \$ (103) |
| Other comprehensive loss before reclassification | (38) | (20) | - | (58) |
| Amounts reclassified from AOCI ⁽²⁾ | 15 | 9 | - | 24 |
| Net current period other comprehensive loss | (23) | (11) | - | (34) |
| June 30, 2020 (Predecessor) | (120) | (23) | 6 | (137) |
| Elimination of Predecessor equity | 120 | 23 | (6) | 137 |
| Other comprehensive income before reclassification | (1) | 60 | - | 59 |
| Amounts reclassified from AOCI ⁽²⁾ | - | (7) | - | (7) |
| Net current period other comprehensive income | (1) | 53 | - | 52 |
| December 31, 2020 (Successor) | (1) | 53 | - | 52 |
| Other comprehensive (loss) income before reclassification | (11) | (62) | 1 | (72) |
| Amounts reclassified from AOCI ⁽²⁾ | - | 2 | - | 2 |
| Net current period other comprehensive (loss) income | (11) | (60) | 1 | (70) |
| December 31, 2021 (Successor) | \$ (12) | \$ (7) | \$ 1 | \$ (18) |

⁽¹⁾ Refer to Note 17, *Derivative Financial Instruments*, for additional details.

⁽²⁾ Amounts are net of tax, which was not material during periods presented.

NOTE 20—REDEEMABLE PREFERRED STOCK

On December 31, 2020, in connection with the entry into the Escrow LC Credit Agreement, discussed in Note 13, *Debt*, the participants and certain existing shareholders purchased 340 million of our ordinary shares for approximately \$146 million in cash proceeds, net of approximately \$24 million of issuance costs. In addition, as consideration for entering into the Escrow LC Credit Agreement, the participants were issued 220,000 Series A Preferred Shares. Our Series A Preferred Shares rank senior to our ordinary shares and are entitled to cumulative quarterly dividends paid in cash at a per annum rate equal to 8.00% of the then-outstanding liquidation preference (or 8.75% if the dividend is not paid in cash and accumulates to the liquidation preference). The initial liquidation preference was \$1,000 per Series A Preferred Share, or \$220 million in the aggregate. The Series A Preferred Shares are generally non-voting other than with respect to modifications to the terms of the Series A Preferred Shares that would have an adverse effect on the holders thereof.

The Series A Preferred Shares may be redeemed by us at any time for cash in an amount equal to the liquidation preference and any accrued and unpaid dividends, plus a premium that increases over time. The holders of our Series A Preferred Shares may also require us to redeem such shares at the same price at any time following the fifth anniversary of issuance. The Series A Preferred Shares are subject to mandatory redemption requirements upon a change of control and other customary events. Subject to certain conditions, a redemption may be satisfied through the issuance of additional debt securities or ordinary shares. As a result of the holders' contingent redemption rights that are outside of our control, our Redeemable Preferred Stock is classified outside of stockholders' equity in the mezzanine section of the Successor Balance Sheet.

The fair value of the Redeemable Preferred Stock was based on the income approach, using a calculation of the present value of future cash flows based on our financial projections, and was \$129 million as of December 31, 2020. The fair value measurement was based on inputs that are not observable in the market and thus represented level 3 inputs.

In connection with issuance of the Redeemable Preferred Stock we recognized \$26 million and \$103 million in Other current assets and Other non-current assets, respectively, in the Successor Balance Sheet as of December 31, 2020. These assets are amortized into Interest expense, net through the expected redemption date of December 31, 2025.

During 2021, we recorded \$19 million of accretion and \$20 million of dividends as an adjustment to the carrying value of the Redeemable Preferred Stock and reduction to Accumulated deficit. Accretion will continue to be recorded over the period of five years from the date



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of issuance through the expected redemption date of December 31, 2025 using the effective interest method. We record a liability for dividends in the period they are declared.

In addition, during the first quarter of 2021, we sold Series A Preferred Shares with a carrying value of \$2 million to select members of the management team. The sale was financed by the Company and, as a result, Shares have been recorded net of a \$2 million subscription receivable.

NOTE 21—COMMITMENTS AND CONTINGENCIES

Investigations and Litigation

General—Due to the nature of our business, we and our affiliates are, from time to time, involved in litigation or subject to disputes, governmental investigations or claims related to our business activities, including, among other things:

- performance or warranty-related matters under our customer and supplier contracts and other business arrangements; and
- workers' compensation claims, Jones Act claims, occupational hazard claims, premises liability claims and other claims.

Based upon our prior experience, we do not expect that any of these other litigation proceedings, disputes, investigations and claims will have a material adverse effect on our consolidated financial condition, results of operations or cash flows; however, because of the inherent uncertainty of litigation and other dispute resolution proceedings and, in some cases, the availability and amount of potentially applicable insurance, we can provide no assurance the resolution of any particular claim or proceeding to which we are a party will not have a material effect on our consolidated financial condition, results of operations or cash flows for the fiscal period in which that resolution occurs.

Project Arbitration and Related Matters—We are in arbitration proceedings (governed by the arbitration rules of the International Chamber of Commerce) entitled *Refineria de Cartagena S.A. v. Chicago Bridge & Iron Company N.V., et al.*, which was commenced on March 8, 2016 in connection with a large, cost reimbursable refinery construction project in Colombia completed by CB&I in 2015 (the "Reficar Refinery"). Refineria de Cartagena, the customer on the project, is alleging that we are responsible for certain cost overruns, delays and consequential damages on the project. The customer is claiming total damages in excess of \$4.5 billion. We have asserted a claim against the customer for approximately \$250 million. Hearings were held on several dates beginning in May 2021 through July 2021. Post hearing briefs were submitted and closing arguments were held in November 2021, with an award anticipated in 2022. We do not believe a material loss is probable related to this matter and, accordingly, no amounts have been accrued as of December 31, 2021. Although it is possible that a loss may be incurred, we are unable to estimate the range of potential loss, if any.

In 2017, the *Contraloría General de la República* (the "Contraloría"), an administrative agency of the Republic of Colombia, commenced a proceeding alleging improper cost overruns and lost profits in connection with the construction and modernization of the Reficar Refinery. On April 26, 2021, the Contraloría issued its opinion that multiple entities, including two of our subsidiaries, two unrelated companies, five insurance companies, and 12 individuals, none of whom are associated with our company, were jointly and severally responsible for cost overruns totaling approximately 2.95 trillion Colombian pesos (or approximately \$742 million as of February 8, 2022) on the project. We and others assert that all costs were properly incurred and spent on the project and that our two named subsidiaries are not subject to the investigatory powers of the Contraloría. Our subsidiaries are seeking to void the judgment within the Colombian court system. We also intend to challenge any adverse outcome through a bilateral investment treaty arbitration and will resist any attempts to enforce the decision through any foreign court proceedings. The Contraloría proceedings particular to lost profits have been closed with a finding that Reficar suffered no lost profits, which decision was upheld on appeal. We do not believe a risk of material loss is probable related to this matter and, accordingly, our reserves for this matter were not significant as of December 31, 2021.

