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MCDERMOTT INTERNATIONAL INC

Form 10-K

February 25, 2019

false FY MDR MCDERMOTT INTERNATIONAL INC 0000708819 --12-31 Yes Yes No Large Accelerated Filer  
false false false Less than 65 percent Between 65 and less than 80 percent At least 80 percent Which is effective  
through December 31, 2020 P7Y 2022-08-31 P10Y P10Y P10Y P4Y P30Y P20Y P11Y P27Y P12Y P10Y P10Y P1Y  
P1Y P4Y P2Y P27Y P12Y P10Y P10Y Between 65 and less than 80 percent Implemented NA 0.25 0.25 2019 2030  
2019 2021 2037 2038 P1Y8M12D 0000708819 2018-01-01 2018-12-31 xbrli:shares 0000708819 2019-02-21  
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mdr:PreCombinationBidAndProposalCostsMember 2016-01-01 2016-12-31 0000708819

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mdr:CreditAgreementMember 2018-05-10 0000708819 srt:MaximumMember mdr:CreditAgreementMember 2018-05-10 0000708819 us-gaap:LetterOfCreditMember mdr:CreditAgreementMember 2018-05-10 2018-05-10 0000708819 mdr:SecondLienNotesMember 2018-01-01 2018-12-31 0000708819 us-gaap:EurodollarMember mdr:SeniorSecuredTermLoanFacilityMember 2018-01-01 2018-12-31 0000708819 us-gaap:FederalFundsEffectiveSwapRateMember mdr:SeniorSecuredTermLoanFacilityMember mdr:DebtInstrumentVariableRateAdministrativeAgentsPrimeRateMember 2018-01-01 2018-12-31 0000708819 us-gaap:EurodollarMember mdr:SeniorSecuredTermLoanFacilityMember mdr:DebtInstrumentVariableRateAdministrativeAgentsPrimeRateMember 2018-01-01 2018-12-31 0000708819 us-gaap:BaseRateMember mdr:SeniorSecuredTermLoanFacilityMember 2018-01-01 2018-12-31 0000708819 mdr:FloorRateMember mdr:SeniorSecuredTermLoanFacilityMember 2018-01-01 2018-12-31 0000708819 mdr:SeniorSecuredTermLoanFacilityMember us-gaap:InterestRateSwapMember us-gaap:DesignatedAsHedgingInstrumentMember us-gaap:CashFlowHedgingMember 2018-05-08 0000708819 mdr:SeniorSecuredTermLoanFacilityMember mdr:CreditAgreementMember 2018-12-31 0000708819 mdr:SeniorSecuredTermLoanFacilityMember mdr:CreditAgreementMember 2018-01-01 2018-12-31 0000708819 us-gaap:LetterOfCreditMember mdr:CreditAgreementMember mdr:SeniorSecuredTermLoanFacilityMember 2018-12-31 0000708819 mdr:FinancialLetterOfCreditMember mdr:CreditAgreementMember mdr:SeniorSecuredTermLoanFacilityMember 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember 2018-01-01 2018-12-31 0000708819 mdr:FinancialLettersOfCreditMember 2018-12-31 0000708819 us-gaap:LetterOfCreditMember 2018-01-01 2018-12-31 0000708819 us-gaap:LetterOfCreditMember 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember srt:MinimumMember us-gaap:BaseRateMember 2018-01-01 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember srt:MaximumMember us-gaap:BaseRateMember 2018-01-01 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember us-gaap:BaseRateMember 2018-01-01 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember srt:MinimumMember us-gaap:EurodollarMember 2018-01-01 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember srt:MaximumMember us-gaap:EurodollarMember 2018-01-01 2018-12-31 0000708819 us-gaap:RevolvingCreditFacilityMember us-gaap:EurodollarMember 2018-01-01 2018-12-31 0000708819 srt:MinimumMember us-gaap:FinancialStandbyLetterOfCreditMember 2018-12-31 0000708819 srt:MaximumMember us-gaap:FinancialStandbyLetterOfCreditMember 2018-12-31 0000708819 us-gaap:FinancialStandbyLetterOfCreditMember 2018-12-31 0000708819 srt:MinimumMember mdr:PerformanceStandByLettersOfCreditMember 2018-12-31 0000708819 srt:MaximumMember mdr:PerformanceStandByLettersOfCreditMember 2018-12-31 0000708819 mdr:PerformanceStandByLettersOfCreditMember 2018-12-31 0000708819 mdr:FiscalQuarterEndingOnOrBeforeSeptemberThirtyTwoThousandAndNineteenMember 2018-12-31 0000708819 mdr:FiscalQuarterEndingDecemberThirtyOneTwoThousandAndNineteenMember 2018-12-31 0000708819 mdr:FiscalQuarterEndingAfterDecemberThirtyOneTwoThousandAndNineteenAndFiscalQuarterEndingOnOrBeforeDecember 2018-12-31 0000708819 mdr:FiscalQuarterEndingAfterDecemberThirtyOneTwoThousandAndTwentyAndFiscalQuarterEndingOnOrBeforeDecember 2018-12-31 0000708819 mdr:FiscalQuarterEndingAfterDecemberThirtyOneTwoThousandAndTwentyOneMember 2018-12-31 0000708819 us-gaap:LetterOfCreditMember mdr:LetterOfCreditAgreementMember 2018-10-30 0000708819 us-gaap:LetterOfCreditMember mdr:LetterOfCreditAgreementMember 2018-10-30 2018-10-30 0000708819 us-gaap:LetterOfCreditMember mdr:LetterOfCreditAgreementMember 2018-12-31 0000708819 mdr:TenPointSixTwoFivePercentSeniorNotesDueTwoThousandTwentyFourMember 2018-04-18 2018-04-18 0000708819 us-gaap:DebtInstrumentRedemptionPeriodOneMember us-gaap:SeniorNotesMember 2018-01-01 2018-12-31 0000708819 us-gaap:DebtInstrumentRedemptionPeriodTwoMember us-gaap:SeniorNotesMember 2018-01-01 2018-12-31 0000708819 us-gaap:DebtInstrumentRedemptionPeriodThreeMember us-gaap:SeniorNotesMember 2018-01-01 2018-12-31 0000708819 mdr:TenPointSixTwoFivePercentSeniorNotesDueTwoThousandTwentyFourMember srt:MaximumMember 2018-04-18 2018-04-18 0000708819 mdr:TenPointSixTwoFivePercentSeniorNotesDueTwoThousandTwentyFourMember mdr:OneOrMoreQualifiedEquityOfferingsMember 2018-04-18 2018-04-18 0000708819 us-gaap:SecuredDebtMember mdr:NorthOceanConstructionFinancingMember mdr:BusinessLineTwoMember

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2010-09-30 0000708819 us-gaap:SecuredDebtMember mdr:NorthOceanConstructionFinancingMember  
mdr:BusinessLineTwoMember 2018-01-01 2018-12-31 mdr:Installment 0000708819 us-gaap:SecuredDebtMember  
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us-gaap:SecuredDebtMember mdr:NorthOceanConstructionFinancingMember mdr:BusinessLineTwoMember  
2017-06-30 0000708819 us-gaap:SecuredDebtMember mdr:NorthOceanConstructionFinancingMember  
mdr:BusinessLineTwoMember 2017-04-01 2017-06-30 0000708819 us-gaap:SecuredDebtMember  
mdr:NorthOceanConstructionFinancingMember mdr:BusinessLineTwoMember 2018-12-31 0000708819  
mdr:JRayMcDermottDeMexicoMember 2018-01-01 2018-12-31 0000708819 srt:MinimumMember  
mdr:JRayMcDermottDeMexicoMember 2018-01-01 2018-12-31 0000708819 srt:MaximumMember  
mdr:JRayMcDermottDeMexicoMember 2018-01-01 2018-12-31 0000708819 srt:MinimumMember  
mdr:InterbankEquilibriumInterestRateMember country:MX 2018-01-01 2018-12-31 0000708819  
srt:MaximumMember mdr:InterbankEquilibriumInterestRateMember country:MX 2018-01-01 2018-12-31  
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2018-01-01 2018-12-31 0000708819 mdr:BankGuaranteeAndBilateralLetterOfCreditMember  
mdr:UncommittedBilateralLetterOfCreditFacilitiesAndSuretyBondArrangementsMember 2018-12-31 0000708819  
mdr:SuretyBondsMember mdr:UncommittedBilateralLetterOfCreditFacilitiesAndSuretyBondArrangementsMember  
2018-12-31 0000708819 mdr:BankGuaranteeAndBilateralLetterOfCreditMember  
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us-gaap:EquitySecuritiesMember srt:MinimumMember 2018-12-31 0000708819 us-gaap:EquitySecuritiesMember

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srt:MaximumMember 2018-12-31 0000708819 mdr:OtherInvestmentSecuritiesMember srt:MinimumMember 2018-12-31 0000708819 mdr:OtherInvestmentSecuritiesMember srt:MaximumMember 2018-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel1Member 2018-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel3Member 2018-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember 2018-12-31 0000708819 mdr:FixedIncomeSecuritiesInternationalGovernmentBondsMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:FixedIncomeSecuritiesInternationalGovernmentBondsMember 2018-12-31 0000708819 mdr:FixedIncomeSecuritiesInternationalCorporateBondsMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:FixedIncomeSecuritiesInternationalCorporateBondsMember 2018-12-31 0000708819 mdr:FixedIncomeSecuritiesInternationalMortgageFundsMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:FixedIncomeSecuritiesInternationalMortgageFundsMember 2018-12-31 0000708819 mdr:AllOtherFixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:AllOtherFixedIncomeSecuritiesMember 2018-12-31 0000708819 us-gaap:DefinedBenefitPlanEquitySecuritiesUsMember us-gaap:FairValueInputsLevel1Member 2018-12-31 0000708819 us-gaap:DefinedBenefitPlanEquitySecuritiesUsMember 2018-12-31 0000708819 mdr:DefinedBenefitPlanEquitySecuritiesInternationalFundsMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:DefinedBenefitPlanEquitySecuritiesInternationalFundsMember 2018-12-31 0000708819 mdr:DefinedBenefitPlanEquitySecuritiesEmergingMarketsGrowthFundsMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:DefinedBenefitPlanEquitySecuritiesEmergingMarketsGrowthFundsMember 2018-12-31 0000708819 mdr:DefinedBenefitPlanEquitySecuritiesUnitedStatesEquityFundsMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:DefinedBenefitPlanEquitySecuritiesUnitedStatesEquityFundsMember 2018-12-31 0000708819 mdr:OtherInvestmentsAssetAllocationFundsMember us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 mdr:OtherInvestmentsAssetAllocationFundsMember 2018-12-31 0000708819 mdr:CashAndAccruedItemsMember us-gaap:FairValueInputsLevel1Member 2018-12-31 0000708819 mdr:CashAndAccruedItemsMember 2018-12-31 0000708819 us-gaap:FairValueInputsLevel1Member 2018-12-31 0000708819 us-gaap:FairValueInputsLevel2Member 2018-12-31 0000708819 us-gaap:FairValueInputsLevel3Member 2018-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel1Member 2017-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel2Member 2017-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember us-gaap:FairValueInputsLevel3Member 2017-12-31 0000708819 mdr:UnitedStatesFixedIncomeSecuritiesMember 2017-12-31 0000708819 us-gaap:DefinedBenefitPlanEquitySecuritiesUsMember us-gaap:FairValueInputsLevel1Member 2017-12-31 0000708819 us-gaap:DefinedBenefitPlanEquitySecuritiesUsMember 2017-12-31 0000708819 mdr:CashAndAccruedItemsMember us-gaap:FairValueInputsLevel1Member 2017-12-31 0000708819 mdr:CashAndAccruedItemsMember 2017-12-31 0000708819 us-gaap:FairValueInputsLevel1Member 2017-12-31 0000708819 us-gaap:FairValueInputsLevel2Member 2017-12-31 0000708819 us-gaap:FairValueInputsLevel3Member 2017-12-31 0000708819 mdr:BoilermakerBlacksmithNationalPensionTrustMember 2018-01-01 2018-12-31 0000708819 mdr:BoilermakersNationalPensionPlanCanadaMember 2018-01-01 2018-12-31 0000708819 mdr:AllOtherPensionFundMember 2018-01-01 2018-12-31 0000708819 mdr:RedZoneMember 2018-01-01 2018-12-31 0000708819 mdr:YellowZoneMember 2018-01-01 2018-12-31 0000708819 mdr:GreenZoneMember 2018-01-01 2018-12-31 0000708819 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2018-12-31 0000708819 us-gaap:EstimateOfFairValueFairValueDisclosureMember 2018-12-31 0000708819 us-gaap:CarryingReportedAmountFairValueDisclosureMember 2017-12-31 0000708819 us-gaap:EstimateOfFairValueFairValueDisclosureMember 2017-12-31 mdr:Vessel 0000708819 us-gaap:MarineServicesEquipmentMember 2018-10-01 2018-12-31 0000708819 us-gaap:MarineServicesEquipmentMember 2018-12-31 0000708819 mdr:NorthCentralAndSouthAmericaSegmentMember us-gaap:MarineServicesEquipmentMember 2016-01-01 2016-12-31 0000708819 us-gaap:MarineServicesEquipmentMember 2016-01-01 2016-12-31 0000708819 us-gaap:MarineServicesEquipmentMember 2016-12-31 0000708819 us-gaap:ForeignExchangeMember 2018-12-31

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us-gaap:ValuationAllowanceOfDeferredTaxAssetsMember 2018-12-31 0000708819 us-gaap:ForeignCountryMember 2018-12-31 0000708819 us-gaap:DomesticCountryMember 2018-12-31 0000708819  
us-gaap:StateAndLocalJurisdictionMember 2018-12-31 0000708819 srt:MinimumMember  
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us-gaap:DomesticCountryMember 2018-01-01 2018-12-31 0000708819 srt:MinimumMember  
us-gaap:StateAndLocalJurisdictionMember 2018-01-01 2018-12-31 0000708819 srt:MaximumMember  
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us-gaap:DomesticCountryMember 2018-01-01 2018-12-31 0000708819 srt:MaximumMember  
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2018-12-31 0000708819 country:MY 2017-01-01 2017-12-31 0000708819  
mdr:LongTermIncentivePlanTwentySixteenMember 2018-12-31 0000708819  
mdr:ChicagoBridgeAndIronCompanyNVMember us-gaap:RestrictedStockUnitsRSUMember 2018-05-10  
0000708819 mdr:ChicagoBridgeAndIronCompanyNVMember  
mdr:EmployeeStockOptionAndStockAppreciationRightsMember 2018-05-10 0000708819  
mdr:ChicagoBridgeAndIronCompanyNVMember us-gaap:RestrictedStockUnitsRSUMember srt:MinimumMember  
2018-05-10 2018-05-10 0000708819 mdr:ChicagoBridgeAndIronCompanyNVMember  
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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, 2018

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	72-0593134
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

757 N. Eldridge Parkway

HOUSTON, TEXAS	77079
(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:

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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 every Interactive Data File required to be submitted 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 such files).    Yes    No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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    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 29, 2018) was approximately \$3.5 billion.

The number of shares of the registrant's common stock outstanding at February 21, 2019 was 180,796,580.

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 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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**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 on Form 10-K.*

## 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 fully integrated provider of engineering, procurement, construction and installation (“EPCI”) and technology solutions to the energy industry. Our common stock is listed on the New York Stock Exchange (“NYSE”) under the trading symbol MDR.

On May 10, 2018, we completed our combination with Chicago Bridge & Iron Company N.V. (“CB&I”) through a series of transactions (the “Combination”) (see below (Business Combination with CB&I) and Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements for further discussion). We design and build end-to-end infrastructure and technology solutions to transport and transform oil and gas into a variety of products. Our proprietary technologies, integrated expertise and comprehensive solutions are utilized for offshore, subsea, power, liquefied natural gas (“LNG”) and downstream energy projects around the world. Our customers include national, major integrated and other oil and gas companies as well as producers of petrochemicals and electric power, and we operate in most major energy producing regions throughout the world.

Our business is organized into five operating groups, which represent our reportable segments, consisting of: North, Central and South America (“NCSA”); Europe, Africa, Russia and Caspian (“EARC”); the Middle East and North Africa (“MENA”); Asia Pacific (“APAC”); and Technology. For further discussion, see “Business Segments” below and Note 24, *Segment Reporting*, to the accompanying Consolidated Financial Statements for further discussion.

In this report, unless the context otherwise indicates, “McDermott,” “we,” “our” or “us” 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.

#### Business Combination with CB&I

On May 10, 2018 (the “Combination Date”) we completed the Combination. On the Combination Date, we acquired the equity of certain U.S. and non-U.S. CB&I subsidiaries that owned CB&I’s technology business, as well as certain intellectual property rights, for \$2.87 billion in cash consideration that was funded using debt financing and existing cash. Also on the Combination Date, CB&I shareholders received 0.82407 shares of McDermott common stock for each share of CB&I common stock tendered in an exchange offer. Each remaining share of CB&I common stock held by CB&I shareholders not acquired by McDermott in the exchange offer was effectively converted into the right to receive the same 0.82407 shares of McDermott common stock that was paid in the exchange offer, together with cash



in lieu of any fractional shares of McDermott common stock, less any applicable withholding taxes. Stock-settled equity based awards relating to shares of CB&I's common stock were either canceled and converted into the right to receive cash or were converted into comparable McDermott awards on generally the same terms and conditions as prior to the Combination Date. We issued 84.5 million shares of McDermott common stock to the former CB&I shareholders and converted CB&I stock-settled equity awards into McDermott stock-settled equity-based awards to be settled in approximately 2.2 million shares of McDermott common stock. See Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements for further discussion.

#### Strategic Review of Business Portfolio

We have performed a strategic review of our business portfolio, which included businesses acquired in the Combination. Our review sought to determine if any portions of our business are non-core for purposes of our vertically integrated offering model. As a result of our review, we identified our storage tank and U.S. pipe fabrication businesses as non-core for purposes of our vertically integrated offering model. As a result and in view of the considerations discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources," we are developing plans to sell each of the two businesses, subject to approval by our Board of Directors. We expect a substantial portion of the proceeds resulting from the sales of these businesses would be utilized to reduce our outstanding debt.

## Business Segments

Following completion of the Combination, during the second quarter of 2018, we reorganized our operations into five business segments. This reorganization is intended to better serve our global clients, leverage our workforce, help streamline operations and provide enhanced growth opportunities. Our five business segments, which represent our reportable segments are: NCSA; EARC; MENA; APAC; and Technology. We also report certain corporate and other non-operating activities under the heading of “Corporate and Other,” which primarily reflects costs that are not allocated to our segments. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and Note 24, *Segment Reporting*, to the accompanying Consolidated Financial Statements for further discussion of our business segments.

Through our five business segments, we deliver a broad services offering that addresses four key end markets, as follows:

**Offshore and subsea**—We offer a comprehensive range of technology and EPCI services for the upstream oil & gas sector, including any combination of front-end design, engineering, procurement, fabrication, construction, installation, hook-up, start-up and commissioning services across all phases of the project life cycle. We have a particular focus on installation of offshore oil & gas production systems, including jackets, topsides and floating production, storage and offloading (FPSO) vessels and pipelines, as well as installation of subsea production systems.

**LNG**—We offer a full range of technology and engineering, procurement, fabrication and construction services for the LNG industry, with a focus on natural gas liquefaction plants and LNG regasification terminals. We provide a full range of services, including conceptual design, detailed engineering, material procurement, pipe and storage tank fabrication, construction, project management, compliance support, commissioning and startup, and operator training.

**Downstream**—We design, build, and offer technology licenses and services for state-of-the-art petrochemical and refinery process units and plants. Our comprehensive services include market-leading proprietary technologies, process design, front-end engineering and design, detailed engineering, material procurement, pipe and storage tank fabrication, construction, permitting assistance, operator training, commissioning and startup. We offer solutions for clean fuels production, including low sulfur gasoline and diesel, as well as a wide range of refinery process units and related ancillary facilities.

**Power**—We design and build new combined-cycle and simple-cycle gas-fired power generation projects and provide related engineering, procurement, construction and commissioning services. Additionally, we are a joint venture partner of NET Power, LLC, a company that is developing a new natural gas power generation technology that produces low-cost electricity while reducing air emissions.

### Contracts

Our contracts are awarded on a competitively bid and negotiated basis. 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. 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 can involve 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.

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 23, *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.

Some of our contracts, regardless of type, may operate under joint venture, consortium or other collaborative arrangements. Typically, we enter into these arrangements with reputable companies with whom we have worked previously. These arrangements are generally made to strengthen our market position or technical skills, or where the size, scale or location of the project warrants the use of such arrangements.

#### Remaining Performance Obligations (“RPOs”)

RPOs represent the amount of revenues we expect to recognize in the future from our contract commitments on projects. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Outlook—Remaining Performance Obligations” for discussion and quantification of our RPO’s. See also “Risk Factors—Our RPOs are subject to unexpected adjustments and cancellations” in Item 1A.

#### Competition

We operate in a competitive environment. Technology performance, price, timeliness of completion, quality, safety record, track record and reputation are principal competitive factors within our industry. There are numerous regional, national and global competitors that offer similar services to those offered by each of our operating groups, including Axens SA; Bechtel Group Inc.; China Offshore Oil Engineering Co. Ltd.; Fluor Corporation; Honeywell/UOP; Hyundai Heavy Industrial Co. Ltd.; KBR Inc.; Kiewit Corporation; Larsen and Toubro Ltd.; Lyondell Basell Industries N.V.; Petrofac International Ltd.; Saipem S.P.A.; Samsung Heavy Industries Co., Ltd.; Subsea 7 S.A.; Techidas Reunidas, S.A; TechnipFMC plc; Wood plc; Worley Parson Limited and W.R. Grace & Co.

#### Significant Customers

See Note 24, *Segment Reporting*, to the accompanying Consolidated Financial Statements for information on customers that accounted for significant percentages of our consolidated revenues.

#### Raw Materials and Suppliers

The principal raw materials we use are metal plate, structural steel, pipe, fittings, catalysts, proprietary equipment and selected engineered equipment such as pressure vessels, exchangers, pumps, valves, compressors, motors and electrical and instrumentation components. Most of these materials are available from numerous suppliers worldwide, with some furnished under negotiated supply agreements. We anticipate being able to obtain these materials for the foreseeable future; however, the price, availability and scheduled deliveries offered by our suppliers may vary significantly from year to year due to various factors, including supplier consolidations, supplier raw material shortages, costs, surcharges, supplier capacity, customer demand, market conditions and any duties and tariffs imposed on the materials.

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We use subcontractors where it assists us in meeting customer requirements with regard to resources, schedule, cost or technical expertise. These subcontractors may range from small local entities to companies with global capabilities, some of which may be utilized on a repetitive or preferred basis.

### Employees

At December 31, 2018, we employed approximately 31,900 persons worldwide, comprised of approximately 14,600 salaried employees and approximately 17,300 hourly and craft employees. Our number of employees, particularly hourly and craft, varies in relation to the location, number and size of projects we have in process at any given time. To preserve our project management and technological expertise as core competencies, we continuously recruit and develop qualified personnel, and maintain ongoing training programs for all our key personnel.

The percentage of our employees represented by unions at December 31, 2018 was approximately 5% to 10%. We have agreements, which we customarily renew periodically, with various unions representing groups of employees at project sites and fabrication facilities in the U.S. and Canada and various other countries. We consider our relationships with our employees and the applicable labor unions to be satisfactory.

### Patents and Licenses

We have numerous active patents and patent applications throughout the world, the majority of which are associated with technologies licensed by our Technology operating group. We continue to invest in research and development to ensure that our portfolio of patents remains competitive and we also acquire rights to technologies when we consider it advantageous for us to do so. However, no individual patent is so essential that its loss would materially affect our business.

### Hazard Risks and Loss Control Systems

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 for certain potential losses or liabilities, operate our own “captive” insurance company or establish funded or unfunded reserves. 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. There can be no assurance that our insurance arrangements will adequately address all risks. See “Item 1A, Risk Factors—Risk Factors Relating to Our Business Operations—Our operations are subject to operating risks and limits on insurance coverage and contractual indemnity protections, which could expose us to potentially significant liabilities and costs.”

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. 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.

## 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 various onshore and offshore facilities;
- workplace health and safety, including marine vessel safety;
- the operation of foreign-flagged vessels in the coastal trade;
- the Foreign Corrupt Practices Act and similar anti-corruption laws;
- data privacy;
- currency conversions and repatriation;
- taxation of unremitted earnings and earnings of expatriate personnel; and
- protecting the environment.

In addition, we depend on the demand for certain of our 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 the CERCLA. CERCLA and other environmental laws can impose liability for the entire cost of cleanup on any of the potentially responsible parties, regardless of fault or the lawfulness of the original conduct.

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

We believe we are in compliance, in all material respects, with applicable environmental laws and regulations and maintain insurance coverage to mitigate our exposure to environmental liabilities. We do not anticipate we will incur material capital expenditures for environmental control facilities or for the investigation or remediation of environmental conditions during 2019 or 2020. As of December 31, 2018, we had no environmental reserve recorded. See Note 23, *Commitments and Contingencies*, to the accompanying Consolidated Financial Statements for additional information.

#### 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,” within the meaning of the Private Securities Litigation Reform Act of 1995, 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 remaining performance obligations (“RPOs”), revenues, income and capital spending. Forward-looking statements are generally accompanied by words such as “achieve,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “goal,” “intend,” “may,” “might,” “plan,” “potential,” “predict,” “should,” “strategy” or other words that convey the uncertainty 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 report, 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 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 and elsewhere in this 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 our recently completed business combination with CB&I described in Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements, and the anticipated benefits of combining CB&I's business with McDermott's business;
- future levels of revenues, operating margins, operating income, 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, and the success of, operational activities on specific projects, and the ability of projects to generate sufficient revenues to cover our fixed costs;
- estimates of revenue over time and contract profits or losses;

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- expectations regarding the acquisition or divestiture of assets, including expectations regarding the sales of our storage tanks and U.S. pipe fabrication businesses and the timing of, and use of proceeds from, those transactions;
- 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 RPOs;
- future levels of capital, environmental or maintenance expenditures;
- the success or timing of completion of ongoing or anticipated capital or maintenance projects;
- the adequacy of our sources of liquidity and capital resources;
- interest expense;
- the effectiveness of our derivative contracts in mitigating foreign currency and interest rate risks;
- results of our capital investment program;
- the impact of U.S. and non-U.S. tax law changes;
- 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 capital investment to be made by oil and gas companies and other participants in the energy and natural resource industries, demand from which is the largest component of our revenues;
- other factors affecting future levels of demand, including investments across the natural gas value chain, including LNG and petrochemicals, investments in power and petrochemical facilities and investments in various types of facilities that require storage structures and pre-fabricated pipe;
  - the highly competitive nature of the businesses in which we are engaged;
- uncertainties as to timing and funding of new contract awards;
- 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;
- cost overruns on fixed-price or similar contracts or failure to receive timely or proper payments on cost-reimbursable contracts, whether as a result of improper estimates, performance, disputes or otherwise;
- changes in the costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors;

- risks associated with labor productivity;
- cancellations of contracts, change orders and other modifications and related adjustments to RPOs and the resulting impact from using RPOs 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;
- our ability to settle or negotiate unapproved change orders and claims and estimates regarding liquidated damages;
- 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 and other debt instruments and the availability, terms and deployment of capital;
- the unfunded liabilities of our pension and other post-retirement 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, which could lead to increased costs and affect the quality, costs or availability of, or delivery schedule for, equipment, components, materials, labor or subcontractors and give rise to contractually imposed 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 U.S. and non-U.S. tax laws or regulations;
- the continued competitiveness and availability of, and continued demand and legal protection for, our intellectual property assets or rights, including the ability of our patents or licensed technologies to perform as expected and to remain competitive, current, in demand, profitable and enforceable;
- our ability to keep pace with rapid technological changes or innovations;
- the risk that we may not be successful in updating and replacing current information technology and the risks associated with information technology systems interruptions and cybersecurity threats;
- the risks associated with failures to protect data privacy in accordance with applicable legal requirements and contractual provisions binding upon us;
- 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;
- the risks associated with forming and operating joint ventures, including exposure to joint and several liability for failures in performance by our co-venturers;
- social, political and economic situations in countries where we do business;
- the risks associated with our international operations, including risks relating to local content or similar requirements;
- foreign currency and interest rate risks and our ability to properly manage or hedge those or similar risks;
- 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 new financing arrangements;
- 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 subsidiaries; 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, including those mentioned under the caption "Risk Factors." 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](http://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 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](http://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 report. If any of these risks develop into actual events, our business, financial condition, results of operations or cash flows could be materially and 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 materially and adversely affect us.

