

MCDERMOTT INTERNATIONAL INC

Form 10-K

February 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the transition period from _____ to _____

Commission File Number 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA
(State or Other Jurisdiction of
Incorporation or Organization)

72-0593134
(I.R.S. Employer
Identification No.)

4424 West Sam Houston Parkway North 77041

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HOUSTON, TEXAS

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (281) 870-5000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock, \$1.00 par value	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 30, 2017) was approximately \$2 billion.

The number of shares of the registrant's common stock outstanding at February 16, 2018 was 284,032,088.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the registrant's 2018 Annual Meeting of Stockholders, or an amendment to Form 10-K to be filed not later than 120 days from the end of the registrant's most recent fiscal year, are incorporated by reference into Part III of this report.

McDERMOTT INTERNATIONAL, INC.

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Statements we make in this Annual Report on Form 10-K which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to various risks, uncertainties and assumptions, including those to which we refer under the headings “Cautionary Statement Concerning Forward-Looking Statements” and “Risk Factors” in Items 1 and 1A of Part I of this Annual Report.

PART I

Item 1. BUSINESS

General

McDermott International, Inc. (“McDermott”), a corporation incorporated under the laws of the Republic of Panama in 1959, is a leading provider of integrated engineering, procurement, construction and installation (“EPCI”), front-end engineering and design (“FEED”) and module fabrication services for upstream field developments worldwide. We deliver fixed and floating production facilities, pipeline installations and subsea systems from concept to commissioning for complex offshore and subsea oil and gas projects. Operating in approximately 20 countries across the Americas, Europe, Africa, Asia and Australia, our integrated resources include a diversified fleet of marine vessels, fabrication facilities and engineering offices. We support our activities with comprehensive project management and procurement services, while utilizing our fully integrated capabilities in both shallow water and deepwater construction. Our customers include national, major integrated and other oil and gas companies, and we operate in most major offshore oil and gas producing regions throughout the world. We execute our contracts through a variety of methods, principally fixed-price, but also including cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods. In this Annual Report on Form 10-K, unless the context otherwise indicates, “we,” “us” and “our” mean McDermott and its consolidated subsidiaries, and references to any of the Notes to the accompanying Consolidated Financial Statements refer to the Notes to the Consolidated Financial Statements included in Item 8 of Part II.

Our common stock is listed on the New York Stock Exchange under the trading symbol MDR.

Business Combination Agreement with Chicago Bridge & Iron Company N.V. (“CB&I”)

On December 18, 2017, McDermott, Chicago Bridge & Iron Company N.V. (“CB&I”) and certain of their respective subsidiaries entered into a Business Combination Agreement (as amended, the “Business Combination Agreement”), pursuant to which CB&I and McDermott have agreed to combine their businesses through a series of transactions (the “Combination”). The Business Combination Agreement has been approved by the McDermott Board, the Management Board of CB&I and the Supervisory Board of CB&I.

Upon completion of the Combination, McDermott stockholders will own approximately 53 percent of the combined business on a fully diluted basis and CB&I shareholders will own approximately 47 percent. Under the terms of the Business Combination Agreement, we will exchange all issued and outstanding shares of CB&I Common Stock for shares of McDermott Common Stock at the exchange ratio described below. As a result CB&I shareholders will be entitled to receive 2.47221 shares of McDermott common stock for each share of CB&I common stock owned (or 0.82407 shares if McDermott effects a proposed three-to-one reverse stock split prior to the closing of the

Combination), together with cash in lieu of fractional shares. For additional information regarding the Business Combination Agreement and the Combination, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Proposed Business Combination with Chicago Bridge & Iron Company N.V.,” in Part II of this report.

In connection with the Combination, McDermott would be considered the accounting acquirer based on the following facts: (1) upon completion of the Combination, McDermott’s stockholders will own approximately 53 percent of the combined business on a fully diluted basis; (2) a group of McDermott’s current directors, including Chairman of the Board, will constitute a majority of the Board of Directors; and (3) McDermott’s current President and Chief Executive Officer and current Executive Vice President and Chief Financial Officer will continue in those roles following the closing of the Combination. CB&I’s President and Chief Executive Officer will remain with the combined business for a transition period.

In connection with the Combination, on December 18, 2017, McDermott entered into (or received) commitment letters (including the exhibits and other attachments thereto, and together with any amendments, modifications or supplements thereto, the “Commitment Letters”), pursuant to which Barclays Bank PLC, Crédit Agricole Corporate and Investment Bank, Goldman Sachs Bank USA and other lenders (collectively, the “Commitment Parties”) have committed to provide certain debt financing for the Combination. The Commitment Letters provide for a fully committed senior secured term loan B facility in the aggregate principal amount of \$1.75 billion, a fully committed senior secured term loan C facility in the aggregate principal amount of \$500 million, a \$1.0 billion senior secured revolving credit facility, a \$1.2 billion senior secured letter of credit facility and fully committed senior unsecured bridge facilities in an aggregate principal amount of \$1.5 billion, the availability of which is subject to reduction upon McDermott’s issuance

of notes in a private placement or equity securities pursuant to the terms set forth in the Commitment Letters. For additional information regarding the financing arrangements contemplated by the Commitment Letters, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Financing of the Combination” in Part II of this report.

Business Segments

We report financial results under three reporting segments consisting of (1) the Americas, Europe and Africa (“AEA”), (2) the Middle East (“MEA”) and (3) Asia (“ASA”). We also report certain corporate and other non-operating activities under the heading “Corporate and other.” Corporate and other primarily reflects costs that are not allocated to our operating segments. For financial information about our segments, see Note 21, Segment Reporting, to the accompanying Consolidated Financial Statements.

AEA Segment

Through our AEA segment, which includes the Americas, Europe and Africa, we serve the needs of customers primarily in the United States, Brazil, Mexico, Trinidad, the North Sea, West Africa and East Africa. Project focus in this segment includes the fabrication and offshore installation of fixed and floating structures and the installation of pipelines and subsea systems. Engineering and procurement services are supported by engineering resources in Chennai, India, Dubai, U.A.E., London, the United Kingdom, Mexico City, Mexico and Houston, Texas. Our primary facilities for this segment are our fabrication facility in Altamira, Mexico and spoolbase facility in Gulfport, Mississippi and are supported by our fabrication facility at Batam Island, Indonesia.

MEA Segment

Through our MEA segment, which includes the Caspian region, we serve the needs of customers in Saudi Arabia, the U.A.E., Qatar, Kuwait, Azerbaijan and Russia. Project focus in this segment relates primarily to the fabrication and offshore installation of fixed and floating structures and the installation of pipelines and subsea systems. The majority of our projects in this segment are performed on an EPCI basis. Engineering and procurement services are provided by our Dubai, Chennai, and Al Khobar, Saudi Arabia offices and are supported by additional resources from our Houston and Kuala Lumpur, Malaysia offices. The primary fabrication facility for this segment is located in Dubai, with a secondary fabrication facility in Dammam, Saudi Arabia. In addition, this segment’s operations are supported by our fabrication facility at Batam Island.

ASA Segment

Through our ASA segment, we serve the needs of customers primarily in Australia, Indonesia, Brunei, India, Malaysia, Myanmar, Vietnam and Thailand. Project focus in this segment includes the fabrication and offshore installation of fixed and floating structures and the installation of pipelines and subsea systems. The majority of our projects in this segment are performed on an EPCI basis. Engineering and procurement services are provided by our Kuala Lumpur, Batam Island, Chennai offices and are supported by additional resources from our Dubai and Houston offices. The primary fabrication facility for this segment is located on Batam Island, Indonesia. Through our equity ownership interest in a joint venture, we have access to additional fabrication capacity in China.

The above-mentioned fabrication facilities in each segment are equipped with a wide variety of heavy-duty construction and fabrication equipment, including cranes, welding equipment, machine tools and robotic and other automated equipment. Project installation is performed by major construction vessels, which we own or lease and are stationed throughout the various regions and provide structural lifting/lowering and pipelay services. These major construction vessels are supported by our multi-function vessels and chartered vessels from third parties to perform a

wide array of installation activities that include anchor handling, pipelay, cable/umbilical lay, dive support and hookup/commissioning. See Item 2, “Properties,” in Part I of this Annual Report.

Contracts

We execute our contracts through a variety of methods, including fixed-price, unit-basis, cost-plus, or some combination of those methods, with fixed-price being the most prevalent. Contracts are usually awarded through a competitive bid process. Factors that customers may consider include price, facility or equipment availability, technical capabilities of equipment and personnel, efficiency, safety record and reputation.

Fixed-price contracts are for a fixed amount to cover costs and any profit element for a defined scope of work. Fixed-price contracts entail more risk to us because they require us to predetermine both the quantities of work to be performed and the costs associated with executing the work. See “Risk Factors—We are subject to risks associated with contractual pricing in our industry, including the risk that, if our actual costs exceed the costs we estimate on our fixed-price contracts, our profitability will decline and we may suffer losses” in Item 1A of this Annual Report.

We have contracts that extend beyond one year. Most of our long-term contracts have provisions for progress payments. We attempt to cover anticipated increases in labor, material and service costs of our long-term contracts either through an estimate of such charges, which is reflected in the original price, or through risk-sharing mechanisms, such as escalation or price adjustments for items such as labor and commodity prices.

We generally recognize our contract revenues and related costs on a percentage-of-completion basis. Accordingly, for each contract, we regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit proportionate to the percentage of completion of the related project in the period when we revise those estimates. To the extent these adjustments result in a reduction or elimination of previously reported profits with respect to a project, we recognize a charge against current earnings, which could be material.

Our arrangements with customers frequently require us to provide letters of credit, bid and performance bonds or guarantees to secure bids or performance under contracts. While these letters of credit, bonds and guarantees may involve significant dollar amounts, historically there have been no material payments to our customers under these arrangements.

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. See Note 20, Commitments and Contingencies, to the accompanying Consolidated Financial Statements.

Change orders, which are a normal and recurring part of our business, can increase (sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period when those estimates are revised. Revenue from unapproved change orders is recognized to the extent of amounts management expects to recover or costs incurred. Unapproved change orders that are disputed by the customer are treated as claims.

In the event of a contract deferral or cancellation, we generally would be entitled to recover costs incurred, settlement expenses and profit on work completed prior to deferral or termination. Significant or numerous cancellations could adversely affect our business, financial condition, results of operations and cash flows.