In addition, we are involved in an arbitration proceeding (governed by the arbitration rules of the United Nations Commission on International Trade Law) entitled *CBI Constructors Pty & Kentz Pty Ltd and Chevron Australia Pty Ltd.*, which was commenced on or about May 17, 2017, with the customer for one of CB&I's previously completed consolidated joint venture projects, regarding differing interpretations of the contract related to reimbursable billings. The matter was bifurcated, with hearings on entitlement held in November 2018. In December 2018, the tribunal issued an interim award on entitlement, finding that the joint venture was not overpaid for its craft labor but that certain overpayments were made to the joint venture for its staff. Hearings on the amount of damages related to the joint venture's staff costs began in August 2020 and were scheduled to conclude in December 2020. However, in September 2020, the tribunal issued an interim award favorable to the joint venture, which resulted in the respondent in the arbitration (the customer) applying to an Australian court to set aside the tribunal's September 2020 interim award. The hearing on that application was held before the court in June 2021. In September of 2021, the Australian court entered a decision in favor of the customer setting aside the interim award. The joint venture has initiated an appeal of that court decision. As of December 31, 2021, we have recorded a reserve of approximately



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

\$19.4 million for this matter.

Project Litigation Matters—We are a third-party defendant in a lawsuit pending in the District Court of Harris County, Texas. The principal action is entitled *Enterprise Products Operating LLC v. AMEC Foster Wheeler USA Corp., et al.*, which was commenced on November 17, 2017. The third-party petition was filed against us on or about February 19, 2019. The action involves the engineering and construction of a new propane dehydrogenation facility for the plaintiff in Mont Belvieu, Texas. As a result of alleged delays and other construction deficiencies, the plaintiff terminated the defendants' construction services. The defendants now claim that its termination was due to our delays and other defects in our performance or, in the alternative, that we obtained our sole-source purchase order as a result of various false misrepresentations and intentional omissions of material facts. We assert that our liability, if any, is limited by the contract to \$5 million. A mediation was held in May 2021 but was unsuccessful. The commencement of the trial of this matter was recently moved up from May of 2022 to March 22, 2022. We do not believe a material loss is probable related to this matter and, accordingly, no amounts have been accrued as of December 31, 2021. We believe the claims are without merit and we intend to defend against them vigorously.

Asbestos Litigation—We are a defendant in numerous lawsuits wherein plaintiffs allege exposure to asbestos at various locations. We review and defend each case on its own merits and make accruals based on the probability of loss and best estimates of potential loss. We do not believe any unresolved asserted claim will have a material adverse effect on our future results of operations, financial position or cash flow. With respect to unasserted asbestos claims, we cannot identify a population of potential claimants with sufficient certainty to determine the probability of loss or estimate future losses. We do not believe a risk of material loss is probable related to these matters, and, accordingly, our reserves were not significant as of December 31, 2021. While we continue to pursue recovery for recognized and unrecognized contingent losses through insurance, indemnification arrangements and other sources, we are unable to quantify the amount that we may recover because of the variability in coverage amounts, limitations and deductibles or the viability of carriers, with respect to our insurance policies for the years in question.

Pre-Combination CB&I Securities Litigation—On March 2, 2017, a complaint was filed in the United States District Court for the Southern District of New York seeking class action status on behalf of purchasers of CB&I common stock and alleging damages on their behalf arising from alleged false and misleading statements made during the class period from October 30, 2013 to June 23, 2015. The case is captioned: *In re Chicago Bridge & Iron Company N.V. Securities Litigation*, No. 1:17-cv-01580-LGS (the "Securities Litigation"). The defendants in the case are: CB&I; a former chief executive officer of CB&I; a former chief financial officer of CB&I; and a former controller and chief accounting officer of CB&I. On June 14, 2017, the court named ALSAR Partnership Ltd. as lead plaintiff. On August 14, 2017, a consolidated amended complaint was filed alleging violations of Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 10b-5 thereunder, arising out of alleged misrepresentations about CB&I's accounting for the acquisition of The Shaw Group, CB&I's accounting with respect to the two nuclear projects being constructed by The Shaw Group, and CB&I's financial reporting and public statements with respect to those two projects. On May 24, 2018, the court denied defendants' motion to dismiss. On February 4, 2019, lead plaintiff ALSAR Partnership Ltd. and additional plaintiffs Iron Workers Local 40, 361, & 417 – Union Security Funds and Iron Workers Local 580 – Joint Funds moved for class certification and appointment as class representatives. On October 16, 2019, the court-appointed special master issued a report and recommendation regarding class certification and appointment of class representatives and class counsel, recommending that the court grant the plaintiffs' motion. On April 6, 2020, the defendants filed a motion for permission to appeal the class certification ruling to the U.S. Court of Appeals; however, the defendants' application for leave to appeal to the Second Circuit was denied on August 11, 2020. The parties have completed fact discovery. The defendants filed a motion for summary judgment on September 4, 2020, which the court granted in part and denied in part on August 23, 2021. On December 31, 2021, plaintiffs and defendants entered into an agreement to settle the Securities Litigation for \$44 million. The settlement is subject to court approval, and the court has set a hearing on March 23, 2022 to consider the motion for preliminary approval of the settlement. The settlement will be funded entirely by CB&I's insurance carriers. As of December 31, 2021, we recorded the \$44 million legal reserve with an equal and corresponding receivable from our insurance carriers.

On October 26, 2018, two actions were filed by individual plaintiffs based on allegations similar to those alleged in the Securities Litigation. On February 25, 2019, a third action was filed by an individual plaintiff based on similar allegations. All three actions were filed in the United States District Court for the Southern District of New York and are captioned *Gotham Diversified Neutral Master Fund, LP, et al. v. Chicago Bridge & Iron Company N.V. et al.*, Case No. 1:18-cv-09927 (the "Gotham Action"); *Appaloosa Investment L.P., et al., v. Chicago Bridge & Iron Company N.V., et al.*, Case No. 1:18-cv-09928 (the "Appaloosa Action"); and *CB Litigation Recovery I, LLC v. Chicago Bridge & Iron Company N.V., et al.*, Case No. 1:19-cv-01750 (the "CB Litigation Recovery Action"). Besides CB&I, the other defendants in all three cases are the same individual defendants as in the Securities Litigation described above. Plaintiffs assert causes of action based on alleged violations of Sections 10(b), 18 and 20(a) of the Exchange Act and Rule 10b-5 thereunder, along with common law causes of action. On January 25, 2019, the defendants filed in the Gotham and Appaloosa Actions partial motions to dismiss the causes of actions asserted under Section 18 of the Exchange Act and the common law causes of action. On March 25, 2019, the court entered a stipulation and order staying the CB Litigation Recovery Action pending a ruling on the partial motions to dismiss in the Gotham and Appaloosa Actions and making the decision on the partial motions to dismiss the Gotham and Appaloosa Actions applicable to the CB Litigation Recovery Action. On August 23, 2019, the court issued an order on the defendants'



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

motions to dismiss the Gotham and Appaloosa Actions, dismissing the causes of actions asserted under Section 18 of the Exchange Act but denying the motion to dismiss the common law causes of action. On October 16, 2019, the court issued an order consolidating the Gotham, Appaloosa and CB Litigation Recovery Actions (the “Consolidated Action”) and staying the Consolidated Action pending the court’s determination of the motion for class certification in the Securities Litigation. On March 26, 2020, the court issued an order further staying the Consolidated Action pending the court’s determination of dispositive motions in the Securities Litigation. On September 30, 2021, the court issued an order further staying the Consolidated Action pending the resolution of the liability phase of the Securities Litigation. We do not believe a material loss is probable related to this matter and, accordingly, no amounts have been accrued as of December 31, 2021. We believe the claims are without merit and intend to defend against them vigorously.

