

MCDERMOTT INTERNATIONAL INC  
Form 10-Q  
November 01, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA (State or Other Jurisdiction of Incorporation or Organization)	72-0593134 (I.R.S. Employer Identification No.)
4424 West Sam Houston Parkway North HOUSTON, TEXAS	77041

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(Address of Principal Executive Offices) (Zip Code)

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

757 N. Eldridge Pkwy Houston, Texas 77079

(Former Address of Principal Executive Offices)

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

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

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

Large accelerated filer

Accelerated filer

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

Emerging growth company

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

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

The number of shares of the registrant's common stock outstanding at October 30, 2017 was 284,008,760.

McDERMOTT INTERNATIONAL, INC.

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## PART I—FINANCIAL INFORMATION

## Item 1. Consolidated Financial Statements

McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(In thousands, except share and per share amounts)			
Revenues	\$958,531	\$558,543	\$2,266,635	\$1,994,202
Costs and Expenses:				
Cost of operations	773,910	455,430	1,852,949	1,666,775
Research and development expenses	1,657	69	2,958	199
Selling, general and administrative expenses	55,671	46,983	142,280	137,386
Other operating (income) expenses, net	221	13,006	(1,808 )	53,806
Total costs and expenses	831,459	515,488	1,996,379	1,858,166
Operating income	127,072	43,055	270,256	136,036
Other expense:				
Interest expense, net	(11,976 )	(17,431 )	(50,886 )	(41,324 )
Other non-operating income (expense), net	803	5,237	(1,074 )	(1,005 )
Total other expense, net	(11,173 )	(12,194 )	(51,960 )	(42,329 )
Income before provision for income taxes	115,899	30,861	218,296	93,707
Provision for income taxes	19,532	15,976	53,221	55,110
Income before income (loss) from Investments in Unconsolidated Affiliates	96,367	14,885	165,075	38,597
Income (loss) from Investments in Unconsolidated Affiliates	(3,441 )	1,507	(11,495 )	(2,844 )
Net income	92,926	16,392	153,580	35,753
Less: Net income (loss) attributable to noncontrolling interest	(1,775 )	284	550	1,160
Net income attributable to McDermott International, Inc.	\$94,701	\$16,108	\$153,030	\$34,593

Net income per share attributable to McDermott International, Inc.:				
Basic	\$0.33	\$0.07	\$0.57	\$0.14
Diluted	\$0.33	\$0.06	\$0.54	\$0.12
Shares used in the computation of net income per share:				
Basic	283,991,161	240,899,888	269,720,153	240,093,169
Diluted	285,774,621	283,907,353	284,859,710	283,132,920

See accompanying Notes to the Consolidated Financial Statements.

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

	Three Months		Nine Months Ended	
	Ended September 30, 2017	2016	September 30, 2017	2016
	(in thousands)			
Net income	\$92,926	\$16,392	\$153,580	\$35,753
Other comprehensive income (loss), net of tax:				
Unrealized gain (loss) on investments	38	(3 )	77	14
Gain on derivatives	9,266	3,566	19,905	38,978
Foreign currency translation	(6,717 )	(5,031 )	(6,709 )	(12,401)
Other comprehensive income (loss), net of tax	2,587	(1,468 )	13,273	26,591
Total comprehensive income	95,513	14,924	166,853	62,344
Less: Comprehensive income (loss) attributable to noncontrolling interests	(1,811 )	273	532	1,128
Comprehensive income attributable to McDermott International, Inc.	\$97,324	\$14,651	\$166,321	\$61,216

See accompanying Notes to the Consolidated Financial Statements.

MCDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED BALANCE SHEETS

	September 30, 2017	December 31, 2016
	(In thousands, except share and per share amounts)	
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$416,352	\$595,921
Restricted cash and cash equivalents	18,221	16,412
Accounts receivable—trade, net	263,119	334,384
Accounts receivable—other	47,237	36,929
Contracts in progress	855,531	319,138
Other current assets	38,049	29,599
Total current assets	1,638,509	1,332,383
Property, plant and equipment	2,630,228	2,586,179
Less accumulated depreciation	(965,819 )	(898,878 )
Property, plant and equipment, net	1,664,409	1,687,301
Accounts receivable—long-term retainages	75,615	127,193
Investments in Unconsolidated Affiliates	10,226	17,023
Deferred income taxes	14,439	21,116
Other assets	58,237	37,214
Total assets	\$3,461,435	\$3,222,230
<b>Liabilities and Equity</b>		
Current liabilities:		
Notes payable and current maturities of long-term debt	\$19,035	\$48,125
Accounts payable	511,092	173,203
Accrued liabilities	358,586	277,584
Advance billings on contracts	42,793	192,486
Income taxes payable	31,346	17,945
Total current liabilities	962,852	709,343
Long-term debt	521,642	704,395
Self-insurance	18,014	16,980
Pension liabilities	18,870	19,471
Non-current income taxes	60,626	60,870
Other liabilities	119,506	115,703
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$1.00 per share, authorized 400,000,000 shares; issued 292,502,927 and 249,690,281 shares, respectively	292,503	249,690
Capital in excess of par value	1,660,114	1,695,119
Accumulated deficit	(73,737 )	(226,767 )

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Accumulated other comprehensive loss	(53,604 )	(66,895 )
Treasury stock, at cost: 8,494,167 and 8,302,004 shares, respectively	(96,245 )	(94,957 )
Stockholders' Equity—McDermott International, Inc.	1,729,031	1,556,190
Noncontrolling interest	30,894	39,278
Total equity	1,759,925	1,595,468
Total liabilities and equity	\$3,461,435	\$3,222,230

See accompanying Notes to the Consolidated Financial Statements.



McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
	(In thousands)	
<b>Cash flows from operating activities:</b>		
Net income	\$ 153,580	\$ 35,753
<b>Non-cash items included in net income:</b>		
Depreciation and amortization	78,032	76,755
Impairment loss	-	44,069
Stock-based compensation charges	19,543	14,011
Loss from investments in Unconsolidated Affiliates	11,495	2,844
Other non-cash items	17,525	7,782
<b>Changes in operating assets and liabilities that provided (used) cash:</b>		
Accounts receivable	119,623	(29,661 )
Contracts in progress, net of Advance billings on contracts	(673,420)	53,608
Accounts payable	338,906	(110,196)
Accrued and other current liabilities	79,866	(13,426 )
Other assets and liabilities, net	(9,648 )	44,060
<b>Total cash provided by operating activities</b>	<b>135,502</b>	<b>125,599</b>
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	(97,106 )	(197,393)
Proceeds from asset dispositions	55,391	1,123
Investments in Unconsolidated Affiliates	(2,769 )	(4,105 )
<b>Total cash used in investing activities</b>	<b>(44,484 )</b>	<b>(200,375)</b>
<b>Cash flows from financing activities:</b>		
Repayment of debt	(230,715)	(93,755 )
Payment of debt issuance cost	(20,564 )	(8,256 )
Acquisition of Noncontrolling interest	(10,652 )	-
Repurchase of common stock	(7,126 )	(3,909 )
<b>Total cash used in financing activities</b>	<b>(269,057)</b>	<b>(105,920)</b>
Effects of exchange rate changes on cash, cash equivalents and restricted cash	279	(861 )
<b>Net decrease in cash, cash equivalents and restricted cash</b>	<b>(177,760)</b>	<b>(181,557)</b>
Cash, cash equivalents and restricted cash at beginning of period	612,333	781,645
<b>Cash, cash equivalents and restricted cash at end of period</b>	<b>\$ 434,573</b>	<b>\$ 600,088</b>

See accompanying Notes to the Consolidated Financial Statements.



McDERMOTT INTERNATIONAL, INC.  
CONSOLIDATED STATEMENTS OF EQUITY  
(Unaudited)

	Common Stock Par Value (in thousands)	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss ("AOCI")	Treasury Stock	Stockholders' Equity	Noncontrolling Interest ("NCI")	Total Equity
Balance at January 1, 2017	\$249,690	\$1,695,119	\$(226,767 )	\$(66,895 )	\$(94,957)	\$1,556,190	\$39,278	\$1,595,468
Net income	-	-	153,030	-	-	153,030	550	153,580
Other comprehensive income (loss), net of tax	-	-	-	13,291	-	13,291	(18 )	13,273
Common stock issued	43,635	(43,635 )	-	-	-	-	-	-
Stock-based compensation charges	-	13,046	-	-	-	13,046	-	13,046
Purchase of treasury shares	-	-	-	-	(7,126 )	(7,126 )	-	(7,126 )
Retirement of common stock	(822 )	(5,016 )	-	-	5,838	-	-	-
Acquisition of NCI	-	2,121	-	-	-	2,121	(8,896 )	(6,775 )
Other	-	(1,521 )	-	-	-	(1,521 )	(20 )	(1,541 )
Balance at September 30, 2017	\$292,503	\$1,660,114	\$(73,737 )	\$(53,604 )	\$(96,245)	\$1,729,031	\$30,894	\$1,759,925

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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McDERMOTT INTERNATIONAL, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS—(continued)

## NOTE 1—BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

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

### Basis of Presentation

The accompanying Consolidated Financial Statements are unaudited and have been prepared from our books and records in accordance with Rule 10-1 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. In the opinion of our management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. The results of operations for interim periods are not necessarily indicative of results of operations for a full year. These Consolidated Financial Statements should be read in conjunction with our Consolidated Financial Statements and Notes thereto included in our Current Report on Form 8-K filed with the SEC on April 25, 2017 (the “April 25 Form 8-K”).

### Classification

Certain prior year amounts have been reclassified for consistency with the current year presentation. Previously reported Consolidated Financial Statements have been adjusted to reflect those changes.

In addition, in the first quarter of 2017, we implemented certain changes to our financial reporting structure. Corporate expenses, certain centrally managed initiatives (such as restructuring charges), impairments, year-end mark-to-market pension actuarial gains and losses, costs not attributable to a particular reportable segment, and unallocated direct operating expenses associated with the underutilization of vessels, fabrication facilities and engineering resources, are no longer apportioned to our reportable segments. Those expenses are reported under “Corporate and Other.” Previously reported segment financial information has been adjusted to reflect this change, see Note 16, Segment Reporting.

Accounting Guidance Issued But Not Adopted as of September 30, 2017

Derivatives—In August 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Updates (“ASU”) 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. This guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. This ASU is effective prospectively for annual periods beginning on or after December 15, 2018. Early adoption is permitted. We intend to adopt this guidance on January 1, 2019. We plan to apply this ASU to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach if an adjustment is required (i.e., with a cumulative effect adjustment recorded to the opening balance of retained earnings as of the initial application date). The adoption of this guidance is not expected to have a material impact on our future Consolidated Financial Statements or related disclosures.

**Stock Compensation**—In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. The general model for modifications of share-based payment awards is to record the incremental value arising from a change as additional compensation cost. This guidance clarifies situations in which the existing award is not probable of vesting, and a modification gives rise to a new measurement date; no change in the total compensation cost recognized for an existing award will be required if there is no change to the fair value, vesting conditions and classification of the award. This ASU is effective prospectively for annual periods beginning on or after December 15, 2017. Early adoption is permitted. The application of this amendment is not expected to have a material impact on our future Consolidated Financial Statements or related disclosures.

