MCDERMOTT INTERNATIONAL INC
Form 10-K
February 22, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 001-08430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA (State or Other Jurisdiction of Incorporation or Organization)	72-0593134 (I.R.S. Employer Identification No.)
757 N. ELDRIDGE PKWY.	
HOUSTON, TEXAS	77079

(Address of Principal Executive Offices) (Zip Code)

(281) 870-5000

Registrant's Telephone Number, Including Area Code:

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

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

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

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

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

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 þ 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 þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the registrant's common stock held by nonaffiliates of the registrant on the last business day of the registrant's most recently completed second fiscal quarter (based on the closing sales price on the New York Stock Exchange on June 30, 2015) was approximately $1.3 billion.

The number of shares of the registrant's common stock outstanding at February 18, 2016 was 239,023,838.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the registrant's 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

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

PART I

Item 1. BUSINESS

General

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") 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, the Middle East, Asia and Australia, our integrated resources include a diversified fleet of marine vessels, fabrication facilities and engineering offices. We support our activities with comprehensive project management and procurement services, while utilizing our fully integrated capabilities in both shallow water and deepwater construction. Our customers include national, major integrated and other oil and gas companies, and we operate in most major offshore oil and gas producing regions throughout the world. We execute our contracts through a variety of methods, principally fixed-price, but also including cost reimbursable, cost-plus, day-rate and unit-rate basis or some combination of those methods. In this annual report on Form 10-K, unless the context otherwise indicates, "we," "us" and "our" mean MDR and its consolidated subsidiaries.

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

Business Segments

We report financial results under three reporting segments consisting of (1) the Americas, Europe and Africa ("AEA"), (2) the Middle East ("MEA") and (3) Asia ("ASA"). We also report certain corporate and other non-operating activities under the heading "Corporate and Other." Corporate and Other primarily reflects corporate personnel and activities, incentive compensation programs and other costs that are generally fully allocated to our operating segments. For financial information about our segments, see Note 19, Segment Reporting, to our Consolidated Financial Statements.

AEA

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

MEA

Through our MEA segment, which includes the Caspian region, we serve the needs of customers in Saudi Arabia, the U.A.E., Qatar, Kuwait, India, Azerbaijan and Russia. Project focus in this segment relates primarily to the fabrication and offshore installation of fixed and floating structures and the installation of pipelines and subsea systems. The majority of our projects in this segment are performed on an EPCI basis. Engineering and procurement services are provided by our Dubai, U.A.E., Chennai, India and Al Khobar, Saudi Arabia offices and are supported by additional resources from our Houston, Texas office. The primary fabrication facility for this segment is located in Dubai, U.A.E.

ASA

Through our ASA segment, we serve the needs of customers primarily in Australia, Indonesia, Brunei, India, Malaysia, Vietnam and Thailand. Project focus in this segment includes the fabrication and offshore installation of fixed and floating structures and the installation of pipelines and subsea systems. The majority of our projects in this segment are performed on an EPCI basis. Engineering and procurement services are currently provided by our Singapore office and are supported by additional resources located in Chennai, India, Dubai, U.A.E. and Houston, Texas. In the third quarter of 2015, we announced our decision to move the ASA headquarters from Singapore to Kuala Lumpur to take advantage of a more favorable cost structure and to create a greater in-country presence in Malaysia for some of our key customers. That move is expected to be substantially complete by early 2016. The primary fabrication facility for this segment is located on Batam Island, Indonesia. Additionally, through our equity ownership interest in two separate ventures, we have access to fabrication capacity in China and Malaysia.

The above-mentioned fabrication facilities in each segment are equipped with a wide variety of heavy-duty construction and fabrication equipment, including cranes, welding equipment, machine tools and robotic and other automated equipment. Project installation is performed by major construction vessels, which we own or lease and are stationed throughout the various regions and provide structural lifting/lowering and pipelay services. These major construction vessels are supported by our multi-function vessels and chartered vessels from third parties to perform a wide array of installation activities that include anchor handling, pipelay, cable/umbilical lay, dive support and hookup/commissioning. See “Properties” in Item 2 of this annual report.

Contracts

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

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

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

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

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

Some of our contracts contain provisions that require us to pay liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under those provisions. Those contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. See Note 17, Commitments and Contingencies, to our Consolidated Financial Statements.

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

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

Backlog

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

We include in backlog unapproved change orders for which we expect to receive confirmations in the ordinary course of business, generally to the extent of the lesser of the amounts we expect to recover or the associated costs incurred. Any revenue that would represent profit associated with unapproved change orders is generally excluded from backlog until written confirmation is obtained from the applicable customer. However, consideration is given to our history with the customer as well as the contractual basis under which we may be operating. Accordingly, in certain cases based on our positive historical experience in resolving unapproved change orders with a customer, the associated profit may be included in backlog. As of December 31, 2015, total unapproved change orders included in our estimates at completion aggregated $122 million, of which approximately $21 million was included in backlog. As of December 31, 2014, total unapproved change orders included in our estimates at completion aggregated $277 million, of which approximately $75 million was included in backlog. If an unapproved change order is under dispute or has been previously rejected by the customer, the associated amount of revenue is treated as a claim.

We include claims in backlog only when we have a legal basis to do so, consider collection to be probable and believe we can reliably estimate the ultimate value. Claims revenue is included in backlog to the extent of the lesser of the amounts we expect to recover or associated costs incurred. Claims revenue in backlog at December 31, 2015 and 2014 was not material.