#### Risk Factors Relating to Our Business Operations

We derive substantial revenues from companies in various energy-related industries, including the oil and natural gas exploration and development industry, a historically cyclical industry with levels of activity that are significantly affected by the levels and volatility of oil and natural gas prices.

The demand for our EPCI services from companies in various energy-related industries, particularly the oil and gas exploration and development industry, has traditionally been cyclical, depending primarily on the capital expenditures of oil and gas exploration and development companies. These capital expenditures are influenced by such factors as:

- prevailing oil and natural gas prices;
- expectations about future prices;
- the cost of exploring for, producing and delivering hydrocarbons;
- the sale and expiration dates of available offshore leases;
- the discovery rate, size and location of new hydrocarbon reserves, including in offshore areas;

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the rate of decline of existing hydrocarbon 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 natural 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. In response to currently prevailing industry conditions, many oil and gas exploration and development companies and other energy companies have made significant reductions in their capital expenditure budgets over the past three years. In particular, some of our customers have reduced their spending on exploration, development and production programs, new LNG import and export facilities and power plant projects. Although oil prices have increased, on a relative basis in the recent short term, sustained lower relative prices have adversely affected demand for our services and lower relative prices compared to recent pricing levels could, over a sustained period of time, have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our results of operations and operating cash flows depend on us obtaining significant EPCI contracts, primarily from companies in the oil and gas exploration and development, petrochemical, natural resources and power industries. 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. If customers do not proceed with the completion of significant projects or if significant defaults on customer payment obligations to us arise, or if we encounter disputes with customers involving such payment obligations, we may face difficulties in collecting payment of amounts due to us, including for costs we previously incurred. In addition, some of our customers for large EPCI projects are project-specific entities that do not have significant assets other than their interests in the EPCI project, and it may be even more difficult to collect amounts owed to us by those customers if any of the problems or issues referred to above arise. Our failure to collect amounts owed to us could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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 offer our customers a range of commercial options for our contracts, including fixed-price, cost-reimbursable and hybrid, which has both fixed-price and cost-reimbursable components. Under fixed-price contracts, we perform our services and execute our projects at an established price. Under cost-reimbursable contracts, we generally perform our services in exchange for a price that consists of reimbursement of all customer-approved costs and a profit component, which is typically a fixed rate per hour, an overall fixed fee, or a percentage of total reimbursable costs. Under cost-reimbursable contracts, if we are unable to obtain proper reimbursement for all costs incurred due to improper estimates, performance issues, customer disputes, or any of the other factors noted below for fixed-price contracts, the project may be less profitable than we expect.



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, failure to properly estimate costs of engineering, materials, components, equipment, labor or subcontractors, changes in job conditions, unanticipated weather conditions, variations in labor and equipment productivity and associated costs, increases in the cost of raw materials, particularly steel, over the term of the contract, difficulties in obtaining required governmental permits or approvals, changes in laws and regulations and changes in general economic conditions.

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 revenues, 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 with respect to our contracts with companies in the oil and gas exploration and development industry in the current low-oil-price environment due to pricing pressures, 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 “over time” revenue recognition could result in volatility in our results of operations.

We recognize revenues and profits from our long-term contracts over time as work progresses for contracts that satisfy the criteria for “over time” recognition. 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 our RPOs, 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 RPOs are subject to unexpected adjustments and cancellations.

The revenues projected in our RPOs 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 projects reflected in our RPOs 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 reflected in our RPOs.

Reductions in our RPOs 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 RPOs. Many of the contracts included in our RPOs 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 RPOs. Projects may remain in our RPOs for extended periods of time. If we experience significant project suspensions, cancellations or scope adjustments to contracts reflected in our RPOs, our business, financial condition, results of operations and cash flows may be materially and adversely impacted.

*We may be exposed to additional risks as we obtain significant new awards and execute our RPOs, including greater RPOs concentration in fewer projects, potential cost overruns and increasing requirements for letters of credit, each of which could have a material adverse effect on our financial condition, results of operations and cash flows.*

As we obtain significant new project awards and convert the RPOs into revenues, these projects may use larger sums of working capital than other projects and may be concentrated among a smaller number of customers. If any significant projects currently included in our RPOs or awarded in the future were to have material cost overruns, or are significantly delayed, modified or canceled, and we are unable to replace the projects in RPOs, our business, financial condition, results of operations and cash flows could be materially and adversely impacted.

Additionally, as we convert our significant projects from RPOs into active operational phases, we may face significantly greater requirements for the provision of working capital, letters of credit or other forms of credit enhancement. We can provide no assurance that we will be able to access such capital and credit as may be needed or that we would be able to do so on terms we believe to be economically attractive.

We may have difficulties integrating CB&I's business with McDermott's businesses, and we may not realize all the anticipated benefits of the Combination.

The ultimate success of the Combination will depend in large part on the success of our management in integrating CB&I's operations, strategies, policies procedures, technologies, systems and personnel with McDermott's. We may fail to realize some or all of the anticipated benefits of the Combination if the integration process takes longer than expected or is more costly than expected. Our failure to meet the challenges involved in the integration or to otherwise realize any of the anticipated benefits of the Combination, including cost savings and synergies, could impair our operations. We have been devoting significant management attention and resources to the integration efforts.

Potential issues and difficulties we may encounter as we continue the integration process include the following:

- the inability to integrate the respective businesses of CB&I and McDermott in a manner that permits us to achieve the cost savings, operating synergies and follow-on opportunities expected to result from the Combination, which could result in the anticipated benefits of the Combination not being realized partly or wholly in the time frame currently anticipated or at all;
- lost sales and customers as a result of any historical customers of either or both of the two companies deciding not to do business with us, or deciding to decrease their amount of business in order to reduce their reliance on a single company;
- integrating personnel from the two companies while maintaining focus on safety and providing consistent, high quality products and customer service;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the Combination; and
  - performance shortfalls as a result of the diversion of management's attention to the integration process.

Business issues historically faced by either McDermott or CB&I may be imputed to the entire operations of the combined enterprise.

To the extent that either McDermott or CB&I has or is perceived by customers to have operational challenges, such as performance, quality, safety issues or workforce issues, those challenges may raise concerns by historical customers of the other company, which may limit or impede our future ability to obtain additional work from those customers.

We could incur substantial expenses related to the integration of CB&I with McDermott.

We expect to incur substantial expenses in connection with the integration of the respective operations, strategies, policies, procedures, technologies, systems and personnel of McDermott and CB&I. There are a large number of systems that must be integrated, including information management, purchasing, accounting and finance, sales, billing, payroll and benefits, fixed asset and lease administration systems and regulatory compliance. There are a number of factors beyond our control that could affect the total amount or the timing of all of the expected integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately at the present time. These expenses could, particularly in the near term, reduce the savings that McDermott expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings and revenue enhancements related to the integration of the businesses, and accordingly, any anticipated net benefits may not be achieved in the near term or at all. These integration expenses may result in us taking significant charges against earnings.

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***The agreements that govern our indebtedness contain various covenants that impose restrictions on us and certain of our subsidiaries that may affect our ability to operate our business.***

The agreements that govern our indebtedness contain various affirmative and negative covenants that, subject to various exceptions, restrict our ability and the ability of certain of our subsidiaries to, among other things, incur indebtedness, allow our property to be subject to liens, make investments and acquisitions, make dividends and other distributions, change the nature of our business, transact business with affiliates, merge or consolidate and sell or convey our assets. In addition, some of the agreements that govern the indebtedness contain covenants that require the maintenance of specified financial ratios. The terms of our 12% Redeemable Preferred Stock may also have similar effects as those terms of our debt agreements. Our ability and our subsidiaries ability to comply with those provisions may be affected by events beyond our control. Failure to comply with our debt covenants could result in an event of default, which, if not cured or waived, could accelerate the applicable repayment obligations.

Holders of our outstanding shares of 12% Redeemable Preferred Stock have rights that may restrict our ability to operate our business or be adverse to holders of our common stock.

The Certificate of Designation establishing our 12% Redeemable Preferred Stock (the “Certificate of Designation”) contains covenants that, among other things, limit our ability to, without the written consent of the holders of a majority of the 12% Redeemable Preferred Stock, but subject to certain exceptions, (1) amend, modify, alter or supplement our amended and restated articles of incorporation or the Certificate of Designation in a manner that would adversely affect the rights, preferences, privileges or power of the 12% Redeemable Preferred Stock, (2) issue stock senior to or on parity with the 12% Redeemable Preferred Stock, (3) make certain distributions on or repurchases of our common stock or junior stock, (4) incur indebtedness that would cause us to exceed a specified leverage ratio, (5) enter into or amend certain debt agreements that would expressly prohibit or be more restrictive on dividends or redemption payments on the 12% Redeemable Preferred Stock than those existing on the date of the initial issuance of the shares of 12% Redeemable Preferred Stock were initially issued, (6) enter into a change of control transaction if our debt agreements would prohibit or otherwise prevent the redemption of the 12% Redeemable Preferred Stock, unless we redeem or otherwise satisfy the 12% Redeemable Preferred Stock in cash at the Minimum Return (as defined in the Certificate of Designation) plus accrued and unpaid dividends, (7) make certain restricted payments and payments on junior priority indebtedness, (8) make certain issuances of equity of subsidiaries or, if prohibited under our debt agreements, the formation of certain subsidiaries or the making of certain investments or (9) certain transactions with affiliates. We may be required to redeem the 12% Redeemable Preferred Stock after the seventh anniversary of its initial issuance.

Holders of the 12% Redeemable Preferred Stock will have the right, voting separately as a class, to appoint and elect one director to our board of directors in the event we fail to timely pay dividends, fail to redeem the 12% Redeemable Preferred Stock upon a change of control if required or fail to redeem the 12% Redeemable Preferred Stock upon request of the holders of the 12% Redeemable Preferred Stock following the seventh anniversary of the date of issuing the 12% Redeemable Preferred Stock.

Holders of the 12% Redeemable Preferred Stock also have limited voting rights, including those with respect to potential amendments to our amended and restated articles of incorporation or the Certificate of Designation that have an adverse effect on the existing terms of the 12% Redeemable Preferred Stock and in certain other limited circumstances or as required by law.

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 condition and cash flows could be materially and 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 condition and cash flows could be materially and 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 revenues 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. Subsequent to the completion of the Combination, we established our tax residency in the United Kingdom. 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 the past. 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 the new U.S. tax legislation on our financial results, see Note 18, *Income Taxes*, to the accompanying Consolidated Financial Statements.



Our operations are subject to operating risks and limits on insurance coverage and contractual indemnity protections, 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;

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- 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. In addition, we design, engineer, procure, construct, install and provide services (including fabrication of pipe, tanks, platforms and other large, complex structures) for large industrial facilities in which system failure can be disastrous. We may be subject to claims resulting from the subsequent operations of facilities we have designed, engineered, constructed or installed or for which we have provided other services. Under some of our contracts, we must use customer-specified metals or processes for producing or fabricating items for our customers. The failure of any of these metals or processes (whether or not customer-specified) could result in warranty claims against us for significant replacement or rework costs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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. In addition, we may have difficulty enforcing our contractual rights with others following a material loss. 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 captive insurance company subsidiaries which provide us with various insurance coverages. Claims could adversely impact the ability of our captive insurance company subsidiaries 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 then-existing 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 have a

material adverse effect on 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 have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, we are from time to time involved in various litigation and other matters related to hazardous substances encountered in our business. In particular, the numerous operating hazards inherent in our business increase the risk of toxic tort litigation relating to any and all consequences arising out of human exposure to hazardous substances, including, without limitation, current or past claims involving asbestos-related materials, formaldehyde, Cesium 137 (radiation), mercury and other hazardous substances, or related environmental damage. As a result, we are subject to potentially material liabilities related to personal injuries or property damages that may be caused by hazardous substance releases and exposures. The outcome of such litigation is inherently uncertain and adverse developments or outcomes can result in significant monetary damages, penalties, other sanctions or injunctive relief against us, limitations on our property rights, or regulatory interpretations that increase our operating costs. If any of these disputes result in a substantial monetary judgment against us or an adverse legal interpretation is settled on unfavorable terms, or otherwise affects our operations, it could have a material adverse effect on 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 exploration and development companies. Revenues from Saudi Aramco represented 19% of our total consolidated revenues for the year ended December 31, 2018. As of December 31, 2018, approximately 8% of our contractual RPOs were 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 and requires substantial resources and capital investment in equipment, technology and skilled personnel. Several of our competitors have greater financial or other resources than we have. Competition also places downward pressure on our contract prices and margins. Intense competition is expected to continue in our markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable margins. In particular, some of our competitors or potential competitors serving the offshore oil and gas exploration and development industry 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. 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. If we are unable to meet these and other competitive challenges, we could lose market share to our competitors and experience reductions in our 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 are exposed to potential risks and uncertainties associated with our use of joint venture arrangements and our subcontracting and vendor arrangements to execute certain projects.***

In the ordinary course of business, we execute specific projects and conduct certain operations through joint venture, consortium and other collaborative arrangements (collectively referred to as “joint ventures”). We have various ownership interests in these joint ventures, with such ownership typically proportionate to our decision-making and distribution rights. Services may be performed directly by the joint ventures or in combination with us or our co-venturers.

The use of these joint ventures exposes us to a number of risks, including the risk that our co-venturers may be unable or unwilling to provide their share of capital investment to fund the operations of the joint ventures or complete their obligations to us, the joint ventures or, ultimately, the customers. Differences in opinions or views among co-venturers could also result in delayed decision-making or failure to agree on material issues, which could adversely affect the business and operations of the applicable joint venture. In addition, agreement terms may subject us to joint and several liability for our co-venturers, and the failure of our co-venturers to perform their obligations could impose additional performance and financial obligations on us. For example, the contractual arrangements with our customers for the Cameron, Louisiana and Freeport, Texas LNG projects provide for joint and several liability of the co-venturers for contractual liabilities to the applicable customers. These factors could result in unanticipated costs to complete projects, liquidated damages or contract disputes, including claims against our co-venturers, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Additionally, we rely on third parties, including equipment manufacturers and subcontractors, to assist in the completion of our projects. To the extent these parties cannot execute their portion of the work and are unable to deliver their services, equipment or materials according to the contractual terms, or to the extent we cannot engage subcontractors or acquire equipment or materials, our ability to complete a project in a timely manner may be impacted. If the amount we are required to pay for these goods and services exceeds the amount we have included in the estimates for our work, we could experience project losses or a reduction in estimated profitability.

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 venture 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 substantial 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 substantial 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;

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- increased costs, lower revenues and RPOs 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 multiple tax regimes;
- 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 have a material adverse effect on our business, 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, representative or co-venturer 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 co-venturers (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 SEC, 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 flows.***

Governmental requirements relating to the protection of the environment, including those requirements relating to solid waste management, air quality, water quality, generation, storage, handling, treatment and disposal of waste materials and cleanup of contaminated sites, as well as laws and regulations relating to human health and safety, 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 some of 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 could have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, our businesses often involve working around and with volatile, toxic and hazardous substances and other highly regulated pollutants, substances or wastes, for which the improper characterization, handling or disposal could constitute violations of U.S. federal, state or local laws and regulations and laws of other countries and result in criminal and civil liabilities. Environmental laws and regulations generally impose limitations and standards for certain pollutants or waste materials and require us to obtain permits and comply with various other requirements. Governmental authorities may seek to impose fines and penalties on us, or revoke or deny issuance or renewal of operating permits for failure to comply with applicable laws and regulations. We are also exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such pollutants, substances or wastes.

We may incur liabilities that may not be covered by insurance policies, or, if covered, the financial amount of such liabilities may exceed our policy limits or fall within applicable deductible or retention limits. A partially or completely uninsured claim, if successful and of significant magnitude, could cause us to suffer a significant loss and reduce cash available for our operations.

In connection with the historical operation of our facilities, including those associated with acquired operations, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties from whom we have purchased or to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred.

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.

*Our customers' and our co-venturers' abilities to receive applicable regulatory and environmental approvals for our projects and the timeliness of those approvals could adversely affect us.*

The regulatory permitting process for various of our projects, particularly power projects, requires significant investments of time and money by our customers and sometimes by us and our co-venturers. There are no assurances that we or our customers will obtain the necessary permits for these projects. Applications for permits to operate newly constructed facilities, including air emissions permits, may be opposed by government entities, individuals or environmental groups, resulting in delays and possible non-issuance of the permits.

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

In addition, we depend to a large extent on the demand for certain of our services from the oil and gas exploration and development 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 exploration and development 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 business, 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 have a material adverse effect on our business, financial condition, results of operations and cash flows.

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 and future operating results. In addition, current and prospective employees may experience uncertainty about their future roles until after the integration of the CB&I business with the McDermott business is complete. This may adversely affect our ability to attract and retain key personnel, which could adversely affect our performance during the integration period.

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, they could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Work stoppages, union negotiations and other labor problems could adversely affect us.

A portion of our employees are represented by labor unions. A lengthy strike or other work stoppage at any of our facilities or involving any of our significant projects could have an adverse effect on us. There is inherent risk that ongoing or future negotiations relating to collective bargaining agreements or union representation may not be favorable to us. From time to time, we also have experienced attempts to unionize some of our nonunion operations. Such efforts can often disrupt or delay work and present risk of labor unrest.

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, our inability to obtain or renew licenses to use intellectual property of third parties, or the obsolescence of our technology, could adversely affect our business.

We believe that we are an industry leader by owning or having access to our technologies. We protect our technology positions through patent registrations, license restrictions and our research and development program. However, 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. Further, our competitors may independently develop or obtain access to technologies that are similar or superior to our technologies.

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 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, financial condition, results of operations and cash flows.

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, reputation, financial condition, results of operations and cash flows.

***Our business is subject to complex and evolving U.S. and foreign laws and regulations regarding data privacy and protection.***

The regulatory environment surrounding data privacy and protection is evolving and can be subject to significant change. In addition, new laws and regulations relating to data privacy and the unauthorized disclosure of confidential information, including the European Union General Data Protection Regulation and recent legislation and regulations adopted in the various U.S. jurisdictions, pose complex compliance challenges and may result in increased costs, and any failure to comply with these laws and regulations (or contractual provisions requiring similar compliance) could result in negative publicity and significant penalties or other liabilities. As noted above, we are also subject to the possibility of security and privacy breaches, some of which may result in a violation of these laws or regulations. Additionally, if we acquire a company that has violated or is not in compliance with applicable data privacy and protection laws or regulations (or contractual provisions), we may experience similar adverse consequences.

Our business strategy includes acquisitions and joint ventures with other parties to continue our growth. Acquisitions of other businesses and joint 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 businesses 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 or a co-venturer, including liabilities that were unknown at the time the acquisition transaction was negotiated and joint and several liability for failures in performance by our co-venturers;
- 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.

We recorded a significant amount of goodwill as a result of the Combination. Subsequent to the Combination Date, we recorded a material charge resulting from the impairment of the acquired goodwill. We could record additional material charges if all or a portion of the remaining goodwill became impaired in the future.



In accordance with Accounting Standards Codification Topic ASC 805, Business Combinations, we are accounting for the Combination in accordance with the acquisition method of accounting for business combinations. We recorded net tangible and identifiable intangible assets acquired and liabilities assumed from CB&I at their respective fair values as of the date of the closing of the Combination. The excess of the purchase price over the fair value of the identifiable assets of CB&I was recorded as goodwill.

We are required to assess goodwill for impairment at least annually. In conjunction with our 2018 impairment assessment, we recorded a charge of approximately \$2.2 billion. If our remaining goodwill were to become impaired in the future, we may be required to incur additional material charges relating to such impairment. Such a potential impairment charge could have a material adverse effect on our business, financial condition and results of operations. See Note 9, *Goodwill and Other Intangible Assets*, to the accompanying Consolidated Financial Statements for further discussion.

***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

We are vulnerable to significant fluctuations in our liquidity that may vary substantially over time.

Our operations could require us to utilize large sums of working capital, sometimes on short notice and sometimes without assurance of recovery of the expenditures. Circumstances or events that could create large cash outflows include increased costs or losses resulting from fixed-price or hybrid contracts, inability to achieve contractual billing or payment milestones, inability to recover unapproved change orders or claims, environmental liabilities, litigation risks, unexpected costs or losses resulting from previous acquisitions, contract initiation or completion delays, political conditions, customer payment problems, foreign exchange risks and professional and product liability claims.

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 and interest rate swaps with banks and other financial institutions, to manage our foreign exchange rate risk and interest rate risk. In addition, we maintain our cash balances and short-term investments in accounts held by major banks and financial institutions located globally, 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. Some of our customers, suppliers and subcontractors have traditionally accessed commercial financing and capital markets, as well as government backed export credit agency support to fund their operations or projects, and the availability of funding from those sources could be adversely impacted by a volatile credit markets. 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 and subcontractors 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 flows 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;

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- 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.

Maintaining adequate letter of credit and bonding 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 or enter into surety bond arrangements in favor of customers. Those letters of credit and surety bond arrangements generally indemnify or protect customers against our failure 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 or surety bond 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 surety bonds 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 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 and post-retirement 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 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;

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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.

The Certificate of Designation with respect to our 12% Redeemable Preferred Stock also contains terms that may restrict our ability to enter into change-of-control transactions, including a requirement to offer to repurchase our 12% Redeemable Preferred Stock upon a change in control.

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.

Our sale or issuance of additional shares of common stock could dilute each stockholder’s share ownership.

Part of our business strategy is to expand into new markets and enhance our position in existing markets throughout the world through the strategic and opportunistic acquisition of complementary businesses. In order to complete

future acquisitions or fund our other activities, we may issue equity securities that could dilute our earnings per share and each stockholder's share ownership in McDermott.

We have issued and may in the future 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, as is the case with our 12% Redeemable Preferred Stock, 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.

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**Item 2. PROPERTIES**

## Real Estate

The following table provides the segment name, location, and principal use of each of our significant properties at December 31, 2018 that we own or lease:

Business Segment and Location	Principal Use	Owned/Leased
<b>NCSA</b>		
Altamira, Mexico	Administrative Office/Fabrication Facility	Owned/Leased
Charlotte, North Carolina	Operations and sales office	Leased
Clearfield, Utah	Fabrication facility	Leased
Clive, Iowa	Fabrication facility	Owned
El Dorado, Arkansas	Fabrication facility	Owned
Gulfport, Mississippi	Administrative Office/Fabrication Facility	Leased
	Operations office, fabrication facility, warehouse and distribution facility	
Houston, Texas		Owned/Leased
Houston, Texas	Engineering and operations office	Leased
Lake Charles, Louisiana	Fabrication facility	Leased
New Brunswick, New Jersey	Fabrication and distribution facility	Leased
Niagara-on-the-Lake, Canada	Engineering office	Leased
Plainfield, Illinois	Engineering and operations office	Owned/Leased
Shreveport, Louisiana	Manufacturing and distribution facilities	Owned
	Administrative and operations office, fabrication facility and warehouse	
Walker, Louisiana		Owned
<b>EARC</b>		
Brno, Czech Republic	Engineering office	Leased
London, England	Engineering and sales office	Leased
Moscow, Russia <sup>(1)</sup>	Administrative, operations and sales office	Leased
The Hague, The Netherlands <sup>(1)</sup>	Administrative, engineering, operations and sales office	Leased
<b>MENA</b>		
Abu Dhabi, UAE	Operations office and fabrication facility	Owned/Leased
Al Aujam, Saudi Arabia	Fabrication facility and warehouse	Owned
Al Khobar, Saudi Arabia	Fabrication Facility/Operations/Engineering Office	Leased
Al Khobar, Saudi Arabia	Administrative and engineering office	Leased
Askar, Bahrain	Operations office and fabrication facility	Leased
Dammam, Saudi Arabia	Fabrication Facility	Leased
Doha, Qatar	Operations Office	Leased
Dubai, UAE <sup>(1)</sup>	Operations/Engineering/Fabrication Facility/Administrative Office	Leased
<b>APAC</b>		
Batam Island, Indonesia	Fabrication Facility	Leased
Chennai, India	Engineering Office	Leased
Gurgaon, India <sup>(1)</sup>	Engineering and operations office	Leased
Kuala Lumpur, Malaysia	Operations/Engineering/Administrative Office	Leased
Kwinana, Australia	Administrative, engineering and operations office	Owned
Perth, Australia	Operations Office	Leased
Qingdao, China	Fabrication Facility	Leased



Sattahip, Thailand <sup>(1)</sup> Technology	Operations office and fabrication facility	Leased
Beijing, China	Sales and operations office	Leased
Bloomfield, New Jersey	Administrative, engineering and operations office	Leased
Ludwigshafen, Germany	Research and development office	Leased
Mannheim, Germany	Engineering and operations office	Leased
Pasadena, Texas	Research and development office and manufacturing facility	Owned/Leased
The Woodlands, Texas	Administrative Office	Leased
Tyler, Texas	Engineering and operations office	Owned
Corporate Houston, Texas <sup>(1)</sup>	Administrative Office	Leased

<sup>(1)</sup> These offices also serve our Technology segment.

*Fabrication Facility Utilization* During 2018, our actual fabrication facilities utilization was 16 million man-hours compared to a 24 million of combined standard man-hours. The combined standard man-hours is the expected annual utilization of our fabrication facilities.

*Saudi Aramco Long Term Lease* 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 fabrication and maritime complex being developed by Saudi Aramco in the Kingdom of Saudi Arabia. Negotiations for the long-term lease remain ongoing. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations perating Results”

*Other* We also lease a number of other, smaller 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 current and anticipated use.

### Vessels

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, 2018:

Location and Vessel Name	Vessel Type	Year Entered Service/Upgraded	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
<b>NCSA</b>				
DB 50 <sup>(1)(2)</sup>	Pipelay/Derrick	1988/2012	4,400	-
Intermac 650 <sup>(2)</sup>	Launch/Cargo Barge	1980/2006	-	-
North Ocean 102 <sup>(1)(2)</sup>	Multi-Service Vessel	2009	275	-
North Ocean 105 <sup>(1)(3)(4)</sup>	Multi-Service Vessel	2012	440	16
Amazon <sup>(1)(3)(5)</sup>	Multi-Service Vessel	2014	880	-
<b>MENA</b>				
DB 27 <sup>(2)</sup>	Pipelay/Derrick	1974/1984	2,400	60
DB 32 <sup>(2)</sup>	Pipelay/Derrick	2010/2013	1,650	60
Thebaud Sea <sup>(1)(2)</sup>	Multi-Service Vessel	1999/2010	55	-
Emerald Sea <sup>(1)(2)</sup>	Multi-Service Vessel	1996/2007	110	-

APAC				
LV 108 <sup>(1)(2)</sup>	Multi-Service Vessel	2014	440	-
DLV 2000 <sup>(1)(2)</sup>	Multi-Service Vessel	2016	2,200	60
DB 30 <sup>(3)</sup>	Pipelay/Derrick	1975/1999	3,080	60

<sup>(1)</sup>Vessel with dynamic positioning capability

<sup>(2)</sup>Vessels subject to mortgages securing indebtedness under our credit agreement

<sup>(3)</sup>Vessels not subject to mortgages securing indebtedness under our credit agreement

<sup>(4)</sup>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 13, *Debt*, to the accompanying Consolidated Financial Statements.