Backlog

Backlog represents the dollar amount of revenues we expect to recognize in the future from contracts awarded and those that are in progress. These amounts are presented in U.S. dollars. Currency risk associated with backlog contracts that is not mitigated within the contract is generally mitigated with the use of foreign currency derivative (hedging) instruments, when deemed significant. However, these actions may not eliminate all currency risk exposure included within our long-term contracts. Backlog is a measure not defined by generally accepted accounting principles and is not a measure of contract profitability. Our methodology for determining backlog may not be comparable to methodologies used by other companies in determining their backlog amounts. The backlog values we disclose include anticipated revenues associated with: (1) the original contract amounts; (2) change orders for which we have received written confirmations from the applicable customers; (3) change orders for which we expect to receive confirmations in the ordinary course of business; and (4) claims that we have made against our customers, when certain conditions are met. We do not include expected revenues of contracts related to unconsolidated joint ventures in our backlog, except to the extent of any contract awards we may receive from those joint ventures.

We include in backlog unapproved change orders for which we expect to receive confirmations in the ordinary course of business, generally to the extent of the lesser of the amounts we expect to recover or the associated costs incurred. Any revenue that would represent profit associated with unapproved change orders is generally excluded from backlog until written confirmation is obtained from the applicable customer. However, consideration is given to our history with the customer, as well as the contractual basis under which we may be operating. Accordingly, in certain cases based on our historical experience in resolving unapproved change orders with a customer, the associated profit may be included in backlog. If an unapproved change order is disputed or rejected by the customer, the associated amount of revenue is treated as a claim. See Note 3, Revenue Recognition, to the accompanying Consolidated Financial Statements for additional information on unapproved change orders.

We include claims in backlog only when we have a legal basis to do so, consider collection to be probable and believe we can reliably estimate the ultimate value. Claims revenue is included in backlog to the extent of the lesser of the amounts we expect to recover or associated costs incurred. Claims revenue in backlog at December 31, 2017 and 2016 were not material.

Backlog may not be indicative of future operating results, and projects in our backlog may be cancelled, modified or otherwise altered by customers. We can provide no assurance as to the profitability of our contracts reflected in backlog. It is possible that our estimates of profit could increase or decrease based on, among other things, changes in productivity, actual downtime and the resolution of change orders and claims with the customers.

The following table summarizes changes to our backlog (in thousands):

Backlog at December 31, 2016	\$4,321,851
Bookings from new awards	2,323,047
Additions on existing contracts, net	241,313
Less: Amounts recognized in revenues	2,984,768
Backlog at December 31, 2017 ⁽¹⁾	\$3,901,443

⁽¹⁾At December 31, 2017, approximately 46% of our backlog is attributable to Saudi Arabian Oil Company (“Saudi Aramco”)

Our backlog by segment was as follows:

	December 31, 2017 (In approximate millions)	
AEA	\$1,169	30 %
MEA	2,249	58 %
ASA	483	12 %
Total Backlog	\$3,901	100%

Of the December 31, 2017 backlog, we expect to recognize revenues as follows:

	2018	2019	Thereafter
	(In approximate millions)		
Total backlog	\$2,426	\$1,212	\$ 263

As of December 31, 2017, we had no active projects in a significant loss position. It is possible that our estimates of gross profit could increase or decrease based on changes in productivity, actual downtime and the resolution of change orders and claims with the customers. See Note 3, Revenue Recognition, to the accompanying Consolidated Financial Statements for additional information.

Our adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, as of January 1, 2018, will result in a decrease in our backlog of between

\$205 million and \$220 million. See Note 3, Revenue Recognition, to the accompanying Consolidated Financial Statements for additional information.

Competition

We believe we are among the few offshore construction contractors capable of providing a wide range of services in major offshore oil and gas producing regions of the world. We believe the substantial capital costs and specialized capabilities involved in becoming a full-service offshore EPCI contractor create a significant barrier to entry into the market as a global, fully-integrated competitor. We do, however, face substantial competition from regional competitors and less integrated providers of offshore construction services, such as engineering firms, fabrication facilities, pipelaying companies and shipbuilders. A number of companies compete with us in each of the separate EPCI phases in various parts of the world. Our competitors by segment are discussed below.

AEA

Our AEA segment's key competitors include: Allseas Marine Contractors S.A.; Dragados Offshore Mexico, S.A.; Gulf Island Fabrication Inc.; Swecomex, S.A. DE C.V; Heerema Group; KBR, Inc.; Kiewit Corporation; Saipem S.P.A.; Subsea 7 S.A.; Operadora Cicsa S.A. de C.V.; ICA-Fluor Daniel, S. de R.L. de C.V.; Seaway Heavy Lifting Shipping Ltd. and TechnipFMC plc.

MEA

Our MEA segment's key competitors include: Hyundai Heavy Industrial Co. Ltd.; Larsen and Toubro Ltd. (India); National Petroleum Construction Company (Abu Dhabi); Saipem S.P.A.; TechnipFMC plc.; China Offshore Oil Engineering Co., Ltd. and Petrofac International Ltd.

ASA

Our ASA segment's key competitors include: Allseas Marine Contractors S.A.; China Offshore Oil Engineering Co. Ltd. (COOEC); Daewoo Shipbuilding and Marine Engineering Co. Ltd.; Heerema Group; Hyundai Heavy Industrial Co. Ltd.; Malaysia Marine and Heavy Engineering Holdings Berhad; Nippon Steel Corporation; Saipem S.P.A.; Samsung Heavy Industries Co., Ltd.; SapuraKencana Petroleum & TL Offshore; Sembcorp Marine Offshore Engineering; Subsea 7 S.A.; and TechnipFMC plc.

Unconsolidated Affiliates

We participate with third parties in the ownership of certain entities, which we sometimes refer to as “joint ventures,” for convenience of reference. Those entities are organized in various forms, including as corporations, limited liability companies and other companies with limited liability. By using the term “joint venture,” we are not implying that those entities constitute general partnerships. Some of those joint venture entities are not consolidated and are generally accounted for under the equity method of accounting. We refer to those entities as “unconsolidated affiliates.” The Unconsolidated affiliates that we consider significant are described below.

AEA

io Oil and Gas—We co-own several joint venture entities with Baker Hughes, a GE company. These joint venture entities focus on the pre-FEED phases of projects in offshore markets. They bring comprehensive field development expertise and provide technically advanced solutions in new full field development concept selection and evaluation.

ASA

Qingdao McDermott Wuchuan Offshore Engineering Company Ltd.—We co-own this entity 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, topside, floating, production, storage, and off-loading (“FPSO”) modules and subsea structures and manifolds.

Significant Customers

See Note 21, Segment Reporting, to the accompanying Consolidated Financial Statements for information on customers that accounted for significant percentages of our consolidated revenues.

Financial Information about Geographic Areas

See Note 21, Segment Reporting, to the accompanying Consolidated Financial Statements for financial information about our revenues and assets.

Raw Materials and Suppliers

Our operations use raw materials, such as carbon and alloy steels in various forms and components for assembly. We generally purchase these raw materials and components as needed for individual contracts. We do not depend on a single source of supply for any significant raw materials.

Employees

As of December 31, 2017, we employed approximately 11,800 persons worldwide. As of December 31, 2017, approximately 3,400 of our employees were members of labor unions. Some of our operations are subject to union contracts, which we customarily renew periodically. We consider our relationships with our employees and the applicable labor unions to be satisfactory.

Patents and Licenses

We currently hold a number of U.S. and foreign patents and also have certain patent applications pending. We also acquire patents and grant licenses to others when we consider it advantageous for us to do so. Although in the aggregate our patents and licenses are important to us, we do not regard any single patent or license or group of related patents or licenses as critical or essential to our business as a whole. In general, we depend on our technological capabilities, skilled personnel, construction and management systems, and the application of know-how, rather than patents and licenses, in the conduct of our business.

Hazard Risks and Insurance

Our operations present risks of injury to or death of people, loss of or damage to property and damage to the environment. We conduct difficult and frequently precise operations in very challenging and dynamic locations. We have created loss control systems to assist us in the identification and treatment of the hazard risks presented by our operations, and we endeavor to make sure these systems are effective.

As loss control measures will not always be successful, we seek to establish various means of funding losses and liability related to incidents or occurrences. We primarily seek to do this through contractual protections, including waivers of consequential damages, indemnities, caps on liability, liquidated damage provisions and access to the insurance of other parties. We also procure insurance, operate our own “captive” insurance company or establish funded or unfunded reserves. However, there can be no assurance that these methods will adequately address all risks.

Depending on competitive conditions, the nature of the work, industry custom and other factors, we may not be successful in obtaining adequate contractual protection from our customers and other parties against losses and liabilities arising out of or related to the performance of our work. The scope of the protection may be limited, may be subject to conditions and may not be supported by adequate insurance or other means of financing. In addition, we sometimes have difficulty enforcing our contractual rights with others following a material loss.

Similarly, insurance for certain potential losses or liabilities may not be available or may only be available at a cost or on terms we consider not to be economical. Insurers frequently react to market losses by ceasing to write or severely limiting coverage for certain exposures. Risks that we have frequently found difficult to cost-effectively insure against include, but are not limited to, business interruption (including from the loss of or damage to a vessel), property losses from wind, flood and earthquake events, war and political risks, confiscation or seizure of property (including by act of piracy), pollution liability, liabilities related to occupational health exposures (including asbestos), losses or liability related to acts of terrorism, professional liability, such as errors and omissions coverage, the failure, misuse or unavailability of our information systems or controls or security measures related to those systems, and liability related to risk of loss of our work in progress and customer-owned materials in our care, custody and control. In cases where we place insurance, we are subject to the credit worthiness of the relevant insurer(s), the available limits of the coverage, our retention under the relevant policy, exclusions in the policy and gaps in coverage.

Our wholly owned “captive” insurance subsidiary provides coverage for our retentions under employer’s liability, general and products liability, automotive 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 subsidiary 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 historic losses, 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 losses in our captive insurance programs. These accruals are based on certain 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 reasonable. 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 subsidiary to respond to all claims presented.

Additionally, upon the February 22, 2006 effectiveness of the settlement relating to the Chapter 11 proceedings involving several subsidiaries of our former subsidiary The Babcock & Wilcox Company (“B&W”), most of our subsidiaries contributed substantial insurance rights to the asbestos personal injury trust. Those insurance rights

provided coverage for, among other things, asbestos and other personal injury claims, subject to the terms and conditions of the policies. With the contribution of those insurance rights to the asbestos personal injury trust, we may have underinsured or uninsured exposure for non-derivative asbestos claims or other personal injury or other claims that would have been insured under those coverages had the insurance rights not been contributed to the asbestos personal injury trust.

6

Governmental Regulations and Environmental Matters

General

Many aspects of our operations and properties are affected by political developments and are subject to both domestic and foreign governmental regulations, including those relating to:

- constructing and equipping offshore production platforms and other offshore facilities;
- marine vessel safety;
- the operation of foreign-flagged vessels in the coastal trade;
- workplace health and safety;
- the Foreign Corrupt Practices Act and similar anti-corruption laws;
- currency conversions and repatriation;
- taxation of foreign earnings and earnings of expatriate personnel; and
- protecting the environment.