**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 (“benefit costs”) in the Consolidated Statements of Operations. The service cost components are required to be presented in operating income and the remaining components are required to be presented outside of operating income. This ASU is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. Upon future adoption of this guidance, benefit costs, excluding service costs component, will be included in Other non-operating income (expense), net in our Consolidated Statements of Operations. Currently, all components of benefit costs are reported in Selling, general and administrative expenses in our Consolidated Statements of Operations.

**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. The ASU is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The application of this amendment is not expected to have a material impact on our future Consolidated Financial Statements and related disclosures.

**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 guidance on our future Consolidated Financial Statements and related disclosures.

**Leases**—In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The 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 primarily will depend on its classification as a finance or operating lease. However, unlike current U.S. GAAP—which requires only capital 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. Early adoption is permitted. We are currently assessing the impact of this ASU on our future Consolidated Financial Statements and related disclosures.

**Revenue from Contracts with Customers (Topic 606)**—In May 2014, the FASB issued a new standard related to revenue recognition which supersedes most of the existing revenue recognition requirements in U.S. GAAP and will require 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 improvements and practical expedients.

The guidance permits two methods of adoption: retrospectively to each prior reporting period presented (“full retrospective method”), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (“modified retrospective application”).

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We are currently assessing the impact of this ASU and the amendments on our future Consolidated Financial Statements and related disclosures. Adoption may affect the manner in which the company determines the unit of account for its projects and estimates revenue associated with unapproved change orders and claims. We intend to adopt 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 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 on our 2018 Consolidated Financial Statements.

This standard could have a significant impact on our 2018 Consolidated Financial Statements and related disclosures.

## NOTE 2—REVENUE RECOGNITION

### Unapproved Change Orders

As of September 30, 2017, total unapproved change orders included in our estimates at completion aggregated approximately \$98 million, of which approximately \$9 million was included in backlog. As of September 30, 2016, total unapproved change orders included in our estimates at completion aggregated approximately \$139 million, of which approximately \$21 million was included in backlog.

### Claims Revenue

The amount of revenues included in our estimates at completion (i.e., contract values) associated with claims was \$10 million and \$16 million as of September 30, 2017 and 2016, respectively, all in our Middle East segment. These amounts are determined based on various factors, including our analysis of the underlying contractual language and our experience in making and resolving claims. Our unconsolidated joint ventures did not include any material claims revenue or associated costs in their financial results for the three and nine months ended September 30, 2017 and 2016.

None of the claims included in our estimates at completion at September 30, 2017 were the subject of any litigation proceedings. We continue to actively engage in negotiations with our customers on our outstanding claims. However, these claims may be resolved at amounts that differ from our current estimates, which could result in increases or decreases in future estimated contract profits or losses.

### Loss Recognition

For all ongoing contracts, we have provided for estimated costs to complete. 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 Consolidated Statements of Operations. However, it is possible that current estimates could change due to unforeseen events, which could result in adjustments to overall contract costs. Variations from estimated contract performance could result in material adjustments to operating results for any fiscal quarter or year.

For loss projects, it is possible that our estimates of gross profit could increase or decrease based on changes in productivity, actual downtime and the resolution of change orders and claims with the customers. In our Consolidated

Balance Sheets, the provision for estimated losses on all active uncompleted projects is included in “Advance billings on contracts.”

KJO Hout, an EPCI project in our Middle East segment, is the only active project in a significant loss position as of September 30, 2017. The estimated overall loss on KJO Hout was \$9 million. The project is substantially complete.

As of September 30, 2017 and December 31, 2016, the remaining provision for estimated losses to be recognized on all active uncompleted projects in our Consolidated Balance Sheets was not material.

### NOTE 3—USE OF ESTIMATES

The following is a discussion of our most significant changes in estimates that impacted segment operating income for the three and nine months ended September 30, 2017 and 2016.

#### Three months ended September 30, 2017

Segment operating income for the three months ended September 30, 2017 was positively impacted by net favorable changes in estimates totaling approximately \$36 million.

Americas, Europe and Africa Segment (“AEA”)—This segment was impacted by net unfavorable changes in estimates aggregating approximately \$4 million on multiple projects, none of which individually were material.

Middle East Segment (“MEA”)—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$36 million, primarily due to:

- cost savings associated with marine campaigns and changes in estimate at completion on multiple Saudi Aramco projects;
  - marine campaign cost savings and benefits from favorable weather conditions, which were partially offset by higher fabrication costs and marine equipment downtime on a lump-sum EPCI project under the second Saudi Aramco Long-Term Agreement (“LTA II”);
  - favorable changes in estimated costs at completion on various other projects, which individually were not material.
- Those net favorable changes in estimates were partially offset by higher marine campaign costs for the Berri platform, a Saudi Aramco EPCI project, and increases in costs on a project in the Neutral Zone.

Asia Segment (“ASA”)—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$4 million, primarily due to change in estimates associated with efficient project execution and productivity improvements on multiple active projects which were individually not material.

Those favorable changes in estimates were partially offset by higher marine campaign costs associated with the transportation and installation of pipelines under the multi-year Brunei Shell Petroleum (“BSP”) offshore installation contract.

As of September 30, 2017, the diving work to replace the failed supplier-provided subsea-pipe connector component on the Ichthys project in Australia was substantially complete. The costs to replace the supplier-provided subsea-pipe connector component, at the completion of the project, are expected to be less than our December 31, 2016 estimate of \$34 million. The project remains in an overall profitable position.

#### Nine months ended September 30, 2017

Segment operating income for the nine months ended September 30, 2017 was positively impacted by net favorable changes in estimates totaling approximately \$115 million, primarily in our MEA and ASA segments.

AEA—This segment was impacted by net unfavorable changes in estimates aggregating approximately \$3 million on multiple projects, none of which individually were material.

MEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$72 million, primarily due to:

- productivity improvements and associated cost savings during the marine hookup campaign and reduction in estimated costs to complete two projects in the Middle East, including a Saudi Aramco project;
- marine campaign cost savings associated with productivity improvements and favorable weather conditions, which were partially offset by higher fabrication costs on lump-sum EPCI projects under the LTA II;
- productivity improvements and associated cost savings during the installation phase on the Saudi Aramco Marjan power system replacement project;
- close-out improvements associated with the first phase of a large pipeline repair project in the Middle East, which was completed in 2016, and a change in estimate to complete the next phase of this project; and

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cost savings associated with productivity improvements on multiple projects in the Middle East, none of which were individually material.

ASA—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$46 million, primarily due to changes in estimates driven by productivity improvements and associated cost savings and changes in estimated costs at completion on active and completed projects.

Those net favorable changes in estimates were partially offset by vessel and marine equipment downtime on our Vashishta EPCI project in India.

In addition, as of December 31, 2016, on the Ichthys project in Australia, we reported a \$34 million increase in our estimated costs at completion due to a failure identified in a supplier-provided subsea-pipe connector component that we had previously installed, and we identified possible additional increases of up to \$10 million, due to potential need for alternative installation methods. We investigated the cause of the failure and developed a remediation plan in conjunction with the customer. We commenced offshore replacement in June 2017 through a diving intervention method. As of September 30, 2017, the remediation work was substantially complete. The costs to replace the supplier-provided subsea-pipe connector component are expected to be less than our December 31, 2016 estimate of \$34 million. The project remains in an overall profitable position.

Three months ended September 30, 2016

Segment operating income for the three months ended September 30, 2016 was positively impacted by net favorable changes in estimates totaling approximately \$34 million across all segments.

AEA—This segment was positively impacted by net favorable changes in estimates, aggregating approximately \$6 million, none of which individually were material.

MEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$12 million, primarily due to:

- productivity improvements and associated cost savings related to a Saudi Aramco project; and

other miscellaneous projects, which individually were not material.

ASA—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$16 million, primarily due to:

cost savings associated with our vessel productivity improvements; and

favorable changes in estimates at completion on several active projects.

Those net favorable changes in estimates were partially offset by net unfavorable changes on an active project, which was not material.

Nine months ended September 30, 2016

Segment operating income for the nine months ended September 30, 2016 was positively impacted by net favorable changes in estimates totaling approximately \$101 million across all segments.

AEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$29 million, primarily due to:

-

successful execution and close-out improvements on two significant projects, PB Litoral and Exxon Julia Subsea Tieback;

- productivity improvements and associated cost savings related to our DB 50 and NO 102 vessels' marine campaigns undertaken in the Gulf of Mexico; and
- a reversal of a \$7 million provision for liquidated damages, due to an agreed additional extension of the PB Litoral project completion date.

Those net favorable changes in estimates were partially offset by net unfavorable changes on multiple projects, none of which were individually material.

MEA—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$29 million, primarily due to productivity improvements and associated cost savings related to the DB 27 and the Intermac 406 vessels, both associated with Saudi Aramco projects, due to improved execution. Those favorable changes in estimates were partially offset by marine equipment downtime due to weather on a project in Qatar.

ASA—This segment was positively impacted by net favorable changes in estimates aggregating approximately \$43 million, primarily due to:

- cost savings associated with productivity improvements on our LV 108 vessel activities; and
- favorable agreement on outstanding change orders on active and completed projects during the 2016 period.

Those net favorable changes in estimates were partially offset by net unfavorable changes on multiple projects, none of which were individually material.

#### NOTE 4—RESTRUCTURING

Restructuring initiatives are driven and managed by our corporate management. These costs are not allocated to our reportable segments and are reported under Corporate and Other.

Restructuring expenses are reported as a component of Other operating (income) expenses, net in our Consolidated Statements of Operations. Previously, restructuring expenses were presented separately in our Consolidated Statements of Operations.

No restructuring costs were incurred in 2017. The restructuring costs incurred in 2016 and from inception to September 30, 2017, by major cost type is presented below.

	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	From Inception to September 30, 2017
	(in thousands)		
Americas Restructuring	\$-	\$(1,500 )	\$ 44,194
<b>McDermott Profitability Initiative</b>			
Severance and other personnel-related costs	1,165	2,590	17,807
Asset impairment and disposal	-	-	7,471
Legal and other advisor fees	-	222	11,639
Other	-	2,436	10,045
	1,165	5,248	46,962
<b>Additional Overhead Reduction</b>			
Severance and other personnel-related costs	556	4,600	5,012
Legal and other advisor fees	-	1,968	2,768
Other	115	371	385

	671	6,939	8,165
Total	\$1,836	\$10,687	\$ 99,321

## NOTE 5—CASH, CASH EQUIVALENTS AND RESTRICTED CASH

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets that sum to the totals of such amounts shown in the Consolidated Statements of Cash Flows.

	September 30, 2017	December 31, 2016
	(in thousands)	
Cash and cash equivalents	\$416,352	\$595,921
Restricted cash and cash equivalents	18,221	16,412
Total cash, cash equivalents, and restricted cash shown in the Consolidated Statements of Cash Flows	\$434,573	\$612,333

A majority of our restricted cash balances serve as collateral for letters of credit, discussed in Note 9, Debt.