<sup>(5)</sup>Leased vessel

During 2018, our actual offshore and subsea vessels utilization was 1,032 and 535 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 Credit Agreement and Letter of Credit Agreement described in Note 13, *Debt*, 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 23, *Commitments and Contingencies*, to the accompanying Consolidated Financial Statements included in this Annual Report on Form 10-K is incorporated by reference into this Item 3.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

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

## Stock Information

**General** Our common stock is traded on the NYSE under the symbol MDR. As of February 21, 2019 there were approximately 1,461 record holders of our common stock. We did not make any unregistered sales of any of our common stock during 2018, and we did not repurchase any shares of our common stock during 2018 (except in connection with net share settlements of various equity-based incentive awards).

**Dividends** We have not paid cash dividends on our common stock since the second quarter of 2000 and do not currently have plans to reinstate a cash dividend at this time. Our Board of Directors evaluates our cash dividend policy from time to time. In addition, our existing credit agreement and the indenture relating to our outstanding senior notes contain contractual restrictions on our ability to pay dividends.

**Redeemable Preferred Stock** On November 29, 2018, we issued 300,000 shares of our 12% Redeemable Preferred Stock, par value \$1.00 per share, and Series A Warrants to purchase approximately 6.8 million shares of our common stock in reliance upon an exemption from the registration requirements under the Securities Act pursuant to Section 4(a)(2) thereof. To the extent any shares of common stock are issued upon exercise of the warrants by a warrant holder, they will be issued in transactions expected to be exempt from registration under the Securities Act by virtue of Section 3(a)(9) thereof.

## Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (In whole shares)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance
Equity compensation plans approved by security holders:			5,417,821
Stock options and stock appreciation rights <sup>(1)</sup> <sup>(3)</sup>	541,344	\$ 36.98	
Other equity compensation awards <sup>(2)</sup> <sup>(3)</sup>	3,561,049	N/A	
Equity compensation plans not approved by security holders	N/A	N/A	N/A
Total	4,102,393		5,417,821

<sup>(1)</sup>As of December 31, 2018, there were approximately 541,344 securities to be issued upon the exercise of outstanding options and stock appreciation rights. The weighted-average exercise price reflects only the

weighted-average exercise price of stock options and stock appreciation rights outstanding.

- (2) As of December 31, 2018, there were approximately 3,561,049 securities to be issued upon vesting of outstanding restricted stock units or performance units. The award agreements for the legacy McDermott awards of restricted stock units granted in 2016, 2017 and 2018, the performance units granted in 2016 and 2017 (which have since been converted to restricted stock units) and the performance units granted in 2018 provide that the awards may be settled in shares, cash equal to the fair market value of the shares otherwise deliverable on the vesting date, or any combination thereof in the sole discretion of the Compensation Committee. There is no exercise price associated with the awards of restricted stock units or performance units. The award agreements for the legacy CB&I awards of restricted stock units outstanding may only be settled in shares of common stock.
- (3) Includes shares of our common stock issuable upon the exercise of outstanding stock options or stock appreciation rights or the vesting of restricted stock units, or shares of our common stock remaining available for future issuance under the Chicago Bridge & Iron Company 2008 Long-Term Incentive Plan and The Shaw Group, Inc. 2008 Omnibus Incentive Plan (together, the “Assumed Plans”), which we assumed as a result of the Combination. Under the Assumed Plans, as of December 31, 2018, 98,938 shares of our common stock were issuable upon the exercise of options or stock appreciation rights, at a weighted average exercise price of \$24.86, 897,756 shares of our common stock were issuable upon vesting of outstanding restricted stock units and 3,468,330 shares of our common stock were available for future issuance.

## Corporate Performance Graph

The following graph provides a comparison of our five-year, cumulative total stockholder return<sup>(1)</sup> from December 2013 through December 2018 to the return of S&P 500 and our 2018 and 2017 peer groups. Our peer groups consist of companies utilized for executive compensation benchmarking. The only companies from the 2018 peer group which were also included in the 2017 peer group, are Jacobs Engineering Group, Inc. and KBR, Inc. Each other company was added to the 2018 peer group in consideration of the significantly increased size and scope of McDermott's operations following the Combination.

<sup>(1)</sup>Total stockholder return assuming \$100 invested on December 31, 2013 and reinvestment of dividends on daily basis.

The 2018 peer group was comprised of the following companies:

AECOM	MasTech, Inc.
Dover Corporation	National Oilwell Varco, Inc.
Fluor Corporation	Parker-Hannifin Corporation
EMCOR Group, Inc.	Quanta Services, Inc.
Ingersoll-Rand plc	Stanley Black & Decker, Inc.
Jacobs Engineering Group Inc.	Weatherford International plc
KBR, Inc.	

The 2017 peer group was comprised of the following companies:

Archrock, Inc.	Noble Corporation
Helix Energy Solutions Group, Inc.	Oceaneering International, Inc.
Jacobs Engineering Group Inc	Oil States International, Inc.
KBR, Inc.	Superior Energy Services, Inc.

**Item 6. SELECTED FINANCIAL DATA**

The following selected financial data was derived from our Consolidated Financial Statements. This data should be read in conjunction with the accompanying Consolidated Financial Statements and related notes thereto and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	For the Years Ended December 31,				
	2018 <sup>(1)</sup>	2017	2016	2015	2014
	(Dollars in millions, except for per share amounts)				
Statement of Operations Data:					
Revenues	\$6,705	\$2,985	\$2,636	\$3,070	\$2,301
Project intangibles and inventory related amortization <sup>(2)</sup>	83	-	-	-	-
Other intangibles amortization <sup>(3)</sup>	62	-	-	-	-
Transaction costs <sup>(4)</sup>	48	9	-	-	-
Restructuring and integration costs <sup>(5)</sup>	134	-	11	41	18
Goodwill impairment <sup>(6)</sup>	2,168	-	-	-	-
Other asset impairment <sup>(7)</sup>	58	1	55	7	(9 )
Operating (loss) income	(2,256 )	307	138	121	4
Net (loss) income	(2,678 )	178	36	(9 )	(65 )
Less: net income (loss) attributable to noncontrolling interest	9	(1 )	2	9	11
Net (loss) income attributable to McDermott	(2,687 )	179	34	(18 )	(76 )
Dividends on redeemable preferred stock <sup>(8)</sup>	(3 )	-	-	-	-
Accretion of redeemable preferred stock <sup>(9)</sup>	(1 )	-	-	-	-
Net (loss) income attributable to common stockholders	\$(2,691 )	\$179	\$34	\$(18 )	\$(76 )
Net (loss) income per share attributable to common stockholders					
Basic	\$(17.94 )	\$1.97	\$0.43	\$(0.23 )	\$(0.96 )
Diluted	\$(17.94 )	\$1.88	\$0.36	\$(0.23 )	\$(0.96 )
Other Data:					
Cash and cash equivalents	\$520	\$390	\$596	\$665	\$665
Total assets	9,440	3,223	3,222	3,387	3,417
Current debt <sup>(10)</sup>	30	24	48	24	23
Long-term debt <sup>(10)</sup>	3,393	512	701	815	836
Long-term lease obligations <sup>(11)</sup>	66	1	2	2	2
Redeemable preferred stock <sup>(12)</sup>	230	-	-	-	-
Total stockholders' equity	823	1,789	1,595	1,547	1,539
Total cash (used in) provided by operating activities	(71 )	136	178	55	7
RPO <sup>(13)</sup>	10,913	3,901	4,322	4,231	3,601
New awards	5,649	2,564	2,726	3,701	1,099
Number of employees:					
Salaried	14,600	5,000	7,800	6,400	7,800
Hourly and craft	17,300	10,000	5,200	4,700	5,600



- (1) Results for 2018 reflect impacts of the Combination from the Combination Date. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Operating Results,” for further discussion and quantification of impacts of the Combination.
- (2) Represents amortization of fair value adjustments for RPOs acquired in the Combination and normalized profit margin fair value associated with acquired long-term contracts that were deemed to be lower than market value as of the Combination Date. Also included is amortization associated with fair value adjustments to inventory balances acquired in the Combination.
- (3) Represents amortization of other intangible assets acquired in the Combination. See Note 9, *Goodwill and Other Intangible Assets*, to the accompanying Consolidated Financial Statements for further discussion.
- (4) Relates to professional service fees (including audit, legal and advisory services) associated with the Combination. See Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements for further discussion.

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- (5) to the accompanying Consolidated Financial Statements
- (6) Represents impairment of *Intangible Assets*, to the accompanying Consolidated Financial Statements for further discussion. See Note 9, *Goodwill and Other Intangible Assets*, to the accompanying Consolidated Financial Statements for further discussion.
- (7) During 2018 we recorded charges associated with the impairment of two vessels within our Corporate operating group due to changes in their level of planned utilization during 2018. to the accompanying Consolidated Financial Statements
- (8) Represents dividends paid on to the accompanying Consolidated Financial Statements for further discussion.
- (9) further discussion. to the accompanying Consolidated Financial Statements for further discussion.
- (10) Represents our long-term debt obligations. to the accompanying Consolidated Financial Statements for further discussion.
- (11) Represents our capital lease obligations. to the accompanying Consolidated Financial Statements for further discussion.
- (12)
- (13) to the accompanying Consolidated Financial Statements for further discussion.
- Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Outlook— to the accompanying Consolidated Financial Statements for further discussion.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements we make in the following discussion which express a belief, expectation or intention, as well as those that are not historical fact, are forward-looking statements that are subject to risks, uncertainties and assumptions. Our actual results, performance or achievements, or industry results, could differ materially from those we express in the following discussion as a result of a variety of factors, including the risks and uncertainties we have referred to under the headings "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors" in Items 1 and 1A of Part I of this Annual Report on Form 10-K.

### Company Overview

#### Overview

On May 10, 2018 (the "Combination Date"), we completed our combination with Chicago Bridge & Iron Company N.V. ("CB&I") (the "Combination") (see Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements for further discussion). We are now a fully integrated provider of engineering, procurement, construction and installation ("EPCI") and technology solutions to the energy industry and design and build end-to-end infrastructure and technology solutions to transport and transform oil and gas into a variety of products. Our customers include national, major integrated and other oil and gas companies as well as producers of petrochemicals and electric power. Our proprietary technologies, integrated expertise and comprehensive solutions are utilized for liquefied natural gas ("LNG"), power, offshore and subsea, and downstream (includes downstream oil and gas processing facilities and licensed technologies and catalysts) energy projects around 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. Contracts are usually awarded through a competitive bid process.

#### Business Segments

Following completion of the Combination, during the second quarter of 2018, we reorganized our operations into five business segments. This reorganization is intended to better serve our global clients, leverage our workforce, help streamline operations and provide enhanced growth opportunities. Our five business segments, which represent our reportable segments are: North, Central & South America ("NCSA"); Europe, Africa, Russia & the Caspian ("EARC"); Middle East & North Africa ("MENA"); Asia Pacific ("APAC"); and Technology. The segment information presented for the prior periods has been recast to conform to the 2018 presentation. 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 segments. For financial information about our segments, see Note 24, *Segment Reporting*, to the accompanying Consolidated Financial Statements.

• **NCSA**—Our NCSA segment designs, engineers and constructs upstream offshore oil & gas facilities, downstream oil & gas facilities, gas-fired power plants, LNG import and export terminals, atmospheric and refrigerated storage vessels and terminals, water storage and treatment facilities and pipe and module fabrication. Our December 31, 2018 RPO composition by product offering was 52% Downstream, 21% LNG, 21% Power and 6% Offshore & Subsea. We anticipate the majority of future opportunities over the intermediate term are likely to be in the U.S. LNG and petrochemical markets. Our December 31, 2018 Remaining Performance Obligations ("RPOs") distribution for this segment by contracting type was approximately 95% fixed-price and hybrid and 5% cost-reimbursable.

• **EARC** Our EARC segment designs, engineers and constructs upstream offshore oil & gas facilities, downstream oil & gas facilities, LNG import and export terminals, and atmospheric and refrigerated storage vessels and terminals. Our December 31, 2018 RPO composition by product offering was 44% Offshore & Subsea and 56% Downstream and was primarily comprised of fixed-price contracts. We anticipate the majority of future opportunities over the intermediate term are likely to be in the downstream oil & gas markets in Russia and upstream and LNG projects in

Africa.

• **MENA** Our MENA segment designs, engineers and constructs upstream offshore oil & gas facilities and pipelines, downstream oil & gas facilities, hydrocarbon processing facilities, atmospheric and refrigerated storage vessels and terminals, and performs pipe fabrication and manufacturing. Our December 31, 2018 RPO composition by product offering was 59% Offshore & Subsea and 41% Downstream and was primarily comprised of fixed-price contracts. We anticipate the majority of future opportunities over the intermediate term are likely to be in the Middle East offshore market.

• **APAC**—Our APAC segment designs, engineers and constructs upstream offshore oil & gas facilities and pipelines, refining and petrochemical facilities, hydrocarbon processing facilities, LNG import and export terminals and atmospheric and refrigerated storage vessels and terminals. Our December 31, 2018 RPO composition by product offering was 94% Offshore & Subsea and 6% Downstream, which was primarily comprised of fixed-price contracts. We anticipate the majority of future opportunities over the intermediate term are likely to be in the Indian offshore market.

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*Technology* Our Technology segment is a leading technology licensor of proprietary gas processing, refining, petrochemical and coal gasification technologies as well as a supplier of proprietary catalysts, equipment and related engineering services. These technologies are critical in the refining of crude oil into gasoline, diesel, jet fuel and lubes, the manufacturing of petrochemicals and polymers, as well as the gasification of coal into syngas. The Technology segment also has a 50% owned unconsolidated joint venture that provides proprietary process technology licenses and associated engineering services and catalysts, primarily for the refining industry. Our December 31, 2018 RPO composition for this segment was 100% Downstream and primarily comprised of fixed-price contracts.

#### Loss Projects

Based on our assessment at December 31, 2018, four projects determined to be in substantial loss positions, including the Cameron LNG, Freeport LNG Trains 1 & 2, the gas power project for a unit of Calpine Corporation (“Calpine”) and the now-completed gas power project for Indianapolis Power & Light Company, were included in the preliminary purchase price allocation for the Combination (see Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements). Our Freeport LNG Train 3 project is not anticipated to be in a loss position.

We have had unfavorable changes in estimates of \$815 million on the Cameron LNG project, \$296 million on the Freeport LNG Trains 1 & 2 and Train 3 projects and \$122 million on the Calpine project since the Combination Date, of which approximately \$647 million, \$296 million and \$91 million, respectively, were included as adjustments to the fair values reflected in the acquired balance sheet for the Combination. The changes in estimates reflected in the acquired balance sheet did not result in a significant direct impact on our net income during 2018. The changes in estimates for the Freeport Trains 1 & 2 and Train 3 projects totaled approximately \$102 million during the fourth quarter of 2018. The changes in estimates for the Cameron LNG and Calpine projects that were not reflected in the acquired balance sheet were recognized during the fourth quarter of 2018, and resulted in charges of approximately \$168 million and \$31 million, respectively, to loss from operations during 2018.

Our offshore Abkatun-A2 platform project was also determined to be in a substantial loss position at December 31, 2018. The changes in estimates for this project resulted in a charge of approximately \$59 million, primarily during the fourth quarter of 2018, due to the reversal of previously recognized profit and the accrual of a loss provision.

Our accrual of provisions for estimated losses on active uncompleted contracts as of December 31, 2018 was \$266 million and primarily related to the Cameron LNG, Freeport LNG Trains 1 & 2, Calpine and Abkatun loss projects. Our accrual of provisions for estimated losses on active uncompleted contracts at December 31, 2017 was not material.

Summary information for our significant ongoing loss projects as of December 31, 2018 is as follows:

**Cameron LNG** At December 31, 2018, our U.S. LNG export facility project in Hackberry, Louisiana for Cameron LNG (within our NCSA operating group) was approximately 50% complete on a post-Combination basis (approximately 85% on a pre-Combination basis) and had an accrued provision for estimated losses of approximately \$185 million. For these purposes (and for purposes of the discussion below), when we refer to a percentage of completion on a pre-Combination basis, we are referring to the cumulative percentage of completion, which includes progress made prior to the Combination Date. In accordance with generally acceptable accounting principles, as of the Combination Date, we reset the progress to completion for all of CB&I’s projects then in progress to 0% for accounting purposes.

Through the third quarter of 2018, our changes in estimates to complete the project since the Combination Date of approximately \$647 million were primarily due to a detailed reassessment of schedule and underlying cost base. The

schedule analysis included a reassessment of the remaining work, including re-work for which we may not be fully compensated, and took into account revisions to the estimation of productivity based on historical efforts and the quality and availability of labor resources throughout the revised project schedule. The revised schedule also resulted in loss of incentive revenue. These changes in estimates were reflected as adjustments to the fair values of various assets and liabilities in the acquired balance sheet, as they resulted from refinements of estimates of conditions that existed as of the Combination Date, and primarily impacted Advance billings on contracts.

In the fourth quarter of 2018, we determined incremental changes in estimates of approximately \$168 million resulting from poor labor productivity and increases in subcontract, commissioning and construction management costs represented refinements of estimates of conditions that transpired subsequent to the Combination Date and were therefore recorded as charges to operating loss during the period.

Freeport LNG At December 31, 2018, Trains 1 & 2 of our U.S. LNG export facility project in Freeport, Texas for Freeport LNG (within our NCSA operating group) were approximately 64% complete on a post-Combination basis (approximately 91% on a pre-Combination basis) and had an accrued provision for estimated losses of approximately \$26 million.

Our changes in estimates to complete the project since the Combination Date were primarily due to increases in cost estimates resulting from a detailed reassessment of schedule and underlying cost base. The schedule analysis included a reassessment of the remaining work, including re-work for which we may not be fully compensated, and took into account revisions to the estimation of productivity based on historical efforts and the quality and availability of labor resources throughout the revised project schedule. Our changes in estimates for the project also reflect our decision, reached in conjunction with ongoing customer discussions, to include liquidated damages associated with the pre-Hurricane Harvey schedule and other delays, as well as revised estimates of customer and insurance claim recoveries.

These changes in estimates, inclusive of reductions in customer and insurance claim recovery estimates and additional liquidated damages during the fourth quarter of 2018, were reflected as adjustments to the fair values of various assets and liabilities in the acquired balance sheet, as they resulted from refinements of estimates of conditions that existed as of the Combination Date, and primarily impacted Advance billings on contracts.

**Calpine Power Project** At December 31, 2018, our U.S. gas turbine power project in the Northeast for Calpine (within our NCSA operating group) was approximately 80% complete on a post-Combination basis (approximately 95% on a pre-Combination basis) and had an accrued provision for estimated losses of approximately \$25 million.

Through the third quarter of 2018, our changes in cost estimates to complete the project since the Combination Date of approximately \$91 million were recorded as adjustments to the fair value of the acquired balance sheet and were primarily associated with revisions to the estimation of productivity based on historical performance. These changes in estimates were reflected as adjustments to the fair values of various assets and liabilities in the acquired balance sheet, as they resulted from refinements of estimates of conditions that existed as of the Combination Date, and primarily impacted Advance billings on contracts.

In the fourth quarter of 2018, we determined that incremental changes in estimates of approximately \$31 million resulting from increases in subcontract costs represented refinements of estimates of conditions that transpired subsequent to the Combination Date and were therefore recorded as charges to operating loss during the period.

**Abkatun-A2 Project** At December 31, 2018, our Abkatun-A2 platform project in Mexico for Pemex was approximately 88% complete and had an accrued provision for estimated losses of approximately \$6 million. The changes in estimates, primarily during the fourth quarter of 2018, resulting in the \$59 million charge were largely caused by higher than expected offshore carryover work, challenges due to higher than normal weather downtime and weather induced poor labor productivity resulting in additional vessel and labor costs.

#### Goodwill Impairment

In connection with the Combination, we allocated \$2.5 billion, \$461 million, \$46 million, \$52 million and \$1.7 billion of goodwill to NCSA, EARC, MENA, APAC and Technology, respectively. We did not have any indicators of impairment through the third quarter of 2018. However, during our annual quantitative goodwill impairment assessment in the fourth quarter of 2018, we experienced a significant sustained decrease in the trading price of our common stock, incremental charges on acquired loss projects and an increase in our cost of capital that was necessary to be factored into our estimation of the fair value of our reporting units. As a result of our assessment, we recognized a goodwill impairment of \$1.5 billion, \$40 million, \$52 million and \$592 million with respect to NCSA, EARC, APAC and Technology, respectively during 2018. See Note 9, *Goodwill and Other Intangible Assets*, to the accompanying Consolidated Financial Statements and under the caption “—Critical Accounting Policies and Estimates—Goodwill” below for further discussion.

#### Outlook

## Business Outlook

The demand for our services is affected to a large extent by the capital expenditure decisions of oil and gas producers, petrochemical firms and producers of electric power. Material movements in oil and natural gas prices have affected, and will likely continue to affect, the demand for and pricing of our EPCI services. Many of our customers make their capital expenditure decisions based on their long-term view of energy and petrochemical demand and the economics of specific projects. We operate in most major energy and petrochemical producing regions of the world, work on both new and existing projects and provide services that require a varying amount of technical complexity. As a result, the economics of specific projects that we provide services for varies considerably.

Many energy companies reduced, deferred or otherwise constrained their infrastructure spending in recent years. We now believe that the industry may be approaching a point at which the global balance between supply and demand is beginning to tighten, a cyclical trend that historically has led to an improved market environment for us.



In the current environment, we will continue to maintain our focus on delivering complete, innovative solutions as a trusted global service provider, enabling our customers to maximize the potential of natural resources. Our specific objectives include efficient execution and asset utilization, risk management and cost and liquidity management.

As part of a reaffirmation of our long-term strategy, we expect to continue considering in the future a variety of potential transactions, including, but not limited to, acquisitions of vessels, and new fabrication and maritime yard facilities (such as the planned construction of a new yard at Ras Al-Khair in Saudi Arabia). We can provide no assurance that our consideration of such opportunities will result in the consummation of any transaction, or if a transaction is undertaken, as to its terms, structure or timing, or as to the availability of financing necessary to consummate such a transaction on acceptable terms, if at all.

### Strategic Review of Business Portfolio

We have performed a strategic review of our business portfolio, which included businesses acquired in the Combination. Our review sought to determine if any portions of our business are non-core for purposes of our vertically integrated offering model. As a result of our review, we identified our storage tank and U.S. pipe fabrication businesses as non-core for purposes of our vertically integrated offering model. As a result and in view of the considerations discussed below under “Liquidity and Capital Resources,” we are developing plans to seek buyers for each of the two businesses, which are subject to approval by our Board of Directors. We expect a substantial portion of the proceeds resulting from sales of these businesses would be utilized to reduce our outstanding debt.

### Remaining Performance Obligations

RPOs represent the amount of revenues we expect to recognize in the future from our contract commitments on projects. RPOs include the entire expected revenue values for joint ventures we consolidate and our proportionate values for consortiums we proportionately consolidate. We do not include expected revenues of contracts related to unconsolidated joint ventures in our RPOs, except to the extent of any subcontract awards we receive from those joint ventures.

RPOs for each of our segments can consist of up to several hundred contracts. These contracts vary in size from less than one hundred thousand dollars in contract value to several billion dollars, with varying durations that can exceed five years. The timing of awards and differing types, sizes and durations of our contracts, combined with the geographic diversity and stages of completion of the associated projects, often results in fluctuations in our quarterly segment results as a percentage of total revenue. RPOs may not be indicative of future operating results, and projects in our RPOs may be cancelled, modified or otherwise altered by customers. We can provide no assurance as to the profitability of our contracts reflected in RPOs. 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, and therefore our future profitability is difficult to predict.

The timing of our revenue recognition may be impacted by the contracting structure of our contracts. Under fixed-price contracts, we perform our services and execute our projects at an established price. Fixed-price contracts, and hybrid contracts with a more significant fixed-price component, tend to provide us with greater control over project schedule and the timing of when work is performed and costs are incurred, and, accordingly, when revenue is recognized. Under cost-reimbursable contracts, we generally perform our services in exchange for a price that consists of reimbursement of all customer-approved costs and a profit component, which is typically a fixed rate per hour, an overall fixed fee or a percentage of total reimbursable costs. Cost-reimbursable contracts, and hybrid contracts with a more significant cost-reimbursable component, generally provide our customers with greater influence over the timing of when we perform our work, and, accordingly, such contracts often result in less predictability with respect to the timing of revenue recognition. Our shorter-term contracts and services are generally provided on a cost-reimbursable,

fixed-price or unit price basis.

Our RPOs by business segment as of December 31, 2018 and 2017 were as follows:

	December 31, 2018 <sup>(1)</sup>		December 31, 2017		Change <sup>(2)</sup>	
	(Dollars in millions)					
NCSA	\$5,649	52 %	\$437	11 %	\$5,212	1193 %
EARC	1,378	12 %	732	19 %	646	88 %
MENA	1,834	17 %	2,249	58 %	(415 )	-18 %
APAC	1,420	13 %	483	12 %	937	194 %
Technology	632	6 %	-	-	632	100 %
Total	\$10,913	100 %	\$3,901	100 %	\$7,012	180 %

<sup>(1)</sup> Approximately 46% of our RPOs as of December 31, 2018 were derived from projects outside the U.S.

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(2) Our RPOs increased by \$7 billion from December 31, 2017, primarily due to \$8.3 billion from the Combination, . This increase was partially offset by the recognition of revenues of \$6.7 billion exceeding new awards of \$5.6 billion, and the impact of foreign exchange and other adjustments.

Of the RPOs as of December 31, 2018, we expect to recognize revenues as follows:

	2019	2020	Thereafter
	(In millions)		
Total RPOs	\$7,113	\$2,887	\$ 913
Operating Results			

2018

**RPO**—Our RPOs as of December 31, 2018 were approximately \$11 billion and included the following significant 2018 awards: a high-density polyethylene plant project awarded by Bayport Polymers LLC in our NCSA segment; a subsea project awarded by Oil and Natural Gas Corporation (“ONGC”) in our APAC segment; a power project awarded by Entergy Corporation and a MEG unit project awarded by Gulf Coast Growth Ventures (a project involving units of Exxon Mobil Corporation and Saudi Arabia Basic Industries Corp., or “SABIC”), in our NCSA segment.

**Revenues**—Revenues increased by \$3.7 billion during 2018 compared to 2017, primarily due to the Combination (approximately \$4.4 billion), the majority of which benefited our NCSA segment. The key projects driving 2018 revenues within our NCSA segment were our two U.S. LNG export facility projects, various U.S. ethane projects and various U.S. power projects. The Safaniya phase 5 and 6 projects in our MENA segment also contributed significantly to revenues.