Post-Combination McDermott Securities Litigation—On November 15, 2018, a complaint was filed in the United States District Court for the Southern District of Texas seeking class action status on behalf of purchasers of MII common stock and alleging damages on their behalf arising from allegedly false and misleading statements made during the class period from January 24, 2018 to October 30, 2018. The case is captioned: *Edwards v. McDermott International, Inc., et al.*, No. 4:18-cv-04330. The defendants in the case are: MII; David Dickson, MII’s former President and Chief Executive Officer; and Stuart Spence, MII’s former Chief Financial Officer. The plaintiff alleged that the defendants made material misrepresentations and omissions about the integration of the CB&I business, certain CB&I projects and their fair values, and MII’s business, prospects and operations. The plaintiff asserts claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder. On January 14, 2019, a related action was filed in the United States District Court for the Southern District of Texas seeking class action status on behalf of all holders of MII common stock as of April 4, 2018 who had the right to vote on the Combination. Before being consolidated with the Edwards action, the case was pending in the same court as the Edwards action and captioned: *The Public Employees Retirement System of Mississippi v. McDermott International, Inc., et al.*, No. 4:19-cv-00135. The plaintiff has alleged that the defendants made material misrepresentations and omissions in the proxy statement used by MII in connection with the Combination. The plaintiff asserted claims under Section 14(a) and 20(a) of the Exchange Act. This action was filed shortly before the statutory deadline to apply to be the lead plaintiff for the claims asserted in the Edwards action. The defendants filed a motion to consolidate the two actions, and the court granted that motion on February 22, 2019. The court appointed lead plaintiffs for both sets of claims on June 5, 2019. The lead plaintiff for the Section 14(a) claims under the Exchange Act subsequently filed an amended pleading to, among other things, add CB&I and CB&I’s former chief executive officer as additional defendants. On January 30, 2020, MII filed motions to dismiss all of the claims. These motions were denied on or about March 31, 2021, and fact discovery is proceeding. Plaintiffs in both actions filed a motion for class certification on September 29, 2021. We do not believe a material loss is probable related to this matter and, accordingly, no amounts have been accrued as of December 31, 2021. We believe the claims are without merit and we intend to defend against them vigorously.

On or about July 17, 2020, a complaint was filed in the United States District Court for the Southern District of Texas seeking class action status on behalf of purchasers of MII’s common stock and alleging damages on their behalf arising from allegedly false and misleading statements made during the class period from September 20, 2019 to January 23, 2020. The case is captioned *Ahnefeldt, et al. v. Dickson, et al.*, No. 4:20-cv-02539 (the “Ahnefeldt action”). The defendants are MII’s former President and Chief Executive Officer, and two of its former Chief Financial Officers. MII is not a party to the lawsuit. The plaintiffs allege that the defendants made material misrepresentations and omissions about the sale of certain assets of MII and MII’s liquidity leading up to its bankruptcy filing in 2020 and assert claims under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder. On July 28, 2020, the lead plaintiff in the Edwards action filed a motion to consolidate the Ahnefeldt action with and into the Edwards action. That motion was granted on April 12, 2021. On September 16, 2020, the Ahnefeldt plaintiffs and the lead plaintiff in the Edwards action, among others, filed motions to be appointed the lead plaintiffs for the claims asserted in the Ahnefeldt action. On September 29, 2021, the court granted the motion of the court-appointed lead plaintiff in the Edwards action to be lead plaintiff as to the Ahnefeldt action, and that plaintiff was granted leave by the court to file a supplemental consolidated class action complaint which would encompass the claims asserted in both the Edwards and Ahnefeldt actions. On November 23, 2021, defendants filed in the Edwards Action a motion to dismiss the claims newly asserted in that action that had previously been asserted in the Ahnefeldt Action. We do not believe a material loss is probable related to this matter and, accordingly, no amounts have been accrued as of December 31, 2021. We believe the claims are without merit and we intend to defend against them vigorously.

On or about August 17, 2020, a complaint was filed in the United States District Court for the Southern District of Texas by individual plaintiffs based on allegations similar to those alleged in the Edwards action described above. The case is captioned: *Kingstown Capital Management, L.P., et al. v. David Dickson, et al.*, No. 4:20-cv-02880. The defendants are MII, MII’s former President and Chief Executive Officer and its former Chief Financial Officer. The plaintiffs assert causes of action based on alleged violations of Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 thereunder. In response to the amended complaint, the defendants filed a motion to dismiss all claims on November 13, 2020. On November 24, 2020, the court entered a stipulation and order extending the plaintiffs’ deadline to respond to the motion to dismiss. The court denied the motion to dismiss on August 23, 2021, and fact discovery is proceeding. We do not believe a material loss is probable related to this matter and, accordingly, no amounts have been accrued as of December 31, 2021. We believe the claims are without merit and we intend to defend against them vigorously.

SEC and Federal Grand Jury Investigations—By letter dated July 26, 2019, together with accompanying subpoenas, the U.S. Securities and Exchange Commission (the “SEC”) notified us that it is conducting an investigation related to disclosures concerning the reporting of projected losses associated with the Cameron LNG project. A further subpoena, seeking personnel records of certain employees, was received from the SEC on or about January 19, 2021. We have been and intend to continue cooperating with the SEC in this investigation, including by producing documents requested by the SEC. Also, by letter dated February 25, 2020, together with an accompanying



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

subpoena, the office of the United States Attorney for the Southern District of Texas within the U.S. Department of Justice notified us that a Federal Grand Jury is conducting a criminal investigation and requested various documents, including cost forecasts and other financial-related information, related to the Cameron LNG project. We have been and intend to continue cooperating with the United States Attorney's office and the Federal Grand Jury in this investigation, including by producing the documents that have been requested.

Saudi Arabia Customs Audit—During the fourth quarter of 2019, McDermott Arabia Co. Ltd received a customs audit report from the General Directorate of Customs Audit department in Saudi Arabia, stating that additional custom duties are applicable on structures and platforms imported during the period from 2014 to 2019. The audit report claims that customs duties on imported structures and platforms of \$63.4 million are owed to the Saudi Arabia Customs Authority. During the first quarter of 2020, McDermott Arabia Co. Ltd received communications from the Saudi Arabia Customs Authority that the matter had been submitted to the World Customs Organization for consultation and, until further update, McDermott Arabia Co. Ltd can continue importing offshore platforms under the customs exempt code. During the third quarter of 2020, McDermott Arabia Co. Ltd received formal demands for payment from the Saudi Arabia Customs Authority for these retroactive customs duties and submitted initial objections to dispute such demands. The Customs Committee heard the matter on May 24, 2021, and on July 4, 2021, the Committee requested technical clarifications about the purpose and functionality of the structures and platforms imported by McDermott to which McDermott responded and provided the requested details on August 15, 2021. Subsequently on October 18, 2021, the Primary Customs Committee issued its decision rejecting McDermott Objections on these collections orders and confirming Customs right to claim the retroactive customs duties, to which McDermott has filed an appeal to the Higher Customs Committee on November 16, 2021.

We do not believe a risk of material loss is probable related to this matter and, accordingly, no amounts have been accrued as of December 31, 2021. We intend to challenge the assessment vigorously.

Environmental Matters

We have been identified as a potentially responsible party at various cleanup sites under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA"). CERCLA and other environmental laws can impose liability for the entire cost of cleanup on any of the potentially responsible parties, regardless of fault or the lawfulness of the original conduct.