## NOTE 6—ACCOUNTS RECEIVABLE

Accounts Receivable—Trade, Net A summary of contract receivables is as follows:

	September 30, 2017	December 31, 2016
	(in thousands)	
Contract receivables:		
Contracts in progress	\$ 171,587	\$ 245,604
Completed contracts	18,289	40,345
Retainages	86,153	58,431
Unbilled <sup>(1)</sup>	4,303	4,303
Less allowances	(17,213 )	(14,299 )
Accounts receivable—trade, net	\$ 263,119	\$ 334,384

<sup>(1)</sup>This amount relates to a project milestone billing for which we are awaiting the customer's final acceptance certificate. We expect to receive the final acceptance certificate during 2017.

Retainages—Contract retainages generally represent amounts withheld by our customers until project completion, in accordance with the terms of the applicable contracts. The following is a summary of retainages on our contracts:

	September 30, 2017	December 31, 2016
	(in thousands)	
Retainages expected to be collected within one year	\$ 86,153	\$ 58,431
Retainages expected to be collected after one year	75,615	127,193
Total retainages	\$ 161,768	\$ 185,624

## NOTE 7—CONTRACTS IN PROGRESS AND ADVANCE BILLINGS ON CONTRACTS

A detail of the components of contracts in progress and advance billings on contracts is as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Costs incurred less costs of revenue recognized	\$ 108,149	\$ 119,688
Revenues recognized less billings to customers	747,382	199,450
Contracts in Progress	\$ 855,531	\$ 319,138
Billings to customers less revenue recognized	73,765	42,637

Costs incurred less costs of revenue recognized	(30,972 )	149,849
Advance Billings on Contracts	\$42,793	\$192,486

NOTE 8—SALE LEASEBACK

In January 2017, we purchased the pipelay and construction vessel, the Amazon, for a total cash consideration of approximately \$52 million. Following the purchase, we sold the Amazon to an unrelated third party for total cash consideration of \$52 million and simultaneously entered into an 11-year bareboat charter agreement with the purchaser. The bareboat charter agreement provides us with options (exercisable periodically over the charter term) to purchase the Amazon, at a predetermined value. We accounted for the transaction as a sale leaseback and are treating the bareboat charter agreement as an operating lease. As the proceeds from the sale equaled the carrying value of the vessel, no gain or loss was recognized. The annual charter obligation is \$3 million through 2018, when it will increase to \$8 million annually for the remainder of the charter term.

## NOTE 9—DEBT

The carrying values of our long-term debt obligations, net of unamortized debt issuance costs of \$5 million and \$14 million as of September 30, 2017 and December 31, 2016, respectively, are as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Senior Notes	\$494,615	\$493,461
North Ocean 105 construction financing	28,595	31,877
Vendor equipment financing	15,686	-
Term Loan	-	212,070
Amortizing Notes	-	7,932
Other	1,781	7,180
	540,677	752,520
Less: Amounts due within one year	19,035	48,125
Total long-term debt	\$521,642	\$704,395

## Amended and Restated Credit Agreement

On June 30, 2017, we repaid all outstanding term loans, with an outstanding principal amount of approximately \$217 million, under our credit agreement dated April 16, 2014 (the “Prior Credit Agreement”), and we amended and restated the Prior Credit Agreement by entering into an Amended and Restated Credit Agreement (the “Credit Agreement”) with a syndicate of lenders and letter of credit issuers, and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent. All letters of credit outstanding under the Prior Credit Agreement were deemed issued under the Credit Agreement.

The Credit Agreement includes \$810 million of commitments from the lenders, the full amount of which is available for the issuance of letters of credit, and \$300 million of which is available for revolving loans. The senior secured credit facility established by the Credit Agreement is scheduled to mature in June 2022, unless we do not repay in full, by December 1, 2020, our \$500 million second-lien notes due in April 2021, in which case the Credit Agreement will mature on December 1, 2020.

The Credit Agreement includes procedures for additional financial institutions to become lenders, or for any existing lender to increase its commitment thereunder, subject to an aggregate maximum of \$1 billion for all commitments under the Credit Agreement. Any such increase in the commitments will not increase the \$300 million sublimit for revolving loans.

The indebtedness and other obligations under the Credit Agreement are unconditionally guaranteed on a senior secured basis by substantially all of our wholly owned subsidiaries, other than our captive insurance subsidiary and certain other designated subsidiaries (collectively, the “Guarantors”). The obligations under the Credit Agreement are secured by first-priority liens on substantially all of our and the Guarantors’ assets, including certain vessels and bank accounts.

Other than mandatory commitment reductions and prepayments in connection with certain asset sales, casualty events, and incurrences of debt not permitted by the Credit Agreement, the Credit Agreement requires only periodic interest

payments until maturity. We may prepay all revolving loans under the Credit Agreement at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements.

Revolving loans under the Credit Agreement bear interest at our option at either the Eurodollar rate plus a margin ranging from 3.75% to 4.25% per year or the base rate (the highest of the Federal Funds rate plus 0.50%, the 30-day Eurodollar rate plus 1.0%, or the administrative agent's prime rate) plus a margin ranging from 2.75% to 3.25% per year. The applicable margin varies depending on our leverage ratio (as defined in the Credit Agreement). We are charged a commitment fee of 0.50% per year on the daily amount of the unused portions of the commitments under the Credit Agreement. Additionally, with respect to all letters of credit outstanding under the Credit Agreement, we are charged a fronting fee of 0.25% per year and a participation fee of (i) between 3.75% to 4.25% per year in respect of financial letters of credit and (ii) between 1.875% to 2.125% per year in respect of performance letters of credit, in each case depending on our leverage ratio. We also pay customary issuance fees and other fees and expenses in connection with the issuance of letters of credit under the Credit Agreement.

As of September 30, 2017, the applicable margin for revolving loans was 4.0% for Eurodollar-rate loans and 3.0% for base-rate loans, and the letter of credit fees were 4.0% for financial letters of credit and 2.0% for performance letters of credit, respectively.

The Credit Agreement includes the following financial covenants, defined in the Credit Agreement, which will be tested on a quarterly basis and, in respect of the collateral coverage ratio described below, on both a quarterly basis and on any date that a mortgaged vessel is sold:

- the maximum permitted leverage ratio is (1) 3.50 to 1.00 for each fiscal quarter ending on or before December 31, 2019, and (2) 3.25 to 1.00 for each fiscal quarter ending after December 31, 2019;
- the minimum fixed charge coverage ratio is 1.15 to 1.00;
- the minimum liquidity is \$100 million;
- the minimum collateral coverage ratio is 1.20 to 1.0; and
- the principal amount of revolving loans outstanding under the Credit Agreement cannot exceed the sum of 75% of our net trade accounts receivable plus the amount of our cash and cash equivalents subject to the control of the collateral agent under the Credit Agreement (this is also a condition to each revolving loan borrowing).

In addition, the Credit Agreement contains various covenants that, among other restrictions, limits our ability, and the ability of each of our subsidiaries, to: (1) incur or assume indebtedness; (2) grant or assume liens; (3) make acquisitions or engage in mergers; (4) sell, transfer, assign or convey assets; (5) make investments; (6) repurchase equity and make dividends and certain other restricted payments; (7) change the nature of our business; (8) engage in transactions with affiliates; (9) enter into burdensome agreements; (10) modify organizational documents; (11) enter into sale and leaseback transactions; (12) make capital expenditures; (13) enter into speculative hedging contracts; and (14) 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 events with respect to us 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.

In connection with the Credit Agreement we incurred approximately \$21 million of debt issuance costs. On the Consolidated Balance Sheets, those costs are reflected as an asset.

As of September 30, 2017, under the Credit Agreement, there were no revolving loans outstanding.

As of September 30, 2017, the aggregate amount of letters of credit issued and outstanding under the Credit Agreement was \$326 million, included in which were \$19 million of financial letters of credit. As of December 31, 2016, under the Prior Credit Agreement, the aggregate amount of letters of credit issued and outstanding was \$442 million.

The Credit Agreement permits us to deposit up to \$300 million with letter of credit issuers to cash collateralize letters of credit issued on a bilateral basis outside the Credit Agreement. As of September 30, 2017, we had bilateral arrangements to issue cash collateralized letters of credit of \$175 million. As of September 30, 2017 and December 31, 2016, we had an aggregate face amount of approximately \$18 million and \$16 million of such letters of credit outstanding supported by cash collateral, respectively. We have included the supporting cash collateral in restricted cash and cash equivalents in the accompanying Consolidated Balance Sheets. During the first nine months of 2017, the maximum amount of cash collateral used to support bilateral letters of credit was \$166 million.

As of September 30, 2017, we were in compliance with all of the financial covenants set forth in the Credit Agreement.

#### Senior Notes

In April 2014 we issued \$500 million in aggregate principal amount of 8.00% senior secured notes due 2021 (the “Notes”) in a private placement in accordance with Rule 144A and Regulation S under the Securities Act of 1933, as amended. Interest on the Notes is payable semi-annually in arrears on May 1 and November 1 of each year, beginning on November 1, 2014. The Notes are scheduled to mature on May 1, 2021.

The Notes are unconditionally guaranteed on a senior secured basis by the Guarantors, and the Notes are secured on a second-lien basis by pledges of capital stock of certain of our subsidiaries and mortgages and other security interests covering (1) specified marine vessels owned by certain of the Guarantors and (2) substantially all the other tangible and intangible assets of our company and the Guarantors, subject to exceptions for certain assets.

The indenture governing the Notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries 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 capital stock or purchase or redeem 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. Many of those covenants would become suspended if the Notes were to attain an investment grade rating from both Moody's Investors Service, Inc. and Standard and Poor's Ratings Services and no default has occurred.

#### North Ocean Financing

NO 105 On September 30, 2010, McDermott International Inc., as guarantor, and North Ocean 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 North Ocean 105 AS, a mortgage on the NO 105, and a lien on substantially all of the other assets of North Ocean 105 AS. The financing agreement requires principal repayment in 17 consecutive semiannual installments, which commenced on October 1, 2012.

In the second quarter of 2017 we exercised our option under the North Ocean 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 North Ocean 105 AS to Oceanteam (which had been issued in connection with a dividend declared by North Ocean 105 AS in 2016). For further discussion, see Note 13, Stockholders' Equity.

The Credit Agreement eliminated the Prior Credit Agreement's requirement for us to prepay by July 20, 2017 the North Ocean 105 borrowing and to mortgage the NO 105 vessel in favor of the lenders.

#### Tangible Equity Units ("TEUs")

In April 2014, we issued 11,500,000 6.25% TEUs, each with a stated amount of \$25. Each TEU consists of (1) a prepaid common stock purchase contract and (2) a senior amortizing note due April 1, 2017 (each an "Amortizing Note") that had an initial principal amount of \$4.1266 per Amortizing Note and bore interest at a rate of 7.75% per annum and had a final scheduled installment payment date of April 1, 2017, which we repaid in full.

The prepaid common stock purchase contracts were accounted for as capital in excess of par value totaling \$240 million in our Consolidated Balance Sheets. Each prepaid common stock purchase contract automatically settled in April 2017. We delivered 40.8 million shares of our common stock to holders of the TEUs, based on the settlement rate of 3.5496 shares per unit.