**Operating Loss**—Operating results decreased by \$2.6 billion from \$307 million of operating income in 2017 to \$2.3 billion of operating loss in 2018. Our 2018 operating results included \$18 million of operating loss from the Combination (including \$157 million of project-related and other intangible assets, inventory and investment in unconsolidated affiliates related amortization). Our operating loss also included:

- goodwill impairment of \$2.2 billion, resulting from our first annual quantitative impairment analysis during the fourth quarter of 2018;
- restructuring and integration costs of \$134 million, primarily relating to costs to achieve our Combination profitability initiative (“CPI”);
  - a net benefit of \$29 million resulting from changes in estimates to complete various projects;
- a non-cash impairment loss of \$58 million associated with the net book value write-down of two of our vessels;
- transaction costs of \$48 million, primarily relating to the Combination; and
- incremental expense of \$25 million associated with the need to make alternate arrangements for a third-party vessel charter, because the previously designated vessel was withdrawn from the market.

2017

**RPO**—Our RPO balance as of December 31, 2017 was \$3.9 billion and included a significant new Saudi Aramco award for phase 6 of the Safaniya field upgrade in our MENA segment, a significant new award from Reliance Industries

Ltd. in our APAC segment and awards from units of Mærsk Olie og Gas A/S and British Petroleum plc for the Tyra and Angelin projects in our EARC and NCSA segments, respectively, as well as a number of change orders awarded during 2017.

Revenues—Revenues increased by \$349 million during 2017 compared to 2016, primarily due to an increase in our MENA segment, partially offset by decreases in our other segments. The key projects driving 2017 revenue were a lump-sum EPCI project under the second Saudi Aramco Long Term Agreement (“LTA II”), the Saudi Aramco Marjan power systems replacement project, the Ichthys project in Australia, the Vashishta project in India and the Abkatun-A2 platform project in Mexico. In addition, increased activity across our portfolio of projects in the Middle East also contributed to 2017 revenues.

*Operating Income*—Operating income increased by \$169 million from \$138 million in 2016 to \$307 million in 2017. Our “One McDermott Way” initiative continued to drive efficient project execution and associated cost savings. In addition, our improved customer relationships, alignment with customer schedules, project closeout improvements on completed projects and recognition of approved change orders contributed to 2017 operating income.

The 2017 operating income was positively impacted by:

- progress on an EPCI project under the LTA II and the Saudi Aramco Marjan power system replacement project;
- the Ichthys project in Australia, as the project progressed through the marine installation phase;
- increased activity across our portfolio of projects in the Middle East;
- progress on a flow assurance project in the Middle East; and
- successful completion of the next phase of a large pipeline repair-related project in the Middle East.

The 2017 operating results include approximately \$9 million of transaction costs related to the Combination and lower cost recovery associated with certain vessels and our fabrication facilities due to a reduction in active projects.

2016 Our RPO balance as of December 31, 2016 was \$4.3 billion. Significant new awards under the LTA II, two other significant awards (one in our NCSA segment and one in our APAC segment) and a number of change orders contributed to our RPO balance as of December 31, 2016.

Revenues decreased by \$434 million in 2016 compared to 2015, primarily due to lower activity on our Ichthys project and completion of the Brunei Shell pipeline replacement project in our APAC segment. That decrease was partially offset by increased activities on several of our MENA segment projects.

Operating income increased by \$17 million from \$121 million in 2015 to \$138 million in 2016 despite the challenging environment of low crude oil and natural gas prices.

The 2016 operating income was positively impacted by:

- successful completion of a 12 jacket Saudi Aramco project and a large Middle East pipeline-related project;
- progress on a lump-sum EPCI project under the LTA II, and efficient execution and related cost savings on the Marjan power systems replacement project; and
- close-out improvements, favorable changes in estimates and recognition of approved change orders on active and closed projects.

The 2016 operating income was negatively impacted by \$31 million resulting from a failure identified in certain supplier provided subsea-pipe connector components previously installed on the Ichthys project in Australia.

A total of \$55 million of non-cash impairment charges related to our *Agile* vessel and certain other marine assets impacted our 2016 operating income, as discussed in Note 16, *Fair Value Measurements*, to the accompanying Consolidated Financial Statements.

In 2016 we realized approximately \$150 million and \$46 million of cash savings, before restructuring charges, from our *McDermott Profitability Initiative* (“MPI”) and *Additional Overhead Reduction* program (“AOR”), respectively. MPI was completed during the third quarter of 2016, and AOR was completed during the fourth quarter of 2016. See Note 12, *Restructuring and Integration Costs*, to the accompanying Consolidated Financial Statements for further discussion.

## 2018 Versus 2017

## Revenue

Revenues increased by 125%, or \$3.7 billion, in 2018 compared to 2017, reflecting a \$4.4 billion increase due to the Combination, partially offset by reduced revenues from legacy McDermott projects.

	Year ended		Change	Percentage
	December 31, 2018	2017		
	(In millions)			
Revenues:				
NCSA	\$3,928	\$246	\$3,682	1,497 %
EARC	271	19	252	1,326
MENA	1,704	2,120	(416 )	(20 )
APAC	411	600	(189 )	(32 )
Technology	391	-	391	NA
Total	\$6,705	\$2,985	\$3,720	125 %

NCSA—Revenues increased by 1,497%, or \$3.7 billion, in 2018 (including \$3.5 billion due to the Combination) compared to 2017.

In 2018, a variety of projects and activities contributed to revenues, including:

- construction progress on our two U.S. LNG export facility projects (approximately \$1.3 billion combined);
- construction progress on our ethane projects in Texas and Louisiana (approximately \$1 billion combined);
- various power projects in the U.S.;
- fabrication and marine activity progress on the Abkatun-A2 platform, a turnkey EPCI project in the Gulf of Mexico;
- and
- various other U.S. and offshore projects.

In 2017, a variety of projects and activities contributed to revenues, including:

- fabrication activity progress on the Abkatun-A2 platform;
- re-commencement of onshore activity on the Atlanta SURF project in Brazil; and
- commencement of fabrication activity on the BP Angelin EPCI gas field project.

EARC—Revenues increased by 1,326%, or \$252 million, in 2018 (including \$135 million due to the Combination) compared to 2017.

In 2018, a variety of projects and activities contributed to revenues, including:

progress on the Maersk Olie og Gas A/S Tyra Redevelopment EPCI project, awarded in the fourth quarter of 2017; ongoing activities for an oil refinery expansion project in Russia; engineering, procurement and supply of process equipment for a deep conversion complex built at a refinery in central Russia; and various other projects.

In 2017 revenue was primarily associated with completion of activities on the Yamal project in the first half of 2017.

MENA—Revenues decreased by 20%, or \$416 million, in 2018 (including a benefit of \$292 million due to the Combination) compared to 2017.

In 2018, a variety of projects and activities contributed to revenues, including:

- completion of engineering, fabrication and procurement activity and structural demolition and installation works by our *DB 32* and *DB 30* vessels on the Saudi Aramco Safaniya phase 5 project; engineering, fabrication and procurement progress on the Saudi Aramco Safaniya phase 6 project, awarded in the fourth quarter of 2017; engineering, fabrication and procurement progress and offshore installation of the 13 jackets by our *DB27* and *DB 30* vessels on the Saudi Aramco 13 Jackets project, awarded in the first quarter of 2018; marine hook-up activities utilizing a jack-up barge on the lump-sum EPCI project under the LTA II; pipelay, deck installation, tie-ins, fabrication and hook up activities on the Saudi Aramco Header 9 Facilities project; engineering, fabrication and procurement progress on awarded in the fourth quarter of 2017

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various other projects.

In 2017, a variety of projects and activities contributed to revenues, including:

- higher fabrication and marine activities on the lump-sum EPCI project under the LTA II; increased fabrication and marine campaign undertaken for jackets and deck installation, as well as completion of hook-up work, on the Saudi Aramco Marjan power system replacement project; fabrication of jackets and pipeline, and a marine campaign undertaken for jackets and pipeline installation, as well as hookup activities, on two Saudi Aramco EPCI projects; the Saudi Aramco nine jackets project, which progressed through the fabrication phase to the marine installation phase, and was completed in 2017; engineering, fabrication and cable lay progress on Safaniya phase 5, a lump-sum EPCI project under the LTA II awarded in the fourth quarter of 2016; a marine campaign carried out for umbilical and valve skid installation and hookup work on pipeline, spool and risers for a flow assurance project in the Middle East; engineering, fabrication and marine progress on a Saudi Aramco four jackets and three gas observation platforms project; and pipelay installation and hookup activities executed by our *DB 27* vessel on KJO Hout, a substantially complete project in 2017, in the Neutral Zone.

APAC—Revenues decreased 32%, or \$189 million, in 2018 (including a benefit of \$75 million due to the Combination) compared to 2017.

In 2018, a variety of projects and activities contributed to revenues, including:

- completion of pipelay campaign and offshore construction on the Greater Western Flank Phase 2 project in Australia;
- the Inpex Ichthys project in Australia and Vashishta subsea field infrastructure development project in India, both of which are substantially complete;
- commencement of activities on a subsea installation project in India, awarded in the fourth quarter of 2017; and
- various other projects.

In 2017, a variety of projects and activities contributed to revenues, including:

- progress on marine installation activities on the Vashishta subsea field infrastructure development EPCI project in India;
- commencement and completion in 2017 of a marine campaign for transportation and installation of pipelines under the multi-year offshore Brunei Shell Petroleum (“BSP”) installation contract; and
- the Greater Western Flank Phase 2 project in Australia, which progressed from the engineering phase to the fabrication phase.

Technology—Revenues during 2018 were \$391 million (all of which was due to the Combination) and were primarily associated with licensing and proprietary equipment activities in the petrochemical and refining markets and the sale of catalyst.

#### Segment Operating Income

Segment operating loss in 2018 was \$1.7 billion compared to segment operating income of \$527 million in 2017. Our 2018 operating results included \$18 million of operating loss due to the Combination (including \$157 million of project-related and other intangible assets, inventory and investment in unconsolidated affiliates related amortization). Our segment operating results were also impacted by a \$2.2 billion goodwill impairment, as described below.

	Year ended		Change	Percentage
	2018	2017		
	(In millions)			
Segment operating income:				
NCSA	\$(1,537)	\$(4 )	\$(1,533)	(38,325)%
EARC	(74 )	(13 )	(61 )	(469 )
MENA	328	451	(123 )	(27 )
APAC	56	93	(37 )	(40 )
Technology	(519 )	-	(519 )	NA
Total	\$(1,746)	\$527	\$(2,273)	(431 )%

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NCSA—Segment operating loss was \$1.5 billion and \$4 million during 2018 and 2017, respectively. Our 2018 operating results benefited by \$18 million from the impact of the Combination (including \$37 million of amortization for project, other intangible assets and inventory related fair value adjustments).

In 2018 a variety of items negatively impacted our NCSA segment operating results, including:

- a goodwill impairment charge of \$1.5 billion, resulting from our annual impairment assessment;
- charges resulting from changes in estimates for our Cameron LNG and Calpine loss projects, as discussed under “Company Overview—Loss Projects” above; and
- charges resulting from changes in estimates for our offshore Abkatun-A2 platform loss project, including the reversal of previously recognized profit.

These were charges were partly offset by a variety of projects and activities that contributed operating income, including:

- construction progress and cost savings on our ethane projects in Texas and Louisiana;
- construction progress and cost savings on various power projects in the U.S.; and
- various other projects in the U.S.

In 2017, operating income was primarily associated with fabrication activity progress on the Abkatun-A2 platform, the commencement of fabrication activity on the BP Angelin EPCI gas field project, re-commencement of onshore activity on the Atlanta SURF project in Brazil and close-out improvements and recognition of approved change orders on certain completed projects.

EARC—Segment operating losses were \$74 million and \$13 million during 2018 and 2017, respectively. Our 2018 operating loss included losses of \$14 million from the impact of the Combination (including \$13 million of project related and other intangible assets amortization).

In both periods, our project results were offset by the selling, general and administrative expenses and losses from our investment in the io Oil and Gas unconsolidated joint venture. Our 2018 results were also impacted by a goodwill impairment charge of \$40 million, resulting from our annual impairment assessment. Our 2018 results were also impacted by the project related and other intangible assets amortization.

MENA—Segment operating income was \$328 million and \$451 million during 2018 and 2017, respectively. Our 2018 operating results benefited by \$25 million from the impact of the Combination (including \$17 million of project-related and other intangible assets and investment in unconsolidated affiliate related amortization).

In 2018, a variety of projects and activities contributed to operating income, including:

- completion of engineering, fabrication, procurement activity and structural demolition and installation works by our *DB 32* and *DB 30* vessels on the Saudi Aramco Safaniya phase 5 project, as well as productivity improvements and cost savings on the project;
- pipelay, deck installation, tie-ins, fabrication and hook up activities on the Saudi Aramco Header 9 Facilities project, as well as productivity improvements and cost savings on the project;
- marine and hook-up activities utilizing a jack-up barge on the lump-sum EPCI project under the LTA II;
- engineering, procurement and construction progress on the LIWA EPC project for ORPIC, as well as cost savings on the project;
- engineering, fabrication, procurement progress and offshore installation of the 13 jackets by our *DB27* and *DB 30* vessels on the Saudi Aramco 13 Jackets project, awarded in the first quarter of 2018;
- engineering, fabrication and procurement progress on the Saudi Aramco Safaniya phase 6 project;



• demolition campaign on the Saudi Aramco Marjan power systems replacement project;  
• favorable settlement on the Saudi Aramco Safaniya phase 1 project, completed in 2016;  
• various other projects; and  
• income from our unconsolidated joint venture with CTCI, partly offset by investment in unconsolidated affiliate related amortization associated with purchase accounting intangible assets resulting from the Combination.  
In 2017, a variety of projects and activities contributed to operating income, including:

• higher fabrication and marine activities, as well as benefits from a change in scope of work, on the lump-sum EPCI project under the LTA II;  
• a marine campaign undertaken for jackets and deck installation, as well as completion of hook-up work, on the Saudi Aramco Marjan power system replacement project;  
• a marine campaign carried out for installation of umbilical, J-tube, valve skid, and spool and riser, as well as pipeline hook-up activities, for a flow assurance project in the Middle East;  
• marine hookup activities carried out during the shutdown of the TP-1 platform on the Saudi Aramco Karan-45 project;  
• a marine campaign undertaken for jacket and pipeline installation, as well as hookup activities, on two Saudi Aramco EPCI projects;  
• completion of the next phase of a large pipeline repair-related project in the Middle East; and  
• higher fabrication and marine installation activities on the Saudi Aramco nine jackets project, which was completed in 2017.

APAC—Segment operating income was \$56 million and \$93 million during 2018 and 2017, respectively. During 2018, APAC did not materially benefit from the Combination.

In 2018, a variety of projects and activities contributed to operating income, including:

• cost savings and the close-out of outstanding change orders on active and completed projects; and  
• cost savings upon the commencement and substantial completion of pipelay campaign and offshore construction on the Greater Western Flank Phase 2 project in Australia.  
a goodwill impairment charge of \$52 million, resulting from our annual impairment assessment and

In 2017, a variety of projects and activities contributed to operating income, as follows:

• the Ichthys project in Australia continued to progress through the marine installation phase;  
• commencement and completion of the BSP transportation and installation of pipelines project; and  
• progress driven by engineering and fabrication activity on the Greater Western Flank Phase 2 project.  
In 2017, our operating margin on the Vashishta project in India was adversely impacted due to unseasonal weather delays and marine equipment downtime, and changes to our execution plan, as well as increases in associated costs. As a result, this project did not contribute positively to our overall operating margin. Our estimated revenues at completion of the project also include unapproved change orders.

*Technology*—Segment operating loss during 2018 was \$519 million (including a \$592 million goodwill impairment charge, resulting from our annual impairment assessment, and \$89 million of project-related and other intangible assets and investment in unconsolidated affiliate related amortization). The results were primarily associated with licensing and proprietary equipment activity, as well as the supply of catalyst, and included \$27 million of equity income, which includes our portion of income from the Chevron-Lummus Global joint venture, an unconsolidated affiliate.

Other Items in Operating Income

Corporate and Other

	Year ended		
	December 31,		
	2018	2017	Change
	(In millions)		Percentage
Corporate and Other	\$(510)	\$(220)	\$(290) (132 )%

The increase in Corporate and Other expenses was primarily due to the following charges in 2018:

- restructuring and integration costs of \$134 million see Note 12,  
*Restructuring and Integration Costs*, to the accompanying Financial Statements;
- to the accompanying Financial Statements  
an increase of \$39 million in transaction costs, see Note 3, *Business Combination*, to the accompanying Financial  
Statements;
- an incremental expense of \$25 million associated with the need to make alternate arrangements for a third-party vessel charter, because the previously designated vessel was withdrawn from the market; and
  - increased selling, general and administrative expenses for the combined organization.

Other Non-operating Items

Interest expense, net—Interest expense, net was \$259 million and \$63 million during 2018 and 2017, respectively.

Interest expense in 2018 was primarily comprised of:

- \$97 million of interest expense and \$6 million of deferred debt issuance costs (“DIC”) amortization associated with the issuance of \$1.3 billion principal amount of our ;
- \$113 million of interest expense and \$9 million of deferred DIC amortization associated with our \$2.26 billion senior secured term loan facility;
- \$17 million of amortization of deferred DIC associated with our Revolving Credit Facility and LC Facility described below under “—Liquidity and Capital Resources”; and
- \$14 million of interest expense associated with our 8.000% second-lien notes, which were redeemed in May 2018. See Note 13, *Debt*, to the accompanying Financial Statements for further discussion.

Interest expense, net in 2017 was primarily associated with our 8.000% second-lien notes, which were redeemed in May 2018, and our prior term loan, which was repaid in June 2017.

Other non-operating expense, net—Other non-operating expense, net was \$56 million in 2018 and primarily related to:

- \$47 million year-end, non-cash actuarial pension mark-to-market loss associated with our defined benefit pension and other postretirement plans. See Note 15, *Pension and Postretirement Benefits*, to the accompanying Financial Statements for further discussion; and
- \$10 million make-whole fee and \$4 million of charges relating to the write-off of deferred DIC, associated with the redemption of our 8.000% second-lien notes in May 2018. See Note 13, *Debt*, to the accompanying Financial Statements for further discussion.

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*Income tax (benefit) expense*—For the year ended December 31, 2018, we recognized loss before provision for income taxes of \$2.6 billion, compared to income before provision for income taxes of \$249 million for the year ended December 31, 2017. Income tax expense was \$104 million and \$69 million for 2018 and 2017, respectively. Our provision for income taxes reflected an effective tax rate of approximately (4%) and 28% in 2018 and 2017, respectively.

The 2018 effective tax rate of (4%) was primarily driven by the recognition of a \$2.2 billion goodwill impairment charge during 2018, with no associated tax benefit (14% impact on rate), and the establishment of approximately \$250 million of valuation allowances on deferred taxes during 2018 (10% impact on rate), as a result of our cumulative loss for the three-year period ended December 31, 2018.

The 2017 effective tax rate of 28% was primarily driven by \$359 million of income earned in favorable tax jurisdictions (United Arab Emirates, Malaysia, Norway and Qatar). Additionally, we utilized \$161 million of net operating loss (“NOL”) carryforwards in the U.S., Saudi Arabia and Malaysia, all of which decreased our effective tax rate. Those decreases were partially offset by \$30 million of losses in India and Indonesia, where we were subject to tax based on revenue, and \$26 million of losses in the United Kingdom (“U.K.”) and Mexico, where we did not recognize a tax benefit. See Note 18, *Income Taxes*, to the accompanying Consolidated Financial Statements for further discussion.

## 2017 Versus 2016

### Revenue

Revenues increased by 13%, or \$349 million, in 2017 compared to 2016, primarily due to an increase in our MENA segment.

	Year ended		Change	Percentage
	2017	2016		
	(In millions)			
Revenues:				
NCSA	\$246	\$283	\$(37 )	(13 ) %
EARC	19	112	(93 )	(83 )
MENA	2,120	1,241	879	71
APAC	600	1,000	(400)	(40 )
Total revenues	\$2,985	\$2,636	\$349	13 %

NCSA—Revenues decreased by 13%, or \$37 million, due to a reduction in active projects in 2017 compared to 2016.

In 2017, a variety of projects and activities contributed to revenues, including:

- fabrication activity progress on the Abkatun-A2 platform;
- re-commencement of onshore activity on the Atlanta SURF project in Brazil; and
- commencement of fabrication activity on the BP Angelin EPCI gas field project.

In 2016, a variety of projects and activities, which were completed or substantially completed in 2016, contributed to revenues, including:

- the Ayatsil-C jacket replacement project;
- the EOG Sercan project;
- the PB Litoral project;
- the Jack St. Malo project;
- the Caesar Tonga field development project;
- the LLOG Otis subsea tieback project; and
- the Exxon Julia subsea tieback project.

Commencement of engineering work on the Abkatun-A2 platform project, a turnkey EPCI contract in the Gulf of Mexico awarded in 2016, and multiple front-end engineering and design projects also contributed to 2016 revenue.

EARC—Revenues decreased 83%, or \$93 million, in 2017 compared to 2016, primarily due to completion of activities on the Yamal project in the first half of 2017.

MENA—Revenues increased by 71%, or \$879 million, in 2017 compared to 2016.

In 2017, a variety of projects and activities contributed to revenues, including:

- higher fabrication and marine activities on the lump-sum EPCI project under the LTA II;
- increased fabrication and marine campaign undertaken for jackets and deck installation, as well as completion of hook-up work, on the Saudi Aramco Marjan power system replacement project;
- fabrication of jackets and pipeline, and a marine campaign undertaken for jackets and pipeline installation, as well as hookup activities, on two Saudi Aramco EPCI projects;
- the Saudi Aramco nine jackets project, which progressed through the fabrication phase to the marine installation phase, and was completed in 2017;
- engineering, fabrication and cable lay progress on Safaniya phase 5, a lump-sum EPCI project under the LTA II awarded in the fourth quarter of 2016;
- a marine campaign carried out for umbilical and valve skid installation and hookup work on pipeline, spool and risers for a flow assurance project in the Middle East;
- engineering, fabrication and marine progress on a Saudi Aramco four jackets and three gas observation platforms project; and
- pipelay installation and hookup activities executed by our *DB 27* vessel on KJO Hout, a substantially complete project in 2017, in the Neutral Zone.

In 2016, a variety of projects and activities contributed to revenues, including:

- the commencement of engineering, fabrication and marine activities on a lump-sum EPCI project under the LTA II;
- the marine campaign for installation of a pipeline, spool and risers on a flow assurance project in the Middle East, awarded in the fourth quarter of 2015;
- fabrication and marine cablelay activities on the Saudi Aramco Marjan power system replacement project; and
- engineering, fabrication and marine activity on the KJO Hout project in the Neutral Zone.

The following projects, which were completed or were substantially completed in 2016, also contributed to revenues:

- the Saudi Aramco 12 jackets project; and
- a large pipeline-related project and wellhead jacket and umbilical project, both in the Middle East.

In addition, close out improvements on the Safaniya phase 2 and ADMA 4 GI projects also contributed to 2016 revenue.





APAC—Revenues decreased 40%, or \$400 million, in 2017 compared to 2016.

In 2017, a variety of projects and activities contributed to revenues, including:

- progress on marine installation activities on the Vashishta subsea field infrastructure development EPCI project in India;
- commencement and completion in 2017 of a marine campaign for transportation and installation of pipelines under the multi-year offshore BSP installation contract; and
- the Greater Western Flank Phase 2 project in Australia, which progressed from the engineering phase to the fabrication phase.

Revenues in 2016 were higher compared to 2017, primarily due the following:

- higher installation activity during 2016 on the Inpex Ichthys EPCI project in Australia; and
  - completion of the Bergading offshore installation project in Malaysia in the second quarter of 2016.
- Segment Operating Income

Segment operating income improved by 47%, or \$168 million, in 2017 compared to 2016, primarily due to improvements in our MENA segment.

	Year ended			
	December			
	31,			
	2017	2016	Change	
	(In millions)		Percentage	
Segment operating income:				
NCSA	\$(4 )	\$63	\$(67 )	(106 )%
EARC	(13 )	(13 )	-	-
MENA	451	209	242	116
APAC	93	100	(7 )	(7 )
Total	\$527	\$359	\$168	47 %

NCSA—Segment operating loss in 2017 was \$4 million compared to an operating income of \$63 million in 2016.

The decrease in operating income was primarily due to a reduction in the number of active projects, including the absence of activity related to the PB Litoral, Jack St. Malo and Exxon Julia Subsea Tieback projects, all of which were completed in 2016.

Those decreases in operating income were partially offset by activity on the following projects:

- fabrication activity progress on the Abkatun-A2 platform;
- re-commencement of onshore activity on the Atlanta SURF project in Brazil;
- commencement of fabrication activity on the BP Angelin EPCI gas field project; and
- close-out improvements and recognition of approved change orders on certain completed projects.

In addition, the 2016 operating income included the reversal of a \$7 million provision for liquidated damages due to an agreed extension of the PB Litoral project completion date, which was not repeated in 2017.

EARC—Segment operating loss was \$13 million in 2017 and 2016 and was primarily associated with low project activity, a loss in unconsolidated affiliate and selling, general and administrative expenses, partially offset by close-out improvements on the Yamal project.

MENA—Segment operating income in 2017 and 2016 was \$451 million and \$209 million, respectively.

In 2017, a variety of projects and activities contributed to segment operating income, including:

- higher fabrication and marine activities, as well as benefits from a change in scope of work, on the lump-sum EPCI project under the LTA II;
- a marine campaign undertaken for jackets and deck installation, as well as completion of hook-up work, on the Saudi Aramco Marjan power system replacement project;
- a marine campaign carried out for installation of umbilical, J-tube, valve skid, and spool and riser, as well as pipeline hook-up activities, for a flow assurance project in the Middle East;
- marine hook-up activities carried out during the shutdown of the TP-1 platform on the Saudi Aramco Karan-45 project;
- a marine campaign undertaken for jacket and pipeline installation, as well as hookup activities, on two Saudi Aramco EPCI projects;
- completion of the next phase of a large pipeline repair-related project in the Middle East; and
- higher fabrication and marine installation activities on the Saudi Aramco nine jackets project, which was completed in 2017.

In 2016, a variety of projects and activities contributed to segment operating income, including:

- the completion of jacket fabrication and marine installation activity coupled with close-out improvements on the 12 jacket Saudi Aramco project;
- progress driven by higher engineering, fabrication and marine pipelay activity, as well as improved productivity and associated cost savings, on a lump-sum EPCI project under the LTA II;
- increased engineering, marine cable lay activities, and award of a jacket change order, together with efficient execution and related cost savings, on the Saudi Aramco Marjan power systems replacement project;
- start and substantial completion of a large pipeline-related project in the Middle East;
- marine installation activities undertaken by the *DB 32* and *Emerald Sea* vessels for a pipeline, spool and risers flow assurance project in the Middle East; and
- successful execution and close-out improvements on the Safaniya Phase 2, Abu Ali Cables and Manifa facility projects, all with Saudi Aramco, and the offshore marine hookup campaign on a wellhead jacket and umbilical project in the Middle East.

Those benefits were partially offset by an \$8 million operating loss in 2016 for the KJO Hout EPCI project in the Neutral Zone because of changes to our execution plan and increased costs associated with the *DB 27* vessel, and subcontractor standby time due primarily to work permit delays.

APAC—Segment operating income in 2017 and 2016 was \$93 million and \$100 million, respectively.