In addition, we depend on the demand for our offshore construction services from the oil and gas industry and, therefore, are affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry generally. The adoption of laws and regulations curtailing offshore exploration and development drilling for oil and gas for environmental, economic and other policy reasons would adversely affect our operations by limiting demand for our services.

We are required by various governmental and quasi-governmental agencies to obtain certain permits, licenses and certificates with respect to our operations.

The exploration and development of oil and gas properties on the continental shelf of the United States is regulated primarily under the U.S. Outer Continental Shelf Lands Act and related regulations. These laws require the construction, operation and removal of offshore production facilities located on the outer continental shelf of the United States to meet stringent engineering and construction specifications. Similar regulations govern the plugging and abandoning of wells located on the outer continental shelf of the United States and the removal of all production facilities. Violations of regulations issued pursuant to the U.S. Outer Continental Shelf Lands Act and related laws can result in substantial civil and criminal penalties, as well as injunctions curtailing operations.

We cannot determine the extent to which new legislation, new regulations or changes in existing laws or regulations may affect our future operations.

Environmental

Our operations and properties are subject to a wide variety of increasingly complex and stringent foreign, federal, state and local environmental laws and regulations, including those governing discharges into the air and water, the handling and disposal of solid and hazardous wastes, the remediation of soil and groundwater contaminated by hazardous substances and the health and safety of employees. Sanctions for noncompliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. Some environmental laws provide for strict, joint and several liability for remediation of spills and other releases of hazardous substances, as well as damage to natural resources. In addition, companies may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. Such laws and regulations may also expose us to liability for the conduct of or conditions caused by others or for our acts that were in compliance with all applicable laws at the time such acts were performed.

These laws and regulations include the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (“CERCLA”), the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and similar laws that provide for responses to, and liability for, releases of hazardous substances into the environment. These laws and regulations also include similar foreign, state or local counterparts to these federal laws, which regulate air emissions, water discharges and hazardous substances and waste management and disposal, and require public disclosure related to the use of various hazardous substances. Our operations are also governed by laws and regulations relating to workplace safety and worker health, including, in the United States, the Occupational Safety and Health Act and regulations promulgated thereunder.

In addition, offshore construction and drilling in some areas have been opposed by environmental groups and, in some areas, have been restricted. To the extent laws are enacted or other governmental actions are taken that prohibit or restrict offshore construction and drilling or impose environmental protection requirements that result in increased costs to the oil and gas industry in general and the offshore construction industry in particular, our business and prospects could be adversely affected.

We have been identified as a potentially responsible party at various cleanup sites under 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. 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 wastes 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 do not anticipate incurring any material capital expenditures for environmental control facilities in the years ended December 31, 2018 or 2019. For financial information about our environmental liabilities, see Note 20, Commitments and Contingencies, to the accompanying Consolidated Financial Statements.

Cautionary Statement Concerning Forward-Looking Statements

We are including the following discussion to inform our existing and potential security holders generally of some of the risks and uncertainties that can affect our company and to take advantage of the “safe harbor” protection for forward-looking statements that applicable federal securities law affords.

From time to time, our management or persons acting on our behalf make forward-looking statements to inform existing and potential security holders about our company. These statements may include projections and estimates concerning the scope, execution, timing and success of specific projects and our future backlog, revenues, income and capital spending. Forward-looking statements are generally accompanied by words such as “estimate,” “project,” “predict,” “forecast,” “believe,” “expect,” “anticipate,” “plan,” “seek,” “goal,” “could,” “may,” or “should” or other words that convey the nature of future events or outcomes. Sometimes we will specifically describe a statement as being a forward-looking statement and refer to this cautionary statement.

In addition, various statements in this Annual Report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. Those forward-looking statements appear in Item 1, Business, and Item 3, Legal Proceedings, in Part I of this Annual Report and in Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and in the Notes to our Consolidated Financial Statements in Item 8 of Part II of this Annual Report and elsewhere in this Annual Report.

These forward-looking statements include, but are not limited to, statements that relate to, or statements that are subject to risks, contingencies or uncertainties that relate to:

- expectations regarding the Combination and the anticipated benefits of combining CB&I’s business with our business;
- future levels of revenues, operating margins, income from operations, cash flows, net income or earnings per share;
- the outcome of project awards and scope, execution and timing of specific projects, including timing to complete and cost to complete these projects;
- future project activities, including the commencement and subsequent timing of marine or installation campaigns on specific projects, and the ability of projects to generate sufficient revenues to cover our fixed costs;
- estimates of percentage of completion and contract profits or losses;

- anticipated levels of demand for our products and services;
- global demand for oil and gas and fundamentals of the oil and gas industry;
- expectations regarding offshore development of oil and gas;
- market outlook for the EPCI market;
- expectations regarding cash flows from operating activities;
- expectations regarding backlog;
- future levels of capital, environmental or maintenance expenditures;

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- the success or timing of completion of ongoing or anticipated capital or maintenance projects;
- the adequacy of our sources of liquidity and capital resources, including for the financing arrangements contemplated by the Commitment Letters to enable us to complete the Combination with CB&I;
- interest expense;
- the effectiveness of our derivative contracts in mitigating foreign currency risk;
- results of our capital investment program;
- expectations regarding the acquisition or divestiture of assets;
- the possibility of establishing our parent company's tax residence in the United Kingdom;
- the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows; and
- the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation.

These forward-looking statements speak only as of the date of this report; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

- general economic and business conditions and industry trends;
- general developments in the industries in which we are involved;
- the volatility of oil and gas prices;
- decisions about offshore developments to be made by oil and gas companies;
- the highly competitive nature of our industry;
- our ability to appropriately bid, estimate and effectively perform projects on time, in accordance with the schedules established by the applicable contracts with customers;
- changes in project design or schedule;
- changes in scope or timing of work to be completed under contracts;
- cancellations of contracts, change orders and other modifications and related adjustments to backlog and the resulting impact from using backlog as an indicator of future revenues or earnings;
- the collectability of amounts reflected in change orders and claims relating to work previously performed on contracts;
- the capital investment required to construct new-build vessels and maintain and/or upgrade our existing fleet of vessels;
- the ability of our suppliers and subcontractors to deliver raw materials in sufficient quantities and/or perform in a timely manner;
- volatility and uncertainty of the credit markets;
- our ability to comply with covenants in our credit agreements, indentures and other debt instruments and availability, terms and deployment of capital;
- the unfunded liabilities of our pension plans, which may negatively impact our liquidity and, depending upon future operations, may impact our ability to fund our pension obligations;
- the continued availability of qualified personnel;
- the operating risks normally incident to our lines of business, including the potential impact of liquidated damages;
- natural or man-caused disruptive events that could damage our facilities, equipment or our work-in-progress and cause us to incur losses and/or liabilities;

- equipment failure;
- changes in, or our failure or inability to comply with, government regulations;
- adverse outcomes from legal and regulatory proceedings;
- impact of potential regional, national and/or global requirements to significantly limit or reduce greenhouse gas and other emissions in the future;
- changes in, and liabilities relating to, existing or future environmental regulatory matters;
- changes in tax laws;
- rapid technological changes;
- the consequences of significant changes in interest rates and currency exchange rates;
- difficulties we may encounter in obtaining regulatory or other necessary approvals of any strategic transactions;
- the risks associated with integrating acquired businesses and forming and operating joint ventures;
- the risk we may not be successful in updating and replacing current information technology and the risks associated with information technology systems interruptions and cybersecurity threats;
- social, political and economic situations in countries where we do business;
- the risks associated with our international operations, including local content or similar requirements;
- interference from adverse weather or sea conditions;
- the possibilities of war, other armed conflicts or terrorist attacks;
- the effects of asserted and unasserted claims and the extent of available insurance coverages;
- our ability to obtain surety bonds, letters of credit and financing;
- our ability to maintain builder's risk, liability, property and other insurance in amounts and on terms we consider adequate and at rates that we consider economical;
- the aggregated risks retained in our captive insurance subsidiary; and
- the impact of the loss of insurance rights as part of the Chapter 11 Bankruptcy settlement concluded in 2006 involving several of our former subsidiaries.

We believe the items we have outlined above are important factors that could cause estimates in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this report. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report could also have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potential important factor arises, except as required by applicable securities laws and regulations. We advise our security holders that they should (1) be aware that factors not referred to above could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

Available Information

Our website address is www.mcdermott.com. We make available through the Investors section of this website under "Financial Information," free of charge, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of beneficial ownership of securities on Forms 3, 4 and 5 and amendments to those reports as soon as reasonably practicable after we electronically file those materials with, or furnish those materials to, the Securities and Exchange Commission (the "SEC"). You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information regarding the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. We have also posted on our website our: Corporate Governance Guidelines; Code of Ethics for our Chief Executive Officer and Senior Financial Officers; Board of Directors Conflicts of Interest Policies and Procedures; Officers, Board Members and Contact Information; Amended and Restated Articles of Incorporation; Amended and Restated By-laws; and charters for the Audit, Compensation and Governance Committees of our Board.

Item 1A. RISK FACTORS

You should carefully consider each of the following risks and all of the other information contained in this Annual Report. If any of these risks develop into actual events, our business, financial condition, results of operations or cash flows could be materially adversely affected, and, as a result, the trading price of our common stock could decline. Additional risks not presently known to us or that we currently deem immaterial individually or in the aggregate may also adversely affect us.

Risk Factors Relating to our Business Operations

We derive substantially all of our revenues from companies in the oil and gas exploration and production industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and gas prices.

The demand for our EPCI services has traditionally been cyclical, depending primarily on the capital expenditures of oil and gas companies for construction of development projects. These capital expenditures are influenced by such factors as:

- prevailing oil and gas prices;
- expectations about future prices;
- the cost of exploring for, producing and delivering oil and gas;
- the sale and expiration dates of available offshore leases;
- the discovery rate of new oil and gas reserves, including in offshore areas;
- the rate of decline of existing oil and gas reserves;
 - laws and regulations related to environmental matters, including those addressing alternative energy sources and the risks of global climate change;
- the development and exploitation of alternative fuels or energy sources;
- domestic and international political, military, regulatory and economic conditions;
- technological advances, including technology related to the exploitation of shale oil; and
- the ability of oil and gas companies to generate funds for capital expenditures.

Prices for oil and gas have historically been, and we anticipate they will continue to be, extremely volatile and react to changes in the supply of and demand for oil and natural gas (including changes resulting from the ability of the Organization of Petroleum Exporting Countries to establish and maintain production quotas), domestic and worldwide economic conditions and political instability in oil producing countries. Material declines in oil and natural gas prices have affected, and will likely continue to affect the demand for and pricing of our EPCI services. Since the start of the cyclical oil price decline in the fourth quarter of 2014, many oil and gas companies have made significant reductions in their capital expenditure budgets. In particular, some of our customers reduced their spending on exploration, development and production programs, including by deferring or delaying certain capital projects. Although oil prices have increased, on a relative basis in the recent short term, the sustained lower relative price of oil has adversely affected demand for our services and lower relative prices compared to recent pricing levels could, over a sustained period of time, materially adversely affect our financial condition, results of operations and cash flows.