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

The following table summarizes changes to our backlog:

Backlog at December 31, 2014	$3,600,999
Bookings from new awards	3,097,200
Additions, net on existing contracts	603,523
Less: Amounts recognized in revenues	3,070,275

Backlog at December 31, 2015[1]	$4,231,447

[1] At December 31, 2015, approximately 50% and 21% of this backlog revenue is attributable to Saudi Aramco and Inpex Operations Australia Pty Ltd, respectively.

Our backlog Segment was as follows:

	December 31, 2015 (in approximate millions)		
AEA	$310	7	%
MEA	2,656	63	%
ASA	1,265	30	%
Total Backlog	$4,231	100	%

Of the December 31, 2015 backlog, we expect to recognize revenues as follows:

	2016	2017	Thereafter
	(in approximate millions)		
Total backlog[(2)]	$2,361	$1,371	$ 499

(2) Backlog revenue expected to be recognized on loss projects is approximately $71 million and $4 million for 2016 and 2017, respectively.

As of December 31, 2015, two significant active projects in our AEA segment were in loss positions, as a result of which future revenues are expected to equal costs when recognized. PB Litoral, an EPCI project, in Mexico, is expected to be completed in the first quarter of 2016, and the five-year Agile vessel charter project in Brazil is expected to be completed in the first quarter of 2017. Total backlog related to all projects in loss positions was approximately $75 million as of December 31, 2015. 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.

Competition

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

AEA

Our AEA segment's key competitors include: Allseas Marine Contractors S.A.; Dragados Offshore Mexico, S.A.; Gulf Island Fabrication Inc.; Heerema Group; EMAS AMC; KBR, Inc.; Kiewit Corporation; Saipem S.P.A.; Subsea 7 S.A.; Ceona Services Ltd; Seaway Heavy Lifting Shipping Ltd and Technip S.A.

MEA

Our MEA segment's key competitors include: Hyundai Heavy Industrial Co. Ltd.; Larsen and Toubro Ltd (India); National Petroleum Construction Company (Abu Dhabi); Saipem S.P.A.; Technip S.A.; Valentine Maritime (Gulf) L.L.C. and Petrofac International Ltd.

ASA

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

Unconsolidated Affiliates

We participate in the ownership of certain entities with third parties, which we sometimes refer to as “joint ventures”. Some of these joint venture entities are not consolidated and are generally accounted for under the equity method of accounting; we refer to those entities as “Unconsolidated affiliates”. The Unconsolidated affiliates that we consider significant are described below.

AEA

Deepwater Marine Technology LLC. We co-own this entity with Keppel FELS Ltd. This joint venture expands our services related to solutions involving tension leg platforms (“TLPs”). A TLP is a vertically moored floating structure normally used for the offshore production of oil and gas and is particularly suited for water depth greater than 1,000 feet.

FloaTEC LLC. We co-own this entity with Keppel FELS Ltd. This joint venture designs, markets, procures and contracts floating production systems to the deepwater oil and gas industry. The deepwater solutions provided include TLPs, spars and production semi-submersibles. A significant part of this entity's strategy is to build on the established presence, reputation and resources of its two owners and to contract activity back to its owners.

io Oil and Gas. We co-own several joint venture entities with GE Oil & Gas. These joint venture entities focus on the front-end engineering and design (FEED) phases of projects in offshore markets. They bring comprehensive field development expertise and provide technically advanced solutions in new full field development concept selection and evaluation.

ASA

Qingdao McDermott Wuchuan Offshore Engineering Company Ltd. We co-own this entity with Wuhan Wuchuan Investment Holding Co., Ltd., a leading shipbuilder in China. This joint venture provides procurement and construction services to the oil and gas industry, including floating, production, storage, off-loading ("FPSO") vessel construction and integration.

THHE Fabricators Sdn. Bhd. We co-own this entity with TH Heavy Engineering Berhad. This joint venture specifically focuses on meeting the increasing needs of energy clients in Malaysia for EPCI services.

Significant Customers

Significant customers in 2015, 2014 and 2013 were as follows:

2015:		
Inpex Operations Australia Pty Ltd.	36	%
Saudi Aramco	28	%
Brunei Shell Petroleum Co. Sdn. Bhd. (BSP)	*	
Petróleos Mexicanos (PEMEX)	*	
Abu Dhabi Marine Operating Company	*	
2014:		
Saudi Aramco	27	%
Inpex Operations Australia Pty Ltd.	25	%
Petrobras	*	
Chevron Corporation	*	
Azerbaijan International Oil	*	

Company		
2013:		
Saudi Aramco	25	%
Azerbaijan International Oil Company	13	%
Murphy Oil Company	*	
Exxon Mobil Corporation	*	
Inpex Operations Australia Pty Ltd.	*	

* Less than 10% of consolidated revenue

Customers that account for a significant portion of revenues in one year may represent an immaterial portion of revenues in other years.

Financial Information about Geographic Areas

See Note 19, Segment Reporting, to our Consolidated Financial Statements for financial information about our revenues and assets.

Raw Materials and Suppliers

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

Employees

We employed approximately 10,600 and 13,400 persons worldwide at December 31, 2015 and 2014, respectively. Approximately 3,100 and 5,500 of our employees were members of labor unions at December 31, 2015 and 2014, respectively. Some of our operations are subject to union contracts, which we customarily renew periodically. We consider our relationships with our employees and the applicable labor unions to be satisfactory.