In connection with the historical operation of our facilities, including those associated with acquired operations, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties from whom we have purchased or to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. Generally, however, where there are multiple responsible parties, a final allocation of costs is made based on the amount and type of wastes disposed of by each party and the number of financially viable parties, although this may not be the case with respect to any particular site. We have not been determined to be a major contributor of waste to any of these sites. On the basis of our relative contribution of waste to each site, we expect our share of the ultimate liability for the various sites will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows in any given year.

We believe we are in compliance, in all material respects, with applicable environmental laws and regulations and maintain insurance coverage to mitigate our exposure to environmental liabilities. We do not anticipate we will incur material capital expenditures for environmental matters or for the investigation or remediation of environmental conditions during 2022. As of December 31, 2021, we had no material environmental reserves recorded.

Contracts Containing Liquidated Damages Provisions

Some of our contracts contain provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under those provisions. Those contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. As of December 31, 2021, we determined that we had approximately \$593 million of potential liquidated damages exposure, based on performance under contracts to date, and included \$4 million as a reduction in transaction prices related to such exposure. Four significant potential liquidated damages exposures included in the \$593 million are: (1) an exposure for \$103 million, where we are pending relief from the customer following expected re-baselined schedule; (2) an exposure for \$71 million, where we have asserted our change in laws rights in the contract and are pending relief from the customer; (3) an exposure for \$65 million, where we expect our completion timing to be aligned with the customers' ability to use the facilities and are pending relief from the customer; and (4) an exposure for \$95 million, where we are pending relief from the customer. Based on our historical experience in these circumstances, we believe that this relief will be granted.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

We believe we will be successful in obtaining schedule extensions or other customer-agreed changes that should resolve the potential for the liquidated damages where we have not made a reduction in transaction prices. However, we may not achieve relief on some or all of the issues involved and, as a result, could be subject to liquidated damages being imposed on us in the future.

We have received notices from some of our subcontractors, suppliers and other business counterparties, and provided notices to several customers, regarding performance or delivery delays resulting from the COVID-19 pandemic, requesting available contractual relief. Most of our contracts with customers include *force majeure* provisions, which, in some cases, afford protection against damages for delays caused by the COVID-19 pandemic and in some cases reimbursement for certain additional costs incurred as a result of the COVID-19 pandemic.

NOTE 22—SEGMENT REPORTING

We disclose the results of each of our reporting segments in accordance with ASC 280, *Segment Reporting*. Each of the reporting segments is separately managed by a senior executive who is a member of our Executive Committee (“EXCOM”). Our EXCOM is led by our Chief Executive Officer, who is the CODM.

Subsequent to the emergence from bankruptcy, we implemented a new decentralized regional operating model (the “New Operating Model”), with a leaner corporate center and areas having clear accountability for project execution and full operating results, with focus on liquidity. Under the New Operating Model we combined our Europe, Africa, Russia and Caspian (“EARC”) and the Middle East and North Africa (“MENA”) reporting segments into a single reporting segment, titled: “Europe, Middle East, and Africa” (“EMEA”). Our Chief Executive Officer, who is the CODM, reviews the operating results, assesses the performance and makes decisions about resources to be allocated based on this model. In addition, as part of area accountability for project execution, effective July 1, 2020, we revised our reporting segment gross profit and net working capital allocation methodology for certain projects executed by and across multiple reporting segments.

In the third quarter of 2019, we terminated the previously announced sale process for our industrial storage tank business, acquired in the Combination, and as a result of our decision to retain this business, starting January 1, 2020, we changed the structure of our internal organization and formed a new reporting segment for our industrial storage tank business (“Storage Solutions”). Effective July 1, 2020, we revised the methodology of allocating the gross profit between the segments for the projects where the Storage Solutions segment is not the primary contractor.

We now report financial results under four operating groups, which represent our reporting segments consisting of: NCSA; EMEA; APAC; and Storage Solutions.

We also report certain corporate and other non-operating activities under the heading “Corporate and Other”, primarily corporate expenses, certain centrally managed initiatives (such as reorganization and restructuring activities), impairments, year-end mark-to-market pension actuarial mark to market gains and losses and costs not attributable to a particular reporting segment. Effective July 1, 2020, we record unallocated direct operating expenses associated with the underutilization of vessels, fabrication facilities and engineering resources, previously recorded in “Corporate and other”, in the operating results of the reporting segments.

In addition, effective July 1, 2020, we revised our financial statements presentation policy to present foreign exchange remeasurement impacts associated with intercompany balances, previously reported within “Cost of Operations” in “Other non-operating income (expense), net” in our Statements of Operations. The impact of this change on the Predecessor Statements of Operations did not result in changes to the consolidated results of operations and was as follows: (1) a \$21 million gain during the six months ended June 30, 2020 (\$5 million in EMEA, \$2 million in APAC, \$3 million in Storage Solutions segments and \$11 million in Corporate); and (2) a \$21 million loss primarily in our EMEA segment, during the year ended December 31, 2019.

Previously reported segment financial information for the Predecessor period from January 1, 2020 through June 30, 2020, and the year ended December 31, 2019 has been restated to conform to the new reporting segment alignment and allocation methodologies, as well as the presentation of the foreign exchange remeasurement impacts associated with intercompany balances. The restatement did not have a material effect on the consolidated results of operations.

As discussed in Note 2, *Basis of Presentation*, and Note 5, *Divestitures*, our former Technology reporting segment was sold during the second quarter of 2020 and was classified as a discontinued operation in the Predecessor Financial Statements for the six months ended June 30, 2020 and the year ended December 31, 2019, as the sale represented a strategic shift and had a material effect on our operations and financial results.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Intersegment sales are recorded at prices we generally establish by reference to similar transactions with unaffiliated customers and are eliminated upon consolidation.

Revenue and operating results from continuing operations for the year ended December 31, 2021, six months ended December 31, 2020, six months ended June 30, 2020 and year ended December 31, 2019 were as follows:

| | Successor | | Predecessor | |
|---|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| Revenues: | | | | |
| NCSA | \$ 1,391 | \$ 1,155 | \$ 1,422 | \$ 3,934 |
| EMEA | 2,015 | 1,003 | 1,033 | 2,084 |
| APAC | 842 | 305 | 518 | 853 |
| Storage Solutions | 639 | 407 | 414 | 976 |
| Total revenues | \$ 4,887 | \$ 2,870 | \$ 3,387 | \$ 7,847 |
| Operating income (loss):⁽¹⁾ | | | | |
| Segment operating (loss) income, prior to goodwill impairment: | | | | |
| NCSA | \$ (314) | \$ (35) | \$ (83) | \$ (527) |
| EMEA | (91) | (75) | (73) | 91 |
| APAC | (35) | 39 | 18 | (54) |
| Storage Solutions | 38 | 15 | 19 | 78 |
| Total segment operating (loss) income, prior to goodwill impairment | (402) | (56) | (119) | (412) |
| Goodwill impairment ⁽²⁾ | - | (972) | (91) | (1,430) |
| Total segment operating loss | (402) | (1,028) | (210) | (1,842) |
| Corporate ⁽³⁾ | (216) | (178) | (1,073) | (384) |
| Total operating loss | \$ (618) | \$ (1,206) | \$ (1,283) | \$ (2,226) |

(1) NCSA operating results for the six months ended June 30, 2020 and year ended December 31, 2019 include \$63 million and \$101 million losses on the sale of the remaining portion of the pipe fabrication business and APP, respectively, as discussed in Note 5, *Divestitures*. NCSA operating results for the year ended December 31, 2019 include \$160 million associated with impairment of intangible assets.