Our results of operations and operating cash flows depend on us obtaining significant EPCI contracts primarily for offshore oil and gas developments throughout the world. The timing of or failure to obtain contracts, delays in awards of contracts, cancellations of contracts, delays in completion of contracts, or failure to obtain timely payments from our customers, could result in significant periodic fluctuations in our results of operations and operating cash flows. In addition, many of our contracts require us to satisfy specific progress or performance milestones in order to receive payment from the customer. As a result, we may incur significant costs for engineering, materials, components, equipment, labor or subcontractors prior to receipt of payment from a customer. Such expenditures could reduce our cash flows and necessitate borrowings under our credit agreements.

We are subject to risks associated with contractual pricing in our industry, including the risk that, if our actual costs exceed the costs we estimate on our fixed-price contracts, our profitability will decline, and we may suffer losses.

We are engaged in a highly competitive industry, and we have contracted for a substantial number of projects on a fixed-price basis. In many cases, these projects involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management and other activities conducted over extended time periods, sometimes in remote locations. Our actual costs

related to these projects could exceed our projections. We attempt to cover the increased costs of anticipated changes in labor, material and service costs of long-term contracts, either through estimates of cost increases, which are reflected in the original contract price, or through price escalation clauses. Despite these attempts, however, the cost and gross profit we realize on a fixed-price contract could vary materially from the estimated amounts because of supplier, contractor and subcontractor performance, our own performance, including the quality and timeliness of work performed, changes in job conditions, unanticipated weather conditions, variations in labor and equipment productivity and increases in the cost of raw materials, particularly steel, over the term of the contract. In the future, these factors and other risks generally inherent in the industry in which we operate may result in actual revenues or costs being different from those we originally estimated and may result in reduced profitability or losses on projects. Some of these risks include:

- our engineering, procurement and construction projects may encounter difficulties related to the procurement of materials, or due to schedule disruptions, equipment performance failures or other factors that may result in additional costs to us, reductions in revenue, claims or disputes;
- we may not be able to obtain compensation for additional work we perform or expenses we incur as a result of customer change orders or our customers providing deficient design or engineering information or equipment or materials;
- we may be required to pay significant amounts of liquidated damages upon our failure to meet schedule or performance requirements of our contracts; and
- difficulties in engaging third-party subcontractors, equipment manufacturers or materials suppliers or failures by third-party subcontractors, equipment manufacturers or materials suppliers to perform could result in project delays and cause us to incur additional costs.

Performance problems relating to any significant existing or future contract arising as a result of any of these or other risks could cause our actual results of operations to differ materially from those we anticipate at the time we enter into the contract and could cause us to suffer damage to our reputation within our industry and our customer base. Additionally, we may be at a greater risk of reduced profitability or losses in the current low-oil-price environment due to pricing pressures in our industry, potential difficulties in obtaining customer approvals of change orders or claims, deterioration in contract terms and conditions, including customer-required extended-payment terms, unexpected project delays, suspensions and cancellations or changes or reductions in project scope or schedule and other factors.

Our use of percentage-of-completion method of accounting could result in volatility in our results of operations.

We recognize revenues and profits from our long-term contracts using the percentage-of-completion basis of accounting. Accordingly, we review contract price and cost estimates periodically as the work progresses and reflect adjustments proportionate to the percentage of completion in income in the period when we revise those estimates. To the extent these adjustments result in a reduction or an elimination of previously reported profits with respect to a project, we would recognize a charge against current earnings, which could be material. Our current estimates of our contract costs and the profitability of our long-term projects, although reasonably reliable when made, could change as a result of the uncertainties associated with these types of contracts, and if adjustments to overall contract costs are significant, the reductions or reversals of previously recorded revenues and profits could be material in future periods. In addition, change orders, which are a normal and recurring part of our business, can increase (and sometimes substantially) the future scope and cost of a job. Therefore, change order awards (although frequently beneficial in the long term) can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits that otherwise would be recognized to date. Additionally, to the extent that claims included in backlog, including those which arise from change orders which are under dispute or which have been previously rejected by the customer, are not resolved in our favor, there could be reductions in, or reversals of, previously reported amounts of revenues and profits, and charges against current earnings, all of which could be material.

Our backlog is subject to unexpected adjustments and cancellations.

The revenues projected in our backlog may not be realized or, if realized, may not result in profits. Because of project cancellations or changes in project scope and schedule, we cannot predict with certainty when or if backlog will be performed. In addition, even where a project proceeds as scheduled, it is possible that contracted parties may default and fail to pay amounts owed to us, or poor project performance could increase the cost associated with a project. Delays, suspensions, cancellations, payment defaults, scope changes and poor project execution could materially reduce the revenues and reduce or eliminate profits that we actually realize from projects in backlog. We may be at greater risk of delays, suspensions and cancellations in the current low oil price environment.

Reductions in our backlog due to cancellation or modification by a customer or for other reasons may adversely affect, potentially to a material extent, the revenues and earnings we actually receive from contracts included in our backlog. Many of the contracts in our backlog provide for cancellation fees in the event customers cancel projects. These cancellation fees usually provide for reimbursement of our out-of-pocket costs, revenues for work performed prior to cancellation and a varying percentage of the profits

we would have realized had the contract been completed. However, we typically have no contractual right upon cancellation to the total revenues reflected in our backlog. Projects may remain in our backlog for extended periods of time. If we experience significant project terminations, suspensions or scope adjustments to contracts reflected in our backlog, our financial condition, results of operations and cash flows may be adversely impacted. We may be at a greater risk of experiencing unexpected project delays, cancellations, suspensions and terminations or changes or reductions in project scope or schedule in the current low-oil-price environment.

We have a substantial investment in our marine fleet. At times a vessel or several vessels may require increased levels of maintenance and capital expenditures, may be less efficient than competitors' vessels for certain projects, and may experience mechanical failure with the inability to economically return to service. If we are unable to manage our fleet efficiently and find profitable market opportunities for our vessels, our results of operations may deteriorate and our financial position and cash flows could be adversely affected.

We operate a fleet of construction and multi-service vessels of varying ages. Some of our competitors' fleets and competing vessels in those fleets may be substantially newer than ours and more technologically advanced. Our vessels may not be capable of serving all markets and may require additional maintenance and capital expenditures, due to age or other factors, creating periods of downtime. In addition, customer requirements and laws of various jurisdictions may limit the use of older vessels or a foreign-flagged vessel, unless we are able to obtain an exception to such requirements and laws, which may not be available. Our ability to continue to upgrade our fleet depends, in part, on our ability to economically commission the construction of new vessels, as well as the availability to purchase in the secondary market newer, more technologically advanced vessels with the capabilities that may be required by our customers. If we are unable to manage our fleet efficiently and find profitable market opportunities for our vessels, our results of operations may deteriorate and our financial position and cash flows could be adversely affected.

Vessel construction, upgrade, refurbishment and repair projects are subject to risks, including delays and cost overruns, which could have an adverse impact on our available cash resources and results of operations.

We expect to make significant new construction and upgrade, refurbishment and repair expenditures for our vessel fleet from time to time, particularly in light of the aging nature of our vessels and requests for upgraded equipment from our customers. Some of these expenditures may be unplanned. Vessel construction, upgrade, refurbishment and repair projects may be subject to the risks of delay or cost overruns, including delays or cost overruns resulting from any one or more of the following:

- unexpectedly long delivery times for, or shortages of, key equipment, parts or materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- shipyard delays and performance issues;
- failures or delays of third-party equipment vendors or service providers;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- work stoppages and other labor disputes;
- unanticipated actual or purported change orders;
- disputes with shipyards and suppliers;
- design and engineering problems;
- latent damages or deterioration to equipment and machinery in excess of engineering estimates and assumptions;
- financial or other difficulties at shipyards;
- interference from adverse weather conditions;
- difficulties in obtaining necessary permits or in meeting permit conditions; and
- customer acceptance delays.

Significant cost overruns or delays could materially affect our financial condition and results of operations.

Additionally, capital expenditures for vessel construction, upgrade, refurbishment and repair projects could materially

exceed our planned capital expenditures. The failure to complete such a project on time, or the inability to complete it in accordance with its design specifications, may, in some circumstances, result in loss of revenues, penalties, or delay, renegotiation or cancellation of a contract. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as favorable terms.

Moreover, our vessels undergoing upgrade, refurbishment and repair activities may not earn revenue during periods when they are out of service.

A change in tax laws could have a material adverse effect on us by substantially increasing our corporate income taxes and, consequently, decreasing our future net income and increasing our future cash outlays for taxes.

As a result of a reorganization completed in 1982, McDermott International, Inc. is a corporation organized under the laws of the Republic of Panama. Tax legislative proposals intending to eliminate some perceived tax advantages of companies that have legal domiciles outside the U.S. but operate in the U.S. through one or more subsidiaries have been introduced in the U.S. Congress in recent years. Recent examples include, but are not limited to, legislative proposals that would broaden the circumstances in which a non-U.S. company would be considered a U.S. resident for U.S. tax purposes. It is possible that, if legislation were to be enacted in these areas, we could be subject to a substantial increase in our corporate income taxes and, consequently, a decrease in our future net income and an increase in our future cash outlays for taxes. We are unable to predict the form in which any proposed legislation might become law or the nature of regulations that may be promulgated under any such future legislative enactments. For a discussion of the impact of new U.S. tax legislation on our financial results, see Note 17, Income Taxes, to the accompanying Consolidated Financial Statements.

Our operations are subject to operating risks and limits on insurance coverage, which could expose us to potentially significant liabilities and costs.

We are subject to a number of risks inherent in our operations, including:

- accidents resulting in injury or the loss of life or property;
- environmental or toxic tort claims, including delayed manifestation claims for personal injury or loss of life;
- pollution or other environmental mishaps;
- hurricanes, tropical storms and other adverse weather conditions;
- mechanical or equipment failures, including with respect to newer technologies;
- collisions;
- property losses;
- business interruption due to political action or terrorism (including in foreign countries) or other reasons; and
- labor stoppages.