Patents and Licenses

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

Hazard Risks and Insurance

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

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

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

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

Our wholly owned “captive” insurance subsidiary provides coverage for our retentions under employer’s liability, general and products liability, automotive liability and workers’ compensation insurance and, from time to time, builder's risk and marine hull insurance within certain limits. We may also have business reasons in the future to arrange for our insurance subsidiary to insure other risks which we cannot or do not wish to transfer to outside insurance companies. Premiums charged and reserves related to these insurance programs are based on the facts and circumstances specific to historic losses, loss factors and the performance of the outside insurance market for the type of risk at issue. The actual outcome of insured claims could differ significantly from estimated amounts. We maintain actuarially determined accruals in our consolidated balance sheets to cover losses in our captive insurance programs. These accruals are based on certain assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted as required based upon reported claims, actual claim payments and settlements and claim reserves. These loss estimates and accruals recorded in our financial statements for claims have historically been reasonable. Claims as a result of our operations, if greater in frequency or severity than actuarially predicted, could adversely impact the ability of our captive insurance subsidiary to respond to all claims presented.

Additionally, upon the February 22, 2006 effectiveness of the settlement relating to the Chapter 11 proceedings involving several subsidiaries of our former subsidiary The Babcock & Wilcox Company ("B&W"), most of our subsidiaries contributed substantial insurance rights to the asbestos personal injury trust. Those insurance rights provided coverage for, among other things, asbestos and other personal injury claims, subject to the terms and conditions of the policies. With the contribution of those insurance rights to the asbestos personal injury trust, we may have underinsured or uninsured exposure for non-derivative asbestos claims or other personal injury or other claims that would have been insured under those coverages had the insurance rights not been contributed to the asbestos personal injury trust.

Governmental Regulations and Environmental Matters

General

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

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

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

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

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

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

Environmental

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

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

We are currently in the process of investigating and remediating some of our former operating sites. Although we have recorded reserves in connection with certain of these matters, due to the uncertainties associated with environmental remediation, there can be no assurance that the actual costs resulting from these remediation matters will not exceed the recorded reserves.

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

We have been identified as a potentially responsible party at various cleanup sites under CERCLA. CERCLA and other environmental laws can impose liability for the entire cost of cleanup on any of the potentially responsible parties, regardless of fault or the lawfulness of the original conduct. Generally, however, where there are multiple responsible parties, a final allocation of costs is made based on the amount and type of wastes disposed of by each party and the number of financially viable parties, although this may not be the case with respect to any particular site. We have not been determined to be a major contributor of wastes to any of these sites. On the basis of our relative contribution of waste to each site, we expect our share of the ultimate liability for the various sites will not have a material adverse effect on our consolidated financial condition, results of operations or cash flows in any given year.

As of December 31, 2015 and 2014 we had total environmental accruals of $2 million and $4 million, respectively, all of which was included in current liabilities. These accruals are related to our Morgan City facility, which we established in connection with our plan to discontinue the utilization of that facility. Inherent in our estimates of environmental accruals are our expectations regarding the levels of contamination and remediation costs, which may vary significantly as remediation activities progress. Accordingly, changes in estimates could result in material adjustments to our operating results, and the ultimate loss may differ materially from the amounts we have provided for in our Consolidated Financial Statements.

Cautionary Statement Concerning Forward-Looking Statements

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

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

In addition, various statements in this annual report on Form 10-K, including those that express a belief, expectation or intention, as well as those that are not statements of historical fact, are forward-looking statements. Those forward-looking statements appear in Item 1, Business and Item 3, Legal Proceedings in Part I of this report and in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to our Consolidated Financial Statements in Item 8 of Part II of this 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;
- 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 trends towards offshore development of oil and gas;
- market outlook for the EPCI market;
- expectations regarding cash flows from operating activities;
- expectations regarding backlog;
- future levels of capital, environmental or maintenance expenditures;
- 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;
- the potential effects of judicial or other proceedings on our business, financial condition, results of operations and cash flows;
- the anticipated effects of actions of third parties such as competitors, or federal, foreign, state or local regulatory authorities, or plaintiffs in litigation; and
- the results and estimated cost of personnel reductions affecting direct operating expense and selling, general and administrative ("SG&A") functions.

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

- general economic and business conditions and industry trends;
- general developments in the industries in which we are involved;
- the volatility of oil and gas prices;
- decisions about offshore developments to be made by oil and gas companies;
- the highly competitive nature of our industry;
- our ability to appropriately bid, estimate and effectively perform projects on time, in accordance with the schedules established by the applicable contracts with customers;
- changes in project design or schedule;
- changes in scope or timing of work to be completed under contracts;
- cancellations of contracts, change orders and other modifications and related adjustments to backlog and the resulting impact from using backlog as an indicator of future revenues or earnings;
- the collectability of amounts reflected in change orders and claims relating to work previously performed on contracts;

- the capital investment required to construct new-build vessels and maintain and/or upgrade our existing fleet of vessels;
- the ability of our suppliers and subcontractors to deliver raw materials in sufficient quantities and/or perform in a timely manner;
- volatility and uncertainty of the credit markets;
- our ability to comply with covenants in our credit 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 regional, national and/or global requirements to significantly limit or reduce greenhouse gas and other emissions in the future;
- changes in, and liabilities relating to, existing or future environmental regulatory matters;
- changes in tax laws;
- rapid technological changes;
- the consequences of significant changes in interest rates and currency exchange rates;
- difficulties we may encounter in obtaining regulatory or other necessary approvals of any strategic transactions;
- the risks associated with integrating acquired businesses and making joint ventures operational;
- 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 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 annual report or elsewhere by us or on our behalf. We have discussed many of these factors in more detail elsewhere in this annual report. These factors are not necessarily all the factors that could affect us. Unpredictable or unanticipated factors we have not discussed in this 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.