#### Receivables Factoring Facility

In February 2017, J. Ray McDermott de Mexico, S.A. de C.V. ("JRM Mexico"), one of our indirectly 100% owned subsidiaries, entered into a 364 day, \$50 million committed revolving receivables purchase agreement which provides for the sale, at a discount rate of LIBOR plus an applicable margin of 4.25%, of certain receivables to a designated

purchaser without recourse. The facility provides for customary representations and warranties and compliance with customary covenants. JRM Mexico's obligations in connection with the receivables purchase agreement are guaranteed by McDermott International, Inc.

During the first nine months of 2017, we sold approximately \$2 million of receivables under the receivables purchase agreement.

#### Vendor Equipment Financing

In February 2017, 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 100% owned subsidiaries. The equipment financing agreement contains various customary affirmative covenants, as well as specific affirmative covenants,



including the pledge of specific equipment. The equipment financing agreement also requires compliance with various negative covenants, including restricted use of the proceeds. At September 30, 2017, the total borrowing outstanding under this facility was approximately \$16 million.

#### Unsecured Bilateral Lines of Credit

MDR has uncommitted lines of credit in place with Middle Eastern banks in support of our contracting activities in the Middle East. Bank guarantees issued under these agreements totaled \$504 million and \$359 million, as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, overall capacity under these arrangements totaled \$625 million.

#### Surety Bonds

As of September 30, 2017 and December 31, 2016, surety bonds issued under general agreements of indemnity in favor of surety underwriters in support of contracting activities of our subsidiaries JRM Mexico and McDermott, Inc. totaled \$56 million and \$79 million, respectively. As of September 30, 2017, overall uncommitted capacity under these arrangements totaled \$300 million.

For additional information relating to our outstanding debts, see Note 10, Debt, to the Consolidated Financial Statements included in the April 25 Form 8-K.

#### NOTE 10—PENSION AND POSTRETIREMENT BENEFITS

Net pension cost (benefit) recognized during each period presented relate to expected return on plan assets, net of interest costs, for our defined benefit pension plans.

Net periodic cost (benefit) for our qualified defined benefit pension plan and several of our non-qualified supplemental defined benefit pension plans (the “Domestic Plans”) and our J. Ray McDermott, S.A. Third Country National Employees Pension Plan (the “TCN Plan”) was as follows:

	Domestic Plans			
	Three Months		Nine Months Ended	
	Ended September	2016	September 30,	2016
	30,		September 30,	
	2017	2016	2017	2016
	(In thousands)			
Interest cost	\$4,991	\$5,276	\$14,973	\$15,828
Expected return on plan assets	(4,907)	(5,002)	(14,721)	(15,006)
Net periodic (benefit) cost	\$84	\$274	\$252	\$822

	TCN Plan	
	Three Months	Nine Months
	Ended	Ended September
	September 30,	30,

	2017	2016	2017	2016
	(In thousands)			
Interest cost	\$290	\$338	\$870	\$1,014
Expected return on plan assets	(345)	(397)	(1,035)	(1,191)
Net periodic (benefit) cost	\$(55 )	\$(59 )	\$(165 )	\$(177 )

We recognize mark to market fair value adjustment on defined benefit plans in our Consolidated Statements of Operations in the fourth quarter of each year.

#### NOTE 11—DERIVATIVE FINANCIAL INSTRUMENTS

We enter into derivative financial instruments primarily to hedge certain firm purchase commitments and forecasted transactions denominated in foreign currencies. We record these contracts at fair value on our Consolidated Balance Sheets. Depending on the hedge designation at the inception of the contract, the related gains and losses on these contracts are either: (1) deferred as a component of Accumulated Other Comprehensive Income (“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 inception and on an ongoing basis, we assess the hedging relationship to determine its effectiveness in offsetting changes in cash flows or fair value attributable to the hedged risk. We exclude from our assessment of effectiveness the portion of the fair value of the forward contracts attributable to the difference between spot exchange rates and forward exchange rates. The ineffective portion of a derivative’s change in fair value and any portion excluded from the assessment of effectiveness are immediately recognized in earnings. Gains and losses

on derivative financial instruments that are immediately recognized in earnings are included as a component of Other non-operating income (expense), net, in our Consolidated Statements of Operations.

As of September 30, 2017, the majority of our foreign currency forward contracts were designated as cash flow hedging instruments. In addition, we deferred approximately \$5 million of net losses on those derivative financial instruments in AOCI, and we expect to reclassify approximately \$2 million of deferred losses out of AOCI by September 30, 2018, as hedged items are recognized. The notional value of our outstanding derivative contracts totaled \$215 million at September 30, 2017, with maturities extending through March 2019. Of this amount, approximately \$89 million is associated with various foreign currency expenditures we expect to incur on one of our ASA segment's EPCI projects. These instruments consist of contracts to purchase or sell foreign-denominated currencies. As of September 30, 2017, the fair value of these contracts was in a net asset position totaling approximately \$3 million. The fair value of outstanding derivative instruments is determined using observable financial market inputs, such as quoted market prices, and is classified as Level 2 in nature.

The following tables summarize our derivative financial instruments:

#### Asset and Liability Derivatives

	September 30, 2017	December 31, 2016
(In thousands)		
<b>Derivatives Designated as Hedges:</b>		
<b>Location:</b>		
Accounts receivable-other	\$3,718	\$ 2,631
Other assets	152	-
<b>Total derivatives asset</b>	<b>\$3,870</b>	<b>\$ 2,631</b>
Accounts payable	\$465	\$ 9,361
Other liabilities	-	4
<b>Total derivatives liability</b>	<b>\$465</b>	<b>\$ 9,365</b>

#### The Effects of Derivative Instruments on our Financial Statements

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
(in thousands)				
<b>Derivatives Designated as Hedges:</b>				
Amount of gain (loss) recognized in other comprehensive income (loss)	\$4,971	\$4,228	\$15,183	\$14,458
Loss (gain) reclassified from AOCI to Cost of operations	4,209	(679 )	1,478	23,932
	(226 )	1,830	(1,145 )	281

Ineffective portion and amount excluded from effectiveness testing: gain (loss)  
recognized in Other non-operating expense

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## NOTE 12—FAIR VALUE MEASUREMENTS

The following table presents the financial instruments outstanding as of September 30, 2017 and December 31, 2016 that are measured at fair value on a recurring basis and financial instruments that are not measured at fair value on a recurring basis.

	September 30, 2017		Level		
	Amount	Fair Value	1	Level 2	Level 3
	(In thousands)				
<b>Recurring</b>					
Forward contracts	\$3,405	\$3,405	\$ -	\$3,405	\$-
<b>Non-recurring</b>					
Debt	(540,677)	(563,164)	-	(516,305)	(46,859)

  

	December 31, 2016		Level		
	Amount	Fair Value	1	Level 2	Level 3
	(In thousands)				
<b>Recurring</b>					
Forward contracts	\$(6,734 )	\$(6,734 )	\$ -	\$(6,734 )	\$-
<b>Non-recurring</b>					
Debt	(752,520)	(777,072)	-	(728,072)	(49,000)

The carrying value of all non-derivative financial instruments included in current assets (including cash, cash equivalents and restricted cash and accounts receivable) and current liabilities (including accounts payable but excluding short-term debt) approximates the applicable fair value due to the short maturity of those instruments.

We used the following methods and assumptions in estimating our fair value disclosures for our other financial instruments:

**Short-term and long-term debt**—The fair value of debt instruments valued using a market approach based on quoted prices for similar instruments traded in active markets is classified as Level 2 within the fair value hierarchy.

Quoted prices were not available for the NO 105 construction financing, vendor equipment financing or capital leases. The income approach was used to value these instruments based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt issues of similar quality and terms and are classified as Level 3 within the fair value hierarchy.

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

Fair Value Disclosure of Non-financial Assets

During the third quarter of 2016, our management reevaluated our operational plans for certain underutilized marine assets. As a result, we identified certain marine assets that would not be used in a manner consistent with management's original intent. Based on that determination, we tested the carrying value of those assets for recoverability by comparing the undiscounted future cash flows to the assets' respective carrying values. As the carrying values of those assets exceeded the undiscounted future cash flows, an impairment was recorded. The impairment was calculated as the difference between the \$22 million aggregate carrying value of the assets and the \$10 million estimated fair value of the assets, resulting in a \$12 million non-cash impairment charge. We utilized both a market approach and income approach to estimate the fair values of the assets. Inputs included market sales data for comparable assets, forecasted cash flows and discount rates believed to be consistent with those used by principal market participants. The fair value measurement was based on inputs that are not observable in the market and thus represent level 3 inputs.

During the first quarter of 2016, we impaired our Agile vessel upon termination of its then-current charter in May 2016, given the lack of opportunities for that vessel. In connection with that decision, we recognized a non-cash impairment charge of \$32 million during the first quarter of 2016, which equaled the vessel's carrying value, in accordance with ASC 360-10, Property, Plant and Equipment.

These are reported as a component of Other operating (income) expenses, net in our Consolidated Statements of Operations. Previously, Impairment loss was presented separately in our Consolidated Statements of Operations.

#### NOTE 13—STOCKHOLDERS' EQUITY

The changes in the number of shares outstanding and treasury shares held by the Company are as follows:

	Nine Months Ended September 30,	
	2017	2016
<b>Shares outstanding</b>		
Beginning balance	241,388,277	239,016,924
Common stock issued	43,634,232	3,234,994
Purchase of common stock	(1,013,749 )	(912,344 )
Ending balance	284,008,760	241,339,574
<b>Shares held as Treasury shares</b>		
Beginning balance	8,302,004	7,824,204
Purchase of common stock	1,013,749	912,344
Retirement of common stock	(821,586 )	(447,173 )
Ending balance	8,494,167	8,289,375
Ordinary shares issued at the end of the period	292,502,927	249,628,949

During the second quarter of 2017, we delivered 40.8 million shares of our common stock to holders of the prepaid common stock purchase contracts comprising part of the TEUs, based on the settlement rate of 3.5496 shares per unit. For further discussion see Note 9, Debt.