In 2017, a variety of projects and activities contributed to segment operating income, including:

- the continued progression of the Ichthys project in Australia through the marine installation phase;

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commencement and completion of the BSP transportation and installation of pipelines project; and progress driven by engineering and fabrication activity on the Greater Western Flank Phase 2 project. In 2017, our operating margin on the Vashishta project in India was adversely impacted due to unseasonal weather delays and marine equipment downtime, and changes to our execution plan, as well as increases in associated costs. As a result, this project did not contribute positively to our overall operating margin in 2017.

In 2016, a variety of projects and activities contributed to segment operating income, including:

- improved productivity and project execution cost savings and recognition of approved change orders on active projects; and
- close-out improvements on our completed projects.

The 2016 segment operating income was negatively impacted by \$31 million resulting from a failure identified in certain supplier provided subsea-pipe connector components previously installed on the Ichthys project in Australia.

#### Other Items in Operating Income

##### Corporate and other expenses

	Year ended			
	December			
	31,			
	2017	2016	Change	
	(In millions)		Percentage	
Corporate and Other	(220)	(221)	1	- %

The 2017 Corporate and other expenses included the following items:

- lower cost recovery associated with certain vessels and a fabrication facility due to a reduction in active projects in our NCSA and APAC segments in 2017; and
- transaction costs of approximately \$9 million incurred in the fourth quarter of 2017 related to the Combination.

The 2016 Corporate and other expenses included the following unusual items, which were not repeated in 2017:

- a \$55 million non-cash impairment charge related to our marine assets recorded in 2016, as discussed in Note 16, *Fair Value Measurements*, to the accompanying Consolidated Financial Statements, not repeated in 2017; and
- \$11 million of restructuring expense recorded in 2016, as discussed in Note 12, *Restructuring and Integration Costs*, to the accompanying Consolidated Financial Statements (the associated restructuring programs were substantially complete in 2016).

##### Other Non-operating Items

Interest expense, net—Interest expense was \$63 million and \$59 million in 2017 and 2016, respectively.

The increase in interest expense was primarily due to:

- expensing of the remaining \$4 million of unamortized debt issuance costs associated with the repayment of the term loan under our Prior Credit Agreement (as defined in “Liquidity and Capital Resources” below); and
- lower interest capitalization in 2017 compared to 2016. The *Deepwater Lay Vessel 2000* (“DLV 2000”), which was previously under construction, was deployed to our fleet in the second quarter of 2016.

Those increases were partially offset by lower interest expense as a result of repayments of the term loan and our amortizing notes in the second quarter of 2017.

*Provision for income taxes*—For the year ended December 31, 2017, we recognized income before provision for income taxes of \$249 million, compared to income before provision for income taxes of \$82 million for the year ended December 31, 2016. In the aggregate, the provision for income taxes was \$69 million and \$42 million for the years ended December 31, 2017 and 2016, respectively. Our provision for income taxes reflected an effective tax rate of approximately 28% and 51% in 2017 and 2016, respectively.

The 2017 effective tax rate of 28% was primarily driven by \$359 million of income earned in favorable tax jurisdictions (United Arab Emirates, Malaysia, Norway and Qatar). Additionally, we utilized \$161 million of net operating loss (“NOL”) carryforwards in the U.S., Saudi Arabia, and Malaysia, all of which decreased our effective tax rate. Those decreases were partially offset by \$30 million of losses in India and Indonesia where we were subject to tax based on revenue and \$26 million of losses in the United Kingdom (“U.K.”) and Mexico where we did not recognize a tax benefit. See Note 18, *Income Taxes*, to the accompanying Consolidated Financial Statements for further discussion.

The 2016 effective tax rate of 51% was primarily driven by \$166 million of losses in the U.S. and Kuwait, where we did not recognize a tax benefit, which increased our effective tax rate. The increase was partially offset by \$98 million of income earned in favorable tax jurisdictions (United Arab Emirates, Norway and Qatar) and the utilization of \$60 million of NOL carryforwards in Mexico, combined with the partial release of our valuation allowances associated with the NOL carryforwards of \$45 million in Saudi Arabia and \$13 million in Mexico.

#### Inflation and Changing Prices

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), generally using historical U.S. dollar accounting (“historical cost”). Statements based on historical cost, however, do not adequately reflect the cumulative effect of increasing costs and changes in the purchasing power of the dollar, especially during times of significant and continued inflation.

In order to minimize the negative impact of inflation on our operations, we attempt to cover the increased cost of anticipated changes in labor, material and service costs either through an estimate of those changes, which we reflect in the original price, or through price escalation clauses in our contracts.

#### Liquidity and Capital Resources

Our primary sources of liquidity are cash and cash equivalents on hand, cash flows generated from operations, and capacity under our revolving credit and other facilities. Our revolving credit and other facilities are also available to provide letters of credit, which are generally issued to customers in the ordinary course of business to support advance payments and performance guarantees in lieu of retention on our contracts, or in certain cases, are issued in support of our insurance programs. We regularly review our sources and uses of funds and may seek to access capital markets or increase our revolving credit and letter of credit capacity to increase our liquidity position and support our ability to take on larger project awards. We also perform periodic strategic reviews of our business portfolio and may adjust our portfolio to dispose of those portions of our business deemed to be non-core to our vertically integrated offering model.

In order to maintain our ability to pursue the business opportunities from the strong order flow we are projecting, notwithstanding the usage of our working capital and capital resources to fund the payment of the increased costs on the three legacy loss projects described above, subsequent to the completion of our Combination financing arrangements in November 2018, we issued shares of redeemable preferred stock and warrants and added new letter of

credit capacity. See the description of our financing arrangements under “—*Credit and Other Financing Arrangements*” below.

We believe our cash and cash equivalents on hand, cash flows generated from operations, amounts available under our credit facilities and uncommitted bilateral lines of credit will be sufficient to finance our capital expenditures, including expected capital expenditures for the *Amazon* vessel (as more fully described in Note 14, *Lease Obligations* to the accompanying Consolidated Financial Statements), settle our commitments and contingencies (as more fully described in Note 23, *Commitments and Contingencies* to the accompanying Consolidated Financial Statements) and address our normal, anticipated working capital needs for the foreseeable future.

There can be no assurance that funding sources will continue to be available, as our ability to generate cash flows from operations, our ability to access our credit facilities and uncommitted bilateral lines of credit and our ability to access capital markets, at reasonable terms or at all, may be impacted by a variety of business, economic, legislative, financial and other factors, which may be outside of our control. Additionally, while we currently have significant uncommitted bonding facilities, primarily to support various commercial provisions in our contracts, a termination or reduction of these bonding facilities could result in the utilization of letters of credit in lieu of performance bonds, thereby reducing the available capacity under our credit facilities and uncommitted bilateral lines of credit. Although we do not anticipate a reduction or termination of the bonding facilities, there can be no assurance that such facilities will continue to be available at reasonable terms to service our ordinary course obligations.

#### Cash, Cash Equivalents and Restricted Cash

As of December 31, 2018, we had \$845 million of cash, cash equivalents and restricted cash, as compared to \$408 million as of December 31, 2017. Approximately \$146 million of our cash and cash equivalents at December 31, 2018 was within our variable interest entities (“VIEs”) associated with our joint venture and consortium arrangements, which is generally only available for use in our operating activities when distributed to the joint venture and consortium participants. At December 31, 2018, we had approximately \$330 million of cash in jurisdictions outside the U.S., principally in the United Arab Emirates, Ireland, India, the U.K. and Malaysia. Approximately 5% of our outstanding cash balance is held in countries that have established government imposed currency restrictions that could impede the ability of our subsidiaries to transfer funds to us.

#### Cash Flow Activities

Operating activities Net cash (used in) provided by operating activities in 2018, 2017 and 2016 was (\$71) million, \$136 million and \$178 million, respectively.

The cash (used in) provided by operating activities primarily reflected our net income (loss), adjusted for non-cash items and changes in components of our working capital. The changes in our working capital during 2018 were primarily driven by accounts receivable, contracts in progress, net of advance billings on contracts, and accounts payable. Fluctuations in working capital are normal in our business. Working capital is impacted by the size of our projects and the achievement of billing milestones on RPOs as we complete different phases of our projects.

The legacy CB&I operations had approximately \$2.5 billion of negative working capital as of the Combination Date, including approximately \$1.3 billion of negative working capital associated with the Calpine power project and the proportionate shares of the Cameron LNG and Freeport LNG consortium projects (collectively, the “Focus Projects”). Negative working capital for the Focus Projects was approximately \$815 million as of December 31, 2018.

In the year ended December 31, 2018, net cash used by working capital was approximately \$134 million.

The components of working capital that used cash were:

• *Contracts in progress/Advance billings on contracts*—a net increase of \$278 million, primarily due to the impact of progress on projects within our NCSA segment (including approximately \$610 million used for the Focus Projects), partially offset by projects within our other segments.

• *Accounts payable*—a decrease of \$156 million, primarily due to payments related to our MENA and NCSA segments. This increase was partially offset by:

• *Accounts receivable*—a net decrease of \$300 million, primarily due to collections in our NCSA segment (including approximately \$85 million from the Focus Projects), partially offset by billings within our other segments.



In the year ended December 31, 2017, net cash used by working capital was approximately \$254 million. Contracts in progress, net of Advance billings on contracts increased by \$450 million primarily due to progress on:

- the Abkatun-A2 project in our NCSA segment;
- various Saudi Aramco projects, including the lump-sum EPCI project under the LTA II, and the Berri platform, and the Safaniya Phase 5 and the Header 9 Facilities projects in our MENA segment; and
- the Ichthys and Vashishta projects in our APAC segment.

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This increase was partially offset by:

- *Accounts receivable*—collections across all segments reduced our accounts receivable by \$91 million; and
- *Accounts payable*—an increase of \$105 million was driven by project progress across all segments.

Cash of \$178 million generated in 2016 primarily reflected earnings adjusted for non-cash items and cash used by the main components of working capital. Contracts in progress, net of Advance billings on contracts decreased by \$144 million primarily due to completion of the following projects:

- the Safaniya Phase 1 and 2 projects and Manifa project, all with Saudi Aramco;
- the PB Litoral project in our NCSA segment; and
- the BSP Pipelines project in our APAC segment.

The increase was partially offset by:

- *Accounts receivable*—a \$89 million increase primarily due to timing of billings and receipt of payments under project contractual terms; and

- *Accounts payable*—a decrease of \$102 million was driven by settlements with vendors as several projects across all segments were nearing completion.

Investing activities Our net cash used in investing activities was \$2.6 billion, \$65 million and \$231 million in 2018, 2017 and 2016, respectively.

Net cash used in investing activities in 2018 was primarily associated with:

- the cash portion of the Combination consideration (\$2.4 billion, net of cash acquired of \$498 million – see Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements for further discussion);
- net outflows from advances of \$241 million with our third-party consortium participants of proportionately consolidated consortiums (see Note 10, *Joint Venture and Consortium Arrangements*, to the accompanying Consolidated Financial Statements for further discussion); and
- capital expenditures of \$86 million.

These outflows were partially offset by proceeds from asset dispositions of \$69 million, approximately \$52 million of which were associated with the sale of CB&I's former administrative headquarters.

Net cash used in investing activities in 2017 included the acquisition and subsequent sale leaseback of the *Amazon* vessel and upgrade costs for other marine vessels.

Net cash used in 2016 primarily related to the construction of the *DLV 2000* and was incurred as a result of the construction work reaching established milestones, including completion in the second quarter of 2016.

Proceeds from disposition of assets provided cash of \$69 million, \$56 million and \$2 million in 2018, 2017 and 2016, respectively.

Financing activities In 2018 net cash provided by financing activities was \$3.2 billion, as compared to \$275 million and \$116 million net cash used in financing activities in 2017 and 2016, respectively.

Net cash provided in 2018 was primarily attributable to:

- borrowings of \$2.26 billion under the Term Facility;
- the issuance of \$1.3 billion in aggregate principal amount of the Senior Notes;
- net proceeds of \$290 million from the private placement of 12% Redeemable Preferred Stock and warrants; and
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net inflows from advances of \$158 million with our equity method joint ventures and proportionately consolidated consortiums.

The inflows were partly offset by:

• redemption of the entire \$500 million aggregate principal amount of our 8.000% second-lien notes and a \$10 million make-whole fee associated with the early repayment;

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\$217 million of DIC associated with the Credit Agreement, Senior Notes and Letter of Credit Agreement discussed below;

\$18 million of issuance costs associated with the 12% Redeemable Preferred Stock;

\$17 million of Term Facility payments, \$16 million of vendor equipment financing payments and \$12 million of other debt and capital lease payments; and

repurchases of common stock of \$14 million tendered by participants in our long-term incentive plans for payment of applicable withholding taxes upon vesting of awards under those plans.

Net cash used in 2017 and 2016 was primarily attributable to:

\$218 million and \$78 million of repayments of our prior term loan during 2017 and 2016, respectively;

\$17 million and \$25 million of repayments of other debt during 2017 and 2016, respectively;

\$21 million and \$9 million of DIC associated with our previous credit agreements paid during 2017 and 2016, respectively;

\$11 million for the acquisition of the North Ocean AS 105 noncontrolling interest in the second quarter of 2017; and

\$7 million and \$4 million for repurchases of common stock tendered by participants in our long-term incentive plans for payment of applicable withholding taxes upon vesting of awards under those plans in 2017 and 2016, respectively.

Effects of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash—During 2018, our cash, cash equivalents and restricted cash balance decreased by \$45 million due to the impact of changes in functional currency exchange rates against the U.S. Dollar for non-U.S. Dollar cash balances, primarily for net changes in the Australian Dollar, British Pound and Euro exchange rates. The net unrealized loss on our cash, cash equivalents and restricted cash resulting from these exchange rate movements is reflected in the cumulative translation adjustment component of Other comprehensive income (loss). Our cash, cash equivalents and restricted cash held in non-U.S. Dollar currencies are used primarily for project-related and other operating expenditures in those currencies, and, therefore, our exposure to realized exchange gains and losses is not anticipated to be material.

During 2017 and 2016, the effect of exchange rate changes on cash, cash equivalents and restricted cash was not material.

#### Credit and Other Financing Arrangements

On May 10, 2018, we entered into a Credit Agreement (the “Credit Agreement”) with a syndicate of lenders and letter of credit issuers, Barclays Bank PLC, as administrative agent for a term facility under the Credit Agreement, and Crédit Agricole Corporate and Investment Bank, as administrative agent for the other facilities under the Credit Agreement. The Credit Agreement provides for borrowings and letters of credit in the aggregate principal amount of \$4.65 billion, consisting of the following:

• \$2.26 billion senior secured, seven-year term loan facility (the “Term Facility”), the full amount of which was borrowed, and \$319.3 million of which has been deposited into a restricted cash collateral account (the “LC Account”) to secure reimbursement obligations in respect of up to \$310.0 million of letters of credit (the “Term Facility Letters of Credit”);

• \$1.0 billion senior secured revolving credit facility (the “Revolving Credit Facility”); and

• \$1.39 billion senior secured letter of credit facility (the “LC Facility”).

The Credit Agreement provides that:

- Term Facility Letters of Credit can be issued in an amount up to the amount on deposit in the LC Account (\$319.3 million at December 31, 2018), less an amount equal to approximately 3% of such amount on deposit (to be held as a reserve for related letter of credit fees), not to exceed \$310.0 million;
- subject to compliance with the financial covenants in the Credit Agreement, the full amount of the Revolving Credit Facility is available for revolving loans;
- subject to our utilization in full of our capacity to issue Term Facility Letters of Credit, the full amount of the Revolving Credit Facility is available for the issuance of performance letters of credit and up to \$200 million of the Revolving Credit Facility is available for the issuance of financial letters of credit; and
- the full amount of the LC Facility is available for the issuance of performance letters of credit.

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Borrowings are available under the Revolving Credit Facility for working capital and other general corporate purposes. Certain existing letters of credit outstanding under our previously existing Amended and Restated Credit Agreement, dated as of June 30, 2017 (the “Prior Credit Agreement”), and certain existing letters of credit outstanding under CB&I’s previously existing credit facilities have been deemed issued under the Credit Agreement, and letters of credit were issued under the Credit Agreement to backstop certain other existing letters of credit issued for the account of McDermott, CB&I and their respective subsidiaries and affiliates.

The Credit Agreement includes mandatory commitment reductions and prepayments in connection with, among other things, certain asset sales and casualty events (subject to reinvestment rights with respect to asset sales of less than \$500 million). In addition, we are required to make annual prepayments of term loans under the Term Facility and cash collateralize letters of credit issued under the Revolving Credit Facility and the LC Facility with 75% of excess cash flow (as defined in the Credit Agreement), reducing to 50% of excess cash flow and 25% of excess cash flow depending on our secured leverage ratio.

Term Facility—As of December 31, 2018, we had \$2.24 billion of borrowings outstanding under the Term Facility. Proceeds from our borrowing under the Term Facility were used, together with proceeds from the issuance of the Senior Notes and cash on hand, (1) to consummate the Combination, including the repayment of certain existing indebtedness of CB&I and its subsidiaries, (2) to redeem \$500 million aggregate principal amount of our 8.000% second-lien notes, (3) to prepay existing indebtedness under, and to terminate in full, our Prior Credit Agreement, and (4) to pay fees and expenses in connection with the Combination, the Credit Agreement and the issuance of the Senior Notes.

The future scheduled maturities of the Term Facility are:

	(In millions)
2019	\$ 23
2020	23
2021	23
2022	23
2023	23
Thereafter	2,128
	\$ 2,243

Additionally, as of December 31, 2018, there were approximately \$276 million of Term Facility letters of credit issued (or deemed issued) (including \$71 million of financial letters of credit) under the Credit Agreement, leaving

approximately \$34 million of available capacity under the Term Facility.

Revolving Credit Facility and LC Facility—

**Credit Agreement Covenants**—The Credit Agreement includes the following financial covenants that are tested on a quarterly basis:

- the minimum permitted fixed charge coverage ratio (as defined in the Credit Agreement) is 1.50 to 1.00;
- the maximum permitted leverage ratio is (i) 4.25 to 1.00 for each fiscal quarter ending on or before September 30, 2019, (ii) 4.00 to 1.00 for the fiscal quarter ending December 31, 2019, (iii) 3.75 to 1.00 for each fiscal quarter ending after December 31, 2019 and on or before December 31, 2020, (iv) 3.50 to 1.00 for each fiscal quarter ending after December 31, 2020 and on or before December 31, 2021 and (v) 3.25 to 1.00 for each fiscal quarter ending after December 31, 2021; and
- the minimum liquidity (as defined in the Credit Agreement, but generally meaning the sum of McDermott’s unrestricted cash and cash equivalents plus unused commitments under the Credit Agreement available for revolving borrowings) is \$200 million.

In addition, the Credit Agreement contains various covenants that, among other restrictions, limit our ability to:

- incur or assume indebtedness;
- grant or assume liens;
- make acquisitions or engage in mergers;
- sell, transfer, assign or convey assets;
- make investments;
- repurchase equity and make dividends and certain other restricted payments;
- change the nature of our business;
- engage in transactions with affiliates;
- enter into burdensome agreements;
- modify our organizational documents;
- enter into sale and leaseback transactions;
- make capital expenditures;
- enter into speculative hedging contracts; and
- make prepayments on certain junior debt.

The Credit Agreement contains events of default that we believe are customary for a secured credit facility. If an event of default relating to bankruptcy or other insolvency event occurs, all obligations under the Credit Agreement will immediately become due and payable. If any other event of default exists under the Credit Agreement, the lenders may accelerate the maturity of the obligations outstanding under the Credit Agreement and exercise other rights and remedies. In addition, if any event of default exists under the Credit Agreement, the lenders may commence foreclosure or other actions against the collateral.

If any default exists under the Credit Agreement, or if we are unable to make any of the representations and warranties in the Credit Agreement at the applicable time, we will be unable to borrow funds or have letters of credit issued under the Credit Agreement.

**Credit Agreement Covenants Compliance**—As of December 31, 2018, we were in compliance with all our restrictive and financial covenants under the Credit Agreement. The financial covenants as of December 31, 2018 are summarized below:

Ratios	Requirement	Actual
Minimum fixed charge coverage ratio	1.50x	2.29x



Maximum total leverage ratio	4.25x	2.61x
Minimum liquidity	\$200 million	\$1.4 billion

Future compliance with our financial and restrictive covenants under the Credit Agreement could be impacted by circumstances or conditions beyond our control, including, but not limited to, the delay or cancellation of projects, decreased letter of credit capacity, decreased profitability on our projects, changes in currency exchange or interest rates, performance of pension plan assets, or changes in actuarial assumptions. Further, we could be impacted if our customers experience a material change in their ability to pay us or if the banks associated with the Credit Agreement were to cease operations, or if there is a full or partial break-up of the European Union (“EU”) or its currency, the Euro.

On October 30, 2018, we, as a guarantor, entered into a Letter of Credit Agreement (the “Letter of Credit Agreement”) with McDermott Technology (Americas), Inc., McDermott Technology (US), Inc. and McDermott Technology, B.V., each a wholly owned subsidiary of ours, as co-applicants, and Barclays Bank PLC, as administrative agent. The Letter of Credit Agreement provides for a facility for extensions of credit in the form of performance letters of credit in the aggregate face amount of up to \$230 million (the “\$230 Million LC Facility”). The \$230 Million LC Facility is scheduled to expire in December 2021. The obligations under the Letter of Credit Agreement are unconditionally guaranteed on a senior secured basis by us and substantially all of our wholly owned subsidiaries, other than the co-applicants (which are directly obligated thereunder) and several captive insurance subsidiaries and certain other designated or immaterial subsidiaries. The liens securing the \$230 Million LC Facility will rank equal in priority with the liens securing obligations under the Credit Agreement. The Letter of Credit Agreement includes financial and other covenants and provisions relating to events of default that are substantially the same as those in the Credit Agreement. As of December 31, 2018, there were approximately \$144 million of letters of credit issued (or deemed issued) under the \$230 million LC Facility, leaving approximately \$86 million of available capacity.

Letter of Credit Agreement Covenants Compliance—As of December 31, 2018, we were in compliance with all our restrictive and financial covenants under the Letter of Credit Agreement.

On April 18, 2018, we issued \$1.3 billion in aggregate principal of 10.625% senior notes due 2024 (the “Senior Notes”), pursuant to an indenture we entered into with Wells Fargo Bank, National Association, as trustee (the “Senior Notes Indenture”). Interest on the Senior Notes is payable semi-annually in arrears, and the Senior Notes are scheduled to mature in May 2024. However, at any time or from time to time on or after May 1, 2021, we may redeem the Senior Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount of the Senior Notes to be redeemed) set forth below, together with accrued and unpaid interest to (but excluding) the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period beginning on May 1 of the years indicated:

Year	Optional redemption price	
2021	105.313	%
2022	102.656	%
2023 and thereafter	100.000	%

In addition, prior to May 1, 2021, we may redeem up to 35.0% of the aggregate principal amount of the outstanding Senior Notes, in an amount not greater than the net cash proceeds of one or more qualified equity offerings (as defined in the Senior Notes Indenture) at a redemption price equal to 110.625% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to (but excluding) the date of redemption (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date), subject to certain limitations and other requirements. The Senior Notes may also be redeemed, in whole or in part, at any time prior to May 1, 2021 at our option, at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed, plus the applicable premium (as defined in the Senior Notes Indenture) as of, and accrued and unpaid interest to (but excluding) the applicable redemption date (subject to the right of the holders of record on the relevant record date to

receive interest due on the relevant interest payment date).

Senior Notes Covenants—The Senior Notes Indenture contains covenants that, among other things, limit our ability to: (1) incur or guarantee additional indebtedness or issue preferred stock; (2) make investments or certain other restricted payments; (3) pay dividends or distributions on our capital stock or purchase or redeem our subordinated indebtedness; (4) sell assets; (5) create restrictions on the ability of our restricted subsidiaries to pay dividends or make other payments to us; (6) create certain liens; (7) sell all or substantially all of our assets or merge or consolidate with or into other companies; (8) enter into transactions with affiliates; and (9) create unrestricted subsidiaries. Those covenants are subject to various exceptions and limitations.

Senior Notes Covenants Compliance—As of December 31, 2018, we were in compliance with all our restrictive covenants under the Senior Notes Indenture. Future compliance with our restrictive covenants under the Senior Notes Indenture could be impacted by circumstances or conditions beyond our control, including, but not limited to, those discussed above with respect to the Credit Agreement.

North Ocean (“NO”) Financing On September 30, 2010, McDermott International, Inc., as guarantor, and NO 105 AS, in which we then had a 75% ownership interest, as borrower, entered into a financing agreement to pay a portion of the construction costs of the NO 105. Borrowings under the agreement are secured by, among other things, a pledge of all of the equity of NO 105 AS, a mortgage on the NO 105, and a lien on substantially all of the other assets of NO 105 AS. The financing agreement requires principal repayment in 17 consecutive semiannual installments of approximately \$4 million, which commenced on October 1, 2012.

In the second quarter of 2017 we exercised our option under the NO 105 AS joint venture agreement and purchased the 25% ownership interest of Oceanteam ASA (“Oceanteam”) in the vessel-owning company for approximately \$11 million in cash. As part of that transaction, we also assumed the right to a \$5 million note payable from NO 105 AS to Oceanteam (which had been issued in connection with a dividend declared by NO 105 AS in 2016). As of December 31, 2018, the outstanding borrowing under this facility was approximately \$16 million. Future maturities are approximately \$8 million in each of 2019 and 2020.

Receivables Factoring During 2018, we sold, without recourse, approximately \$232 million of receivables under an uncommitted receivables purchase agreement in Mexico at a discount rate of applicable LIBOR plus a margin of 1.40%-2.00% and Interbank Equilibrium Interest Rate in Mexico plus a margin of 1.40% - 1.70%. We recorded approximately \$4 million of factoring costs in Other operating income (expense) during 2018. Ten percent of the receivables sold are withheld and received on the due date of the original invoice. We have received cash, net of fees and amounts withheld, of approximately \$205 million under these arrangements during 2018.

Vendor Equipment Financing In February 2017, J. Ray McDermott de México, S.A. de C.V. (“JRM Mexico”) entered into a 21-month loan agreement for equipment financing in the amount of \$47 million. Borrowings under the loan agreement bear interest at a fixed rate of 5.75%. JRM Mexico’s obligations in connection with this equipment financing are guaranteed by McDermott International Management, S. de RL., one of our indirect, wholly owned subsidiaries. As of December 31, 2018, we had repaid all outstanding borrowings under this facility.

Uncommitted Facilities—We are party to a number of short-term uncommitted bilateral credit facilities and surety bond arrangements (the “Uncommitted Facilities”) across several geographic regions, as follows:

	December 31, 2018		December 31, 2017	
	Uncommitted Line		Uncommitted Line	
	Capacity	Utilized	Capacity	Utilized
	(In millions)			
Bank Guarantee and Bilateral Letter of Credit <sup>(1)</sup>	\$1,669	\$ 1,060	\$ 725	\$ 572
Surety Bonds <sup>(2)</sup>	842	475	300	49
Bilateral arrangements to issue cash collateralized letters of credit	-	-	175	18

<sup>(1)</sup> Approximately \$175 million of this capacity is available only upon provision of an equivalent amount of cash collateral.

<sup>(2)</sup> Excludes approximately \$402 million of surety bonds maintained on behalf of CB&I’s former Capital Services Operations, which were sold to CSVC Acquisition Corp (“CSVC”) in June 2017. We also continue to maintain

guarantees on behalf of CB&I's former Capital Services Operations business in support of approximately \$69 million of RPOs. We are entitled to an indemnity from CSVC for both the surety bonds and guarantees.