Available Information

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

Item 1A. RISK FACTORS

You should carefully consider each of the following risks and all of the other information contained in this annual report. If any of these risks develop into actual events, our business, financial condition, results of operations or cash flows could be materially adversely affected, and, as a result, the trading price of our common stock could decline.

Risk Factors Relating to our Business Operations

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

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

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

- laws and regulations related to environmental matters, including those addressing alternative energy sources and the risks of global climate change;
- the development and exploitation of alternative fuels or energy sources;
- domestic and international political, military, regulatory and economic conditions;
- technological advances including technology related to the exploitation of shale oil; and
- the ability of oil and gas companies to generate funds for capital expenditures.

Prices for oil and gas have historically been, and we anticipate they will continue to be, extremely volatile and react to changes in the supply of and demand for oil and natural gas (including changes resulting from the ability of the Organization of Petroleum Exporting Countries to establish and maintain production quotas), domestic and worldwide economic conditions and political instability in oil producing countries. Material declines in oil and natural gas prices have affected, and will likely continue to affect the demand for and pricing of our EPCI services. Since the start of the substantial decline in the price of oil, many oil and gas companies made significant reductions in their capital expenditure budgets for 2015 and have announced that they are making significant reductions in their capital expenditure budgets for 2016. In particular, some of our customers have reduced their current levels of spending on exploration, development and production programs, including by deferring or delaying certain capital projects. The continued depression of the price of oil has adversely affected demand for our services and could, over a sustained period of time, materially adversely affect our financial condition, results of operations and cash flows.

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

We are engaged in a highly competitive industry, and we have contracted for a substantial number of projects on a fixed-price basis. In many cases, these projects involve complex design and engineering, significant procurement of equipment and supplies and extensive construction management and other activities conducted over extended time periods, sometimes in remote locations. Our actual costs related to these projects could exceed our projections. We attempt to cover the increased costs of anticipated changes in labor, material and service costs of long-term contracts, either through estimates of cost increases, which are reflected in the original contract price, or through price escalation clauses. Despite these attempts, however, the cost and gross profit we realize on a fixed-price contract could vary materially from the estimated amounts because of supplier, contractor and subcontractor performance, our own performance, including the quality and timeliness of work performed, changes in job conditions, unanticipated weather conditions, variations in labor and equipment productivity and increases in the cost of raw materials, particularly steel, over the term of the contract. In the future, these factors and other risks generally inherent in the industry in which we operate may result in actual revenues or costs being different from those we originally estimated and may result in reduced profitability or losses on projects. Some of these risks include:

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

Performance problems relating to any significant existing or future contract arising as a result of any of these or other risks could cause our actual results of operations to differ materially from those we anticipate at the time we enter into the contract and could cause us to suffer damage to our reputation within our industry and our customer base.

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

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

Our backlog is subject to unexpected adjustments and cancellations.

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

Reductions in our backlog due to cancellation or modification by a customer or for other reasons may adversely affect, potentially to a material extent, the revenues and earnings we actually receive from contracts included in our backlog. Many of the contracts in our backlog provide for cancellation fees in the event customers cancel projects. These cancellation fees usually provide for reimbursement of our out-of-pocket costs, revenues for work performed prior to cancellation and a varying percentage of the profits we would have realized had the contract been completed. However, we typically have no contractual right upon cancellation to the total revenues reflected in our backlog. Projects may remain in our backlog for extended periods of time. If we experience significant project terminations, suspensions or scope adjustments to contracts reflected in our backlog, our financial condition, results of operations and cash flows may be adversely impacted.

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

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

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

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

- unexpectedly long delivery times for, or shortages of, key equipment, parts or materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- shipyard delays and performance issues;

- failures or delays of third-party equipment vendors or service providers;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- work stoppages and other labor disputes;
- unanticipated actual or purported change orders;
- disputes with shipyards and suppliers;
- design and engineering problems;
- latent damages or deterioration to equipment and machinery in excess of engineering estimates and assumptions;

- financial or other difficulties at shipyards;
- interference from adverse weather conditions;
- difficulties in obtaining necessary permits or in meeting permit conditions; and
- customer acceptance delays.

Significant cost overruns or delays could materially affect our financial condition and results of operations. Additionally, capital expenditures for vessel construction, upgrade, refurbishment and repair projects could materially exceed our planned capital expenditures. The failure to complete such a project on time, or the inability to complete it in accordance with its design specifications, may, in some circumstances, result in loss of revenues, penalties, or delay, renegotiation or cancellation of a contract. In the event of termination of one of these contracts, we may not be able to secure a replacement contract on as favorable terms. Moreover, our vessels undergoing upgrade, refurbishment and repair activities may not earn revenue during periods when they are out of service.

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

MDR is a corporation organized under the laws of the Republic of Panama. Tax legislative proposals intending to eliminate some perceived tax advantages of companies that have legal domiciles outside the U.S. but operate in the U.S. through one or more subsidiaries have been introduced in the U.S. Congress in recent years. Recent examples include, but are not limited to, legislative proposals that would broaden the circumstances in which a non-U.S. company would be considered a U.S. resident for U.S. tax purposes. In addition, Panama enacted a law in 2013 that would have introduced a worldwide income tax on Panamanian tax residents, such as MDR. The law was subsequently repealed with retroactive effect. Nonetheless, Panama could introduce similar legislation in the future. It is possible that, if legislation were to be enacted in these areas, we could be subject to a substantial increase in our corporate income taxes and, consequently, a decrease in our future net income and an increase in our future cash outlays for taxes. We are unable to predict the form in which any proposed legislation might become law or the nature of regulations that may be promulgated under any such future legislative enactments.