#### Accumulated Other Comprehensive Income (Loss)

The components of AOCI included in stockholders' equity are as follows:

	September 30, 2017	December 31, 2016
	(In thousands)	
Foreign currency translation adjustments ("CTA")	\$(48,791)	\$(42,082 )
Net unrealized gain on investments	346	269
Net unrealized loss on derivative financial instruments	(5,159 )	(25,082 )

Accumulated other comprehensive loss	\$(53,604)	\$(66,895 )
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The following table presents the components of AOCI and the amounts that were reclassified during the periods indicated:

	Foreign Currency Translation Adjustments (In thousands)	Unrealized Holding Gain (Loss) on Investments	Gain (Loss) on Derivative (1)	TOTAL
<b>For the Three Months Ended September 30, 2017</b>				
Balance at July 1, 2017	\$(42,074)	\$ 308	\$(14,425 )	\$(56,191)
Other comprehensive income (loss) before reclassification	(784 )	38	4,971	4,225
Acquisition of NCI	-	-	-	-
Amounts reclassified from AOCI	(5,933 ) <sup>(3)</sup>	-	4,295	<sup>(2)</sup> (1,638 )
Net current period other comprehensive income	(6,717 )	38	9,266	2,587
Balance at September 30, 2017	\$(48,791)	\$ 346	\$(5,159 )	\$(53,604)
<b>For the Nine Months Ended September 30, 2017</b>				
Balance at January 1, 2017	\$(42,082)	\$ 269	\$(25,082 )	\$(66,895)
Other comprehensive income before reclassification	(776 )	77	15,183	14,484
Acquisition of NCI	-	-	2,284	2,284
Amounts reclassified from AOCI	(5,933 ) <sup>(3)</sup>	-	2,456	<sup>(2)</sup> (3,477 )
Net current period other comprehensive income	(6,709 )	77	19,923	13,291
Balance at September 30, 2017	\$(48,791)	\$ 346	\$(5,159 )	\$(53,604)
<b>For the Three Months Ended September 30, 2016</b>				
Balance at July 1, 2016	\$(37,295)	\$ 264	\$(28,844 )	\$(65,875)
Other comprehensive income (loss) before reclassification	(5,031 )	(3 )	4,228	(806 )
Amounts reclassified from AOCI	-	-	(651 ) <sup>(2)</sup>	(651 )
Net current period other comprehensive income	(5,031 )	(3 )	3,577	(1,457 )
Balance at September 30, 2016	\$(42,326)	\$ 261	\$(25,267 )	\$(67,332)
<b>For the Nine Months Ended September 30, 2016</b>				
Balance at January 1, 2016	\$(29,925)	\$ 247	\$(64,277 )	\$(93,955)
Other comprehensive income (loss) before reclassification	(12,401)	14	14,458	2,071
Amounts reclassified from AOCI	-	-	24,552	<sup>(2)</sup> 24,552
Net current period other comprehensive income	(12,401)	14	39,010	26,623
Balance at September 30, 2016	\$(42,326)	\$ 261	\$(25,267 )	\$(67,332)

(1) Refer to Note 11, Derivative Financial Instruments, for additional details

(2) Reclassified to Cost of operations and Other non-operating income (expense), net

(3) Release of CTA to Other non-operating income (expense), net, on liquidation of certain foreign entities Noncontrolling Interest

North Ocean 105 In December 2010, J. Ray McDermott (Norway), AS (“JRM”), one of our indirectly wholly owned subsidiaries, and Oceanteam entered into an Equity Owner’s Agreement (as amended to date, the “Equity Agreement”) to

acquire a 75% interest in North Ocean 105 AS, the vessel-owning company. Under the Equity Agreement JRM was given an option to purchase Oceanteam ASA's 25% ownership interest in the second quarter of 2017.

In the second quarter of 2017, we exercised our option under the Equity Agreement and purchased Oceanteam's 25% interest 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 North Ocean 105 AS to Oceanteam (which had been issued in connection with a dividend declared by North Ocean 105 AS in 2016). In connection with this acquisition, we recorded a \$9 million decrease in noncontrolling interest and a \$5 million decrease in note payable to Oceanteam and we recognized a \$2 million gain in Capital-in-excess of par value in our Consolidated Financial Statements.

Berlian McDermott Sdn. Bhd In 2013, we entered into certain joint ventures with TH Heavy Engineering Berhad ("THHE"), whereby we acquired a 30% interest in THHE Fabricators Sdn. Bhd. ("THF"), a subsidiary of THHE, and THHE acquired a 30% interest in our Malaysian subsidiary, Berlian McDermott Sdn. Bhd ("BMD"). In the third quarter of 2016, we reacquired the 30% of

noncontrolling interest in BMD from THHE in exchange for our 30% equity interest in THF. We determined the fair value of the asset surrendered to be \$17 million. As of and for the periods ended September 30, 2016, in connection with the acquisition of the BMD noncontrolling interest, we recorded an \$18 million decrease in Noncontrolling interest, and, in connection with the exchange of our investment in THF, we recorded a \$12 million decrease in Investments in unconsolidated affiliates and a \$5 million gain in Other income (expense), net in our Consolidated Financial Statements.

#### NOTE 14—EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands, except share and per share amounts)			
Net income attributable to McDermott International, Inc.	\$94,701	\$16,108	\$153,030	\$34,593
Weighted average common stock (basic)	283,991,161	240,899,888	269,720,153	240,093,169
Effect of dilutive securities:				
Tangible equity units <sup>(1)</sup>	-	40,896,300	12,827,388	40,896,300
Stock options, restricted stock and restricted stock units	1,783,460	2,111,165	2,312,169	2,143,451
Potential dilutive common stock	285,774,621	283,907,353	284,859,710	283,132,920
Net income per share attributable to McDermott International, Inc.				
Basic:	\$0.33	\$0.07	\$0.57	\$0.14
Diluted:	\$0.33	\$0.06	\$0.54	\$0.12

(1) Represents weighted average TEUs outstanding for the nine months periods ended September 30, 2017. Approximately 2 million shares underlying outstanding stock-based awards for the three and nine months ended September 30, 2017 and 2016 were excluded from the computation of diluted earnings per share during those periods because the exercise price of those awards was greater than the average market price of our common stock, and the inclusion of such shares would have been antidilutive.

The common stock purchase contracts under the TEUs were settled in April 2017, see Note 9, Debt.

#### NOTE 15—COMMITMENTS AND CONTINGENCIES

## Investigations and Litigation

We co-own interests in several entities (collectively, “FloaTEC”) with Keppel Corporation (including its subsidiaries, “Keppel”). We have conducted an internal investigation in connection with allegations by a former Petrobras employee that Keppel’s agent made improper payments to secure project awards from Petrobras on a number of Keppel affiliated projects in Brazil, including a FloaTEC project on which we were also a subcontractor. Keppel’s agent subsequently entered into a plea arrangement with the Brazilian authorities and admitted to having made improper payments on behalf of Keppel to former Petrobras employees on projects unrelated to FloaTEC. We voluntarily contacted the U.S. Department of Justice (“DOJ”) to advise it of the preliminary results of our internal investigation, which identified no evidence to indicate any improper payments were made by us or FloaTEC or that any of our or FloaTEC’s employees authorized, had knowledge of, or direction or control over, any such payments. We have responded to the DOJ’s requests for additional information. If in the future, the DOJ determines that violations of applicable law have occurred involving us, we could be subject to civil or criminal sanctions, including monetary penalties, which could be material. However, based on the preliminary results of our investigation, we do not expect this matter to have a material adverse effect on us or our operations.

Additionally, due to the nature of our business, we and our affiliates are, from time to time, involved in litigation or subject to disputes or claims related to our business activities, including, among other things:

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

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

#### Environmental Matters

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

In 2013, we established a \$6 million environmental reserve in connection with our plan to discontinue the utilization of our Morgan City fabrication facility. We incurred approximately \$4 million for remediation activities. Based on our completed remediation activities, as well as our internal assessment, we believe no environmental remediation liability exists with respect to the Morgan City site. As a result, in 2016, we reversed our remaining environmental remediation obligation accrual.

#### Asset Retirement Obligations

Asset retirement obligations (“ARO”) are recorded at the present value of the estimated costs to retire the asset at the time the obligation is incurred.

At some sites, we are contractually obligated to decommission our fabrication facilities upon site exit. Currently, we are unable to estimate any ARO due to the indeterminate life of our fabrication facilities. We regularly review the optimal future alternatives for our facilities. Any decision to retire one or more facilities will result in recording the present value of such obligations. As of September 30, 2017, no ARO are recorded.

#### Contracts Containing Liquidated Damages Provisions

Some of our contracts contain provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under those provisions. Those contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. As of September 30, 2017, we had approximately \$30 million of potential liquidated damages exposure, however no liability is recorded in our Consolidated Financial Statements. We believe we will be successful in obtaining schedule extensions or other customer-agreed changes that should resolve the potential for these liquidated damages. However, we may not achieve relief on some or all of the issues involved and, as a result, could be subject to future liquidated damages.

NOTE 16—SEGMENT REPORTING

We disclose the results of each of our reportable segments in accordance with ASC 280, Segment Reporting. Each of the reportable segments is separately managed by a senior executive who is a member of our Executive Committee (“EXCOM”). EXCOM is led by our Chief Executive Officer, who is the chief operating decision maker. Discrete financial information is available for each of the segments, and the EXCOM uses the operating results of each of the reportable segments for performance evaluation and resource allocation.

We manage reportable segments along geographic lines consisting of (1) AEA, (2) MEA and (3) ASA. We also report certain corporate and other non-operating activities under the heading “Corporate and Other.”

Corporate and Other primarily reflects corporate expenses, certain centrally managed initiatives (such as restructuring charges), impairments, year-end mark-to-market (“MTM”) pension actuarial gains and losses, costs not attributable to a particular reportable segment and unallocated direct operating expenses associated with the underutilization of vessels, fabrication facilities and engineering resources.

We account for intersegment sales at prices that we generally establish by reference to similar transactions with unaffiliated customers. Reporting segments are measured based on operating income, which is defined as revenues reduced by total costs and expenses.

Summarized financial information is shown in the following tables:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)			
<b>Revenues <sup>(1)</sup>:</b>				
AEA	\$61,002	\$69,699	\$130,697	\$219,134
MEA	736,291	334,731	1,602,955	922,820
ASA	161,238	154,113	532,983	852,248
<b>Total revenues:</b>	<b>\$958,531</b>	<b>\$558,543</b>	<b>\$2,266,635</b>	<b>\$1,994,202</b>
<b>Income before provision for income taxes:</b>				
<b>Operating income (loss):</b>				
AEA	\$(7,171 )	\$2,871	\$(18,290 )	\$32,831
MEA	163,626	60,365	345,483	159,701
ASA	23,682	27,381	86,351	109,082
Segment operating income	180,137	90,617	413,544	301,614
Corporate and Other <sup>(2)</sup>	(53,065 )	(47,562 )	(143,288 )	(165,578 )
<b>Total operating income</b>	<b>127,072</b>	<b>43,055</b>	<b>270,256</b>	<b>136,036</b>
Interest expense, net	(11,976 )	(17,431 )	(50,886 )	(41,324 )
Other non-operating income (expense), net	803	5,237	(1,074 )	(1,005 )
<b>Income before provision for income taxes</b>	<b>\$115,899</b>	<b>\$30,861</b>	<b>\$218,296</b>	<b>\$93,707</b>
<b>Capital expenditures:</b>				
AEA	\$5,369	\$269	\$20,694	\$3,795
MEA	7,858	8,318	18,489	13,021
ASA	1,812	16,603	7,548	178,178
Corporate and Other <sup>(3)</sup>	1,145	1,529	50,375	2,399
<b>Total capital expenditures:</b>	<b>\$16,184</b>	<b>\$26,719</b>	<b>\$97,106</b>	<b>\$197,393</b>
<b>Depreciation and amortization:</b>				
AEA	\$5,300	\$8,992	\$16,708	\$28,717
MEA	13,224	7,724	34,889	19,632
ASA	7,966	8,970	20,913	21,877
Corporate and Other	1,857	2,140	5,522	6,529
<b>Total depreciation and amortization:</b>	<b>\$28,347</b>	<b>\$27,826</b>	<b>\$78,032</b>	<b>\$76,755</b>

<sup>(1)</sup> Intersegment transactions included in revenues were not significant for all the periods presented.

<sup>(2)</sup> Corporate and Other operating results:

- in 2017 include a \$3 million gain on sale of assets.
- in 2016 include:
  - o \$44 million of impairment charges, see Note 12, Fair Value Measurements, for further discussion; and
  - o \$11 million of restructuring expenses, see Note 4, Restructuring, for further discussion.