(2) In the third quarter of 2020, we recognized goodwill impairment associated with our EMEA (\$506 million), APAC (\$86 million) and Storage Solutions (\$380 million) reporting segments, as discussed in Note 9, *Intangible Assets and Goodwill*.

In the first quarter of 2020, we recognized \$91 million of goodwill impairment associated with our former EARC reporting segment.

In 2019 we recognized goodwill impairment of \$1.1 billion in our NCSA segment and \$319 million in our former EARC segment.

(3) In the first quarter of 2020, in our Corporate results we recognized an impairment charge of approximately \$884 million associated primarily with our vessels and fabrication yards, as discussed in Note 16, *Fair Value Measurements*.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Depreciation and amortization expense and capital expenditures were as follows:

| | Successor | | Predecessor | |
|---|---------------------------------|---------------------------------------|-----------------------------------|---------------------------------|
| | Year ended December 31, 2021 | Six months ended December 31, 2020 | Six months ended June 30, 2020 | Year ended December 31, 2019 |
| | (In millions) | | (In millions) | |
| Depreciation and amortization: | | | | |
| NCSA | \$ 10 | \$ 2 | \$ 15 | \$ 38 |
| EMEA | 54 | 20 | 15 | 54 |
| APAC | 12 | 7 | 6 | 15 |
| Storage Solutions | 42 | 27 | 18 | 37 |
| Corporate | 35 | 15 | 23 | 49 |
| Depreciation and amortization - continuing operations | 153 | 71 | 77 | 193 |
| Depreciation and amortization - discontinued operations | - | - | 30 | 74 |
| Total depreciation and amortization | <u>\$ 153</u> | <u>\$ 71</u> | <u>\$ 107</u> | <u>\$ 267</u> |
| Capital expenditures ⁽¹⁾: | | | | |
| NCSA | \$ - | \$ - | \$ 1 | \$ 6 |
| EMEA | 6 | 6 | 8 | 18 |
| APAC | 4 | 2 | 4 | 8 |
| Storage Solutions | 4 | 3 | 1 | 3 |
| Corporate ⁽²⁾ | 196 | 29 | 31 | 55 |
| Capital expenditures - continuing operations | 210 | 40 | 45 | 90 |
| Capital expenditures - discontinued operations | - | - | - | 2 |
| Total capital expenditures | <u>\$ 210</u> | <u>\$ 40</u> | <u>\$ 45</u> | <u>\$ 92</u> |

⁽¹⁾ Capital expenditures represent cash purchases. At December 31, 2021 and 2020, we had approximately \$58 million and \$13 million, respectively, of accrued and unpaid capital expenditures reported in property, plant and equipment and accrued liabilities.

⁽²⁾ Corporate capital expenditures include the purchase of the *Amazon* vessel, discussed in Note 13, *Debt*, under “Amazon Financing Facility”, and associated capital expenditures, in accordance with our policy on classification of expenditures for strategic initiatives.

Segment assets as of December 31, 2021 and 2020 were as follows:

| Segment assets ⁽¹⁾ : | December 31, 2021 | December 31, 2020 |
|---------------------------------|-------------------|-------------------|
| | (In millions) | |
| NCSA | \$ 747 | \$ 1,156 |
| EMEA | 2,316 | 2,157 |
| APAC | 818 | 802 |
| Storage Solutions | 519 | 555 |
| Corporate | 817 | 1,429 |
| Total assets | <u>\$ 5,217</u> | <u>\$ 6,099</u> |

⁽¹⁾ Our marine vessels are included in the segment in which they were located as of the reporting date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Significant Customer Information

Our significant customers by segments during 2021, 2020, and 2019 were as follows:

| | <u>% of Consolidated Revenues</u> | <u>Reportable Segment</u> |
|--------------------------------------|-----------------------------------|---------------------------|
| <i>Year Ended December 31, 2021:</i> | | |
| Saudi Aramco ⁽¹⁾ | 23% | EMEA |
| TOTAL group of companies | 10% | NCSA/EMEA/APAC |
| <i>Year Ended December 31, 2020:</i> | | |
| Saudi Aramco | 15% | EMEA |
| TOTAL group of companies | 14% | NCSA/EMEA/APAC |
| <i>Year Ended December 31, 2019:</i> | | |
| Saudi Aramco | 11% | EMEA |

⁽¹⁾ During the year, we recorded new bookings associated with the Marjan packages, 3 CRPOs, and Zuluf, which increased our exposure to the risks and opportunities of business with Saudi Aramco.

Operating Information by Geography

| | <u>Successor</u> | | <u>Predecessor</u> | |
|-----------------------------|---|---|---|---|
| | <u>Year ended December 31, 2021</u> | <u>Six months ended December 31, 2020</u> | <u>Six months ended June 30, 2020</u> | <u>Year ended December 31, 2019</u> |
| | <u>(In millions)</u> | | <u>(In millions)</u> | |
| Geographic revenues: | | | | |
| United States | \$ 1,564 | \$ 1,186 | \$ 1,541 | \$ 4,273 |
| Saudi Arabia | 1,239 | 493 | 512 | 984 |
| Australia | 375 | 99 | 101 | 167 |
| Mozambique | 316 | 269 | 97 | 58 |
| India | 253 | 75 | 204 | 278 |
| Qatar | 207 | 104 | 223 | 466 |
| Mexico | 117 | 96 | 132 | 215 |
| Denmark | 83 | 94 | 158 | 332 |
| Other countries | 733 | 454 | 419 | 1,074 |
| Total revenue | \$ 4,887 | \$ 2,870 | \$ 3,387 | \$ 7,847 |

| | <u>December 31, 2021</u> | <u>December 31, 2020</u> |
|---|--------------------------|--------------------------|
| | <u>(In millions)</u> | |
| Property, plant and equipment, net ⁽¹⁾: | | |
| Netherlands | \$ 403 | \$ 339 |
| United Arab Emirates | 172 | 125 |
| United States | 140 | 163 |
| Indonesia | 80 | 143 |
| India | 61 | 164 |
| Mexico | 25 | 29 |
| Other countries | 219 | 142 |
| Total property, plant and equipment, net | \$ 1,100 | \$ 1,105 |

⁽¹⁾ Our marine vessels are included in the segment in which they were located as of the reporting date.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23—SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 22, 2022, the date these financials were available to be issued.