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

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

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

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

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

Additionally, upon the February 22, 2006 effectiveness relating to the Chapter 11 proceedings involving several subsidiaries of our former subsidiary B&W, most of our subsidiaries contributed substantial insurance rights providing coverage for, among other things, asbestos and other personal injury claims, to the asbestos personal injury trust. With the contribution of these insurance rights to the asbestos personal injury trust, we may have underinsured or uninsured exposure for non-derivative asbestos claims or other personal injury or other claims that would have been insured under these coverages had the insurance rights not been contributed to the asbestos personal injury trust.

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

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

We depend on a relatively small number of customers.

We derive a significant amount of our revenues and profits from a relatively small number of customers in a given year. Our significant customers include major integrated and national oil and gas companies. For example, a considerable percentage of revenue in 2015 was generated from transactions with Inpex Operations Australia Pty. Ltd. and Saudi Aramco. Revenue from Inpex Operations Australia Pty Ltd and Saudi Aramco represents 36% and 28% of our total 2015 consolidated revenue, respectively. Our inability to continue to perform services for our large existing customers (whether due to our failure to satisfy their bid tender requirements or otherwise), if not offset by contracts with other customers, or delays in collecting receivables from these customers, could have a material adverse effect on our business and operations.

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

The industry in which we operate is highly competitive. Some of our competitors or potential competitors have greater financial or other resources than we have. Our operations may be adversely affected if our current competitors or new market entrants introduce new facility designs or improvements to engineering, procurement, construction or installation services.

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

We conduct some operations through foreign subsidiaries and joint ventures. We do not manage all of our joint ventures. Even in those joint ventures that we manage, we may be required to consider the interests of the other joint venture participants in connection with decisions concerning the operations of the joint ventures, which in our belief may not be as efficient or effective as in our wholly owned subsidiaries. We may experience difficulties relating to the assimilation of personnel, services and systems in the joint venture operations. Any failure to efficiently and effectively operate with our joint venture partners may cause us to fail to realize the anticipated benefits of entering into the joint venture and could adversely affect our operating results for the joint venture. Additionally, our foreign subsidiaries and joint ventures sometimes face governmentally imposed restrictions on their ability to transfer funds to us. As a result, arrangements involving foreign subsidiaries and joint ventures may restrict us from gaining access to the cash flows or assets of these entities.

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

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

- risks of war, terrorism, piracy and civil unrest;
- expropriation, confiscation or nationalization of our assets;
- renegotiation or nullification of our existing contracts;
- changing political conditions and changing laws and policies affecting trade and investment;
- overlap of different tax structures;
- risk of changes in currency exchange rates and currency exchange restrictions that limit our ability to convert local currencies into U.S. dollars; and
- risks associated with the assertion of national sovereignty over areas in which our operations are conducted.

We also may be particularly susceptible to regional conditions that may adversely affect our operations. Our major marine construction vessels typically require relatively long periods of time to mobilize over long distances, which could affect our ability to withdraw them from areas of conflict. Additionally, certain of our fabrication facilities are located in regions where conflicts may occur and limit or disrupt our operations. Recent events in the Middle East highlight the risk that conflicts could have a material adverse impact on both the markets we serve and our operating capabilities in this region. Similar or more significant events could also take place in these and other regions in which we operate and could limit or disrupt our markets and operations, including disruption from evacuation of personnel, cancellation of contracts or the loss of personnel or assets. Certain of our insurance coverages could also be cancelled by our insurers. The impacts of these risks are very difficult to cost effectively mitigate or insure against and, in the event of a significant event impacting the operations of one or more of our fabrication facilities, we will very likely not be able to timely replicate the fabrication capacity needed to meet existing contractual commitments, given the time and cost involved in doing so. Any failure by us to meet our material contractual commitments could give rise to loss of revenues, claims by customers, loss of future business opportunities and other issues, which could materially adversely affect our financial condition, results of operations and cash flows.

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

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

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

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

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

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

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

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

Our businesses are required to obtain, and to comply with, government permits, licenses and approvals. Any of these permits, licenses or approvals may be subject to denial, revocation or modification under various circumstances.

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

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

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

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

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

- constructing and equipping of production platforms and other offshore facilities;
- marine vessel safety;
- the operation of foreign-flagged vessels in the coastal trade;
- currency conversions and repatriation;
- oil exploration and development;
- clean air and other environmental protection legislation;
- taxation of foreign earnings and earnings of expatriate personnel;
- required use of local employees and suppliers by foreign contractors; and
- requirements relating to local ownership.

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

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

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

Regulations related to "conflict minerals" could adversely impact our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as conflict minerals, originating from the Democratic Republic of Congo and adjoining countries (collectively, the "Covered Countries"). The term "conflict minerals" encompasses tantalum, tin, tungsten (and their ores) and gold.

In August 2012, pursuant to the Dodd-Frank Act, the SEC adopted new annual disclosure and reporting requirements applicable to any company that files periodic public reports with the SEC, if any conflicts minerals are necessary to the functionality or production of a product manufactured, or contracted to be manufactured, by that company. These new annual reporting requirements require companies to describe reasonable country of origin inquiries, due diligence measures, the results of those activities and related determinations.

Because we have a highly complex, multi-layered supply chain, we may incur significant costs to comply with these new disclosures. In addition, the implementation of procedures to comply with these requirements could adversely affect the sourcing, supply and pricing of materials, including components, used in our products. Our suppliers (or suppliers to our suppliers) may not be able or willing to provide all requested information or to take other steps necessary to ensure that no conflict minerals financing or benefiting armed groups are included in materials or components supplied to us for our manufacturing purposes. We may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals necessary to the functionality or production of our products through the procedures we may implement. Also, we may encounter challenges to satisfy customers that may require all of the components of products purchased by them to be certified as conflict free. If we are not able to meet customer certification requirements, customers may choose to disqualify us as a supplier. In addition, since the applicability of the conflict minerals requirements is limited to companies that file periodic reports with the SEC, not all of our competitors will need to comply with these requirements unless they are imposed by customers. As a result, those competitors may have cost and other advantages over us.