<sup>(3)</sup> Corporate and Other capital expenditures in the first nine months of 2017 include the purchase of the Amazon, a pipelay and construction vessel. Following the purchase we sold this vessel to an unrelated third party and simultaneously entered into an 11-year bareboat charter agreement, see Note 8, Sale Leaseback.



	September 30, 2017	December 31, 2016
	(In thousands)	
Segment assets <sup>(1)</sup> :		
AEA	\$695,751	\$727,328
MEA	1,632,064	907,936
ASA	671,864	976,470
Corporate and Other	461,756	610,496
Total assets	\$3,461,435	\$3,222,230

<sup>(1)</sup> Our marine vessels are included in the area in which they were located as of reporting date.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this quarterly report on Form 10-Q, unless the context otherwise indicates, "we," "us" and "our" mean McDermott International, Inc. and its consolidated subsidiaries.

### 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. This information should be read in conjunction with the unaudited Consolidated Financial Statements and the Notes thereto included in Item 1 of this report and the audited Consolidated Financial Statements and the related Notes and Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Current Report on Form 8-K filed with the SEC on April 25, 2017 (the "April 25 Form 8-K").

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

In addition, various statements in this 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 the Notes to our Consolidated Financial Statements in Item 1 and in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report, and in Legal Proceedings in Item 1 of Part II of this report 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:

- future levels of revenues, operating margins, income from operations, cash flows, net income or earnings per share;
- the outcome of project awards and scope, execution and timing of specific projects, including timing to complete and cost to complete these projects;
- future project activities, including the commencement and subsequent timing of marine or installation campaigns on specific projects, and the ability of projects to generate sufficient revenues to cover our fixed costs;
- estimates of percentage of completion and contract profits or losses;
- anticipated levels of demand for our products and services;
- global demand for oil and gas and fundamentals of the oil and gas industry;
- expectations regarding offshore development of oil and gas;
- market outlook for the engineering, procurement, construction and installation ("EPCI") market;
- expectations regarding cash flows from operating activities;
- expectations regarding backlog;
- 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 risk;

- results of our capital investment program;
- expectations regarding the acquisition or divestiture of assets;
- our ability to dispose of assets held for sale in a timely manner or for a price at or above net realizable value;

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

- difficulties we may encounter in obtaining regulatory or other necessary approvals of any strategic transactions;
- the risks associated with integrating acquired businesses and forming and operating joint ventures;
- the risk we may not be successful in updating and replacing current information technology and the risks associated with information technology systems interruptions and cybersecurity threats;
- social, political and economic situations in countries where we do business;
- the risks associated with our international operations, including local content or similar requirements;
- interference from adverse weather or sea conditions;
- the possibilities of war, other armed conflicts or terrorist attacks;
- the effects of asserted and unasserted claims and the extent of available insurance coverages;
- our ability to obtain surety bonds, letters of credit and financing;
- our ability to maintain builder's risk, liability, property and other insurance in amounts and on terms we consider adequate and at rates that we consider economical;
- the aggregated risks retained in our captive insurance subsidiary; and
- the impact of the loss of insurance rights as part of the Chapter 11 Bankruptcy settlement concluded in 2006 involving several of our former subsidiaries.

We believe the items we have outlined above are important factors that could cause estimates in our financial statements to differ materially from actual results and those expressed in a forward-looking statement made in this quarterly report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this report and in our 2016 Annual Report on Form 10-K filed with the SEC on February 21, 2017. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this report and in our 2016 Annual 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.

## Business Segments and Results of Operations

### Business Segments

We manage reportable segments along geographic lines consisting of (1) Americas, Europe and Africa (“AEA”), (2) the Middle East (“MEA”) and (3) Asia (“ASA”). We also report certain corporate and other non-operating activities under the heading “Corporate and Other.”

### Segment operations

We use Operating income (loss) as our measure of profitability for segment reporting purposes. For additional financial information related to our reporting segments, as well as a reconciliation of segment operating income to income before provision for income taxes, as defined by generally accepted accounting principles in the United States (“GAAP”), see Note 16, Segment Reporting, to the accompanying Consolidated Financial Statements.

Our segment operating results are frequently influenced by the resolution of change orders, project close-outs and settlements, which generally can cause operating margins to improve during the period in which these items are approved or finalized. While we expect change orders, close-outs and settlements to continue as part of our normal

business activities, the period in which they are recognized is largely driven by the finalization of agreements with customers and suppliers and, as a result, is difficult to predict. Additionally, the future margin increases or decreases associated with these items are difficult to predict, due to, among other items, the difficulty of predicting the timing of recognition of change orders, close-outs and settlements and the timing of new project awards.

Three months ended September 30, 2017 vs three months ended September 30, 2016

## Revenues

	Three Months Ended		Change	Percentage
	2017	2016		
(In thousands)				
<b>Revenues:</b>				
AEA	\$61,002	\$69,699	\$(8,697)	(12)%
MEA	736,291	334,731	401,560	120
ASA	161,238	154,113	7,125	5
<b>Total revenues</b>	<b>\$958,531</b>	<b>\$558,543</b>	<b>\$399,988</b>	<b>72%</b>

Revenues increased by 72%, or \$400 million, in the third quarter of 2017 compared to the third quarter of 2016.

AEA—Revenues decreased by 12%, or \$9 million, primarily due to a reduction in active projects in the third quarter of 2017 compared to the third quarter of 2016.

In the third quarter of 2017, a variety of projects and activities contributed to revenues, as follows:

- fabrication activity progress on the Abkatun-A2 platform, a Pemex EPCI turnkey project in the Gulf of Mexico, which was awarded in the second quarter of 2016;
- commencement of fabrication activity on BP Angelin, an EPCI gas field project off the east coast of Trinidad and Tobago, which was awarded in June 2017; and
- progress on the Hess Corporation Penn State Deep (“PSD”) subsea-tieback project in the Gulf of Mexico, which was awarded in the first quarter of 2017.

In the third quarter of 2016, a variety of projects and activities contributed to revenues, as follows:

- engineering activities on the Abkatun-A2 project, a turnkey EPCI contract to build and commission an offshore platform, which was awarded in the second quarter of 2016; and
- fabrication activity progress on the Ayatsil-C jacket replacement and deck installation project at our Altamira facility. The EOG Sercan and Caesar/Tonga field development projects, which were completed or substantially completed in 2016, also contributed to third quarter 2016 revenues.

MEA—Revenues increased by 120%, or \$402 million, in the third quarter of 2017 compared to the third quarter of 2016.

In the third quarter of 2017, a variety of projects and activities contributed to revenues, as follows:

- higher fabrication and marine activities on the lump-sum EPCI project under the second Saudi Aramco Long-Term Agreement (“LTA II”);
- marine campaign undertaken for jacket installation by our DB 27 vessel and deck installation by dual lift with our DB 27 and DB 30 vessels, as well as hook-up work on our Saudi Aramco Marjan power system replacement project;
- marine campaign for hookup activities on two Saudi Aramco EPCI projects;
- increase in marine campaign activities on the Saudi Aramco nine jackets project;
- engineering and fabrication progress on the Saudi Aramco four jackets and three observation platforms project, which was awarded in the fourth quarter of 2016;
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engineering and fabrication progress on the Saudi Aramco Safaniya phase 5 project which was awarded in the fourth quarter of 2016; and  
marine campaign for valve skid installation on pipeline, spool and risers for a flow assurance project in the Middle East.

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In the third quarter of 2016, a variety of projects and activities with Saudi Aramco contributed to revenues, as follows:

- engineering, fabrication and marine pipelay activities on a lump-sum EPCI project under the LTA II;
- fabrication and marine pipelay activities on the Marjan power system replacement project; and
- continued fabrication and marine installation progress on a 12 jackets supply project.

The commencement in 2016 of a large pipeline-related project in the Middle East, deck fabrication and sleeper installation on the KJO Hout project and the marine campaign for installation of pipeline, spool and risers on a flow assurance project in the Middle East, awarded in the fourth quarter of 2015, also contributed to third quarter 2016 revenues.

ASA—Revenues increased by 5%, or \$7 million, in the third quarter of 2017 compared to the third quarter of 2016.

In the third quarter of 2017, a variety of projects and activities contributed to revenues, as follows:

- completion of floater mooring campaign and umbilical lay by our LV 108 vessel on Ichthys, a multi-year EPCI project in Australia; and
- marine installation activities undertaken on the Vashishta subsea field infrastructure development EPCI project in India.

In the third quarter of 2016, a variety of projects and activities contributed to revenues, as follows:

- transportation and installation campaigns on the Ichthys project; and
- the Yamal module fabrication project which was awarded in the third quarter of 2015.

Segment Operating Income

	Three Months Ended September 30,		Change	Percentage
	2017	2016		
	(In thousands)			
Segment operating income (loss):				
AEA	\$(7,171 )	\$2,871	\$(10,042 )	(350 )%
MEA	163,626	60,365	103,261	171
ASA	23,682	27,381	(3,699 )	(14 )
Total	\$180,137	\$90,617	\$89,520	99 %

Segment operating income increased by approximately \$90 million in the third quarter of 2017 compared to the third quarter of 2016.

AEA—Segment operating results decreased by \$10 million in the third quarter of 2017 compared to the third quarter of 2016, primarily due to a reduction in the number of active projects in the third quarter of 2017. Those decreases were partially offset by results from:

- fabrication activity progress on the Abkatun-A2 platform; and
- commencement of fabrication activity on the BP Angelin project.

MEA—Segment operating income increased by \$103 million in the third quarter of 2017 compared to the third quarter of 2016.

In the third quarter of 2017, a variety of projects and activities contributed to the increase in operating income as follows:

- higher fabrication and marine activities on a Saudi Aramco lump-sum EPCI project under the LTA II;
- marine campaign undertaken for jacket installation by our DB 27 vessel and deck installation by dual lift with our DB 27 and DB 30 vessels, as well as hook-up work on our Saudi Aramco Marjan power system replacement project;
- marine campaign for hookup activities on two Saudi Aramco EPCI projects;
- increase in the marine campaign activities on the Saudi Aramco nine jackets project; and
- marine campaign for valve skid installation on pipeline, spool and risers for a flow assurance project in the Middle East.

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In the third quarter of 2016, a variety of projects and activities contributed to operating income, as follows:

- an increase in engineering, fabrication and marine pipelay activities on a lump-sum EPCI project under the LTA II with Saudi Aramco;
  - the commencement in 2016 of a large pipeline-related project in the Middle East, awarded in the fourth quarter of 2015; and
  - a marine campaign for installation of pipeline, spool and risers on a flow assurance project in the Middle East.
- ASA—Segment operating income decreased by \$4 million in the third quarter of 2017 compared to the third quarter of 2016.

Segment operating income in both periods was primarily driven by marine transportation and installation activities, as well as recognition of approved change orders on active projects and fabrication activity at our Batam yard.

During the quarter ended September 30, 2017, the Vashishta project was adversely impacted by vessel and marine equipment downtime. This impacted our ASA segment's operating margin.

#### Other items in Operating Income

##### Corporate and Other

	Three Months Ended September 30,		Change	Percentage
	2017	2016		
	(In thousands)			
Corporate and Other	\$ (53,065)	\$ (47,562)	\$ (5,503)	(12 ) %

Corporate and Other expenses increased by \$6 million in the third quarter of 2017 compared to the third quarter of 2016.