Russia and Ukraine crisis

In late February 2022, geopolitical and armed conflict developed between Ukraine and Russia. As a result of political and military actions undertaken by Russia, the U.S. and other countries have instituted financial and trade-related sanctions and other restrictive actions against Russian officials and companies, including prohibitions on doing business with certain Russian companies, large financial institutions, officials and oligarchs; a commitment by certain countries and the EU to remove selected Russian banks from the Society for Worldwide Interbank Financial Telecommunications, the electronic banking network that connects banks globally; and restrictive measures to prevent the Russian Central Bank from undermining the impact of the sanctions. Global travel and global commerce, including transactions conducted in Russia by foreign companies in foreign currencies, has been and is expected to continue to be significantly impacted by these sanctions. We currently have one physical office, approximately 80 employees and operations consisting of three open projects in Russia that are or may be impacted by these sanctions and restrictive actions. The sanctions imposed on Russian financial institutions have affected how we can pay our employees in Russia. We continue to assess and mitigate impacts on our people, projects, property and portfolio while remaining compliant with the applicable sanctions. In addition, Russia may retaliate against the U.S. in the future. While we do not have material assets in Russia, retaliatory action by the Russian government could involve the seizure of U.S. assets in Russia, and any such actions are likely to impair the value and liquidity of such assets. At this time, it is difficult to assess the impact the conflict in Ukraine and the related sanctions may have on our results of operations. For the year ended and as of December 31, 2021, revenue and backlog from projects in Russia accounted for 4% and less than 1% of our total revenue and backlog, respectively, and future cash flows from projects based in Russia are not expected to be material. Continuation or escalation of the conflict may have a material effect on our results of operations.

Credit Agreement Amendment

As further discussed in Note 13, *Debt*, on February 28, 2022, we entered into an amendment to the Exit Credit Agreement, which temporarily reduces our minimum liquidity covenant.



Skattedirektoratet

| | | |
|--|---|------------------------------|
| Saksbehandler Torstein Kinden Helleland | Deres dato 21.06.2011 | Vår dato 01.07.2011 |
| Telefon 22078139 | Deres referanse Mark Edward Peterson | Vår referanse 2011/629739 |

J. RAY MCDERMOTT (NORWAY), AS
C/O Wikborg, Rein & Co Postboks 1513 Vikta
0117 OSLO

Dispensasjon fra kravet om utarbeidelse av årsregnskap og årsberetning på norsk språk for J. Ray McDermott Norway AS, org. nr. 994 685 171

Det vises til deres brev av 10. juni 2011 der det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for J. Ray McDermott Norway AS.

Bakgrunn

J. Ray McDermott Norway AS er et heleid norsk datterselskap av J. Ray McDermott International Inc. registrert i Panama. J. Ray McDermott Norway AS presenterer sitt regnskap i selskapets funksjonelle valuta som er USD. Konsernets forretningspråk er engelsk, aksjonærene er alle engelskspråklige og i all hovedsak er selskapets gjeld til utenlandske selskaper. På denne bakgrunn utarbeider man regnskap på engelsk da dette er språket som er nødvendig for å kommunisere med konsernselskap og aksjonærer. Den norske versjonen utarbeides kun for å tilfredsstille regnskapsloven.

Skattedirektoratets vurdering og konklusjon

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

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

"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives, f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjævt fordelt informasjon."

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

| | | |
|--|--|--|
| Postadresse Postboks 9200 Grønland 0134 Oslo | Besøksadresse Se www.skatteetaten.no Org. nr: 996250318 | Sentralbord 800 80 000 Telefaks 22 17 08 60 |
|--|--|--|



2011/29739 Side 2 av 2

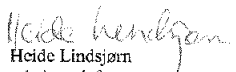
Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonsøknad. Selskapet er heleid av et selskap hjemmehørende i Panama. Konsernets forretningspråk er engelsk, aksjonærene er alle engelskspråklige og i all hovedsak er selskapets gjeld til utenlandske selskaper. På denne bakgrunn utarbeider man regnskap på engelsk da dette er språket som er nødvendig for å kommunisere med konsernselskap og aksjonærer.

Skattedirektoratet gir på bakgrunn av en helhetsvurdering J. Ray McDermott Norway AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Vennligst oppgi vår referanse ved henvendelser i anledning saken.

Med hilsen


Heide Lindsjorn
seksjonssjef
Rettsavdelingen, foretaksskatt
Skattedirektoratet


Torstein Kinden Helleland



Skattedirektoratet

| | | |
|--|------------------------------------|------------------------------|
| Saksbehandler Torstein Kinsen Helleland | Deres dato 20.05.2014 | Vår dato 22.05.2014 |
| Telefon 22078139 | Deres referanse Rolf-Eirik Døst | Vår referanse 2011/629739 |

DELOITTE ADVOKATFIRMA AS
Postboks 6013
5892 BERGEN

**Fritak for konsernregnskapsplikten for underkonsernet
J. Ray McDermott (Norway) AS, org. nr. 994 685 171**

Det vises til deres brev av 20. mai 2014 hvor det søkes om fritak fra plikten til å utarbeide konsernregnskap for J. Ray McDermott (Norway) AS.

J. Ray McDermott (Norway) AS er eiet med 100 % av J. Ray McDermott Far East, Inc. (Panama) som igjen er 100 % eiet av McDermott International Inc. McDermott International Inc. (USA) er notert på New York Stock Exchange i USA. McDermott International Inc. som er hjemmehørende i USA, utarbeider konsernregnskap som omfatter J. Ray McDermott (Norway) AS. Dette selskapet utarbeider konsernregnskap på engelsk i henhold til US GAAP. Det søkes derfor om unntak fra konsernregnskapsplikten.

Skattedirektoratet finner med hjemmel i regnskapsloven av 17. juni 1998 nr. 56 § 3-7 fjerde ledd å kunne gi tillatelse til at det gjøres unntak for konsernregnskapsplikten for J. Ray McDermott (Norway) AS. Det forutsettes at McDermott International Inc utarbeider konsernregnskap som omfatter den regnskapspliktige og dennes datterselskap. Det legges til grunn at dette konsernregnskapet er utarbeidet i samsvar med US GAAP og at kravene i regnskapsloven § 3-7 med forskrifter for øvrig følges. Bestemmelsene i regnskapsloven kapittel 8 gjelder tilsvarende for dette konsernregnskapet.

Når det gjelder hvilket språk morselskapet skal utarbeide konsernregnskapet på, vises det til forskrift av. 7.9.2006 nr. 1062 til utfylling og gjennomføring mv. av regnskapsloven. Det følger av § 3-7-1 at konsernregnskapet foruten på norsk, kan være på svensk, dansk eller engelsk.

Postadresse
Postboks 9200 Grønland
0134 Oslo

Besøksadresse:
Se www.skatteetaten.no
Org.nr 956250315
E-post: skatteetaten.no@ndepost

Sentrumbord
800 80 000
Telefaks
22 17 08 80

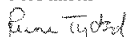


2011/629739 Side 2 av 2

Kopi av dette brev må sendes Regnskapsregisteret i Brønnøysund sammen med årsregnskapet mv. Det påligger den regnskapspliktige å dokumentere ved dette brev at tillatelsen er gitt.

Vennligst oppgi vår referanse ved henvendelser i saken.

Med hilsen



Rune Tystad

seniorrådgiver

Rettsavdelingen, foretaksskatt

Skattedirektoratet



Torstein Kinden Helleland



Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6a, 0191 Oslo
Postboks 1156 Sentrum, 0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

www.ey.no
Medlemmer av Den norske Revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of J. Ray Mcdermott (Norway) AS

Opinion

We have audited the financial statements of J. Ray Mcdermott (Norway) AS (the Company), which comprise the balance sheet as at 31 December 2021, the income statement and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2021 and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

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

Other information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. Management (the board of directors) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

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

Other matters

The company's financial statements have been submitted after the expiration of statutory deadline for submission of financial statements.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



Building a better
working world

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Oslo, 19 October 2022
ERNST & YOUNG AS

The auditor's report is signed electronically

Tore Sørli
State Authorised Public Accountant (Norway)

Independent auditor's report - J. Ray Mcdermott (Norway) AS 2021

A member firm of Ernst & Young Global Limited

Penneo Dokumentnøkkel: ADJFS-TVEDL-7IEJV-E0NFU-VAYDH-AYV52



PENNEO

Signaturene i dette dokumentet er juridisk bindende. Dokument signert med "Penneo™ - sikker digital signatur".
De signerende parter sin identitet er registrert, og er listet nedenfor.