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

Our success depends on the continued active participation of our executive officers and key operating personnel. The unexpected loss of the services of any one of these persons could adversely affect our operations. We implemented changes to our organizational structure during 2014 and 2015 as a part of our profitability initiative, and have made and expect to make further refinements to our organizational structure as part of our continued efforts to improve our cost structure in 2016. If we are unable to implement these changes as expected, it may significantly affect our business and results of operations in the future.

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

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

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

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

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

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

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

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

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

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

- difficulties relating to the assimilation of personnel, services and systems of an acquired business and the assimilation of marketing and other operational capabilities;
- challenges resulting from unanticipated changes in customer relationships subsequent to an acquisition;
- additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;
- assumption of liabilities of an acquired business, including liabilities that were unknown at the time the acquisition transaction was negotiated;
- diversion of management's attention from day-to-day operations;
- failure to realize anticipated benefits, such as cost savings and revenue enhancements;
- potentially substantial transaction costs associated with business combinations; and
- potential impairment of goodwill or other intangible assets resulting from the overpayment for an acquisition.

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

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

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

Our customers and suppliers have operations in locations that are subject to natural disasters, such as flooding, hurricanes, tsunamis, earthquakes, volcanic eruptions or nuclear or other disasters, or a combination of such disasters, such as the events experienced in Japan in 2011. The occurrence of any of these events and the impacts of such events could disrupt and adversely affect the operations of our customers and suppliers as well as our operations in the areas in which these types of events occur.

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

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

Risk Factors Relating to Our Financial Condition and Markets

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

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

Our debt and funded debt levels have increased significantly as a result of our 2014 refinancing transactions.

Our debt and funded debt obligations have increased significantly as a result of our 2014 financing transactions. Our significant debt and funded debt levels and related debt service obligations could have negative consequences, including:

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

· exposing us to increased interest rate risk given that a portion of our debt obligations are at variable interest rates.

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

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

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

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

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

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

Risk Factors Relating to our Common Stock

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

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

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

In addition, we are registered with the Panamanian National Securities Commission (the “PNSC”) and, as a result, we are subject to Decree No. 45 of December 5, 1977, of the Republic of Panama, as amended (the “Decree”). The Decree imposes certain restrictions on offers to acquire voting securities of a company registered with the PNSC if, following such an acquisition, the acquiror would own directly or indirectly more than 5% of the outstanding voting securities (or securities convertible into voting securities) of such company, with a market value of at least five million Balboas (approximately $5 million). Under the Decree, any such offeror would be required to provide McDermott with a declaration stating, among other things, the identity and background of the offeror, the source and amount of funds to be used in the proposed transaction and the offeror's plans with respect to McDermott. In that event, the PNSC may, at our request, hold a public hearing as to the adequacy of the disclosure provided by the offeror. Following such a hearing, the PNSC would either determine that full and fair disclosure had been provided and that the offeror had complied with the Decree or prohibit the offeror from proceeding with the offer until it has furnished the required information and fully complied with the Decree. Under the Decree, such a proposed transaction cannot be consummated until 45 days after the delivery of the required declaration prepared or supplemented in a complete and accurate manner, and our board of directors may, in its discretion, within 15 days of receiving a complete and accurate declaration, elect to submit the transaction to a vote of our stockholders. In that case, the transaction could not proceed until approved by the holders of at least two-thirds of the voting power of the shares entitled to vote at a meeting held within 30 days of the date it is called. If such a vote is obtained, the shares held by the offeror would be required to be voted in the same proportion as all other shares that are voted in favor of or against the offer. If the stockholders approved the transaction, it would have to be consummated within 60 days following the date of that approval. The Decree provides for a civil right of action by stockholders against an offeror who does not comply with the provisions of the Decree. It also provides that certain persons, including brokers and other intermediaries who participate with the offeror in a transaction that violates the Decree, may be jointly and severally liable with the offeror for damages that arise from a violation of the Decree. We have a long-standing practice of not requiring a declaration under the Decree from passive investors who do not express any intent to exercise influence or control over our company and who remain as passive investors, so long as they timely file appropriate information on Schedule 13D or Schedule 13G under the Securities Exchange Act of 1934. This practice is consistent with advice we have received from our Panamanian counsel to the effect that our Board of Directors may waive the protection afforded by the Decree and not require declarations from passive investors who invest in our common stock with no intent to exercise influence or control over our company.

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table provides the segment name, location, and principal use of each of our significant properties at December 31, 2015 that we own or lease:

Business Segment and Location	Principal Use	Owned/Leased
AEA		
Altamira, Mexico	Administrative Office/Fabrication Facility	Owned/Leased
Mexico City, Mexico	Administrative/Engineering Office	Leased
Houston, Texas	Operations/Engineering/Administrative Office	Leased
Rio de Janeiro, Brazil	Operations/Administrative Office	Leased
Epsom, United Kingdom	Operations/Engineering/Administrative Office	Leased
MEA		
Dubai (Jebel Ali), U.A.E.	Fabrication Facility/Operations/Engineering/ Administrative Office	Leased