We have been, and in the future we may be, named as defendants in lawsuits asserting large claims as a result of litigation arising from events such as these. Insurance against some of the risks inherent in our operations is either unavailable or available only at rates that we consider uneconomical. Also, catastrophic events customarily result in decreased coverage limits, more limited coverage, additional exclusions in coverage, increased premium costs and increased deductibles and self-insured retentions. Risks that we have frequently found difficult to cost-effectively insure against include, but are not limited to, business interruption (including from the loss of or damage to a vessel), property losses from wind, flood and earthquake events, war and confiscation or seizure of property (including by act of piracy), acts of terrorism, strikes, riots, civil unrest and malicious damage, pollution liability, liabilities related to occupational health exposures (including asbestos), professional liability, such as errors and omissions coverage, coverage for costs incurred for investigations related to breaches of laws or regulations, the failure, misuse or unavailability of our information systems or security measures related to those systems, and liability related to risk of loss of our work in progress and customer-owned materials in our care, custody and control. Depending on competitive conditions and other factors, we endeavor to obtain contractual protection against certain uninsured risks from our customers. When obtained, such contractual indemnification protection may not be as broad as we desire or may not be supported by adequate insurance maintained by the customer. Such insurance or contractual indemnity protection may not be sufficient or effective under all circumstances or against all hazards to which we may be subject. A successful claim for which we are not insured, for which we are underinsured or for which our contractual

indemnity is insufficient could have a material adverse effect on us.

We have a captive insurance company subsidiary which provides us with various insurance coverages. Claims could adversely impact the ability of our captive insurance company subsidiary to respond to all claims presented.

Additionally, upon the February 2006 consummation of the Chapter 11 proceedings involving several subsidiaries of our former subsidiary, the Babcock & Wilcox Company, most of our subsidiaries contributed substantial insurance rights providing coverage for, among other things, asbestos and other personal injury claims, to the asbestos personal injury trust. With the contribution of these

insurance rights to the asbestos personal injury trust, we may have underinsured or uninsured exposure for non-derivative asbestos claims or other personal injury or other claims that would have been insured under these coverages had the insurance rights not been contributed to the asbestos personal injury trust.

Our failure to successfully defend against claims made against us by customers, suppliers or subcontractors, or our failure to recover adequately on claims made by us against customers, suppliers or subcontractors, could materially adversely affect our business, financial condition, results of operations and cash flows.

Our projects generally involve complex design and engineering, significant procurement of equipment and supplies and construction management. We may encounter difficulties in design or engineering, equipment or supply delivery, schedule changes and other factors, some of which are beyond our control, that affect our ability to complete projects in accordance with the original delivery schedules or to meet other contractual performance obligations. We occasionally bring claims against customers for additional costs exceeding contract prices or for amounts not included in original contract prices. These types of claims may arise due to matters such as customer-caused delays or changes from the initial project scope, which may result in additional costs, both direct and indirect. From time to time, claims are the subject of lengthy and expensive arbitration or litigation proceedings, and it is often difficult to accurately predict when those claims will be fully resolved. When these types of events occur and unresolved claims are pending, we may invest significant working capital in projects to cover cost overruns pending the resolution of the claims. In addition, claims may be brought against us by customers in connection with our contracts. Claims brought against us may include back charges for alleged defective or incomplete work, breaches of warranty and/or late completion of the work and claims for cancelled projects. The claims can involve actual damages, as well as contractually agreed-upon liquidated sums. Claims among us and our suppliers and subcontractors include claims similar to those described above. These claims, if not resolved through negotiation, may also become subject to lengthy and expensive arbitration or litigation proceedings. Claims among us, our customers, suppliers and subcontractors could materially adversely affect our business, financial condition, results of operations and cash flows.

We depend on a relatively small number of customers.

We derive a significant amount of our revenues and profits from a relatively small number of customers in a given year. Our significant customers include major integrated and national oil and gas companies. Revenues from Saudi Aramco and Inpex Operations Australia Pty. Ltd. represented 63% and 11%, respectively, of our total consolidated revenue for the year ended December 31, 2017. As of December 31, 2017, approximately 46% of our contractual backlog was attributable to Saudi Aramco. Our inability to continue to perform substantial services for our large existing customers (whether due to our failure to satisfy their bid tender requirements, disappointing project performance, changing political conditions and changing laws and policies affecting trade and investment, disagreements with respect to new (or potentially new) ventures or other business opportunities), or delays in collecting receivables from these customers, could have a material adverse effect on our business and operations.

We may not be able to compete successfully against current and future competitors.

The industry in which we operate is highly competitive. Some of our competitors or potential competitors offer a broader range of SPS and SURF services than we provide and have been gaining success in marketing those services on an integrated or “packaged” basis to customers around the world. Several of our competitors have greater financial or other resources than we have. Our operations may be adversely affected if our current competitors or new market entrants successfully offer SPS and SURF services on an integrated basis in a manner that we may be unable to match, even with our alliance and joint venture arrangements, or introduce new facility designs or improvements to engineering, procurement, construction or installation services. Competition also places downward pressure on our contract prices and margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable margins. If we are unable to meet

these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our financial position, results of operations and cash flows.

Our employees work on projects that are inherently dangerous. If we fail to maintain safe work sites, we can be exposed to significant financial losses and reputational harm.

Safety is a leading focus of our business, and our safety record is critical to our reputation and is of paramount importance to our employees, customers and stockholders. However, we often work on large-scale and complex projects which can place our employees and others near large mechanized equipment, moving vehicles, dangerous processes or highly-regulated materials and in challenging environments. Although we have a functional group whose primary purpose is to implement effective quality, health, safety, environmental and security procedures throughout our company, if we fail to implement effective safety procedures, our employees and others may become injured, disabled or lose their lives, our projects may be delayed and we may be exposed to litigation or investigations.

Unsafe conditions at project work sites also have the potential to increase employee turnover, increase project costs and raise our operating costs. Additionally, many of our customers require that we meet certain safety criteria to be eligible to bid for contracts and our failure to maintain adequate safety standards, could result in reduced profitability, or lost project awards or customers. Any of the foregoing could result in financial losses or reputational harm, which could have a material adverse impact on our business, financial condition, and results of operations.

We face risks associated with investing in foreign subsidiaries and joint ventures, including the risks that our joint ventures may not be able to effectively or efficiently manage their operations, that joint ventures operations create a liability, known or unknown and that we may be restricted in our ability to access the cash flows or assets of those entities.

We conduct some operations through foreign subsidiaries and joint ventures. We do not fully control all of our joint ventures. Even in those joint ventures that we fully control, we may be required to consider the interests of the other joint venture participants in connection with decisions concerning the operations of the joint ventures, which in our belief may not be as efficient or effective as in our wholly owned subsidiaries. We may also be affected by the known or unknown actions or omissions of the joint venture and the other joint venture participants, to the extent that they affect the operations of the applicable joint venture. We may experience difficulties relating to the assimilation of personnel, services and systems in the joint venture's operations or the appropriate transfer of communications and data between us and the joint venture. Any failure to efficiently and effectively operate a joint venture with the other joint venture participants may cause us to fail to realize the anticipated benefits of entering into the joint venture and could adversely affect our operating results for the joint venture. Also, our foreign subsidiaries and joint ventures sometimes face governmentally imposed restrictions on their ability to transfer funds to us. As a result, arrangements involving foreign subsidiaries and joint ventures may restrict us from gaining access to the cash flows or assets of these entities. Additionally, complexities may arise from the termination of our ownership interests in foreign subsidiaries and joint ventures (whether through a sale of equity interests, dissolution, winding-up or otherwise). Those complexities may include issues such as proper valuations of assets, provisions for resolution of trailing liabilities and other issues as to which we may not be aligned with other owners, participants, creditors, customers, governmental entities or other persons or entities that have relationships with such foreign subsidiaries and joint ventures. Resolution of any such issues could give rise to unanticipated expenses or other cash outflows, the loss of potential new contracts or other adverse impacts on our business, any of which could have a material adverse effect on us.

Our international operations are subject to political, economic and other uncertainties.

We derive substantially all of our revenues from international operations. Our international operations are subject to political, economic and other uncertainties. These include:

- risks of war, terrorism, piracy and civil unrest;
- expropriation, confiscation or nationalization of our assets;
- renegotiation or nullification of our existing contracts;
- changing political conditions and changing laws and policies affecting trade and investment;
- increased costs, lower revenues and backlog and decreased liquidity resulting from a full or partial break-up of the EU or its currency, the Euro;
- the lack of well-developed legal systems in some countries in which we make capital investments, operate or provide services, which could make it difficult for us to enforce our rights;
- overlap of different tax structures;
- risk of changes in currency exchange rates and currency exchange restrictions that limit our ability to convert local currencies into U.S. dollars; and
- risks associated with the assertion of national sovereignty over areas in which our operations are conducted.

We also may be particularly susceptible to regional conditions that may adversely affect our operations. Our major marine construction vessels typically require relatively long periods of time to mobilize over long distances, which could affect our ability to withdraw them from areas of conflict. Additionally, certain of our fabrication facilities are located in regions where conflicts may occur and limit or disrupt our operations. Certain of our insurance coverages could also be cancelled by our insurers. The impacts of these risks are very difficult to cost effectively mitigate or insure against and, in the event of a significant event impacting the operations of one or more of our fabrication facilities, we will very likely not be able to easily replicate the fabrication capacity needed to meet existing contractual commitments, given the time and cost involved in doing so. Any failure by us to meet our material contractual commitments could give rise to loss of revenues, claims by customers and loss of future business opportunities, which could materially adversely affect our financial condition, results of operations and cash flows.

Various foreign jurisdictions have laws limiting the right and ability of foreign subsidiaries and joint ventures to pay dividends and remit earnings to affiliated companies. Our international operations sometimes face the additional risks of fluctuating currency values, hard currency shortages and controls of foreign currency exchange.

Employee, agent or partner misconduct or our overall failure to comply with laws or regulations could weaken our ability to win contracts, lead to the suspension of our operations and result in reduced revenues and profits.

Misconduct, fraud, non-compliance with applicable laws and regulations, or other improper activities or detrimental business practices by one or more of our employees, agents, representatives or joint ventures (or any of their employees, agents or representatives) could have a significant negative impact on our business and reputation, even if unrelated to the conduct of our business and otherwise unrelated to us. Such misconduct could include the failure to comply with regulations on lobbying or similar activities, regulations pertaining to the internal control over financial reporting and various other applicable laws or regulations. The precautions we and our joint ventures take to prevent and detect fraud, misconduct or failures to comply with applicable laws and regulations may not be effective. A failure by our or any of our joint ventures' employees, agents or representatives to comply with applicable laws or regulations or acts of fraud or misconduct or other improper activities or detrimental business practices, even if unrelated to the conduct of our business and otherwise unrelated to us, could subject us to fines and penalties, lead to the suspension of operations and/or result in reduced revenues and profits.

We could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act, U.K. Bribery Act, other applicable worldwide anti-corruption laws or our 1976 Consent Decree.