"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

Tore Sørli

Statsautorisert revisor

På vegne av: Ernst & Young AS

Serienummer: 9578-5995-4-774812

IP: 212.251.xxx.xxx

2022-10-19 11:25:19 UTC



Penneo Dokumentnøkkel: ADJFS-TVEDL-7IEIV-EONFU-VAYDH-AYV2

Dokumentet er signert digitalt, med **Penneo.com**. Alle digitale signatur-data i dokumentet er sikret og validert av den datamaskin-utregnede hash-verdien av det opprinnelige dokument. Dokumentet er låst og tids-stemplet med et sertifikat fra en betrodd tredjepart. All kryptografisk bevis er integrert i denne PDF, for fremtidig validering (hvis nødvendig).

Hvordan bekrefter at dette dokumentet er originalen?

Dokumentet er beskyttet av ett Adobe CDS sertifikat. Når du åpner dokumentet i

Adobe Reader, skal du kunne se at dokumentet er sertifisert av **Penneo e-signature service <penneo@penneo.com>**. Dette garanterer at innholdet i dokumentet ikke har blitt endret.

Det er lett å kontrollere de kryptografiske beviser som er lokalisert inne i dokumentet, med Penneo validator - <https://penneo.com/validate>



J.Ray Mcdermott (Norway), AS

Annual report 2021

Board of directors' report

Annual accounts

- Income statement**
- Balance sheet**
- Cash flow statement**
- Notes**

Auditors' report



J.Ray Mcdermott (Norway), AS

Income statement 01.01-31.12

| USD | Note | 2021 | 2020 |
|--|------|--------------------------|---------------------------|
| Revenue | | | |
| Bareboat Charter income | 9 | <u>16 962 280</u> | <u>17 008 752</u> |
| Operating expenses | | | |
| Depreciation of tangible and intangible fixed assets | 8 | 731 469 | 3 167 394 |
| Write-down on tangible and intangible fixed assets | 8 | 0 | 41 234 953 |
| Other operating expenses | 2 | <u>49 456</u> | <u>78 148</u> |
| Total operating expenses | | <u>780 925</u> | <u>44 480 495</u> |
| Operating result | | <u>16 181 355</u> | <u>-27 471 743</u> |
| Financial income and expenses | | | |
| Other financial income | 9 | 0 | 3 400 |
| Write-down on other financial assets | | 0 | 15 537 475 |
| Other financial expenses | 9 | <u>252 425</u> | <u>254 371</u> |
| Net financial items | | <u>-252 425</u> | <u>-15 788 446</u> |
| Ordinary result before tax | | <u>15 928 930</u> | <u>-43 260 189</u> |
| Tax on ordinary result | 7 | <u>2 402</u> | <u>2 402</u> |
| Net profit or loss for the year | | <u>15 926 528</u> | <u>-43 262 591</u> |
| Allocated as follows | | | |
| Transferred to other equity | 5 | <u>15 926 528</u> | <u>-43 262 591</u> |



J.Ray Mcdermott (Norway), AS

Balance sheet as of December 31

| USD | Note | 2021 | 2020 |
|---------------------------------|------|-------------------|-------------------|
| Fixed assets | | | |
| <i>Tangible assets</i> | | | |
| Vessel | 8 | <u>12 719 431</u> | <u>13 450 900</u> |
| Total tangible assets | | <u>12 719 431</u> | <u>13 450 900</u> |
| <i>Financial assets</i> | | | |
| Investments in subsidiaries | 3 | <u>14 821 516</u> | <u>14 821 516</u> |
| Total financial assets | | <u>14 821 516</u> | <u>14 821 516</u> |
| Total fixed assets | | <u>27 540 947</u> | <u>28 272 416</u> |
| Current assets | | | |
| <i>Receivables</i> | | | |
| Receivable from group companies | 6 | 59 333 751 | 54 984 229 |
| Other receivables | | <u>0</u> | <u>106 116</u> |
| Total accounts receivable | | <u>59 333 751</u> | <u>55 090 345</u> |
| Cash and cash equivalents | | <u>0</u> | <u>30</u> |
| Total current assets | | <u>59 333 751</u> | <u>55 090 375</u> |
| Total assets | | <u>86 874 698</u> | <u>83 362 791</u> |



J.Ray Mcdermott (Norway), AS

Balance sheet as of December 31

| USD | Note | 2021 | 2020 |
|---------------------------------------|------|-------------------|-------------------|
| Equity | | | |
| <i>Paid-in capital</i> | | | |
| Share capital | 4, 5 | 34 321 | 34 321 |
| Share premium reserve | 5 | 29 815 313 | 29 815 313 |
| Total paid-in capital | | <u>29 849 634</u> | <u>29 849 634</u> |
| <i>Retained earnings</i> | | | |
| Other equity | 5 | 56 870 945 | 40 944 417 |
| Total retained earnings | | <u>56 870 945</u> | <u>40 944 417</u> |
| Total equity | | <u>86 720 579</u> | <u>70 794 051</u> |
| Liabilities | | | |
| <i>Other long-term liabilities</i> | | | |
| Long-term liabilities group companies | 6 | 0 | 12 416 364 |
| Total other long term liabilities | | <u>0</u> | <u>12 416 364</u> |
| <i>Current liabilities</i> | | | |
| Trade creditors | | 1 744 | 16 011 |
| Tax payable | 7 | 2 402 | 2 402 |
| Other short-term liabilities | 6 | 149 973 | 133 962 |
| Total current liabilities | | <u>154 119</u> | <u>152 375</u> |
| Total liabilities | | <u>154 119</u> | <u>12 568 739</u> |
| Total equity and liabilities | | <u>86 874 698</u> | <u>83 362 790</u> |

Oslo, 31 August 2022

Anthony C. Brown
Chairman

Tareq Kawash
Board member



J.Ray Mcdermott (Norway), AS

Cash flow statement 01.01-31.12

| USD | 2021 | 2020 |
|--|-------------|-----------------|
| Cash flow from operating activities | | |
| Ordinary result from tax | 15 928 930 | -27 722 714 |
| Taxes paid | -2 402 | -2 401 |
| Write-down of fixed assets | 0 | 41 234 953 |
| Depreciation and amortization | 731 469 | 3 167 394 |
| Change in receivables from group companies | -17 663 165 | -17 663 165 |
| Change in payables to group companies | 361 047 | 361 047 |
| Changes in other current balance sheet items | 644 091 | 48 003 |
| Net cash flow from operating activities | <u>-30</u> | <u>-576 883</u> |
| Cash flow from investing activities | | |
| Net cash flow from investing activities | <u>0</u> | <u>0</u> |
| Cash flow from financing activities | | |
| Net cash flow from financing activities | <u>0</u> | <u>0</u> |
| Net change in cash and cash equivalents | -30 | -576 883 |
| Cash and cash equivalents as of 01.01 | <u>30</u> | <u>576 913</u> |
| Cash and cash equivalents as of 31.12 | <u>0</u> | <u>30</u> |



J.Ray Mcdermott (Norway), AS

Notes to the accounts for 2021

USD

Note - 1 Accounting Principles

The annual report is prepared according to the Norwegian Accounting Act 1998 and generally accepted accounting principles for small companies.