Abu Dhabi, U.A.E	Administrative Office	Leased
Al Khobar, Saudi Arabia	Fabrication Facility/Operations/Engineering Office	Leased
Chennai, India	Engineering Office	Leased
Dammam, Saudi Arabia	Fabrication Facility	Leased
Doha, Qatar	Operations Office	Leased
ASA		
Singapore, Singapore	Operations/Engineering/Administrative Office	Leased
Batam Island, Indonesia	Fabrication Facility	Leased
Perth, Australia	Operations Office	Leased
Kuala Lumpur, Malaysia	Operations/Engineering/Administrative Office	Leased
Qingdao, China	Fabrication Facility	Leased
CORPORATE		
Houston, Texas	Administrative Office	Leased

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

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

The following table sets forth certain information with respect to the major construction and multi-service vessels currently utilized to conduct our operations, including the reporting segments in which they were operating as of December 31, 2015:

Location and Vessel Name	Vessel Type	Year Entered Service/Upgraded	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
AEA				
Agile(1)(2)	Multi-Service Vessel	1978/2011	100	-
DB 50(1)(2)	Pipelay/Derrick	1988/2012	4,400	20
North Ocean 102(1)(2)	Multi-Service Vessel	2009	275	-
North Ocean 105(1)(3)(4)	Multi-Service Vessel	2012	440	16
Intermac 600(2)	Launch/Cargo Barge	1973	-	-
MEA				
DB 27(2)	Pipelay/Derrick	1974/1984	2,400	60
DB 32(2)	Pipelay/Derrick	2010/2013	1,650	60
Thebaud Sea(1)(2)	Multi-Service Vessel	1999/2010	100	-
Emerald Sea(1)(2)	Multi-Service Vessel	1996/2007	100	-
ASA				
DB 30(3)(4)	Pipelay/Derrick	1975/1999	3,080	60
Intermac 650(2)	Launch/Cargo Barge	1980/2006	-	-
CSV 108(1)(2)	Multi-Service Vessel	2015	400	-
DLV 2000(3)	Pipelay/Derrick	Under Construction	-	-

(1) Vessel with dynamic positioning capability.
(2) Vessels subject to mortgages securing indebtedness under our credit agreement and senior secured notes.
(3) Vessels not subject to mortgages securing indebtedness under our credit agreement and senior secured notes.
(4) Vessels owned through joint ventures. Our ownership percentages are DB 30 (70%) and North Ocean 105 (75%). The NO 105 is currently subject to a mortgage securing indebtedness of the joint venture that owns that vessel.

Based on independent third-party appraisals obtained in January 2016, the estimated aggregate fair market value of (1) mortgaged vessels securing our principal credit facilities and senior secured notes was approximately $778 million, and (2) vessels which are not subject to mortgages securing that indebtedness (net of value attributable to minority ownership interests) was approximately $517 million. As security for the indebtedness under our principal credit facilities and senior secured notes, we have pledged all of the capital stock of our subsidiaries that own the vessels that are mortgaged to secure that indebtedness.

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

Item 3. LEGAL PROCEEDINGS

The information set forth under the heading “Investigations and Litigation” in Note 17, Commitments and Contingencies, to our Consolidated Financial Statements included in this annual report is incorporated by reference into this Item 3.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Stock Information

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

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

	Year Ended December 31,			
	2015		2014	
Quarter Ended	High	Low	High	Low
March 31	$3.84	$2.15	$9.18	$7.37
June 30	5.89	3.94	8.35	6.73
September 30	5.32	3.37	7.98	5.72
December 31	5.94	3.29	5.55	2.25

We have not paid cash dividends on MDR's common stock since the second quarter of 2000 and do not currently have plans to reinstate a cash dividend at this time. Our Board of Directors evaluates our cash dividend policy from time to time.

As of February 18, 2016 there were approximately 2,273 record holders of our common stock.

Corporate Performance Graph

The following graph provides a comparison of our five-year, cumulative total shareholder return[1] from December 2010 through December 2015 to the return of S&P 500 and our peer group.

[1] Total shareholder return assuming $100 invested on December 31, 2010 and reinvestment of dividends on daily basis.

The peer group used for the five-year comparison was comprised of the following companies:

Cameron International Corporation	KBR, Inc.
Chicago Bridge & Iron Company N.V.	Noble Corporation
Exterran Holdings, Inc.	Oceaneering International, Inc.
FMC Technologies, Inc.	Oil States International, Inc.
Helix Energy Solutions Group, Inc.	Superior Energy Services, Inc.
Jacobs Engineering Group Inc.	Tidewater Inc.

The companies listed above comprise the peer group utilized for 2015 executive compensation benchmarking (the "Proxy Peer Group"). Dresser-Rand Group, Inc. and Foster Wheeler AG, which were included in the Proxy Peer Group in 2014, are not included in the 2015 Proxy Peer Group for purposes of this performance graph. Dresser-Rand Group, Inc. was acquired by Siemens AG in 2015. Foster Wheeler AG was acquired by AMEC PLC in 2014.