#### Debt Issuance Costs

We incurred approximately (1) \$152 million of fees relating to the establishment of our Credit Agreement (including \$94 million associated with the Term Facility and \$58 million associated with the Revolving Credit Facility and LC Facility); (2) \$58 million relating to the issuance of the Senior Notes; and (3) \$6 million relating to \$230 Million LC Facility, dated October 2018. The costs associated with the Term Facility and Senior Notes are reflected on the Balance Sheets as a direct reduction from the related debt liability and amortized over the terms of the respective facilities. The costs associated with the Revolving Credit Facility, the LC Facility and the \$230 Million LC Facility are reflected within Other current and noncurrent assets and amortized within Interest expense, net, over the terms of the respective facilities.

## Debt Extinguishment Costs

During the second quarter of 2018, we incurred approximately \$10 million of make-whole fees in connection with the redemption of \$500 million principal amount of our 8.000% second-lien notes, as well as charges of approximately \$4 million relating to the write-off of deferred debt issuance costs resulting from the extinguishment of our previous debt arrangements. These costs were recorded within Other non-operating expense, net, in our Statement of Operations.

## Capital Lease Obligations

The *Amazon*, a pipelay and construction vessel, was purchased by us in February 2017, sold to an unrelated third party (the “Amazon Owner”) and leased back under a long-term bareboat charter that gave us the right to use the vessel and was recorded as an operating lease. On July 27, 2018, we entered into agreements (the “Amazon Modification Agreements”) providing for certain modifications to the *Amazon* vessel and related financing and amended bareboat charter arrangements. The total cost of the modifications, including project management and other fees and expenses, is expected to be in the range of approximately \$260 million to \$290 million. The Amazon Owner is expected to fund the cost of the modifications primarily through an export credit-backed senior loan provided by a group of lenders, supplemented by expected direct capital expenditures by us of approximately \$58 million over the course of the modifications. The amended bareboat charter arrangement is accounted for as a capital lease, recognizing Property, plant and equipment and Lease obligation for the present value of future minimum lease payments. The cost of modifications will be recorded in Property, plant and equipment with a corresponding liability for direct capital expenditures not incurred by us. The capital lease obligation will increase upon completion of the modifications and funding by the Amazon Owner. At December 31, 2018, Property, plant and equipment, net included a \$52 million asset (net of accumulated amortization of \$3 million) and a capital lease liability of approximately \$53 million.

In May 2018, we entered into a capital lease arrangement for a jack-up barge and, as of December 31, 2018, Property, plant and equipment, net included a \$17 million asset (net of accumulated amortization of \$0.4 million) relating to that arrangement, along with a corresponding capital lease liability.

## Redeemable Preferred Stock

On November 29, 2018 (the “Closing Date”), we completed a private placement of (1) 300,000 shares of 12% Redeemable Preferred Stock, par value \$1.00 per share (the “Redeemable Preferred Stock”), and (2) Series A warrants (the “Warrants”) to purchase approximately 6.8 million shares of our common stock, with an initial exercise price per share of \$0.01, for aggregate proceeds of \$289.5 million, before payment of approximately \$18 million of directly related issuance costs.

**Redeemable Preferred Stock**—The Redeemable Preferred Stock will initially have an Accreted Value (as defined in the Certificate of Designation with respect to the Redeemable Preferred Stock (the “Certificate of Designation”)) of \$1,000.00 per share. The holders of the Redeemable Preferred Stock will be entitled to receive cumulative compounding preferred cash dividends quarterly in arrears at a fixed rate of 12.0% per annum compounded quarterly (of which 3.0% accrues each quarter) on the Accreted Value per share (the “Dividend Rate”). The cash dividends are payable only when, as and if declared by our Board of Directors out of funds legally available for payment of dividends. If a cash dividend is not declared and paid in respect of any dividend payment period ending on or prior to December 31, 2021, then the Accreted Value of each outstanding share of Redeemable Preferred Stock will automatically be increased by the amount of the dividend otherwise payable for such dividend payment period, except the applicable dividend rate for this purpose is 13.0% per annum. Such automatic increase in the Accreted Value of each outstanding share of Redeemable Preferred Stock would be in full satisfaction of the preferred dividend that would have otherwise accrued for such dividend payment period.

The Redeemable Preferred Stock has no stated maturity and will remain outstanding indefinitely unless repurchased or redeemed by us.

The Redeemable Preferred Stock will have a liquidation preference equal to the then applicable Minimum Return (the "Liquidation Preference") plus accrued and unpaid dividends. The Liquidation Preference will initially be equal to \$1,200.00 per share. The "Minimum Return" is equal to a multiple of invested capital ("MOIC") (as defined in the Certificate of Designation) as follows, exclusive of cash dividends previously paid:

- prior to January 1, 2020, a MOIC multiple of 1.2;
- on or after January 1, 2020 but prior to January 1, 2022, a MOIC multiple of 1.25;
- on or after January 1, 2022 but prior to January 1, 2023, a MOIC multiple of 1.20;
- on or after January 1, 2023 but prior to January 1, 2025, a MOIC multiple of 1.15; and
- on or after January 1, 2025, a MOIC multiple of 1.20.

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We may redeem the Redeemable Preferred Stock at any time for an amount per share of Redeemable Preferred Stock equal to the Liquidation Preference of each such share plus all accrued dividends on such share (such amount per share, the “Redemption Consideration”).

At any time after the seventh anniversary of the Closing Date, each holder may elect to have us fully redeem such holder’s then outstanding Redeemable Preferred Stock in cash, to the extent we have funds legally available for payment of dividends, at a redemption price per share equal to the Redemption Consideration for each share.

Upon a change of control (as defined in the Certificate of Designation), if we have not previously redeemed the Redeemable Preferred Stock and the holders of a majority of the then-outstanding Redeemable Preferred Stock do not agree with us to an alternative treatment, then in connection with such change of control, each holder may elect either: (1) to cause us to redeem all, but not less than all, of its outstanding Redeemable Preferred Stock at a redemption price per share equal to the Redemption Consideration, which would be payable in full in cash or, if any of the Senior Notes are then outstanding, payable partially in cash in an amount equal to 101% of the Share Purchase Price (as defined in the Certificate of Designation) (or such lower amount as may be required under the Senior Notes Indenture) and the remainder in shares of our common stock based on a per share price equal to 96% of the volume-weighted average price of our common stock on the New York Stock Exchange during the 10 trading days prior to the announcement of such change of control; (2) to receive a substantially equivalent security to the Redeemable Preferred Stock in the surviving entity of the change of control; or (3) to continue to hold the Redeemable Preferred Stock if we are the surviving entity in the change of control. However, any such redemption in cash will be tolled until a date that will not result in the Redeemable Preferred Stock being characterized as “disqualified stock,” “disqualified equity interest” or a similar concept under our debt instruments.

As of December 31, 2018, our Redeemable Preferred Stock balance was \$230 million.

#### of the Redeemable Preferred Stock

We will record accretion as an adjustment to Retained earnings (deficit) over the seven years from the Closing Date through the expected redemption date of November 29, 2025 using the effective interest method. During 2018 we recorded accretion of approximately \$1 million with respect to the Redeemable Preferred Stock.

Warrants—The Warrants are exercisable at any time after the earlier of (1) any change of control or the commencement of proceedings for the voluntary or involuntary dissolution, liquidation or winding up of us and (2) the first anniversary of the Closing Date, and from time to time, in whole or in part, until the tenth anniversary of the Closing Date. of the Warrants the market-observable fair value of our common stock

The exercise price and the number of shares of common stock for which a Warrant is exercisable are subject to adjustment from time to time upon the occurrence of certain events including: (1) payment of a dividend or distribution to holders of shares of our common stock payable in common stock, (2) the distribution of any rights, options or warrants to all holders of our common stock entitling them for a period of not more than 60 days to purchase shares of common stock at a price per share less than the fair market value per share, (3) a subdivision, combination, or reclassification of our common stock, (4) a distribution to all holders of our common stock of cash, any shares of our capital stock (other than our common stock), evidences of indebtedness or other assets of ours, and (5) any dividend of shares of a subsidiary of ours in a spin-off transaction.



## Capital Expenditures

As part of our strategic growth program, our management regularly evaluates our marine vessel fleet and our fabrication yard construction capacity to ensure our fleet and construction capabilities are adequately aligned with our overall growth strategy. These assessments may result in capital expenditures to construct, upgrade, acquire or operate vessels or acquire or upgrade fabrication yards that would enhance or grow our technical capabilities, or may involve engaging in discussions to dispose of certain marine vessels or fabrication yards.

Capital expenditures for 2018, 2017 and 2016 were \$86 million, \$119 million and \$228 million, respectively, as discussed below:

2018 capital expenditures were primarily attributable to our vessel upgrades (including upgrades to the *Amazon*) and information technology upgrades;

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2017 capital expenditures included the acquisition (prior to its subsequent sale-leaseback) of the *Amazon* vessel, as well as costs associated with upgrading the capabilities of other marine vessels; and 2016 capital expenditures were primarily attributable to the construction of the *DLV 2000*, and were incurred as a result of the construction work reaching established milestones, including completion in the second quarter of 2016. In 2019, we expect to spend approximately \$162 million for capital projects, such as our new administrative headquarters in Houston, Texas and various vessel upgrades and capital maintenance projects.

### Contractual Obligations

In the table below, we set forth our contractual and other obligations as of December 31, 2018. Certain amounts included in this table are based on some estimates and assumptions about these obligations, including their duration, anticipated actions by third parties and other factors. The contractual and other obligations we will actually pay in future periods may vary from those reflected in the table, because some estimates and assumptions are subjective.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In millions)				
Debt obligations <sup>(1)</sup>	\$3,559	\$ 31	\$ 53	\$ 45	\$ 3,430
Capital lease obligations <sup>(2)</sup>	74	8	12	15	39
Estimated interest payments <sup>(3)</sup>	1,851	312	626	614	299
Information technology ("IT") obligations <sup>(4)</sup>	43	19	14	10	-
Operating leases	637	72	115	97	353
Self-insurance obligations <sup>(5)</sup>	17	17	-	-	-
Pension funding obligations <sup>(6)</sup>	16	16	-	-	-
Postretirement benefit funding obligations <sup>(6)</sup>	2	2	-	-	-
Purchase obligations <sup>(7)</sup>	-	-	-	-	-
Unrecognized tax benefits <sup>(7)</sup>	-	-	-	-	-

<sup>(1)</sup> Represents expected cash payments for the principal amounts related to our debt obligations. Amounts exclude debt issuance costs.

<sup>(2)</sup> Represents expected cash payments for our capital lease obligations.

<sup>(3)</sup> Represents expected cash payments for interest on our long-term debt.

<sup>(4)</sup> Represents commitments on IT technical support and software maintenance contracts.

<sup>(5)</sup> Represents expected 2019 payments associated with our self-insurance programs. Payments beyond one year have not been included, as amounts are not determinable.

<sup>(6)</sup> Represents expected 2019 contributions to fund our defined benefit pension and other postretirement plans. Contributions beyond one year have not been included, as amounts are not determinable.

<sup>(7)</sup> In the ordinary course of business we enter into commitments (which are expected to be recovered from our customers) for the purchase of materials and supplies on our projects. We do not enter into long-term purchase commitments on a speculative basis for fixed or minimum quantities.

<sup>(8)</sup> Payments for income tax reserves of \$78 million are not included, as the timing of specific tax payments is not determinable.

**Shelf Registration Statement** We filed a shelf registration statement with the SEC in September 2018. The registration statement became effective automatically and is scheduled to expire in September 2021. The shelf registration statement enables us to offer and sell shares of our common or preferred stock and issue debt or other securities from time to time.

New Accounting Standards

See Note 2, *Basis of Presentation and Significant Accounting Policies*, to the accompanying Consolidated Financial Statements for a discussion of the potential impact of new accounting standards on our Financial Statements.

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## Critical Accounting Policies and Estimates

Our Consolidated Financial Statements and accompanying notes are presented in U.S. Dollars and prepared in accordance with GAAP. We base our estimates on historical experience and on various other assumptions we believe to be reasonable according to the current facts and circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We believe the following are our most critical accounting policies applied in the preparation of our Consolidated Financial Statements. These policies require our most difficult, subjective and complex judgments, often as a result of the need to make estimates of matters that are inherently uncertain. This discussion should be read in conjunction with our Consolidated Financial Statements and related notes included in this Annual Report on Form 10-K.

**Revenue Recognition**—Our revenue is primarily derived from long-term contracts with customers, and we determine the appropriate accounting treatment for each contract at inception in accordance with ASU 2014-09 (Accounting Standards Codification (“ASC”) Topic 606), Revenue from Contracts with Customers. Our contracts primarily relate to: EPCI services; engineering services; construction services; pipe and steel fabrication services; engineered and manufactured products; technology licensing; and catalyst supply. An EPCI contract may also include technology licensing, and our services may be provided between or among our reportable segments.

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

**Performance Obligations**—A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account in ASC Topic 606. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our contract costs and related revenues are generally recognized over time as work progresses due to continuous transfer to the customer. To the extent a contract is deemed to have multiple performance obligations, we allocate the transaction price of the contract to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. In addition, certain contracts may be combined and deemed to be a single performance obligation. Our EPCI contracts are generally deemed to be single performance obligations and our contracts with multiple performance obligations were not material as of December 31, 2018.

**Performance Obligations Satisfied Over Time**—Revenues for our contracts that satisfy the criteria for over time recognition are recognized as the work progresses. Revenues for contracts recognized over time include revenues for contracts to provide: EPCI services; engineering services; construction services; pipe and steel fabrication services; engineered and manufactured products; technology licensing; and “non-generic” catalyst supply. We measure transfer of control utilizing an input method to measure progress of the performance obligation based upon the cost-to-cost measure of progress, as it best depicts the transfer of assets to the customer, with Cost of operations including direct costs, such as materials and labor, and indirect costs that are attributable to contract activity. Under the cost-to-cost approach, the use of estimated costs to complete each performance obligation is a significant variable in the process of determining recognized revenues and is a significant factor in the accounting for such performance obligations. Significant estimates impacting the cost to complete each performance obligation are: costs of engineering, materials, components, equipment, labor and subcontracts; vessel costs; labor productivity; schedule durations, including subcontractor or supplier progress; contract disputes, including claims; achievement of contractual performance

requirements; and contingency, among others. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Additionally, external factors such as weather, customer requirements and other factors outside of our control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of recognition of revenues and income. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which could result in material changes to our financial statements and related disclosures. See Note 4, *Revenue Recognition*, to the accompanying Consolidated Financial Statements for further discussion.

*Performance Obligation Satisfied at a Point-in-Time Method*—Contracts with performance obligations that do not meet the criteria to be recognized over time are required to be recognized at a point-in-time, whereby revenues and gross profit are recognized only when a performance obligation is complete and a customer has obtained control of a promised asset. Revenues for contracts recognized at a point in time include our “generic” catalyst supply and certain manufactured products (which are recognized upon shipment) and certain non-engineering and non-construction oriented services (which are recognized when

the services are performed). In determining when a performance obligation is complete for contracts with revenues recognized at a point-in-time, we measure transfer of control considering physical possession of the asset, legal transfer of title, significant risks and rewards of ownership, customer acceptance and our rights to payment. See Note 4, *Revenue Recognition*, to the accompanying Consolidated Financial Statements for further discussion.

**Remaining Performance Obligations (“RPOs”)** RPOs represent the amount of revenues we expect to recognize in the future from our contract commitments on projects. RPOs include the entire expected revenue values for joint ventures we consolidate and our proportionate value for consortiums we proportionately consolidate. We do not include expected revenues of contracts related to unconsolidated joint ventures in our RPOs, except to the extent of any subcontract awards we receive from those joint ventures. Currency risks associated with RPOs which are not mitigated within the contracts are 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. RPOs may not be indicative of future operating results, and projects included in RPOs may be cancelled, modified or otherwise altered by customers. See Note 4, *Revenue Recognition*, to the accompanying Consolidated Financial Statements for further discussion.

**Variable Consideration** Transaction prices for our contracts may include variable consideration, which includes increases to transaction prices for approved and unapproved change orders, claims, incentives and bonuses, and reductions to transaction price for liquidated damages or penalties. Change orders, claims and incentives are generally not distinct from the existing contracts due to the significant integration service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation. We estimate variable consideration for a performance obligation at the most likely amount to which we expect to be entitled (or the most likely amount we expect to incur in the case of liquidated damages), utilizing estimation methods that best predict the amount of consideration to which we will be entitled (or will be incurred in the case of liquidated damages). We include variable consideration in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenues recognized will not occur or when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determinations of whether to include estimated amounts in transaction prices are based largely on assessments of our anticipated performance and all information (historical, current and forecasted) reasonably available to us. The effect of variable consideration on the transaction price of a performance obligation is recognized as an adjustment to revenues on a cumulative catch-up basis. To the extent unapproved change orders and claims reflected in transaction price (or excluded from transaction price in the case of liquidated damages) are not resolved in our favor, or to the extent incentives reflected in transaction price are not earned, there could be reductions in, or reversals of, previously recognized revenue. See Note 4, *Revenue Recognition*, to the accompanying Consolidated Financial Statements for further discussion.

**Loss Recognition** Revenues from customers may not cover increases in our costs or our total estimated costs. It is possible that current estimates could materially change for various reasons. For all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full immediately and reflected in Cost of operations in the Statements of Operations. It is possible that these estimates could change due to unforeseen events, which could result in adjustments to overall contract revenues and costs. Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. In our Consolidated Balance Sheets (“Balance Sheets”), accruals of provisions for estimated losses on all active uncompleted projects are included in Advance billings on contracts. See Note 4, *Revenue Recognition*, to the accompanying Consolidated Financial Statements for further discussion.

**Accounts Receivable and Contract Balances** The timing of when we bill our customers is generally dependent upon advance billing terms, milestone billings based on the completion of certain phases of the work, or when the services are provided or products are shipped.

**Accounts Receivable** Any uncollected billed amounts for our performance obligations recognized over time, including contract retainages to be collected within one year, are recorded within Accounts receivable-trade, net. Any uncollected billed amounts, unbilled receivables for which we have an unconditional right to payment, and unbilled receivables for our performance obligations recognized at a point in time are also recorded within Accounts receivable-trade, net. Contract retainages to be collected beyond one year are recorded within Accounts

receivable—long—term retainages. We establish allowances for doubtful accounts based on our assessments of collectability. See Note 7, *Accounts Receivable*, to the accompanying Consolidated Financial Statements for further discussion.

*Contracts in Progress*—Projects with performance obligations recognized over time that have revenues recognized to date in excess of cumulative billings are reported within Contracts in progress on our Balance Sheets. We expect to invoice customers for all unbilled revenues, and our payment terms are generally for less than 12 months upon billing. Our contracts typically do not include a significant financing component. See Note 8, *Contracts in Progress and Advance Billings on Contracts*, to the accompanying Consolidated Financial Statements for further discussion.

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*Advance Billings on Contracts*—Projects with performance obligations recognized over time that have cumulative billings in excess of revenues are reported within Advance billings on contracts on our Balance Sheets. Our Advance billings on contracts balance also includes our accruals of provisions for estimated losses on all active projects. See Note 8, *Contracts in Progress and Advance Billings on Contracts*, to the accompanying Consolidated Financial Statements for further discussion.

*Combination-Related Purchase Price Allocation*—The aggregate purchase price for the Combination was allocated to the major categories of assets and liabilities acquired based upon their estimated fair values as of May 10, 2018, which were based, in part, upon external preliminary appraisal and valuation of certain assets, including specifically identified intangible assets and property and equipment. The excess of the purchase price over the preliminary estimated fair value of the net tangible and identifiable intangible assets acquired, totaling \$4.8 billion, was recorded as goodwill. Our changes in purchase price allocation since our initial estimates in the second quarter of 2018 resulted in adjustments to certain assets and liabilities, including the residual amount allocated to goodwill. See Note 3, *Business Combination*, to the accompanying Consolidated Financial Statements for further discussion.

*Goodwill*—Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with the Combination. Goodwill is not amortized, but instead is reviewed for impairment at least annually at a reporting unit level, absent any interim indicators of impairment. Interim testing for impairment is performed if indicators of potential impairment exist. We perform our annual impairment assessment during the fourth quarter of each year. We identify a potential impairment by comparing the fair value of the applicable reporting unit to its net book value, including goodwill. If the net book value exceeds the fair value of the reporting unit, we measure the impairment by comparing the carrying value of the reporting unit to its fair value.

To determine the fair value of our reporting units and test for impairment, we utilize an income approach (discounted cash flow method) as we believe this is the most direct approach to incorporate the specific economic attributes and risk profiles of our reporting units into our valuation model. We generally do not utilize a market approach, given the lack of relevant information generated by market transactions involving comparable businesses. However, to the extent market indicators of fair value become available, we consider such market indicators in our discounted cash flow analysis and determination of fair value. See Note 3, *Business Combination* and Note 9, *Goodwill and Other Intangible Assets*, to the accompanying Consolidated Financial Statements, for further discussion of estimates utilized in our determination of goodwill, our impairment analysis and associated \$2.2 billion impairment charge during 2018.

*Intangible and Other Long-Lived Assets*—Our finite-lived intangible assets resulted from the Combination and are amortized over their estimated remaining useful economic lives. Our project-related intangible assets are amortized as the applicable projects progress, customer relationships are amortized utilizing an accelerated method based on the pattern of cash flows expected to be realized, taking into consideration expected revenues and customer attrition, and our other intangibles are amortized utilizing a straight-line method.

We review tangible assets and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. If a recoverability assessment is required, the estimated future undiscounted cash flow associated with the asset or asset group will be compared to its respective carrying amount to determine if an impairment exists. If the asset or asset group fails the recoverability test, we will perform a fair value measurement to determine and record an impairment charge. See Note 3, *Business Combination*, Note 9, *Goodwill and Other Intangible Assets* and Note 16, *Fair Value Measurements*, to the accompanying Consolidated Financial Statements, for additional information.

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



*Foreign Currency Rate Derivatives*—We do not engage in currency speculation; however, we utilize foreign currency exchange rate derivatives on an ongoing basis to hedge against certain foreign currency related operating exposures. We generally apply hedge accounting treatment for contracts used to hedge operating exposures and designate them as cash flow hedges. Therefore, gains and losses, exclusive of credit risk and forward points (which represent the time value component of the fair value of our derivative positions), are included in Accumulated Other Comprehensive Income (“AOCI”) until the associated underlying operating exposure impacts our earnings. Changes in the fair value of (1) credit risk and forward points, (2) instruments deemed ineffective during the period, and (3) instruments that we do not designate as cash flow hedges, are recognized within Other non-operating income (expense).

*Interest Rate Derivatives*—Our interest rate derivatives are limited to a swap arrangement entered into on May 8, 2018, to hedge against interest rate variability associated with \$1.94 billion of the \$2.26 billion Term Facility described in Note 13, *Debt*, to the accompanying Consolidated Financial Statements. The swap arrangement has been designated as a cash flow hedge, as its critical terms matched those of the Term Facility at inception and through December 31, 2018. Accordingly, changes in the fair value of the swap arrangement are included in AOCI until the associated underlying exposure impacts our interest expense.

See Note 16, *Fair Value Measurements*, and Note 17, *Derivative Financial Instruments*, to the accompanying Consolidated Financial Statements for further discussion.

**Joint Venture and Consortium Arrangements**—In the ordinary course of business, we execute specific projects and conduct certain operations through joint venture, consortium and other collaborative arrangements (referred to as “joint ventures” and “consortiums”). We have various ownership interests in these joint ventures and consortiums, with such ownership typically proportionate to our decision making and distribution rights. The joint ventures and consortiums generally contract directly with their third-party customers; however, services may be performed directly by the joint ventures and consortium, us, our co-venturers, or a combination thereof.

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

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

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

We account for unconsolidated joint ventures and consortium arrangements using either (1) proportionate consolidation for both the Balance Sheet and Statement of Operations when we meet the applicable accounting criteria to do so, or (2) utilize the equity method. For incorporated unconsolidated joint ventures and consortiums where we utilize the equity method of accounting, we record our share of the profit or loss of the investments, net of income taxes, in the Statements of Operations. Results from unconsolidated joint ventures that are deemed to be integral to our operations are recorded within Income (loss) from investments in unconsolidated affiliates in the Statements of Operations, and otherwise recorded within Non-operating loss from investments in unconsolidated affiliates in the Statements of Operations. We evaluate our equity method investments for impairment when events or changes in circumstances indicate the carrying value of such investments may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare the estimated fair value of our investment to the carrying value of our investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and we consider the decline in value to be other-than-temporary, the excess of the carrying value over the estimated fair value is recognized in the Consolidated Financial Statements as an impairment. See Note 10, *Joint Venture and Consortium Arrangements*, to the accompanying Consolidated Financial Statements for further discussion.

employer’s liability, general and products liability, automobile liability and workers’ compensation insurance

and, from time to time, builder's risk and marine hull insurance within certain limits. We may also have business reasons in the future to arrange for our insurance to insure other risks which we cannot or do not wish to transfer to outside insurance companies. Premiums charged and reserves related to these insurance programs are based on the facts and circumstances specific to the insurance claims, our past experience with similar claims, loss factors and the performance of the outside insurance market for the type of risk at issue. The actual outcome of insured claims could differ significantly from estimated amounts. We maintain actuarially determined accruals in our Consolidated Balance Sheets to cover self-insurance retentions for the coverages discussed above. These accruals are based on various assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted as required based upon reported claims, actual claim payments and settlements and claim reserves. These loss estimates and accruals recorded in our Consolidated Financial Statements for claims have historically been reasonably accurate. Claims as a result of our operations, if greater in frequency or severity than actuarially predicted, could adversely impact the ability of our captive insurance to respond to all claims presented. A hypothetical ten percent change in our self-insurance reserves at December 31, 2018 would have impacted our pre-tax income by approximately \$9.7 million for 2018.

**Pension and Postretirement Benefit Plans**—We have both defined benefit (funded and unfunded) and defined contribution plans. For the defined benefit plans, a projected benefit obligation is calculated annually by independent actuaries using the unit credit method. We recognize actuarial gains and losses on pension and postretirement benefit plans immediately in our operating results. These gains and

losses are generally measured annually, as of December 31, and, accordingly, will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years. Pension costs primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, offset by expected return on plan assets.

We estimate income or expense related to our pension and postretirement benefit plans based on actuarial assumptions, including assumptions regarding discount rates and expected returns on plan assets, adjusted for current period actuarial gains and losses. We determine our discount rate based on a review of published financial data and discussions with our third-party actuary regarding rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of our pension obligations. Based on historical data and discussions with our investment consultant, we determine our expected return on plan assets, utilizing the expected long-term rate of return on our plan assets and the market value of our plan assets. The expected long-term rate of return is based on the expected return of the various asset classes held in the plan, weighted by the target allocation of the plan's assets. Changes in these assumptions can result in significant changes in our estimated pension income or expense and our consolidated financial condition. We revise our assumptions annually based on changes in current interest rates, return on plan assets and the underlying demographics of our workforce. These assumptions are reasonably likely to change in future periods and may have a material impact on our future earnings. See Note 15, *Pension and Postretirement Benefits*, to the accompanying Consolidated Financial Statements for further discussion.