The U.S. Foreign Corrupt Practices Act ("FCPA") and other applicable worldwide anti-corruption laws generally prohibit companies and their intermediaries from making improper payments to government officials for the purpose of obtaining or retaining business. These laws include the U.K. Bribery Act, which is broader in scope than the FCPA, as it contains no facilitating payments exception. Additionally, in 1976 we entered into a Consent Decree with the U.S. Securities and Exchange Commission which, among other things, forbids us from making payments in the nature of a commercial bribe to any customer or supplier to induce the purchase or sale of goods, services or supplies. We and several of our joint ventures operate in some countries that international corruption monitoring groups have identified as having high levels of corruption. Those activities create the risk of unauthorized payments or offers of payments by one of our employees, agents or representatives (or those of our joint ventures) that could be in violation of the FCPA or other applicable anti-corruption laws. Our training program and policies mandate compliance with applicable anti-corruption laws and the 1976 Consent Decree. Additionally, our global operations include the import and export of goods and technologies across international borders, which requires a robust compliance program. Although we have policies, procedures and internal controls in place to monitor internal and external compliance, we cannot assure that our policies and procedures will protect us from governmental investigations or inquiries surrounding actions of our employees, agents or representatives (or those of our joint ventures). If we or any of our joint ventures are found to be liable for violations of the FCPA, other applicable anti-corruption laws, other applicable laws and regulations or the 1976 Consent Decree (either due to our own acts or our inadvertence, or due to the acts or inadvertence of others), civil and criminal penalties or other sanctions could be imposed, and negative or derivative consequences could materialize, all of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Environmental laws and regulations and civil liability for contamination of the environment or related personal injuries may result in increases in our operating costs and capital expenditures and decreases in our earnings and cash flow.

Governmental requirements relating to the protection of the environment, including those requirements relating to solid waste management, air quality, water quality and cleanup of contaminated sites, have had a substantial impact on our operations. These requirements are complex and subject to frequent change as well as new restrictions. For example, because of concerns that carbon dioxide, methane and certain other so-called “greenhouse gases” in the Earth’s atmosphere may produce climate changes that have significant adverse impacts on public health and the environment, various governmental authorities have considered and are continuing to consider the adoption of regulatory strategies and controls designed to reduce the emission of greenhouse gases resulting from regulated activities, which adoption in areas where we conduct business could require us or our customers to incur added costs to comply, may result in delays in pursuit of regulated activities and could adversely affect demand for the oil and natural gas that our customers produce, thereby potentially limiting the demand for our services. Failure to comply with these requirements may result in the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations or the issuance of orders enjoining performance of some or all of our operations. In some cases, they can impose liability for the entire cost of cleanup on any responsible party without regard to negligence or fault and impose liability on us for the conduct of others or conditions others have caused, or for our acts that complied with all applicable requirements when we performed them. Our compliance with amended, new or more stringent requirements, stricter interpretations of existing requirements or the future discovery of contamination may require us to make material expenditures or subject us to liabilities that we currently do not anticipate. Such expenditures and liabilities may adversely affect our business, financial condition, results of operations and cash flows. See “Governmental Regulations and Environmental Matters—Environmental” in Item 1 above for further information.

Our businesses require us to obtain, and to comply with, government permits, licenses and approvals.

Our businesses are required to obtain, and to comply with, government permits, licenses and approvals. Any of these permits, licenses or approvals may be subject to denial, revocation or modification under various circumstances. Failure to obtain or comply with the conditions of permits, licenses or approvals may adversely affect our operations by temporarily suspending our activities or curtailing our work and may subject us to penalties and other sanctions. Although existing permits and licenses are routinely renewed by various regulators, renewal could be denied or jeopardized by various factors, including:

- failure to provide adequate financial assurance for closure;
- failure to comply with environmental and safety laws and regulations or permit conditions;
- local community, political or other opposition;
- executive action; and
- legislative action.

In addition, if new environmental legislation or regulations are enacted or implemented, or existing laws or regulations are amended or are interpreted or enforced differently, we may be required to obtain additional operating permits, licenses or approvals. Our inability to obtain, and to comply with, the permits, licenses and approvals required for our businesses could have a material adverse effect on us.

We are subject to government regulations that may adversely affect our future operations.

Many aspects of our operations and properties are affected by political developments and are subject to both domestic and foreign governmental regulations, including those relating to:

- constructing and equipping of production platforms and other offshore facilities;
- marine vessel safety;
- the operation of foreign-flagged vessels in coastwise trade;
- currency conversions and repatriation;
- oil exploration and development;
- clean air and other environmental protection legislation;
- taxation of foreign earnings and earnings of expatriate personnel;

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required use of local employees and suppliers by foreign contractors; and requirements relating to local ownership.

In addition, we depend on the demand for our services mainly from the oil and gas industry and, therefore, we are generally affected by changing taxes and price controls, as well as new or amendments to existing laws, regulations, or other government controls imposed on the oil and gas industry generally, whether due to a particular incident or because of shifts in political decision making. The adoption of laws and regulations curtailing offshore exploration and development drilling for oil and gas for economic and other policy reasons could adversely affect our operations by limiting the demand for our services. In the U.S. Gulf of Mexico, regulatory initiatives developed and implemented at the federal level have imposed stringent safety, permitting and certification requirements on oil and gas companies pursuing exploration, development and production activities, which, at times, have resulted in increased compliance costs, added delays in drilling and a more aggressive enforcement regimen by regulators.

Additionally, certain ancillary activities related to the offshore construction industry, including the transportation of personnel and equipment between ports and the fields of work in the same country's waters, may constitute "coastwise trade" within the meaning of laws and regulations of the U.S. and other countries. Under these laws and regulations, often referred to as cabotage laws, including the Merchant Marine Act of 1920, as amended (the "Jones Act"), in the U.S., only vessels meeting specific national ownership and registration requirements or which are subject to an exception or exemption, may engage in such "coastwise trade." When we operate our foreign-flagged vessels, we operate within the current interpretation of such cabotage laws with respect to permitted activities for foreign-flagged vessels. Significant changes in cabotage laws or to the interpretation of such laws in the places where we perform offshore activities could affect our ability to operate, or competitively operate, our foreign-flagged vessels in those waters. We are also subject to the risk of the enactment or amendment of cabotage laws in other jurisdictions in which we operate, which could negatively impact our operations in those jurisdictions.

We cannot determine the extent to which our future operations and earnings may be affected by new legislation, new regulations or changes in existing regulations.

The loss of the services of one or more of our key personnel, or our failure to attract, assimilate and retain trained personnel at a competitive cost, or decreased productivity of such personnel, could disrupt our operations and result in loss of revenues.

Our success depends on the continued active participation of our executive officers and key operating personnel. The unexpected loss of the services of any one of these persons could adversely affect our operations.

Our operations require the services of employees having the technical training and experience necessary to obtain the proper operational results. As such, our operations depend, to a considerable extent, on the continuing availability and productivity of such personnel. If we should suffer any material loss of personnel to competitors, have decreased labor productivity of employed personnel for any reason, or be unable to employ additional or replacement personnel with the requisite level of training and experience to adequately operate our businesses, our operations could be adversely affected. A significant increase in the wages or other compensation paid by other employers could result in a reduction in our workforce, increases in wage rates, or both. Our industry has historically experienced high demand for the services of employees and escalating wage rates. If any of these events occurred for a significant period of time, our financial condition, results of operations and cash flows could be adversely impacted.

We rely on intellectual property law and confidentiality agreements to protect our intellectual property. We also rely on intellectual property we license from third parties. Our failure to protect our intellectual property rights, or our inability to obtain or renew licenses to use intellectual property of third parties, could adversely affect our business.

Our success depends, in part, on our ability to protect our proprietary information and other intellectual property. Our intellectual property could be challenged, invalidated, circumvented or rendered unenforceable. In addition, effective intellectual property protection may be limited or unavailable in some foreign countries where we operate.

Our failure to protect our intellectual property rights may result in the loss of valuable technologies or adversely affect our competitive business position. We rely significantly on proprietary technology, information, processes and know-how that are not subject to patent or copyright protection. We seek to protect this information through trade secret or confidentiality agreements with our employees, consultants, subcontractors or other parties, as well as through other security measures. These agreements and security measures may be inadequate to deter or prevent misappropriation of our confidential information. In the event of an infringement of our intellectual property rights, a breach of a confidentiality agreement or divulgence of proprietary or confidential information, we may not have adequate legal remedies to protect our intellectual property or other proprietary and confidential information. Litigation to determine the scope of our legal rights, even if ultimately successful, could be costly and could divert management's attention away from other aspects of our business. In addition, our trade secrets may otherwise become known or be independently developed by competitors.

In some instances, we have augmented our technology base by licensing the proprietary intellectual property of third parties. In the future, we may not be able to obtain necessary licenses on commercially reasonable terms, which could adversely affect our business.

We rely on information technology systems and other information technologies to conduct our business, and any failure, interruption or security breach of these systems or technologies could adversely impact us.

In order to achieve our business objectives, we rely heavily on information technology systems and other information technologies, many of which require regular upgrades or improvements and some of which are approaching the point at which they will need to be replaced in the near future. The failure or interruption of these systems or technologies, or the potential implementation of replacements, particularly with respect to our existing key financial and human resources legacy systems, could have a material adverse effect on us. Also, our implementation of new information technology systems or upgrades to existing systems may not result in improvements at the levels anticipated, or at all. In addition, the implementation of new information technology systems or upgrades to existing systems subjects us to inherent costs and risks, including potential disruptions in our business or in our internal control structure, substantial capital expenditures, the alteration, loss or corruption of data, demands on management time and other risks. Any such disruptions or other effects, if not anticipated and appropriately mitigated, could have a material adverse effect on our business, consolidated results of operations, cash flows or consolidated financial condition.

Our operations are also subject to the risk of cyberattacks and security breaches. Threats to our information technology systems associated with cybersecurity risks and cyber incidents or attacks continue to grow. In addition, a cyberattack or security breach of some of our systems could go undetected for extended periods of time. As a result of a breach or failure of our computer systems or networks, or those of our customers, vendors or others with whom we do business, or a failure of any of those systems to protect against cybersecurity risks, our business operations could be materially interrupted. In addition, any such breach or failure could result in the alteration, loss, theft or corruption of data or unauthorized release of confidential, proprietary or sensitive data concerning our company, business activities, employees, customers or vendors, as well as increased costs to prevent, respond to, or mitigate cybersecurity attacks. These risks could have a material adverse effect on our business, consolidated results of operations, cash flows or consolidated financial condition.

Our business strategy includes acquisitions and ventures with other parties to continue our growth. Acquisitions of other businesses and ventures can create certain risks and uncertainties.

We intend to pursue additional growth through joint ventures, alliances and consortia with other parties as well as the acquisition of businesses or assets that we believe will enable us to strengthen or broaden the types of projects we execute and also expand into new industries and regions. We may be unable to continue this growth strategy if we cannot identify suitable joint venture, alliance or consortium participants, businesses or assets, reach agreement on acceptable terms or for other reasons. We may also be limited in our ability to pursue acquisitions or joint ventures by the terms and conditions of our current financing arrangements. Moreover, joint ventures, alliances and consortia and acquisitions of businesses and assets involve certain risks, including:

- difficulties relating to the assimilation of personnel, services and systems of an acquired business and the assimilation of marketing and other operational capabilities;
- challenges resulting from unanticipated changes in customer, supplier or subcontractor relationships subsequent to an acquisition or joint venture, alliance or consortium formation;
- additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;
- assumption of liabilities of an acquired business, including liabilities that were unknown at the time the acquisition transaction was negotiated;

- diversion of management's attention from day-to-day operations;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements;
- potentially substantial transaction costs associated with business combinations; and
- potential impairment of goodwill or other intangible assets resulting from the overpayment for an acquisition.