Subsidiaries and investments in associate are valued by the cost method in the company accounts. The investment is valued as cost of acquiring shares in the subsidiary, providing that write down is not required. Write down to fair value will be carried out if the reduction in value is caused by circumstances which may not be regarded as incidental, and deemed necessary by generally accepted accounting principles. Write downs are reversed when the cause of the initial write down are no longer present.

Operating income

Income is recorded when acquired. Consequently, recording of income at hire. Value added tax, discounts, bonuses and invoiced freight costs are deducted from operating income.

Balance sheet classification

Net current assets comprise creditors due within one year, and entries related to goods circulation. Other entries are classified as fixed assets and/or long-term creditors.

Current assets are valued at the lower of acquisition cost and fair value. Short term creditors are recognized at nominal value.

Fixed assets are valued by the cost of acquisition, in the case of non-incidental reduction in value the asset will be written down to the fair value amount. Long term creditors are recognized at nominal value.

Trade and other receivables

Trade receivables and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful debts. Provisions for doubtful debts are calculated on the basis of individual assessments.

Functional and presentation currency

The company's reporting currency is in USD, which is also the company's functional currency.

Foreign currency translation

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in foreign currency are valued to the exchange rate at the end of the fiscal year. Monetary items include accounts receivable and liabilities that are to be settled with cash. Changes to exchange rates are recognized in the income statement as they occur during the accounting period.

Tangible fixed assets

Property, plant and equipment is capitalized and depreciated over the estimated useful economic life. Direct maintenance costs are expensed as incurred, whereas improvements and upgrading are assigned to the acquisition cost and depreciated along with the asset. If carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value.



J.Ray Mcdermott (Norway), AS

Notes to the accounts for 2021

USD

Depreciation

Ordinary depreciation is calculated using straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation is classified as ordinary operating expense. Vessel and equipment comprises individual components for which different depreciation methods or rates are appropriated, each component is depreciated separately.

Periodic maintenance

Period maintenance is reported on the balance sheet as a part of the vessel, and straight line depreciated over the period until the next periodic maintenance, normally after 30 months. On the purchase of new vessels, a ratio of the cost price is valued as periodic maintenance.

Income tax

The company is taxed according to the Norwegian tax regime for shipping companies. The regime is supposed to equalize the competitiveness of the regime compared to other European tax regimes for shipping.

Companies, to which the tax regime for shipping companies applies, are taxed continuously on net financial income at a tax rate of 22 %.

Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term highly liquid placement with original maturities of three months or less.

Note 2 - Payroll expenses, number of employees and loans to employees and auditor's fee

The Company has no employees, and has no requirements to establish pension funds.

Neither the Board of Directors, nor the Company's management, has received any remuneration in 2021.

| <i>Auditor fee has been divided as follows</i> | 2021 | 2020 |
|--|-------------|-------------|
| Audit fee | 19 382 | 18 910 |
| Fee for technical preparation of financial statement | 3 587 | 3 500 |

VAT is not included in the auditor fees.

Note 3 - Investment in subsidiaries and associate

| Company | Acquisition date | Location | Share owners | Voting rights | Net profit 2021 | Equity 31.12 |
|--------------------|------------------|----------|--------------|---------------|-----------------|--------------|
| North Ocean 105 AS | 08.03.2010 | Bergen | 100 % | 100 % | 13 076 598 | 27 894 738 |

In 2020 the value of the shares in subsidiaries was impaired by \$15,5m due to larger write-downs of assets in North Ocean 105 AS.



J.Ray Mcdermott (Norway), AS

Notes to the accounts for 2021

USD

Note 4 - Equity

Share capital:

| Number of shares | Face value | Book value |
|------------------|------------|------------|
| 100 000 | 0,34321 | 34 321 |

Shareholders per 31.12:

| | Ordinary shares | Ownership share | Voting rights |
|-------------------------------------|-----------------|-----------------|---------------|
| J. Ray McDermott International Inc. | 100 000 | 100 % | 100 % |

Note 5 - Equity

| | Share capital | Share premium reserve | Other equity | Total |
|--------------------------|---------------|-----------------------|--------------|------------|
| Owners equity 01.01.2021 | 34 321 | 29 815 313 | 40 944 417 | 70 794 051 |
| Profit for the year | 0 | 0 | 15 926 528 | 15 926 528 |
| Owners equity 31.12.2021 | 34 321 | 29 815 313 | 56 870 945 | 86 720 579 |

Note 6 - Inter-company balances

Current assets

Receivables from group companies

| | 2021 | 2020 |
|----------------------|--------------------|--------------------|
| EMS Atlantic branch | -9 945 008 | -5 669 584 |
| JRSA Main Office | -47 953 391 | -47 836 079 |
| North Ocean 105 AS | -840 583 | -883 798 |
| MII Main office | -578 758 | -578 758 |
| JRMI Marine Division | 133 963 | -16 010 |
| Total | <u>-59 333 751</u> | <u>-54 984 229</u> |

Non-current assets

Long term liabilities

Group companies

| | | |
|---------------------|----------|-------------------|
| JRSA Main Office *) | 0 | 12 416 364 |
| Total | <u>0</u> | <u>12 416 364</u> |

Liabilities that in more than 5 years is 0.



J.Ray Mcdermott (Norway), AS

Notes to the accounts for 2021

USD

Note 7 - Income taxes

| <i>Income tax expenses</i> | 2021 | 2020 |
|-----------------------------|-------------|-------------|
| Tonnage tax | 2 402 | 2 402 |
| Total income tax expense | 2 402 | 2 402 |
| <i>Tax base estimation</i> | 2021 | 2020 |
| Interest income | 2 648 | 4 048 |
| Interest deduction | -118 045 | -196 865 |
| Foreign exchange gain/-loss | 1 378 036 | -1 152 975 |
| Tax-related income equity | 238 281 | 115 790 |
| Net taxable income | 1 500 920 | -1 230 002 |
| | 0 | 0 |
| Tonnage tax | 2 402 | 2 402 |
| Total tax payable | 2 402 | 2 402 |

Deferred tax assets is not recognized in the balance sheet as there are uncertainty according to use as it depends on interest income and changes in foreign exchange. The company is subject to Norwegian tonnage tax regime for shipping companies

Note 8 - Tangible fixed assets

| | Vessel |
|-------------------------------|---------------|
| Acquisition cost 01.01. | 116 692 076 |
| Acquisition cost 31.12. | 116 692 076 |
| Acc.depreciation 31.12. | -62 737 692 |
| Acc.write-downs 31.12. | -41 234 953 |
| Net carrying amount at 31.12. | 12 719 431 |
| Depreciation for the year | 731 469 |
| Useful economic life | 17 years |
| Depreciation | Linear |

Note 9 - Transactions with closely related parties

The following show transactions between J. Ray McDermott (Norway) and the related party McDermott International Inc group.

| Transaction | Counterpart | Amount |
|-------------------------|-------------------------|---------------|
| Bareboat charter income | Eastern Marine Services | 16 962 000 |
| Interest expense | JRSA Main Office | -148 957 |
| | | 16 813 043 |



J.Ray Mcdermott (Norway), AS

Notes to the accounts for 2021

USD