**Loss Contingencies**—We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed by a material amount the recorded provision or if the loss is not reasonably estimable but is expected to be material to our financial results. We are currently involved in litigation and other proceedings, as discussed in Note 23, *Commitments and Contingencies*, to the accompanying Consolidated Financial Statements. We have accrued our estimates of the probable losses associated with these matters, and associated legal costs are generally recognized as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

**Income Taxes**—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted income tax rates for the years in which the differences are expected to reverse. We provide for income taxes based on the tax laws and rates in the countries in which we conduct our operations. McDermott International, Inc. is a Panamanian corporation that earns all of its income outside of Panama. As a result, we are not subject to income tax in Panama. During 2018, following the Combination, McDermott became a U.K. tax resident. We operate in numerous taxing jurisdictions around the world. Each of these jurisdictions has a regime of taxation that varies, not only with respect to statutory rates, but also with respect to the basis on which these rates are applied. These variations, along with changes in our mix of income or loss from these jurisdictions, may contribute to shifts, sometimes significant, in our effective tax rate.

On a periodic and ongoing basis, we evaluate our net deferred tax assets (“DTAs”) (including our net operating loss (“NOL”) DTAs), and assess the appropriateness of our valuation allowances (“VA”s). A VA is provided to offset any net DTAs if, based on the available evidence, it is more likely than not that some or all of the DTAs will not be realized. The realization of our net DTAs depends on our ability to generate sufficient future taxable income of the appropriate character and in the appropriate jurisdictions. In assessing the need for a VA, we consider both positive and negative evidence related to the likelihood of realization of the DTAs. If, based on the weight of available evidence, our

assessment indicates it is more likely than not a DTA will not be realized, we record a VA. Our assessments include, among other things, the amount of taxable temporary differences which will result in future taxable income, evaluations of existing and anticipated market conditions, analysis of recent and historical operating results (including cumulative losses over multiple periods) and projections of future results, strategic plans and alternatives for associated operations, as well as asset expiration dates, where applicable.

Income tax and associated interest and penalty reserves, where applicable, are recorded in those instances where we consider it more likely than not that additional tax will be due in excess of amounts reflected in income tax returns filed worldwide, irrespective of whether we have received tax assessments. We continually review our exposure to additional income tax obligations and, as further information becomes known or events occur, changes in our tax, interest and penalty reserves are recorded within income tax expense. See Note 18, *Income Taxes*, to the accompanying Financial Statements for further discussion.

The U.S. Tax Cuts and Jobs Act subjects a U.S. shareholder to current tax on certain earnings of foreign subsidiaries under a provision commonly known as the Global Intangible Low Taxed Income (“GILTI”). Under U.S. GAAP, an accounting policy election can be made to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years, or to provide for

the tax expense related to GILTI in the year the tax is incurred as a period expense only. We have elected to account for GILTI in the year the tax is incurred.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Foreign Currency Exchange Risk**

In the normal course of business, our results of operations are exposed to certain market risks, primarily associated with fluctuations in currency exchange rates.

We have operations in many locations around the world and are involved in transactions in currencies other than those of our entity's functional currencies, which could adversely affect our results of operations due to changes in currency exchange rates or weak economic conditions in foreign markets. We manage these risks associated with currency exchange rate fluctuations by hedging those risks with foreign currency derivative instruments. Historically, we have hedged those risks with foreign currency forward contracts. In certain cases, contracts with our customers may contain provisions under which payments from our customers are denominated in U.S. dollars and in a foreign currency. The payments denominated in a foreign currency are designed to compensate us for costs that we expect to incur in such foreign currency. In these cases, we may use derivative instruments to reduce the risks associated with currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows. The related gains and losses on these contracts are either: (1) deferred as a component of AOCI until the hedged item is recognized in earnings; (2) offset against the change in fair value of the hedged firm commitment through earnings; or (3) recognized immediately in earnings.

At December 31, 2018, the notional value of our outstanding forward contracts to hedge certain foreign currency exchange-related operating exposures was \$790 million. The total fair value of these contracts was a net liability of approximately \$9 million at December 31, 2018. The potential change in fair value for our outstanding contracts resulting from a hypothetical ten percent change in quoted foreign currency exchange rates would have been approximately \$15 million at December 31, 2018. This potential change in fair value of our outstanding contracts would be offset by the change in fair value of the associated underlying operating exposures.

We are exposed to fluctuating exchange rates related to the effects of translating financial statements of entities with functional currencies other than the U.S. Dollar into our reporting currency. Net movements in the Australian Dollar, British Pound, and Euro exchange rates against the U.S. Dollar unfavorably impacted the cumulative translation adjustment component of AOCI by approximately \$21 million, net of tax, and our cash balance by approximately \$45 million as of December 31, 2018. We generally do not hedge our exposure to potential foreign currency translation adjustments.

**Interest Rate Risk**

On May 8, 2018, we entered into a U.S. dollar floating-to-fixed interest rate swap arrangement to mitigate exposure associated with cash flow variability on the Term Facility in an aggregate notional value of \$1.94 billion. The swap arrangement has been designated as a cash flow hedge as its critical terms matched those of the Term Facility at inception and through December 31, 2018. Accordingly, changes in the fair value of the swap arrangement are initially recorded in AOCI and then reclassified into earnings in the period in which corresponding interest payments are made. As of December 31, 2018, the fair value of the swap arrangement was in a net liability position totaling approximately \$31 million. The potential change in fair value for our interest rate swap resulting from a hypothetical one percent change in the Eurodollar rate would have been approximately \$60 million at December 31, 2018.

As of December 31, 2018, the fair values of the Term Facility and Senior Notes, based on current market rates for debt with similar credit risk and maturities, were approximately \$2.1 billion and \$1.1 billion, respectively, and was categorized within level 2 on the valuation hierarchy. See Note 16, *Fair Value Measurements*, to the accompanying Consolidated Financial Statements for further discussion of our financial instruments.





**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of McDermott International, Inc. (the Company) as of December 31, 2018, and the related consolidated statements of operations, comprehensive income (loss), cash flows and stockholders' equity for the year then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 25, 2019 expressed an unqualified opinion thereon.

Adoption of ASU No. 2014-09

As discussed in Note 4 to the consolidated financial statements, the Company changed its method for recognizing revenue due to the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and the amendments in ASUs 2015-14, 2016-08, 2016-10 and 2016-12 effective January 1, 2018.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ Ernst & Young LLP

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

Houston, Texas

February 25, 2019

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders of McDermott International, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of McDermott International, Inc. and subsidiaries (the “Company”) as of December 31, 2017, the related consolidated statements of operations, comprehensive income, cash flows, and equity for each of the two years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Houston, Texas

February 21, 2018

(July 31, 2018 as to notes 2, 5, 18 19, 20, 22, and 24 to the consolidated financial statements)

We began serving as the Company’s auditor in 2006. In 2018 we became the predecessor auditor.



McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
	2018	2017	2016
	(In millions, except per share amounts)		
Revenues	\$6,705	\$2,985	\$2,636
Costs and Expenses:			
Cost of operations	6,104	2,449	2,249
Project intangibles and inventory-related amortization	83	-	-
Total cost of operations	6,187	2,449	2,249
Research and development expenses	20	5	-
Selling, general and administrative expenses	282	204	183
Other intangibles amortization	62	-	-
Transaction costs	48	9	-
Restructuring and integration costs	134	-	11
Goodwill impairment	2,168	-	-
Other asset impairments	58	1	55
Other operating expense (income), net	3	(2 )	-
Total expenses	8,962	2,666	2,498
Income (loss) from investments in unconsolidated affiliates	13	(12 )	-
Investment in unconsolidated affiliates-related amortization	(12 )	-	-
Operating (loss) income	(2,256 )	307	138
Other expense:			
Interest expense, net	(259 )	(63 )	(59 )
Other non-operating (expense) income, net	(56 )	5	3
Total other expense, net	(315 )	(58 )	(56 )
(Loss) income before provision for income taxes	(2,571 )	249	82
Income tax expense	104	69	42
Non-operating loss from investments in unconsolidated affiliates	(3 )	(2 )	(4 )
Net (loss) income	(2,678 )	178	36
Less: Net income (loss) attributable to noncontrolling interests	9	(1 )	2
Net (loss) income attributable to McDermott	\$(2,687 )	\$179	\$34
Dividends on redeemable preferred stock	(3 )	-	-
Accretion of redeemable preferred stock	(1 )	-	-

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Net (loss) income attributable to common stockholders	(2,691)	179	34
Net (loss) income per share attributable to common stockholders			
Basic	\$(17.94)	\$1.97	\$0.43
Diluted	\$(17.94)	\$1.88	\$0.36
Shares used in the computation of net (loss) income per share			
Basic	150	91	80
Diluted	150	95	95

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year ended December		
	31,		
	2018	2017	2016
	(In millions)		
Net (loss) income	\$(2,678)	\$178	\$36
Other comprehensive (loss) income, net of tax:			
(Loss) gain on derivatives	(38 )	23	39
Actuarial pension gains	6	-	-
Foreign currency translation	(24 )	(7 )	(12)
Total comprehensive (loss) income	(2,734)	194	63
Less: Comprehensive (loss) income attributable to noncontrolling interests	9	(1 )	2
Comprehensive (loss) income attributable to McDermott	\$(2,743)	\$195	\$61

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

	December 31, 2018    2017 (In millions, except per share amounts)	
Assets		
Current assets:		
Cash and cash equivalents (\$146 and \$0 related to variable interest entities ("VIEs"))	\$520	\$390
Restricted cash and cash equivalents	325	18
Accounts receivable—trade, net (\$29 and \$0 related to VIEs)	932	328
Accounts receivable—other (\$57 and \$0 related to VIEs)	175	42
Contracts in progress (\$144 and \$0 related to VIEs)	704	621
Project-related intangible assets, net	137	-
Inventory	101	-
Other current assets (\$24 and \$0 related to VIEs)	139	36
Total current assets	3,033	1,435
Property, plant and equipment, net	2,067	1,666
Accounts receivable—long-term retainages	62	39
Investments in unconsolidated affiliates	452	8
Goodwill	2,654	-
Other intangibles, net	1,009	-
Deferred income taxes	-	18
Other non-current assets	163	57
Total assets	\$9,440	\$3,223
Liabilities, Mezzanine Equity and Stockholders' Equity		
Current liabilities:		
Current maturities of long-term debt	\$30	\$24
Current portion of long-term lease obligations	8	-
Accounts payable (\$277 and \$0 related to VIEs)	595	279
Advance billings on contracts (\$717 and \$0 related to VIEs)	1,954	32
Project-related intangible liabilities, net	66	-
Accrued liabilities (\$136 and \$0 related to VIEs)	1,564	372
Total current liabilities	4,217	707
Long-term debt	3,393	512
Long-term lease obligations	66	1
Deferred income taxes	47	28
Other non-current liabilities	664	186
Total liabilities	8,387	1,434
Commitments and contingencies		
Mezzanine equity:		
Redeemable preferred stock	230	-
Stockholders' equity:		
Common stock, par value \$1.00 per share, authorized 255 shares;		



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issued 183 and 98 shares, respectively	183	98
Capital in excess of par value	3,539	1,858
Accumulated deficit	(2,719)	(48 )
Accumulated other comprehensive loss	(107 )	(51 )
Treasury stock, at cost: 3 and 3 shares, respectively	(96 )	(96 )
Total McDermott Stockholders' Equity	800	1,761
Noncontrolling interest	23	28
Total stockholders' equity	823	1,789
Total liabilities and stockholders' equity	\$9,440	\$3,223

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December		
	31,	2017	2016
	2018		
	(In millions)		
Cash flows from operating activities:			
Net (loss) income	\$(2,678)	\$178	\$36
Non-cash items included in net (loss) income:			
Depreciation and amortization	279	101	103
Debt issuance cost amortization	36	13	13
Stock-based compensation charges	44	23	23
Deferred taxes	21	7	(3 )
Goodwill impairment	2,168	-	-
Other asset impairments	58	1	55
Actuarial pension loss (gain)	47	(5 )	(3 )
Other non-cash items	-	(6 )	(13 )
Changes in operating assets and liabilities, net of effects of businesses acquired:			
Accounts receivable	300	91	(89 )
Contracts in progress, net of advance billings on contracts	(278 )	(450)	144
Accounts payable	(156 )	105	(102)
Other current and non-current assets	63	(22 )	21
Investments in unconsolidated affiliates	(9 )	14	4
Other current and non-current liabilities	34	86	(11 )
Total cash (used in) provided by operating activities	(71 )	136	178
Cash flows from investing activities:			
CB&I combination consideration, net of cash acquired of \$498	(2,374)	-	-
Purchases of property, plant and equipment	(86 )	(119)	(228)
Advances related to proportionately consolidated consortiums	(241 )	-	-
Proceeds from asset dispositions	69	56	2
Investments in unconsolidated affiliates	(16 )	(2 )	(5 )
Total cash used in investing activities	(2,648)	(65 )	(231)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	3,560	-	-
Repayment of debt and capital lease obligations	(545 )	(235)	(103)
Debt and letter of credit issuance costs	(217 )	(21 )	(9 )
Proceeds from issuance of redeemable preferred stock	290	-	-
Dividends paid to holders of redeemable preferred stock	(3 )	-	-
Redeemable preferred stock issuance costs	(18 )	-	-
Advances related to equity method joint ventures and proportionately consolidated consortiums	158	-	-
Debt extinguishment costs	(10 )	-	-
Repurchase of common stock	(14 )	(7 )	(4 )
Acquisition of NCI	-	(11 )	-

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Dividends paid to NCI	-	(1 )	-
Total cash provided by (used in) financing activities	3,201	(275 )	(116 )
Effects of exchange rate changes on cash, cash equivalents and restricted cash	(45 )	-	(1 )
Net increase (decrease) in cash, cash equivalents and restricted cash	437	(204 )	(170 )
Cash, cash equivalents and restricted cash at beginning of period	408	612	782
Cash, cash equivalents and restricted cash at end of period	\$845	\$408	\$612
Supplemental Cash Flow Information:			
Cash paid for interest	212	50	47
Cash paid for income taxes, net	141	45	38
Supplemental Disclosure of Noncash Investing Activities:			
Assets acquired through capital lease	72	-	-
Non-cash purchase (sale) of investments in unconsolidated affiliates	-	-	(12 )
Supplemental Disclosure of Noncash Financing Activities:			
Capital lease	72	-	-
Vendor equipment financing	-	16	-
Note payable in connection with noncontrolling interest distribution	-	(5 )	5
Non-cash acquisition of noncontrolling interest	-	-	18

See accompanying Notes to the Consolidated Financial Statements.



See accompanying Notes to the Consolidated Financial Statements.

**McDERMOTT INTERNATIONAL, INC.**

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**McDERMOTT INTERNATIONAL, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018

NOTE 1—NATURE OF OPERATIONS AND ORGANIZATION

Nature of Operations

McDermott International, Inc. (“McDermott,” “we” or “us”), a corporation incorporated under the laws of the Republic of Panama in 1959, is a fully integrated provider of engineering, procurement, construction and installation (“EPCI”) and technology solutions to the energy industry. On May 10, 2018, we completed our combination with Chicago Bridge & Iron Company N.V. (“CB&I”) through a series of transactions (the “Combination”) (see Note 3, *Business Combination*, for further discussion). We design and build end-to-end infrastructure and technology solutions to transport and transform oil and gas into a variety of products. Our proprietary technologies, integrated expertise and comprehensive solutions are utilized for offshore, subsea, power, liquefied natural gas (“LNG”) and downstream energy projects around the world. Our customers include national, major integrated and other oil and gas companies as well as producers of petrochemicals and electric power, and we operate in most major energy producing regions throughout the world. We execute our contracts through a variety of methods, principally fixed-price, but also including cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods.

Organization

Our business is organized into five operating groups, which represent our reportable segments consisting of: North, Central and South America (“NCSA”); Europe, Africa, Russia and Caspian (“EARC”); the Middle East and North Africa (“MENA”); Asia Pacific (“APAC”); and Technology. See Note 24, *Segment Reporting* for further discussion.

NOTE 2—BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Reclassifications

Beginning in the second quarter of 2018, we made certain classification changes, as well as reclassifications to our historical financial statements to align with our current presentation, as follows:

*Bidding and Proposal Costs*—In conjunction with the Combination, we realigned our commercial personnel within the operating groups for the combined company. As a result of the realignment, beginning in the second quarter of 2018, we included our bid and proposal costs in Cost of operations in our Consolidated Statements of Operations (the “Statements of Operations”) to better represent how those costs are managed and controlled. For periods reported prior to the second quarter of 2018, bid and proposal costs are included in Selling, general and administrative (“SG&A”) expenses. Our Cost of operations for 2018 includes \$76 million of bid and proposal costs. Our SG&A expense for 2018 includes bid and proposal costs of \$10 million incurred in the first quarter of 2018 (prior to the Combination), and SG&A expense for 2017 and 2016 includes bid and proposal costs of \$37 million and \$22 million, respectively.

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**Income (Loss) from Investments in Unconsolidated Affiliates**—Our Statements of Operations for the years ended December 31, 2017 and 2016 reflect the reclassification of a \$12 million loss and \$0.2 million of earnings, respectively, from investments in unconsolidated affiliates associated with our ongoing io Oil and Gas and Qingdao McDermott Wuchuan Offshore Engineering Company Ltd. joint ventures to Operating income to conform to our current presentation. Previously, results from these unconsolidated joint ventures were presented below Operating income, as we did not consider the activities of the unconsolidated joint ventures to be integral to our operations. Based on an expected expansion in activity of these unconsolidated joint ventures in 2018 and in the future, we now believe the activities of these unconsolidated joint ventures are integral to our ongoing operations and are most appropriately reflected in Operating income. Income (loss) from investments in unconsolidated affiliates that are not integral to our operations will continue to be presented below Operating income. See Note 10, *Joint Venture and Consortium Arrangements*, for further discussion of our unconsolidated joint ventures.

**Reverse Common Stock Split**—We amended our Amended and Restated Articles of Incorporation during the second quarter of 2018 to effect a three-to-one reverse stock split of McDermott common stock, effective May 9, 2018. Common stock, capital in excess of par, share and per share (except par value per share, which was not affected) information for all periods presented has been recast in the Financial Statements and accompanying Notes to reflect the reverse stock split.

**Pension and Postretirement Benefit Costs**—In conjunction with our adoption of Accounting Standards Update (“ASU”) 2017-07, we reclassified non-service costs relating to our pension and postretirement plans from SG&A to Other non-operating income (expense) for all historical periods presented. The reclassification did not result in a material impact.

**Deferred Income Tax and Other Tax Liabilities**—We reclassified Deferred income taxes, Income taxes payable and other tax balances in our December 31, 2017 Balance Sheet to conform to our current presentation. The reclassifications did not result in a material impact.

**Lease Obligations**—Long-term capital lease obligations were reclassified from Long-term debt in our December 31, 2017 Balance Sheet to conform to our current presentation. The reclassification did not result in a material impact.

Use of Estimates and Judgments

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

- revenue recognition for our contracts, including estimating costs to complete each contract and the recognition of incentive fees and unapproved change orders and claims;
- determination of fair value with respect to acquired assets and liabilities;
- fair value and recoverability assessments that must be periodically performed with respect to long-lived tangible assets, goodwill and other intangible assets;
- valuation of deferred tax assets and financial instruments;
- the determination of liabilities related to loss contingencies, self-insurance programs and income taxes;
- the determination of pension-related obligations; and
- consolidation determinations with respect to our joint venture and consortium arrangements.

If the underlying estimates and assumptions upon which the Financial Statements are based change in the future, actual amounts may differ from those included in the Financial Statements.

### ***Significant Accounting Policies***

**Revenue Recognition**—Our revenue is primarily derived from long-term contracts with customers, and we determine the appropriate accounting treatment for each contract at inception in accordance with ASU 2014-09 (Accounting Standards Codification (“ASC”) Topic 606), Revenue from Contracts with Customers. Our contracts primarily relate to: EPCI services; engineering services; construction services; pipe and steel fabrication services; engineered and manufactured products; technology licensing; and catalyst supply. An EPCI contract may also include technology licensing, and our services may be provided between or among our reportable segments.

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

**Performance Obligations**—A performance obligation is a promise in a contract to transfer a distinct good or service to a customer and is the unit of account in ASC Topic 606. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Our contract costs and related revenues are generally recognized over time as work progresses due to continuous transfer to the customer. To the extent a contract is deemed to have multiple performance obligations, we allocate the transaction price of the contract to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. In addition, certain contracts may be combined and deemed to be a single performance obligation. Our EPCI contracts are generally deemed to be single performance obligations and our contracts with multiple performance obligations were not material as of December 31, 2018.

**Performance Obligations Satisfied Over Time**—Revenues for our contracts that satisfy the criteria for over time recognition are recognized as the work progresses. Revenues for contracts recognized over time include revenues for contracts to provide: EPCI services; engineering services; construction services; pipe and steel fabrication services; engineered and manufactured products; technology licensing; and “non-generic” catalyst supply. We measure transfer of control utilizing an input method to measure progress of the performance obligation based upon the cost-to-cost measure of progress, as it best depicts the transfer of assets to the customer, with Cost of operations including direct costs, such as materials and labor, and indirect costs that are attributable to contract activity. Under the cost-to-cost approach, the use of estimated costs to complete each performance obligation is a significant variable in the process of determining recognized revenues and is a significant factor in the accounting for such performance obligations. Significant estimates impacting the cost to complete each performance obligation are: costs of engineering, materials, components, equipment, labor and subcontracts; vessel costs; labor productivity; schedule durations, including subcontractor or supplier progress; contract disputes, including claims; achievement of contractual performance requirements; and contingency, among others. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known, including, to the extent required, the reversal of profit recognized in prior periods and the recognition of losses expected to be incurred on contracts in progress. Additionally, external factors such as weather, customer requirements and other factors outside of our control, may affect the progress and estimated cost of a project’s completion and, therefore, the timing and amount of recognition of revenues and income. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which could result in material changes to our financial statements and related disclosures. See Note 4, *Revenue Recognition*, for further discussion.

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*Performance Obligation Satisfied at a Point-in-Time Method*—Contracts with performance obligations that do not meet the criteria to be recognized over time are required to be recognized at a point-in-time, whereby revenues and gross profit are recognized only when a performance obligation is complete and a customer has obtained control of a promised asset. Revenues for contracts recognized at a point in time include our “generic” catalyst supply and certain manufactured products (which are recognized upon shipment) and certain non-engineering and non-construction oriented services (which are recognized when the services are performed). In determining when a performance obligation is complete for contracts with revenues recognized at a point-in-time, we measure transfer of control considering physical possession of the asset, legal transfer of title, significant risks and rewards of ownership, customer acceptance and our rights to payment. See Note 4, *Revenue Recognition*, for further discussion.

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**Remaining Performance Obligations (“RPOs”)** RPOs represent the amount of revenues we expect to recognize in the future from our contract commitments on projects. RPOs include the entire expected revenue values for joint ventures we consolidate and our proportionate value for consortiums we proportionately consolidate. We do not include expected revenues of contracts related to unconsolidated joint ventures in our RPOs, except to the extent of any subcontract awards we receive from those joint ventures. Currency risks associated with RPOs which are not mitigated within the contracts are 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. RPOs may not be indicative of future operating results, and projects included in RPOs may be cancelled, modified or otherwise altered by customers. See Note 4, *Revenue Recognition*, for further discussion.

**Variable Consideration** Transaction prices for our contracts may include variable consideration, which includes increases to transaction prices for approved and unapproved change orders, claims, incentives and bonuses, and reductions to transaction price for liquidated damages or penalties. Change orders, claims and incentives are generally not distinct from the existing contracts due to the significant integration service provided in the context of the contract and are accounted for as a modification of the existing contract and performance obligation. We estimate variable consideration for a performance obligation at the most likely amount to which we expect to be entitled (or the most likely amount we expect to incur in the case of liquidated damages), utilizing estimation methods that best predict the amount of consideration to which we will be entitled (or will be incurred in the case of liquidated damages). We include variable consideration in the estimated transaction price to the extent it is probable that a significant reversal of cumulative revenues recognized will not occur or when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determinations of whether to include estimated amounts in transaction prices are based largely on assessments of our anticipated performance and all information (historical, current and forecasted) reasonably available to us. The effect of variable consideration on the transaction price of a performance obligation is recognized as an adjustment to revenues on a cumulative catch-up basis. To the extent unapproved change orders and claims reflected in transaction price (or excluded from transaction price in the case of liquidated damages) are not resolved in our favor, or to the extent incentives reflected in transaction price are not earned, there could be reductions in, or reversals of, previously recognized revenue. See Note 4, *Revenue Recognition*, for further discussion.

**Loss Recognition** Revenues from customers may not cover increases in our costs or our total estimated costs. It is possible that current estimates could materially change for various reasons. For all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full immediately and reflected in Cost of operations in the Statements of Operations. It is possible that these estimates could change due to unforeseen events, which could result in adjustments to overall contract revenues and costs. Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year. In our Consolidated Balance Sheets (“Balance Sheets”), accruals of provisions for estimated losses on all active uncompleted projects are included in Advance billings on contracts. See Note 4, *Revenue Recognition*, for further discussion.

**Accounts Receivable and Contract Balances** The timing of when we bill our customers is generally dependent upon advance billing terms, milestone billings based on the completion of certain phases of the work, or when the services are provided or products are shipped.

- **Accounts Receivable** Any uncollected billed amounts for our performance obligations recognized over time, including contract retainages to be collected within one year, are recorded within Accounts receivable-trade, net. Any uncollected billed amounts, unbilled receivables for which we have an unconditional right to payment, and unbilled receivables for our performance obligations recognized at a point in time are also recorded within Accounts receivable-trade, net. Contract retainages to be collected beyond one year are recorded within Accounts receivable-long-term retainages. We establish allowances for doubtful accounts based on our assessments of collectability. See Note 7, *Accounts Receivable*, for further discussion.

**Contracts in Progress**—Projects with performance obligations recognized over time that have revenues recognized to date in excess of cumulative billings are reported within Contracts in progress on our Balance Sheets. We expect to

invoice customers for all unbilled revenues, and our payment terms are generally for less than 12 months upon billing. Our contracts typically do not include a significant financing component. See Note 8, *Contracts in Progress and Advance Billings on Contracts*, for further discussion.

•*Advance Billings on Contracts*—Projects with performance obligations recognized over time that have cumulative billings in excess of revenues are reported within Advance billings on contracts on our Balance Sheets. Our Advance billings on contracts balance also includes our accruals of provisions for estimated losses on all active projects. See Note 8, *Contracts in Progress and Advance Billings on Contracts*, for further discussion.

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**Concentration of Credit Risk**—Our principal customers are businesses in the oil and gas exploration and development, petrochemical, natural resources and power industries. This concentration of customers may impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic or other conditions. In addition, we and many of our customers operate worldwide and are therefore exposed to risks associated with the economic and political forces of various countries and geographic areas. We generally do not obtain any collateral for our receivables. See Note 24, Segment Reporting, for additional information about our operations in different geographic areas.

**Bidding and Proposal Costs** Bidding and proposal costs are generally charged to Cost of operations as incurred, but in certain cases their recognition may be deferred if specific probability criteria are met. We had no significant deferred bidding and proposal costs at December 31, 2018.

**Transaction Costs**—Transaction costs primarily relate to professional service fees (including accounting, legal and advisory services) associated with the Combination. See Note 3, Business Combination, for further discussion.

**Restructuring and Integration Costs**—Restructuring and integration costs primarily relate to costs to achieve our combination profitability initiative (“CPI”). See Note 12, Restructuring and Integration Costs, for further discussion.