Acquisitions and joint ventures may be funded by the issuance of additional equity or new debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in goodwill, it will reduce our tangible net worth, which might have an adverse effect on potential credit and bonding capacity.

Additionally, an acquisition or joint venture, alliance or consortium may bring us into businesses we have not previously conducted and expose us to additional business risks that are different than those we have historically experienced.

Our results of operations could be affected by natural disasters in locations in which we and our customers and suppliers operate.

Our customers and suppliers have operations in locations that are subject to natural disasters, such as flooding, hurricanes, tsunamis, earthquakes, volcanic eruptions or other disasters. The occurrence of any of these events and the impacts of such events could disrupt and adversely affect the operations of our customers and suppliers as well as our operations in the areas in which these types of events occur.

War, other armed conflicts or terrorist attacks could have a material adverse effect on our business.

War, terrorist attacks and unrest have caused and may continue to cause instability in the world's financial and commercial markets, have significantly increased political and economic instability in some of the geographic areas in which we operate and have contributed to high levels of volatility in prices for oil and gas. Instability and unrest in the Middle East and Asia, as well as threats of war or other armed conflict elsewhere, may cause further disruption to financial and commercial markets and contribute to even higher levels of volatility in prices for oil and gas. In addition, unrest in the Middle East and Asia, or elsewhere, could lead to acts of terrorism in the United States or elsewhere, and acts of terrorism could be directed against companies such as ours. Also, acts of terrorism and threats of armed conflicts in or around various areas in which we operate, such as the Middle East and Asia, could limit or disrupt our markets and operations, including disruptions from evacuation of personnel, cancellation of contracts or the loss of personnel or assets. Armed conflicts and terrorism, and their effects on us or our markets, may significantly affect our business and results of operations in the future.

Risk Factors Relating to Our Financial Condition and Markets

Volatility and uncertainty of the financial markets may negatively impact us.

We intend to finance our existing operations and initiatives, primarily with cash and cash equivalents, investments, cash flows from operations and borrowings from our lenders. We also enter into various financial derivative contracts, including foreign currency forward contracts with banks and other financial institutions, to manage our foreign exchange rate risk. In addition, we maintain our cash balances and short-term investments in accounts held by major banks and financial institutions located primarily in North America, Europe and Asia, and some of those accounts hold deposits that exceed available insurance. If national and international economic conditions deteriorate, it is possible that we may not be able to refinance our outstanding indebtedness when it becomes due, and we may not be able to obtain alternative financing on favorable terms. It is possible that one or more of the financial institutions in which we hold our cash and investments could become subject to bankruptcy, receivership or similar proceedings. As a result, we could be at risk of not being able to access material amounts of our cash, which could result in a temporary liquidity crisis that could impede our ability to fund operations. A deterioration in the credit markets could adversely affect the ability of many of our customers to pursue new projects requiring our services or to pay us on time, and the ability of many of our suppliers to meet our needs on a competitive basis. Our financial derivative contracts involve credit risk associated with our hedging counterparties, and a deterioration in the financial markets, including the markets with respect to any particular currencies, such as the Euro, could adversely affect our hedging counterparties and their abilities to fulfill their obligations to us.

Our debt and related debt service obligations could have negative consequences.

Our debt and related debt service obligations could have negative consequences, including:

- requiring us to dedicate significant cash flow from operations to the payment of principal, interest and other amounts payable on our debt, which would reduce the funds we have available for other purposes, such as working capital, capital expenditures and acquisitions;
- making it more difficult or expensive for us to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing our flexibility in planning for or reacting to changes in our industry and market conditions;
- making us more vulnerable in the event of a downturn in our business; and
- exposing us to increased interest rate risk given that a portion of our debt obligations are at variable interest rates.

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Maintaining adequate letter of credit capacity is necessary for us to successfully bid on and win various contracts.

In line with industry practice, we are often required to post standby letters of credit to customers. Those letters of credit generally indemnify customers should we fail to perform our obligations under the applicable contracts. However, the terms of those letters of credit, including terms relating to the customer's ability to draw upon the letter of credit and the amount of the letter of credit required, can vary significantly. If a letter of credit is required for a particular project and we are unable to obtain it due to insufficient liquidity or other reasons, we may not be able to pursue that project. We have limited capacity for letters of credit. Moreover, due to events that affect the credit markets generally, letters of credit may be more difficult to obtain in the future or may only be available at significant additional cost. Letters of credit may not continue to be available to us on reasonable terms. Our inability to obtain adequate letters of credit and, as a result, to bid on new work could have a material adverse effect on our business, financial condition and results of operations.

Foreign exchange risks and fluctuations may affect our profitability on certain projects.

We operate on a worldwide basis with substantial operations outside the U.S. that subject us to currency exchange risks. In order to manage some of the risks associated with foreign currency exchange rates, we enter into foreign currency derivative (hedging) instruments, especially when there is currency risk exposure that is not naturally mitigated via our contracts. However, these actions may not always eliminate all currency risk exposure, in particular for our long-term contracts. A disruption in the foreign currency markets, including the markets with respect to any particular currencies could adversely affect our hedging instruments and subject us to additional currency risk exposure. We do not enter into derivative instruments for trading or other speculative purposes. Our operational cash flows and cash balances, though predominately held in U.S. dollars, may consist of different currencies at various points in time in order to execute our project contracts globally and meet transactional requirements. Non-U.S. asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in U.S. dollars.

Pension expenses associated with our retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets and legislative or other regulatory actions.

A portion of our current and retired employee population is covered by pension and post-retirement benefit plans, the costs and funding requirements of which depend on various assumptions, including estimates of rates of return on benefit-related assets, discount rates for future payment obligations, rates of future cost growth and trends for future costs. Variances from these estimates could have a material adverse effect on us. In addition, funding requirements for benefit obligations of our pension and post-retirement benefit plans are subject to legislative and other government regulatory actions.

Risk Factors Relating to the Combination

We will be subject to business uncertainties and certain operating restrictions until completion of the Combination.

In connection with the pending Combination, some of our suppliers and customers may delay or defer sales and contracting decisions, which could negatively impact our revenues, earnings and cash flows regardless of whether the Combination is completed. Additionally, we have agreed in the Business Combination Agreement to refrain from taking certain actions with respect to our business and financial affairs during the pendency of the Combination, which restrictions could be in place for an extended period of time if completion of the Combination is delayed and could adversely impact our ability to execute certain of our business strategies and our financial condition, results of operations or cash flows.

We may be unable to attract and retain key employees during the pendency of the Combination.

In connection with the pending Combination, current and prospective employees of ours may experience uncertainty about their future roles with the combined business following the Combination, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the Combination. Key employees may depart because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined business following the Combination. Accordingly, no assurance can be given that we will be able to attract and retain key employees to the same extent that we have been able to in the past.

Failure to complete the Combination, or failure to complete the Combination in the anticipated timeframe, could negatively impact us.

If the Combination is not completed, our ongoing businesses and the market price of our common stock may be adversely affected and we will be subject to several risks, including being required, under certain circumstances, to pay CB&I a termination fee of \$60 million; having to pay certain costs relating to the Combination; and diverting the focus of management from pursuing other

opportunities that could be beneficial to us, without realizing any of the benefits which might have resulted had the Combination been completed.

The Business Combination Agreement contains restrictions on our ability to pursue other alternatives to the Combination.

The Business Combination Agreement contains non-solicitation provisions that, subject to limited exceptions, restrict our ability to solicit, initiate or knowingly encourage or facilitate any competing acquisition proposal. Further, subject to limited exceptions, consistent with applicable law, the Business Combination Agreement provides that our board of directors will not withdraw, modify or qualify, or propose publicly to withhold, withdraw, modify or qualify, in any manner adverse to CB&I or its affiliates its recommendation that our stockholders vote in favor of the proposals to be adopted at a special meeting of our stockholders. In specified circumstances, CB&I has a right to negotiate with us in order to match any competing acquisition proposals that may be made. Although our board of directors is permitted to take certain actions in response to a superior proposal or an acquisition proposal that is reasonably likely to result in a superior proposal if there is a determination by our board of directors that the failure to do so would be inconsistent with its fiduciary duties, doing so in specified situations could result in us paying to CB&I a termination fee of \$60 million. Such provisions could discourage a potential acquiror that might have an interest in making a proposal from considering or proposing any such acquisition.

In connection with the Combination, the combined business will incur or assume substantial indebtedness, which could adversely affect the combined business, including by inhibiting the combined business' flexibility and imposing significant interest expense on the combined business.

The combined business will have a substantial amount of indebtedness and debt service requirements. As of December 31, 2017, the combined business' outstanding indebtedness, assuming that the closing of the Combination had occurred on that date and the anticipated incurrence and assumption and extinguishment of indebtedness in connection therewith had been completed, would have been approximately \$3.8 billion. In addition, the combined business will have significant obligations with respect to the letters of credit, surety bonds and bank guaranties. Such indebtedness and obligations could have the effect, among other things, of inhibiting the combined business' flexibility to respond to changing business and economic conditions and imposing significant interest expense. In addition, the amount of cash required to pay interest on the combined business's indebtedness following completion of the Combination, and thus the demands on the combined business's cash resources, will be significant. The levels of indebtedness following completion of the Combination could therefore reduce funds available for working capital, capital expenditures, acquisitions and other general corporate purposes and may create competitive disadvantages for the combined business relative to other companies with lower debt levels. In addition, concerns about the debt levels of the combined business could have an adverse impact on our ability to obtain new contract awards from customers, and on the commercial terms we obtain from customers, including with respect to letter of credit and performance guaranty requirements.

In connection with the debt financing for the Combination, it is anticipated that we will seek ratings of our indebtedness from one or more nationally recognized credit rating agencies. Such credit ratings will reflect each rating organization's opinion of the combined business' financial strength, operating performance and ability to meet its debt obligations. Such credit ratings will affect the cost and availability of future borrowings and, accordingly, our cost of capital. There can be no assurance that the combined business will achieve a particular rating or maintain a particular rating in the future.

We may be required to raise additional financing for working capital, capital expenditures, acquisitions or other general corporate purposes. Our ability to arrange additional financing or refinancing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our

control. We cannot assure you that we will be able to obtain additional financing or refinancing on terms acceptable to us or at all.

McDermott International, Inc. may, following the Combination, choose to establish its tax residency in the United Kingdom, which establishment would require it to incur additional costs and expenses.