The increase in Corporate and Other expenses in 2017 was primarily due to lower cost recovery associated with certain vessels and the Batam fabrication facility due to a reduction in active projects in our AEA and ASA segments compared to the 2016 period.

The increase was partially offset by higher utilization of our Altamira fabrication facility during the third quarter of 2017 compared to the 2016 period.

Corporate and Other expenses in the third quarter of 2016 included:

- a \$2 million restructuring charge, as discussed in Note 4, Restructuring, to the accompanying Consolidated Financial Statements, not repeated in 2017; and
- a \$12 million non-cash impairment charge related to our marine assets recorded in the third quarter of 2016, as discussed in Note 12, Fair Value Measurement, to the accompanying Consolidated Financial Statements, not repeated in 2017.

##### Other Non-operating Items

Interest expense, net— Interest expense decreased by \$5 million, in the third quarter of 2017 compared to the third quarter of 2016. The decrease in interest expense was primarily due to repayments of our former term loan and the

Amortizing Notes in the second quarter of 2017.

Provision for income taxes—For the three months ended September 30, 2017, the Company recognized income before provision for income taxes of \$116 million, compared to \$31 million in the three months ended September 30, 2016. The provision for income taxes was \$20 million for the three months ended September 30, 2017 and \$16 million for the three months ended September 30, 2016. The effective tax rate for the three months ended September 30, 2017 was 17%, as compared to 52% for the three months ended September 30, 2016. The rate decrease was primarily driven by an increased mix of income in favorable tax jurisdictions. In addition, we also recognized \$2 million tax benefit due to changes in return to accrual adjustments, \$2 million research and development credit claim, and \$1 million tax benefit associated with the changes in uncertain tax positions taken in prior periods in Asia.

Nine months ended September 30, 2017 vs nine months ended September 30, 2016

Revenues

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	Nine Months Ended		Change	Percentage
	September 30, 2017	2016		
	(In thousands)			
<b>Revenues:</b>				
AEA	\$ 130,697	\$ 219,134	\$(88,437 )	(40 ) %
MEA	1,602,955	922,820	680,135	74
ASA	532,983	852,248	(319,265)	(37 )
<b>Total revenues</b>	<b>\$2,266,635</b>	<b>\$ 1,994,202</b>	<b>\$272,433</b>	<b>14 %</b>

Revenues increased by 14%, or \$272 million, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

AEA—Revenues decreased by 40%, or \$88 million, primarily due to a reduction in active projects in the 2017 period compared to the 2016 period.

In the first nine months of 2017, a variety of projects and activities contributed to revenues, as follows:

- fabrication activity progress on the Abkatun-A2 platform;
- commencement of fabrication activity on the BP Angelin EPCI gas field project; and
- progress on the Hess Corporation PSD subsea-tie back project in the Gulf of Mexico.

In nine months of 2016, a variety of projects, which were complete or substantially complete in 2016, also contributed to revenues, including the EOG Sercan, PB Litoral, Jack St. Malo, Caesar/Tonga field development, LLOG Otis Subsea-Tieback and Exxon Julia Subsea-Tieback projects.

Engineering work under the turnkey EPCI contract for the Abkatun-A2 platform and jacket fabrication activity for the Ayatsil-C jacket replacement and deck installation project at our Altamira facility also contributed to the 2016 period revenue.

MEA—Revenues increased by 74%, or \$680 million, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016.

In the first nine months of 2017, a variety of projects and activities contributed to revenues, as follows:

- higher fabrication and marine activities on the lump-sum EPCI project under the LTA II;
  - marine campaign undertaken for jackets and deck installation, as well as hook-up work, on the Marjan power system replacement project;
- marine campaign undertaken for jacket and pipeline installation as well as hookup activities, on two Saudi Aramco EPCI projects;
- the Saudi Aramco nine jackets project, which progressed from the fabrication phase to the marine installation phase;
- marine campaign carried out for umbilical and valve skid installation and hookup work on pipeline, spool and risers for the flow assurance project in the Middle East;
- pipelay installation and hookup activities executed by our DB 27 vessel on the KJO Hout project in the Divided Zone;
- marine hookup activities carried out during the shutdown of the TP-1 platform on the Saudi Aramco Karan-45 project;
- completion of the next phase of a large pipeline repair-related project in the Middle East;
- progress on the Saudi Aramco four jackets and three observation platform project; and

engineering and fabrication progress on the Safaniya phase 5 project for Saudi Aramco.  
In the first nine months of 2016, a variety of projects and activities contributed to revenues, as follows:

engineering, fabrication and marine activities on the lump-sum EPCI project under the LTA II;  
continued fabrication and marine installation progress on the 12 jackets supply project;

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fabrication and marine pipelay activities on the Marjan power system replacement project, all with Saudi Aramco; and engineering and fabrication activity on the KJO Hout project, a project in the Divided Zone. Commencement in 2016 of the following projects also contributed to revenue in the first nine months of 2016:

- a pipeline, spool and risers flow assurance project in the Middle East;
- a large pipeline-related project in the Middle East, which commenced and was completed in 2016; and
- offshore marine hookup campaign on a wellhead jacket and umbilical project in the Middle East.

ASA—Revenues decreased 37%, or \$319 million, in the nine months ended September 30, 2017 compared to the nine months ended September 30, 2016, primarily due to:

- reduced activity on our Ichthys EPCI project in Australia, as the project continued to progress through the installation phase;
- completion of activities on the Yamal project in the beginning of the second quarter of 2017; and
- completion of the Bergading offshore installation project in Malaysia in the second quarter of 2016.

Those decreases were partially offset by the following projects and activities:

- progress on marine installation activities on the Vashishta subsea field infrastructure development EPCI project in India; and
- commencement and substantial completion in 2017 of a marine campaign for transportation and installation of pipelines under the multi-year offshore Brunei Shell Petroleum (“BSP”) installation contract.

Segment Operating Income

	Nine Months Ended			
	2017	2016	Change	Percentage
	(In thousands)			
<b>Segment operating income (loss):</b>				
AEA	\$(18,290 )	\$32,831	\$(51,121 )	(156 ) %
MEA	345,483	159,701	185,782	116
ASA	86,351	109,082	(22,731 )	(21 )
<b>Total</b>	<b>\$413,544</b>	<b>\$301,614</b>	<b>\$111,930</b>	<b>37 %</b>

Segment operating income increased by \$112 million in the first nine months ended September 30, 2017 compared to the first nine months ended September 30, 2016.

AEA—Segment operating results decreased by \$51 million in the nine months of 2017 compared to the nine months of 2016.

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

Those decreases were partially offset by results from:

- fabrication activity progress on the Abkatun-A2 platform;
- 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.

MEA—Segment operating income increased by \$186 million in the first nine months of 2017 compared to the first nine months of 2016.

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

• higher fabrication and marine activities on the lump-sum EPCI project under the LTA II;

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- marine campaign undertaken for jackets and deck installation, as well as hook-up work, on the Marjan power system replacement project;
- marine campaign carried out for umbilical and valve skid installation as well as hook-up activities on pipeline, spool and risers for the 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;
- 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
- Saudi Aramco nine jackets project, which progressed from the fabrication phase to marine installation phase.

In the first nine months of 2016, a variety of projects and activities contributed to operating income, as follows:

- jacket fabrication and installation activity on the 12 jackets supply project;
- increased engineering and marine activities on the Marjan power systems replacement project;
- engineering activity on the LTA II lump-sum EPCI project;
- a large pipeline-related project in the Middle East, which was commenced and completed in 2016;
- commencement in 2016 of the pipeline, spool and risers flow assurance project in the Middle East; and
- offshore marine hookup campaign progress on the wellhead jacket and umbilical project in the Middle East, which was completed in the second half of 2016.

ASA—Segment operating income decreased by \$23 million in the first nine months of 2017 compared to the first nine months of 2016.

The decrease was primarily driven by reduced activity on our Ichthys project in Australia as the project continued to progress through the marine installation phase.

This decrease in operating income was partially offset by:

- marine campaign for transportation and installation of pipelines under the multi-year offshore installation contract with BSP in 2017 period; and
- close-out improvements from several previously completed projects.

During the nine months ended September 30, 2017, the Vashishta project did not contribute to our operating margin due to adverse impact of vessel and marine equipment downtime. The estimated revenue at completion of the project includes change orders that we believe will be resolved favorably.

The first nine months of 2016 operating income was attributable to:

- improved productivity and project execution cost savings;
- recognition of approved change orders on active projects; and
- close-out improvements from our 2015 pipeline-replacement campaign with BSP.

## Other items in Operating Income

## Corporate and Other

	Nine Months Ended September 30,		Change	Percentage	
	2017	2016			
	(In thousands)				
Corporate and Other	\$ (143,288)	\$ (165,578)	\$ 22,290	13	%

Corporate and Other expenses decreased by \$22 million in the first nine months of 2017 compared to the first nine months of 2016.

The decrease in Corporate and Other expenses was primarily due to:

- a \$44 million non-cash impairment charge related to our marine assets recorded in the first nine months of 2016, as discussed in Note 12, Fair Value Measurement, to the accompanying Consolidated Financial Statements, not repeated in 2017;
- \$11 million of restructuring expense recorded in the first nine months of 2016, as discussed in Note 4, Restructuring, to the accompanying Consolidated Financial Statements (the associated restructuring programs were substantially complete in 2016); and
- a \$3 million gain recognized on an asset sale in the first quarter of 2017.

Those decreases were partially offset by lower cost recovery associated with certain vessels and our fabrication facility due to a reduction in active projects in our AEA and ASA segments during 2017.

## Other Non-operating Items

Interest expense, net—Interest expense increased by \$10 million in the first nine months of 2017 compared to the first nine months of 2016.

The increase in interest expense was primarily due to:

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

Those increases were partially offset by the effects of low interest expense as a result of repayments of the term loan and the Amortizing Notes in the second quarter of 2017.

Provision for income taxes—For the nine months ended September 30, 2017, the Company recognized income before provision for income taxes of \$218 million, compared to \$94 million in the nine months ended September 30, 2016. The provision for income taxes was \$53 million and \$55 million for the nine months ended September 30, 2017 and September 30, 2016, respectively. The effective tax rate for the nine months ended September 30, 2017 was 24%, as compared to 59% for the nine months ended September 30, 2016. The rate decrease was primarily driven by an increased mix of income in favorable tax jurisdictions, which was partially offset by losses in certain jurisdictions where we did not recognize a tax benefit. In addition, we also recognized \$4 million tax benefit associated with the changes in uncertain tax positions taken in prior periods in the Middle East and Asia, \$2 million Research and Development credit claim in Asia, and \$2 million tax benefit due to changes in return to accrual adjustments in Asia.