**Stock-Based Compensation**—Equity instruments are measured at fair value on the grant date. Stock-based compensation expense is generally recognized on a straight-line basis over the requisite service periods of the awards. We use a Black-Scholes model to determine the fair value of certain share-based awards, such as stock options. Additionally, we use a Monte Carlo model to determine the fair value of certain share-based awards that contain market and performance-based conditions. The use of these models requires highly subjective assumptions, such as assumptions about the expected life of the award, vesting probability, expected dividend yield and the volatility of our stock price. See Note 19, Equity-based Compensation, for additional information.

**Cash, Cash Equivalents and Restricted Cash**—Our cash and cash equivalents are highly liquid investments with maturities of three months or less when we purchase them. We record cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes. A majority of our restricted cash and cash equivalents serves as cash collateral deposits for our letter of credit facilities, as further discussed in Note 13, Debt.

**Property, Plant and Equipment**—We carry our property, plant and equipment at depreciated cost. Except for major marine vessels, we depreciate our property, plant and equipment using the straight-line method, over the estimated economic useful lives of three to 46 years for buildings and three to 28 years for machinery and equipment. We do not depreciate property, plant and equipment classified as held for sale. See Note 11, Supplemental Balance Sheet Detail, for disclosure of the components of property, plant and equipment.

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

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

Goodwill—Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with the Combination. Goodwill is not amortized, but instead is reviewed for impairment at least annually at a reporting unit level, absent any interim indicators of impairment. Interim testing for impairment is performed if indicators of potential impairment exist. We perform our annual impairment assessment during the fourth quarter of each year. We identify a potential impairment by comparing the fair value of the applicable reporting unit to its net book value, including goodwill. If the net book value exceeds the fair value of the reporting unit, we measure the impairment by comparing the carrying value of the reporting unit to its fair value.

To determine the fair value of our reporting units and test for impairment, we utilize an income approach (discounted cash flow method) as we believe this is the most direct approach to incorporate the specific economic attributes and risk profiles of our reporting units into our valuation model. We generally do not utilize a market approach, given the lack of relevant information generated by market transactions involving comparable businesses. However, to the extent market indicators of fair value become available, we consider such market indicators in our discounted cash flow analysis and determination of fair value. See Note 3, *Business Combination* and Note 9, *Goodwill and Other Intangible Assets*, for further discussion.

**Intangible and Other Long-Lived Assets**—Our finite-lived intangible assets resulted from the Combination and are amortized over their estimated remaining useful economic lives. Our project-related intangible assets are amortized as the applicable projects progress, customer relationships are amortized utilizing an accelerated method based on the pattern of cash flows expected to be realized, taking into consideration expected revenues and customer attrition, and our other intangibles are amortized utilizing a straight-line method.

We review tangible assets and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. If a recoverability assessment is required, the estimated future undiscounted cash flow associated with the asset or asset group will be compared to its respective carrying amount to determine if an impairment exists. If the asset or asset group fails the recoverability test, we will perform a fair value measurement to determine and record an impairment charge. See Note 3, *Business Combination*, Note 9, *Goodwill and Other Intangible Assets* and Note 16, *Fair Value Measurements* for additional information.

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

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

**Foreign Currency Rate Derivatives**—We do not engage in currency speculation; however, we utilize foreign currency exchange rate derivatives on an ongoing basis to hedge against certain foreign currency related operating exposures. We generally apply hedge accounting treatment for contracts used to hedge operating exposures and designate them as cash flow hedges. Therefore, gains and losses, exclusive of credit risk and forward points (which represent the time value component of the fair value of our derivative positions), are included in AOCI until the associated underlying operating exposure impacts our earnings. Changes in the fair value of (1) credit risk and forward points, (2) instruments deemed ineffective during the period, and (3) instruments that we do not designate as cash flow hedges, are recognized within Other non-operating income (expense).

**Interest Rate Derivatives**—Our interest rate derivatives are limited to a swap arrangement entered into on May 8, 2018, to hedge against interest rate variability associated with \$1.94 billion of the \$2.26 billion Term Facility described in Note 13, *Debt*. The swap arrangement has been designated as a cash flow hedge, as its critical terms matched those of the Term Facility at inception and through December 31, 2018. Accordingly, changes in the fair value of the swap arrangement are included in AOCI until the associated underlying exposure impacts our interest expense. See Note 16, *Fair Value Measurements*, and Note 17, *Derivative Financial Instruments*, for further discussion.

**Joint Venture and Consortium Arrangements**—In the ordinary course of business, we execute specific projects and conduct certain operations through joint venture, consortium and other collaborative arrangements (referred to as “joint ventures” and “consortiums”). We have various ownership interests in these joint ventures and consortiums, with such ownership typically proportionate to our decision making and distribution rights. The joint ventures and consortiums generally contract directly with their third-party customers; however, services may be performed directly by the joint ventures and consortium, us, our co-venturers, or a combination thereof.

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



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

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

We account for unconsolidated joint ventures and consortium arrangements using either (1) proportionate consolidation for both the Balance Sheet and Statement of Operations when we meet the applicable accounting criteria to do so, or (2) utilize the equity method. For incorporated unconsolidated joint ventures and consortiums where we utilize the equity method of accounting, we record our share of the profit or loss of the investments, net of income taxes, in the Statements of Operations. Results from unconsolidated joint ventures that are deemed to be integral to our operations are recorded within Income (loss) from investments in unconsolidated affiliates in the Statements of Operations, and otherwise recorded within Non-operating loss from investments in unconsolidated affiliates in the Statements of Operations. We evaluate our equity method investments for impairment when events or changes in circumstances indicate the carrying value of such investments may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare the estimated fair value of our investment to the carrying value of our investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and we consider the decline in value to be other-than-temporary, the excess of the carrying value over the estimated fair value is recognized in the Consolidated Financial Statements as an impairment. See Note 10, *Joint Venture and Consortium Arrangements*, for further discussion.

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

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

We estimate income or expense related to our pension and postretirement benefit plans based on actuarial assumptions, including assumptions regarding discount rates and expected returns on plan assets, adjusted for current period actuarial gains and losses. We determine our discount rate based on a review of published financial data and discussions with our third-party actuary regarding rates of return on high-quality, fixed-income investments currently available and expected to be available during the period to maturity of our pension obligations. Based on historical data and discussions with our investment consultant, we determine our expected return on plan assets, utilizing the expected long-term rate of return on our plan assets and the market value of our plan assets. The expected long-term

rate of return is based on the expected return of the various asset classes held in the plan, weighted by the target allocation of the plan's assets. Changes in these assumptions can result in significant changes in our estimated pension income or expense and our consolidated financial condition. We revise our assumptions annually based on changes in current interest rates, return on plan assets and the underlying demographics of our workforce. These assumptions are reasonably likely to change in future periods and may have a material impact on our future earnings. See Note 15, *Pension and Postretirement Benefits*, for further discussion.

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

**Loss Contingencies**—We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed by a material amount the recorded provision or if the loss is not reasonably estimable but is expected to be material to our financial results. We are currently involved in litigation and other proceedings, as discussed in Note 23, *Commitments and Contingencies*. We have accrued our estimates of the probable losses associated with these matters, and associated legal costs are generally recognized as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

**Income Taxes**—Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using currently enacted income tax rates for the years in which the differences are expected to reverse. We provide for income taxes based on the tax laws and rates in the countries in which we conduct our operations. McDermott International, Inc. is a Panamanian corporation that earns all of its income outside of Panama. As a result, we are not subject to income tax in Panama. During 2018, following the Combination, McDermott became a U.K. tax resident. We operate in numerous taxing jurisdictions around the world. Each of these jurisdictions has a regime of taxation that varies, not only with respect to statutory rates, but also with respect to the basis on which these rates are applied. These variations, along with changes in our mix of income or loss from these jurisdictions, may contribute to shifts, sometimes significant, in our effective tax rate.

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

Income tax and associated interest and penalty reserves, where applicable, are recorded in those instances where we consider it more likely than not that additional tax will be due in excess of amounts reflected in income tax returns filed worldwide, irrespective of whether we have received tax assessments. We continually review our exposure to additional income tax obligations and, as further information becomes known or events occur, changes in our tax, interest and penalty reserves are recorded within income tax expense. See Note 18, *Income Taxes*, for further discussion.

The U.S. Tax Cuts and Jobs Act (the “Tax Reform Act”) subjects a U.S. shareholder to current tax on certain earnings of foreign subsidiaries under a provision commonly known as the Global Intangible Low Taxed Income (“GILTI”). Under U.S. GAAP, an accounting policy election can be made to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years, or to provide for the tax expense related to GILTI in the year the tax is incurred as a period expense only. We have elected to account for GILTI in the year the tax is incurred.

**Preferred Stock**—We issued Redeemable Preferred Stock and Warrants in a private placement (See Note 21, *Redeemable Preferred Stock*, for further discussion). Total net consideration, after deduction for direct issuance costs, was allocated to the Redeemable Preferred Stock and the Warrants based on their relative fair value. We may redeem the Redeemable Preferred Stock at any time, and the Redeemable Preferred Stock is contingently redeemable at the option of the holders after seven years or upon a change of control. As a result of the holders’ contingent redemption rights that are outside of our control, our Redeemable Preferred Stock is classified outside of stockholders’ equity in the mezzanine section of our Balance Sheet.

As the holders’ redemption option is only subject to passage of time, the carrying value of the Redeemable Preferred Stock is accreted to its redemption value using the effective interest method from the date of issuance through the earliest assumed date of redemption. Accretion and accrued dividends are treated as a reduction to the calculation of net income attributable to common shareholders. We record a liability for dividends in the period they are declared.

In conjunction with the private placement, we also issued Warrants to purchase a number of shares of our common stock. Our Warrants are considered standalone financial instruments and are recorded within stockholder's equity. Equity classified Warrants are recognized based on the allocated consideration on the date of issuance, recorded in Capital in excess of par value and not re-measured.

#### Recently Adopted Accounting Guidance

Revenue from Contracts with Customers (ASC Topic 606)—In May 2014, the Financial Accounting Standards Board (the "FASB") issued a new standard related to revenue recognition which supersedes most of the existing revenue recognition requirements in U.S. GAAP and requires entities to recognize revenue at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. It also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The FASB has issued several amendments to the standard, including clarification on accounting for licenses of intellectual property, identifying performance obligations, reporting gross versus net revenue and narrow-scope revisions and practical expedients.

We adopted the new standard on January 1, 2018 (the “initial application” date):

- using the modified retrospective application, with no restatement of the comparative periods presented and a cumulative effect adjustment to retained earnings as of the date of adoption;
- applying the new standard only to those contracts that are not substantially complete at the date of initial application; and
- disclosing the impact of the new standard in our 2018 Financial Statements.

Significant changes to our accounting policies as a result of adopting the new standard are discussed below:

• We measure transfer of control utilizing an input method to measure progress for individual contracts or combinations of contracts based on the total costs incurred as applicable to each contract. Previously, under ASC Topic 605-35, *Construction-Type and Production-Type Contracts*, we generally excluded certain costs from the cost-to-cost method of measuring progress toward completion, such as significant costs for procured materials and third-party subcontractors.

• Our Balance Sheets will no longer reflect assets related to cost incurred in excess of cost recognized due to the inclusion of all costs incurred in our results and associated measurement of progress toward completion under our current policy.

• Variable consideration, including change orders, claims, bonuses, incentive fees and liquidated damages or penalties are now included in the estimated contract revenue at the most likely amount to which we expect to be entitled. We include variable consideration in the estimated transaction price to the extent we conclude that it is probable a significant revenue reversal will not occur or when the uncertainty associated with the variable consideration is resolved.

For accounting policies and disclosures related to our adoption of ASC 606, see our significant accounting policies within this note, Note 4, *Revenue Recognition*, and Note 8, *Contracts in Progress and Advance Billing on Contracts*.

**Pension and Postretirement Benefits**—In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit*. This ASU requires bifurcation of certain components of net pension and postretirement benefit cost in the Statements of Operations. We adopted this ASU effective as of January 1, 2018. As a result, benefit costs, excluding any service cost component, previously included in SG&A, are now included in other non-operating income (expense), net in our Statements of Operations. All comparable periods presented have been retrospectively revised to reflect this change. See Note 15, *Pension and Postretirement Benefits*, for further discussion.

**Income Taxes**—In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This ASU requires entities to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. This ASU is effective for interim and annual periods beginning after December 15, 2017. We adopted ASU 2016-16 during the first quarter of 2018. Our 2018 results were initially impacted by an income tax benefit of approximately \$111 million resulting from an intra-entity transfer of assets during the second quarter of 2018. This benefit was reversed during the fourth quarter of 2018 due to the establishment of valuation allowances resulting from our cumulative loss for the three-year period ended December 31, 2018. See Note 18, *Income Taxes*, for further discussion.

In December 2017, the SEC issued Staff Accounting Bulletin (“SAB”) 118 to address the application of U.S. GAAP in situations in which a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Reform Act,

signed into law on December 22, 2017. In March 2018, the FASB issued ASU 2018-05, which amended ASC 740 to incorporate the requirements of SAB 118. We recognized the provisional tax impacts of the Tax Reform Act in the fourth quarter of 2017. There were no material final adjustments to these provisional calculations during 2018.

Goodwill—In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This ASU eliminates the second step of the goodwill impairment test that required a hypothetical purchase price allocation. The ASU requires that, if a reporting unit's carrying value exceeds its fair value, an impairment charge would be recognized for the excess amount, not to exceed the carrying amount of goodwill. We early adopted this ASU during the second quarter of 2018. See Note 9, Goodwill and Other Intangible Assets, for discussion of our 2018 goodwill impairment charge.

Accounting Guidance Issued but Not Adopted as of December 31, 2018

*Financial Instruments*—In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU will require a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. A valuation account, allowance for credit losses, will be deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial asset. This ASU is effective for interim and annual periods beginning after December 15, 2019. We are currently assessing the impact of this ASU on our future consolidated financial statements and related disclosures.

*Leases*—In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU will require entities that lease assets—referred to as “lessees”—to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with lease terms of more than 12 months. Consistent with current U.S. GAAP, the recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or operating lease. However, unlike current U.S. GAAP—which requires only finance leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. This ASU is effective for interim and annual periods beginning after December 15, 2018. We are adopting the new standard on January 1, 2019 using the modified retrospective application applying the new standard to leases in place as of the adoption date. Prior comparative periods will not be adjusted.

To date, we have performed the following activities related to the adoption of the standard:

- formed a cross-functional implementation work team responsible for identifying and tracking leases;
- identified our initial lease population that will be impacted by the new standard;
- performed training for the various functions that will be most affected by the new standard;
- elected our practical expedients, including our transition method (we will not reassess whether a contract is or contains a lease, lease classifications or initial direct costs for all leases in place as of the adoption date); and
- established a process to determine the incremental borrowing rate applicable to our existing lease contracts;

The adoption of this ASU will result in the following changes to financial statements during the first quarter of 2019:

- The recognition of Operating lease right-of-use assets controlled under operating leases and Operating lease liabilities based on the present value of remaining lease payments; and
- Additional disclosures for our lease obligations, including:
  - expenses incurred under operating and finance leases, with the interest component of finance lease expense disclosed separately;
  - cash paid for amounts included in the measurement of lease liabilities, segregated between operating and financing leases;
  - supplemental non-cash information on lease liabilities arising from obtaining right-of-use-assets, segregated between operating and financing leases;
  - weighted average remaining lease term and weighted average discount rate for operating and finance leases; and
  - future minimum lease payments for operating and finance lease liabilities, with the interest component disclosed separately.

The adoption of this ASU is not expected to have a material impact on our Statement of Operations, Statement of Cash Flows or the determination of compliance with financial covenants under our current debt agreements.



*Income Taxes*—In January 2018, the FASB issued ASU 2018-02, *Reporting Comprehensive Income (Topic 220)*. This ASU gives entities the option to reclassify to retained earnings the tax effects resulting from the Tax Reform Act related to items in AOCI that the FASB refers to as having been stranded in AOCI. This ASU may be applied retrospectively to each period in the year of adoption. This ASU will also require new disclosures regarding our accounting policy for releasing the tax effects in AOCI. We are adopting the new standard on January 1, 2019. The adoption of this ASU is not expected to have a material impact on our future consolidated financial statements and related disclosures.

*Derivatives*—In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815)*. This ASU includes financial reporting improvements related to hedging relationships to better report the economic results of an entity's risk management activities in its financial statements. Additionally, this ASU makes certain improvements to simplify the application of the hedge accounting guidance. This ASU becomes effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We are adopting the new standard on January 1, 2019. The adoption of this ASU is not expected to have a material impact on our future consolidated financial statements and related disclosures.

*Defined Benefit Pension Plans*—In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)*. This ASU eliminates, modifies and adds disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. This ASU is effective for fiscal years ending after December 15, 2020, with early adoption permitted. We are evaluating the impact of the new guidance on our future disclosures.

*Cloud Computing Arrangements*—In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*. The ASU provides for the recognition of an intangible asset for the costs of internal-use software licenses included in a cloud computing arrangement. Costs of arrangements that do not include a software license should be accounted for as a service contract and expensed as incurred. We early adopted the standard on October 1, 2018, using the prospective application. The early adoption of this ASU did not have a material impact on our Consolidated Financial Statements and related disclosures.

*Derivatives*—In October 2018, the FASB issued ASU No. 2018-16, *Derivatives and Hedging: Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes*, which expands the list of benchmark interest rates permitted in the application of hedge accounting. This ASU permits the use of OIS rate based on the SOFR as a U.S. benchmark interest rate for hedge accounting purposes. The ASU is effective for annual and interim periods beginning after December 15, 2018. We are adopting the new standard on January 1, 2019. The adoption of this ASU is not expected to have a material impact on our future consolidated financial statements and related disclosures.

*Consolidation*—In October 2018, the FASB issued ASU No. 2018-17, *Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities (“VIE”)*. This ASU amends the guidance for determining whether a decision-making fee is a variable interest, which requires companies to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. The ASU is effective for annual and interim periods beginning after December 15, 2019. We are currently assessing the impact of this ASU on our future consolidated financial statements and related disclosures.

*Collaborative Arrangements*—In November 2018, the FASB issued ASU No. 2018-18, *Collaborative Arrangements: Clarifying the Interaction between Topic 808 and Topic 606*. This ASU clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is a customer in the context of a unit of account. In addition, unit-of-account guidance in Topic 808 was aligned with the guidance in Topic 606 (that is, a distinct good or service) when assessing whether the

collaborative arrangement or a part of the arrangement is within the scope of Topic 606. This ASU is effective for interim and annual periods beginning after December 15, 2019. Early adoption is permitted. We are currently assessing the impact of this ASU on our future consolidated financial statements and related disclosures.

#### NOTE 3—BUSINESS COMBINATION

**General** On December 18, 2017, we entered into an agreement (as amended, the “Business Combination Agreement”) to combine our business with CB&I, an established downstream provider of industry-leading petrochemical, refining, power, gasification and gas processing technologies and solutions. On May 10, 2018 (the “Combination Date”) we completed the Combination.

**Transaction Overview** On the Combination Date, we acquired the equity of certain U.S. and non-U.S. CB&I subsidiaries that owned CB&I’s technology business, as well as certain intellectual property rights, for \$2.87 billion in cash consideration that was funded using debt financing, as discussed further in Note 13, Debt, and existing cash. Also, on the Combination Date, CB&I shareholders received 0.82407 shares of McDermott common stock for each share of CB&I common stock tendered in the exchange offer. Each remaining share of CB&I common stock held by CB&I shareholders not acquired by McDermott in the exchange offer was effectively converted into the right to receive the same 0.82407 shares of McDermott common stock that was paid in the exchange offer, together with cash

in lieu of any fractional shares of McDermott common stock, less any applicable withholding taxes. Stock-settled equity-based awards relating to shares of CB&I's common stock were either canceled and converted into the right to receive cash or were converted into comparable McDermott awards on generally the same terms and conditions as prior to the Combination Date. We issued 84.5 million shares of McDermott common stock to the former CB&I shareholders and converted CB&I stock-settled equity awards into McDermott stock-settled equity-based awards to be settled in approximately 2.2 million shares of McDermott common stock.

**Transaction Accounting** The Combination is accounted for using the acquisition method of accounting in accordance with ASC Topic 805, Business Combinations. McDermott is considered the acquirer for accounting purposes based on the following facts at the Combination Date: (1) McDermott's stockholders owned approximately 53 percent of the combined business on a fully diluted basis; (2) a group of McDermott's directors, including the Chairman of the Board, constituted a majority of the Board of Directors; and (3) McDermott's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer continue in those roles. The series of transactions resulting in McDermott's acquisition of CB&I's entire business is being accounted for as a single accounting transaction, as such transactions were entered into at the same time in contemplation of one another and were collectively designed to achieve an overall commercial effect.

**Purchase Consideration** We completed the Combination for a gross purchase price of approximately \$4.6 billion (\$4.1 billion net of cash acquired), detailed as follows (in millions, except per share amounts):

	(In millions, except per share amounts)
CB&I shares for Combination consideration	103
Conversion Ratio: 1 CB&I share = 0.82407 McDermott shares	85
McDermott stock price on May 10, 2018	19.92
Equity Combination consideration transferred	\$1,684
Fair value of converted awards earned prior to the Combination	9
Total equity Combination consideration transferred	1,693
Cash consideration transferred	2,872
Total Combination consideration transferred	4,565
Less: Cash acquired	(498)
Total Combination consideration transferred, net of cash acquired	\$4,067

**Preliminary Purchase Price Allocation**—The aggregate purchase price noted above was allocated to the major categories of assets and liabilities acquired based upon their estimated fair values at the Combination Date, which were based, in part, upon external preliminary appraisal and valuation of certain assets, including specifically identified intangible assets and property and equipment. The excess of the purchase price over the preliminary estimated fair value of the net tangible and identifiable intangible assets acquired totaling \$4.8 billion, was recorded as goodwill.

The following summarizes our preliminary purchase price allocation at the Combination Date (in millions):

	May 10, 2018
Net tangible assets:	
Cash	\$498
Accounts receivable	879
Inventory	111
Contracts in progress	273
Assets held for sale <sup>(1)</sup>	70
Other current assets	273
Deferred tax assets	-
Investments in unconsolidated affiliates <sup>(2)</sup>	428
Property, plant and equipment	401
Other non-current assets	127
Accounts payable	(472 )
Advance billings on contracts <sup>(3)</sup>	(2,410 )
Deferred tax liabilities	(16 )
Other current liabilities	(1,200 )
Other non-current liabilities	(454 )
Noncontrolling interest	14
Total net tangible liabilities	(1,478 )
Project-related intangible assets/liabilities, net <sup>(4)</sup>	150
Other intangible assets <sup>(5)</sup>	1,071
Net identifiable liabilities	(257 )
Goodwill <sup>(6)</sup>	4,822
Total Combination consideration transferred	4,565
Less: Cash acquired	(498 )
Total Combination consideration transferred, net of cash acquired	\$4,067

<sup>(1)</sup> Assets held for sale includes CB&I's former administrative headquarters within Corporate and various fabrication facilities within NCSA. During the third quarter of 2018, we completed the sale of CB&I's former administrative headquarters for proceeds of \$52 million.

<sup>(2)</sup> Investments in unconsolidated affiliates includes a fair value adjustment of \$217 million associated with the Combination. Approximately \$148 million of the fair value adjustment is attributable to the basis difference between McDermott's investment and the underlying equity in identifiable assets of unconsolidated affiliates and will be amortized to Investment in unconsolidated affiliate related amortization over a range of two to 30 years based on the life of assets to which the basis difference is attributed.

<sup>(3)</sup> Advance billings on contracts includes accrued provisions for estimated losses on projects of \$374 million. See the discussions below and in Note 4, *Revenue Recognition*, for information concerning our acquired significant loss projects, including changes since our initial preliminary estimates reported for the second quarter of 2018.

<sup>(4)</sup> Project-related intangible assets/liabilities, net includes intangible asset and liabilities of \$259 million and \$109 million, respectively. The balances represent the fair value of acquired RPOs and normalized profit margin fair value associated with acquired long-term contracts that were deemed to be lower than fair value (excluding amounts recorded in Advance billings on contracts and Contracts in progress) as of the Combination Date. The project related intangible assets and liabilities will be amortized as the applicable projects progress over a range of two to six years within Project intangibles amortization in our Statements of Operations.



(5) Other intangible assets are reflected in the table below and recorded at estimated fair value, as determined by our management, based on available information which includes a preliminary valuation from external experts. The estimated useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

	May 10, 2018		
	Fair value	Useful Life Range	Weighted Average Life
	(In millions)		
Process technologies	\$ 514	10-30	27
Trade names	401	10-20	12
Customer relationships	129	4-11	10
Trademarks	27	10	10
Total	\$ 1,071		

(6) Goodwill resulted from the acquired established workforce, which does not qualify for separate recognition, as well as expected future cost savings and revenue synergies associated with the combined operations. Of the \$4.8 billion of estimated goodwill recorded in conjunction with the Combination, \$1.7 billion is deductible for tax purposes.

See Note 9, *Goodwill and Other Intangible Assets*, for our allocation of goodwill by reporting segment and discussion of impairment charges recorded during the fourth quarter of 2018.

Significant changes in our preliminary purchase price allocation since our initial estimates reported in the second quarter of 2018 primarily related to fair value adjustments to three of our acquired loss contracts.

Adjustments to the Cameron LNG, Freeport LNG and Calpine projects were approximately \$1.2 billion combined, of which approximately \$1 billion was included as adjustments to the fair values reflected in the acquired balance sheet and primarily impacted Advance billings on contracts as discussed further in Note 4, *Revenue Recognition*.

Adjustments recorded to the purchase price allocation are recognized in the period in which the adjustments are determined and calculated as if the accounting had been completed as of the Combination Date.

The purchase price allocation described above is subject to further change when additional information is obtained. We have not finalized our assessment of the fair values of purchased receivables, intangible assets and liabilities, inventory, property and equipment, joint venture and consortium arrangements, tax balances, contingent liabilities, long-term leases or acquired contracts. Our final purchase price allocation may result in additional adjustments to various other assets and liabilities, including the residual amount allocated to goodwill during the measurement period.

Impact on RPOs—CB&I RPOs totaled approximately \$8.3 billion at the Combination Date,

Impact of Combination on Statements of Operations—From the Combination Date through December 31, 2018, revenues and operating income associated with CB&I totaled \$4.4 billion and \$43 million (excluding \$2.2 billion of Goodwill impairment and \$61 million of Restructuring and integration costs within operating loss), respectively. Additionally, in connection with the Combination, during 2018 we incurred transaction costs of \$48 million, which primarily related to professional service fees (including accounting, legal and advisory services).



*Supplemental Pro Forma Information (Unaudited)*—The following unaudited pro forma financial information reflects the Combination and the related events as if they occurred on January 1, 2016 and gives effect to pro forma events that are directly attributable to the Combination, factually supportable, and expected to have a continuing impact on our combined results, following the Combination. The pro forma financial information includes adjustments to: (1) include additional intangibles amortization, investment in unconsolidated affiliates-related amortization, depreciation of property, plant and equipment and net interest expense associated with the Combination; (2) exclude restructuring, integration and transaction costs and debt extinguishment costs that were included in McDermott and CB&I’s historical results and are expected to be non-recurring; and (3) reflect adjustments to 2017 and 2016 cost of operations for CB&I’s pension actuarial gains and losses to conform to McDermott’s mark-to-market pension accounting policy. This pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the operating results that would have been achieved had the pro forma events taken place on the dates indicated. Further, the pro forma financial information does not purport to project the future operating results of the combined business operations following the Combination.

Year ended December 31,  
 2018    2017  
 (1)      (1)      2016 (1)

(In millions, except per  
 share amounts)

Pro forma revenue	\$9,208	\$9,658	\$11,236
Net (los			