Our parent company, McDermott International, Inc., is neither incorporated in the United Kingdom nor presently resident there for U.K. tax purposes. However, our parent company may choose to expand its presence in the United Kingdom in order to establish tax residency there. To establish tax residency in the United Kingdom, a company must exercise (in whole or in part) its “central management and control” from within the United Kingdom. The test of “central management and control” is largely a question of fact and degree based on all the circumstances. To satisfy this test, our parent company would expand its presence in the United Kingdom, including holding its regular Board meetings there. In such case, we would expect to incur additional costs and expenses, including professional fees, to comply with U.K. tax laws.

McDermott International, Inc. may choose to abandon or delay the possible establishment of its residency in the United Kingdom for tax purposes.

McDermott International, Inc. may abandon or delay the possible establishment of residency in the United Kingdom for tax purposes at any time prior to completing the change of tax residency or receiving a ruling from the applicable tax authorities, particularly if it is determined that completing such change is no longer in our best interests or the best interests of our stockholders or may not result in the expected benefits. Additionally, we may not be able to obtain the requisite rulings from the applicable tax authorities. We can provide no assurance as to when the contemplated change of tax residency will be completed, if at all.

Risk Factors Relating to our Common Stock

Provisions in our corporate documents and Panamanian law could delay or prevent a change in control of our company, even if that change may be considered beneficial by some stockholders.

The existence of some provisions of our articles of incorporation and by-laws and Panamanian law could discourage, delay or prevent a change in control of our company that a stockholder may consider favorable. These include provisions:

- providing that our board of directors fixes the number of members of the board;
- limiting who may call special meetings of stockholders;
- restricting the ability of stockholders to take action by written consent, rather than at a meeting of the stockholders;
- establishing advance notice requirements for nominations of candidates for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings;
- establishing supermajority vote requirements for certain amendments to our articles of incorporation and by-laws;
- authorizing a large number of shares of common stock that are not yet issued, which would allow our board of directors to issue shares to persons friendly to current management, thereby protecting the continuity of our management, or which could be used to dilute the stock ownership of persons seeking to obtain control of us; and
- authorizing the issuance of “blank check” preferred stock, which could be issued by our board of directors to increase the number of outstanding shares in an attempt to thwart a takeover.

In addition, we are registered with the Panamanian National Securities Commission (the “PNSC”) and, as a result, we are subject to Decree No. 45 of December 5, 1977, of the Republic of Panama, as amended (the “Decree”). The Decree imposes certain restrictions on offers to acquire voting securities of a company registered with the PNSC if, following such an acquisition, the acquiror would own directly or indirectly more than 5% of the outstanding voting securities (or securities convertible into voting securities) of such company, with a market value of at least five million Balboas (approximately \$5 million). Under the Decree, any such offeror would be required to provide McDermott with a declaration stating, among other things, the identity and background of the offeror, the source and amount of funds to be used in the proposed transaction and the offeror’s plans with respect to McDermott. In that event, the PNSC may, at our request, hold a public hearing as to the adequacy of the disclosure provided by the offeror. Following such a hearing, the PNSC would either determine that full and fair disclosure had been provided and that the offeror had complied with the Decree or prohibit the offeror from proceeding with the offer until it has furnished the required information and fully complied with the Decree. Under the Decree, such a proposed transaction cannot be consummated until 45 days after the delivery of the required declaration prepared or supplemented in a complete and accurate manner, and our board of directors may, in its discretion, within 15 days of receiving a complete and accurate declaration, elect to submit the transaction to a vote of our stockholders. In that case, the transaction could not proceed until approved by the holders of at least two-thirds of the voting power of the shares entitled to vote at a meeting held within 30 days of the date it is called. If such a vote is obtained, the shares held by the offeror would be required to be voted in the same proportion as all other shares that are voted in favor of or against the offer. If the stockholders approved the transaction, it would have to be consummated within 60 days following the date of that approval. The

Decree provides for a civil right of action by stockholders against an offeror who does not comply with the provisions of the Decree. It also provides that certain persons, including brokers and other intermediaries who participate with the offeror in a transaction that violates the Decree, may be jointly and severally liable with the offeror for damages that arise from a violation of the Decree. We have a long-standing practice of not requiring a declaration under the Decree from passive investors who do not express any intent to exercise influence or control over our company and who remain as passive investors, so long as they timely file appropriate information on Schedule 13D or Schedule 13G under the Securities Exchange Act of 1934. This practice is consistent with advice we have received from our Panamanian counsel to the effect that our Board of Directors may waive the protection afforded by the Decree and not require declarations from passive investors who invest in our common stock with no intent to exercise influence or control over our company.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our board of directors and by providing our board of directors with more time to assess any acquisition proposal, and are not intended to make our company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our board of directors determines is not in the best interests of our company and our stockholders.

We may issue preferred stock that could dilute the voting power or reduce the value of our common stock.

Our articles of incorporation authorize us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designation, powers, preferences and relative, participating, optional and other special rights, including preferences over our common stock respecting dividends and distributions, as our board of directors generally may determine. The terms of one or more classes or series of preferred stock could dilute the voting power or reduce the value of our common stock. For example, we could grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we could assign to holders of preferred stock could affect the residual value of the common stock.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table provides the segment name, location, and principal use of each of our significant properties at December 31, 2017 that we own or lease:

Business Segment and Location	Principal Use	Owned/Leased	Area (In thousands square feet, except acres)
AEA			
Altamira, Mexico	Administrative Office/Fabrication Facility	Owned/Leased	117 acres
Gulfport, Mississippi	Administrative Office/Fabrication Facility	Leased	55 acres
MEA			
Dubai (Jebel Ali), U.A.E.	Operations/Engineering/Fabrication Facility/Administrative Office	Leased	154 acres
Dammam, Saudi Arabia	Fabrication Facility	Leased	16 acres
Al Khobar, Saudi Arabia	Fabrication Facility/Operations/Engineering Office	Leased	38
Doha, Qatar	Operations Office	Leased	37
ASA			
Batam Island, Indonesia	Fabrication Facility	Leased	295 acres
Qingdao, China	Fabrication Facility	Leased	107 acres
Kuala Lumpur, Malaysia	Operations/Engineering/Administrative Office	Leased	97
Chennai, India	Engineering Office	Leased	41
Perth, Australia	Operations Office	Leased	32
Corporate			
Houston, Texas	Administrative Office	Leased	159

During 2017, our actual fabrication facilities utilization was 18.5 million man-hours compared to a 17.0 million of combined standard man-hours. The combined standard man-hours is the expected annual utilization of our fabrication facilities.

In March 2017, we entered into a memorandum of understanding (“MOU”) with Saudi Aramco, which contemplates a long-term lease of land to us at the new maritime complex being developed by Saudi Aramco in the Kingdom of Saudi Arabia. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Operating Results” in Part II of this report for further discussion.

We also lease a number of sales, administrative and field construction offices, warehouses and equipment maintenance centers strategically located throughout the world. We consider each of our significant properties to be suitable and adequate for its intended use.

We operate a fleet of construction and multi-service vessels. Our pipelay and derrick vessels are equipped with revolving cranes, auxiliary cranes, welding equipment, pile-driving hammers, anchor winches and a variety of

additional equipment. Our multi-service vessels have capabilities which include subsea construction, pipelay, cable lay and dive support. Seven of our owned and/or operated major construction and multi-service vessels are self-propelled. We also have a substantial inventory of specialized support equipment for intermediate water and deepwater construction and pipelay. In addition, we own or lease a substantial number of other vessels, such as tugboats, utility boats, launch barges and cargo barges, to support the operations of our major marine construction vessels.

The following table sets forth certain information with respect to the major construction and multi-service vessels currently utilized to conduct our operations, including the reporting segments in which they were operating as of December 31, 2017:

Location and Vessel Name	Vessel Type	Year Entered Service/Upgraded	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
AEA				
DB 50 ⁽¹⁾⁽²⁾	Pipelay/Derrick	1988/2012	4,400	-
Intermac 650 ⁽²⁾	Launch/Cargo Barge	1980/2006	-	-
North Ocean 102 ⁽¹⁾⁽²⁾	Multi-Service Vessel	2009	275	-
North Ocean 105 ⁽¹⁾⁽³⁾⁽⁴⁾	Multi-Service Vessel	2012	440	16
MEA				
DB 27 ⁽²⁾	Pipelay/Derrick	1974/1984	2,400	60
DB 30 ⁽³⁾	Pipelay/Derrick	1975/1999	3,080	60
DB 32 ⁽²⁾	Pipelay/Derrick	2010/2013	1,650	60
Thebaud Sea ⁽¹⁾⁽²⁾	Multi-Service Vessel	1999/2010	55	-
Emerald Sea ⁽¹⁾⁽²⁾	Multi-Service Vessel	1996/2007	110	-
Amazon ⁽¹⁾⁽³⁾⁽⁵⁾	Multi-Service Vessel	2014	880	-
ASA				
LV 108 ⁽¹⁾⁽²⁾	Multi-Service Vessel	2014	440	-
DLV 2000 ⁽¹⁾⁽²⁾	Multi-Service Vessel	2016	2,200	60

(1) Vessel with dynamic positioning capability.

(2) Vessels subject to mortgages securing indebtedness under our credit agreement and senior secured notes.

(3) Vessels not subject to mortgages securing indebtedness under our credit agreement and senior secured notes.

(4) North Ocean 105 (“NO 105”) is currently subject to a mortgage securing indebtedness of the entity that owns that vessel. For further discussion see Note 12, Debt, to the accompanying Consolidated Financial Statements.

(5) Leased vessel.

During 2017, our actual offshore and subsea vessels utilization was 1,215 and 800 days, compared to 1,500 and 1,250 of combined standard days, respectively. The combined standard days is the expected annual utilization of our vessels.

As security for the indebtedness under our principal credit facilities and senior secured notes, we have pledged all of the capital stock of our subsidiaries that own the vessels that are mortgaged to secure that indebtedness.

Governmental regulations, our insurance policies and some of our financing arrangements require us to maintain our vessels in accordance with standards of seaworthiness and safety set by applicable governmental authorities or classification societies, such as American Bureau of Shipping, Den Norske Veritas, Lloyd’s Register of Shipping and other world-recognized classification societies.

Item 3. LEGAL PROCEEDINGS

The information set forth under the heading “Investigations and Litigation” in Note 20, Commitments and Contingencies, to our Consolidated Financial Statements included in this Annual Report is incorporated by reference

into this Item 3.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

Item 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Information

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol MDR. We filed certifications of the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 32.1 and 32.2, respectively, included as exhibits to this Annual Report.

High and low stock prices by quarter for the two most recent fiscal years are shown in the table below:

Quarter Ended	Year Ended December 31,	
	2017	2016
	High	Low
March 31	\$ 8.33	