## Backlog

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

Backlog at January 1, 2017	\$4,321,851
Bookings from new awards	147,695
Additions and reductions on existing contracts	225,029
Less: Amounts recognized in revenues	2,266,635
Backlog at September 30, 2017 <sup>(1)</sup>	\$2,427,940

<sup>(1)</sup>At September 30, 2017, approximately 63% of this backlog revenue was attributable to Saudi Aramco. Our backlog by segment was as follows:

	September 30, 2017 (in approximate millions)	
AEA	\$ 550	23 %
MEA	1,600	66 %
ASA	278	11 %
Total Backlog	\$2,428	100 %

Of the September 30, 2017 backlog, we expect to recognize revenues as follows:

	2017	2018	Thereafter
	(in approximate millions)		
Total backlog	\$713	\$1,701	\$ 14

## Liquidity and Capital Resources

General—Our primary ongoing sources of liquidity are cash flows generated from operations and cash and cash equivalents on hand. We regularly review our sources and uses of funds and may access capital markets to increase our liquidity position or to refinance our existing debt. We plan to fund our ongoing working capital, capital expenditures, debt service and other funding requirements with cash on hand, cash from operating activities, proceeds from the issuance of debt, or a combination thereof.

We believe our anticipated future operating cash flow, capacity under our credit facilities and uncommitted bilateral lines of credit, along with access to surety bonds, will be sufficient to finance our capital expenditures, settle our commitments and contingencies and address our normal, anticipated working capital needs for the foreseeable future.

## Credit Agreements

Amended and Restated Credit Agreement—In June 2017, we repaid all outstanding term loans under our credit agreement dated April 16, 2014 (the “Prior Credit Agreement”), and we amended and restated the Prior Credit Agreement by entering into an Amended and Restated Credit Agreement (“Credit Agreement”) with a syndicate of lenders and letter of credit issuers, and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent. All letters of credit outstanding under the Prior Credit Agreement were deemed issued under the Credit Agreement.

The Credit Agreement includes \$810 million of commitments from the lenders, the full amount of which is available for the issuance of letters of credit, and \$300 million of which is available for revolving loans. The senior secured credit facility established by the Credit Agreement is scheduled to mature in June 2022, unless we do not repay in full by December 1, 2020 our \$500 million senior secured notes that are due in April 2021, in which case the Credit Agreement will mature on December 1, 2020. As of September 30, 2017, the aggregate amount of letters of credit issued under the Credit Agreement was \$326 million, there were no revolving loans under the Credit Agreement, and we had \$484 million of available commitments under the Credit Agreement.

As of September 30, 2017, we were in compliance with the financial and other covenants under the Credit Agreement, including those as shown below:

Ratios	Requirement	Actual
Minimum fixed charge coverage ratio	1.15x	2.71x
Maximum total leverage ratio	3.50x	1.36x
Minimum collateral coverage ratio	1.20x	1.97x

**North Ocean Financing** In the second quarter of 2017, we exercised our option under the North Ocean 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 North Ocean 105 AS to Oceanteam (which had been issued in connection with a dividend declared by North Ocean 105 AS in 2016). For further discussion, see Note 13, Stockholders’ Equity. The Credit Agreement eliminated the Prior Credit Agreement’s requirement for us to prepay by July 20, 2017 the North Ocean 105 borrowing and to mortgage the NO 105 vessel in favor of the lenders.

**Receivables Factoring Facility**—In February 2017, J. Ray McDermott de Mexico, S.A. de C.V. (“JRM Mexico”), one of our indirect, wholly owned subsidiaries, entered into a 364-day, \$50 million committed revolving receivables purchase agreement which provides for the sale, at a discount rate of LIBOR plus an applicable margin of 4.25%, of certain receivables to a designated purchaser without recourse. During the first nine months of 2017, we sold approximately \$2 million of receivables.

**Vendor Equipment Financing**—In February 2017, 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 100% owned subsidiaries. At September 30, 2017, the total borrowings outstanding under this facility were approximately \$16 million.

**Tangible Equity Units (“TEUs”)**—During April 2017, in connection with the mandatory settlement of the purchase contracts underlying our previously outstanding TEUs, we delivered 40.8 million shares of our common stock to holders of the TEUs, based on the settlement rate of 3.5496 shares per unit.

Those TEUs were accounted for as capital in excess of par value totaling \$240 million in our Consolidated Balance Sheets.

For additional information regarding our outstanding indebtedness, see Note 9, Debt, to the accompanying Consolidated Financial Statements.

#### Cash, Cash Equivalents and Restricted Cash

As of September 30, 2017, we had \$435 million of cash, cash equivalents and restricted cash compared to \$612 million as of December 31, 2016. At September 30, 2017, we had \$46 million of cash in jurisdictions outside the U.S., principally in Malaysia, Indonesia, the United Arab Emirates and Mauritius. Approximately 2% 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.

At September 30, 2017, we had restricted cash and cash equivalents totaling \$18 million compared to \$16 million as of December 31, 2016, collateralized to support letters of credits. During the first nine months of 2017, the maximum

amount of cash collateral used to support letters of credit was \$166 million.

#### Cash Flow Activities

**Operating activities** Our net cash provided by operating activities was \$136 million in the nine months ended September 30, 2017, as compared to \$126 million provided in the nine months ended September 30, 2016.

The cash provided by operating activities primarily reflected our net income, adjusted for non-cash items and changes in components of our working capital—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 backlog as we complete certain phases of the projects.

In the nine months ended September 30, 2017, net cash used by working capital was approximately \$214 million.

The components of working capital that used or provided cash were:

- Contracts in progress, net of Advance billings on contracts increased by \$673 million primarily due to progress on:
  - the Abkatun A-2 project in our AEA segment;
  - Saudi Aramco projects including the lump-sum EPCI project under the LTA II, the Marjan power system replacement project, the Header 9 Facilities and the Berri platform in our MEA segment; and
  - the Ichthys and Vashishta projects in our ASA segment.

Those increases were partially offset by:

- Accounts receivable—collections across all segments reduced our accounts receivable by \$120 million; and
- Accounts payable—an increase of \$339 million was driven by project progress across all segments.

**Investing activities** Our net cash used in investing activities was \$44 million in the nine months ended September 30, 2017, compared to net cash used in investing activities of \$200 million in the nine months ended September 30, 2016. The cash uses in both periods primarily related to capital expenditures discussed below. Net cash used in investing activities in the first nine months of 2017 also included the sale leaseback of the Amazon vessel.

**Financing activities** Our net cash used in financing activities was \$269 million in the nine months ended September 30, 2017, as compared to net cash used in financing activities of \$106 million in the nine months ended September 30, 2016. Net cash used in the 2017 and 2016 periods was primarily attributable to:

- \$218 million and \$77 million of repayments of the term loan during the nine months ended September 30, 2017 and 2016, respectively;
- \$13 million and \$17 million of repayments of other debt during the nine months ended September 30, 2017 and 2016, respectively;
- \$21 million of debt issuance costs associated with the Credit Agreement, discussed in Note 9, Debt, to the accompanying Consolidated Financial Statements, paid in the first nine months of 2017; and \$8 million of debt issuance costs associated with amendments to the Prior Credit Agreement, paid in the first nine months of 2016;
- \$11 million for the acquisition of the North Ocean AS 105 noncontrolling interest in the second quarter of 2017; and
- \$7 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.

#### 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 the nine months ended September 30, 2017 were \$97 million, as compared to \$197 million for the nine months ended September 30, 2016. Capital expenditures for the nine months ended September 30, 2017 were primarily attributable to the purchase of the pipelay and construction vessel, the Amazon. Following the purchase, we sold the Amazon to an unrelated third party and simultaneously entered into an 11-year bareboat charter agreement with the purchaser. For additional information, see Note 8, Sale Leaseback, to the accompanying Consolidated Financial Statements.

Capital expenditures for the nine months ended September 30, 2016 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.





### Critical Accounting Policies and Estimates

For a discussion of the impact of critical accounting policies and estimates on our Consolidated Financial Statements, refer to Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Current Report on Form 8-K filed with the SEC on April 25, 2017.

See Note 1, 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 unaudited Consolidated Financial Statements.

### Item 3. Quantitative and Qualitative Disclosures about Market 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, as a result, our financial results could be significantly affected by factors such as changes in currency exchange rates or weak economic conditions in foreign markets. In order to manage the risks associated with currency exchange rate fluctuations, we attempt to hedge 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. Our operational cash flows and cash balances, though predominately held in U.S. dollars, may consist of different currencies at various points in time in order to execute our project contracts globally. Non-U.S. denominated asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in U.S. dollars.

As of September 30, 2017, we had no material future earnings or cash flow exposures from changes in interest rates on our outstanding debt obligations, as substantially all of those obligations had fixed interest rates.

Our operational cash flows and cash balances, though predominately held in U.S. dollars, may consist of different currencies at various points in time in order to execute our project contracts globally. Non-U.S. denominated asset and liability balances are subject to currency fluctuations when measured period to period for financial reporting purposes in U.S. dollars.

For quantitative and qualitative disclosures about market risk, see Item 7A, Quantitative and Qualitative Disclosures about Market Risk, included in our Current Report on Form 8-K filed with the SEC on April 25, 2017.

### Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) adopted by the SEC under the Securities Exchange Act of 1934, as amended (the “Exchange

Act’’)). Our disclosure controls and procedures were developed through a process in which our management applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding the control objectives. You should note that the design of any system of disclosure controls and procedures is based in part upon various assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based on the evaluation referred to above, our Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures are effective as of September 30, 2017 to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and such information is accumulated and communicated to management, including our principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding disclosure. There has been no change in our internal control over financial reporting during the quarter ended September 30, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding ongoing investigations and litigation, see Note 15 to our unaudited Consolidated Financial Statements in Part I of this report, which we incorporate by reference into this Item.

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit

Number Description

- 3.1\* McDermott International, Inc.'s Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to McDermott International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-08430)).
- 3.2\* McDermott International, Inc.'s Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to McDermott International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014 (File No. 1-08430)).
- 3.3\* Amended and Restated Certificate of Designation of Series D Participating Preferred Stock of McDermott International, Inc. (incorporated by reference to Exhibit 3.3 to McDermott International, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 (File No. 1-08430)).
- 4.1 Assumption Agreement, dated September 29, 2017, by and among McDermott Asia Pacific Sdn. Bhd., Malmac Sdn. Bhd. and Crédit Agricole Corporate and Investment Bank, as administrative agent and collateral agent for the Credit Agreement.
- 10.1\* Separation Agreement dated effective August 8, 2017 by and between Liane K. Hinrichs and McDermott, Inc. (incorporated by reference to Exhibit 10.1 to McDermott International, Inc.'s Current Report on Form 8-K filed on August 11, 2017 (File No. 1-08430)).
- 12.1 Ratio of Earnings to Fixed Charges.
- 31.1 Rule 13a-14(a)/15d-14(a) certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a)/15d-14(a) certification of Chief Financial Officer.
- 32.1 Section 1350 certification of Chief Executive Officer.
- 32.2 Section 1350 certification of Chief Financial Officer.
- 101.INS  
XBRL Instance Document.
- 101.SCH  
XBRL Taxonomy Extension Schema Document.
- 101.CAL  
XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB

XBRL Taxonomy Extension Label Linkbase Document.

101.PRE

XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF

XBRL Taxonomy Extension Definition Linkbase Document.

\*Incorporated by reference to the filing indicated.

SIGNATURES

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

November 1, 2017

McDERMOTT INTERNATIONAL, INC.

By: /s/ CHRISTOPHER A. KRUMMEL  
Christopher A. Krummel

Vice President, Finance and Chief Accounting Officer