Item 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except for per share amounts)				
Statement of Operations Data:					
Revenues	$3,070,275	$2,300,889	$2,658,932	$3,641,624	$3,445,110
Operating Income (Loss)	91,196	8,554	(456,745)	307,139	314,089
Income (loss) from continuing operations before discontinued operations and noncontrolling interests	(8,839)	(65,394)	(489,910)	201,738	227,532
Income (loss) from Discontinued Operations	-	-	-	3,497	(12,812)
Less: net income attributable to noncontrolling interest	9,144	10,600	18,958	10,770	12,625
Net Income (Loss) Attributable to McDermott International, Inc.	(17,983)	(75,994)	(508,868)	194,465	202,095
Basic Earnings (Loss) per Common Share:					
Income (Loss) from Continuing Operations	(0.08)	(0.32)	(2.15)	0.81	0.92
Income (Loss) from Discontinued Operations	-	-	-	0.01	(0.05)
Diluted Earnings per Common Share:					
Income (Loss) from Continuing Operations	(0.08)	(0.32)	(2.15)	0.80	0.91
Income (Loss) from Discontinued Operations	-	-	-	0.01	(0.05)
Balance Sheet Data:					
Total Assets[1]	$3,387,076	$3,416,879	$2,803,694	$3,329,407	$2,988,283
Current Maturities of Long-Term Debt	24,882	23,678	39,543	14,146	8,941
Long-Term Debt[1]	819,001	840,791	45,342	84,342	80,263
Total Equity	1,546,721	1,539,114	1,440,344	1,952,105	1,733,712

(1) In 2015 we adopted Accounting Standard Update 2015-03 ("ASU"), Simplifying the Presentation of Debt Issuance Costs and ASU 2015-15, Interest—Imputation of Interest—Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which require debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. Previously reported financial statements from 2011 through 2014 have been adjusted to reflect adoption of this ASU.

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

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

General

MDR is a leading provider of integrated engineering, procurement, construction and installation ("EPCI") 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, the Middle East, 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.

We report financial results under three reporting segments consisting of (1) the Americas, Europe and Africa ("AEA"), (2) the Middle East ("MEA") and (3) Asia ("ASA"). We also report certain corporate and other non-operating activities under the heading "Corporate and Other." Corporate and Other primarily reflects corporate personnel and activities, incentive compensation programs and other costs that are generally fully allocated to our operating segments. For financial information about our segments, see Note 19, Segment Reporting, to our Consolidated Financial Statements.

Our business activity depends mainly on capital expenditures for offshore construction services of major integrated oil and gas companies and national oil companies for the construction of development projects in the regions in which we operate. Our operations are generally capital intensive and rely on large contracts, which can account for a substantial amount of our revenues.

Overview

Our performance is significantly impacted by spending on upstream exploration, development, and production programs by our customers. Some of the more significant determinants of current and future spending levels of our customers are oil and natural gas prices, global oil supply, the world economy, the availability of credit, government regulation and global stability. Under the current macro commodity environment we may see pressure from potential customer capital expenditure spending delays, stronger competitive pricing pressure given contraction in certain markets and lower utilization of our assets. However, we believe our long-term industry position remains favorable, and will continue to concentrate on our highest value proposition opportunities, executing well our existing backlog, customer alignment, our asset utilization and cost/liquidity management.

Operating Results

2015 Our backlog as of December 31, 2015 was $4,231 million. A significant new award under the second Long Term Agreement ("LTA II") entered into with Saudi Aramco, two key awards in Qatar and a number of change orders contributed to $3,701 million of backlog increase, partially offset by $3,070 million of revenue roll-off during 2015, resulting in a net increase of approximately $631 million over our backlog as of December 31, 2014.

Revenues for 2015 were $3,070 million, an increase of $769 million, or 33%, over 2014. This increase is primarily attributable to: (1) progress, driven by marine activities, on the Ichthys project; (2) the completion of the Brunei Shell pipeline replacement project; (3) a significant increase in activities in several of our Middle East projects; and (4) increased fabrication and marine activities on the PB Litoral project.

Operating income was $91 million in 2015, an increase of $83 million compared to 2014. Operating income was positively impacted by: (1) strong project execution, including on the Ichthys project, where the activities remained on schedule; (2) successful completion of the Manifa, Abu Ali and Karan 45 projects, all with Saudi Aramco; and (3) completion of fabrication, installation and hook up of the PB Litoral facilities. Significant items we recognized as charges in our operating income included $41 million for the restructuring actions discussed in Note 4, Restructuring, to the Consolidated Financial Statements, a $26 million non-cash mark-to-market actuarial loss on our pension benefit plans, discussed in Note 10, Pension and Postretirement benefits to the Consolidated Financial Statements, and a $17 million charge associated with a legal settlement in the third quarter of 2015, discussed in Note 17, Commitments and Contingencies to the Consolidated Financial Statements.

We realized approximately $115 million of cash savings, before restructuring charges, in 2015 from our McDermott Profitability Initiative ("MPI"). In addition, we continued our efforts to improve our cost structure and commenced the Additional Overhead Reduction program ("AOR") during the fourth quarter of 2015. We expect that actions related to the AOR will be substantially complete in the first quarter of 2016. These actions are expected to include personnel reductions affecting direct operating expenses and selling, general and administrative functions. We expect to incur approximately $5 million in restructuring costs under the AOR.

2014 Operating income of $9 million included favorable changes in estimates of $111 million due to: (1) project closeout benefits and reimbursement for weather downtime/vessel standby time, see Note 3, Use of Estimates, to the Consolidated Financial Statements; (2) a gain of $46 million associated with the sale of non-core assets; and (3) an improvement of $11 million related to a change in estimate of vessel-impairment charges recognized in 2013 for CSV 108 pipelay system, see Note 12, Fair Value Measurements, to the Consolidated Financial Statements.

Those increases were partially offset by $110 million increased cost to complete certain projects primarily due to marine equipment downtime driven by adverse weather conditions, mechanical issues and standby delays and accrual for liquidated damages, see Note 3, Use of Estimates, to our Consolidated Financial Statements. Additionally, we incurred a charge in the amount of $18 million associated with our ongoing restructuring programs, discussed in Note 4, Restructuring, to our Consolidated Financial Statements.

2013 Operating loss in 2013 was $457 million. This loss was a result of a combination of operational matters and commercial issues with customers that impacted, among other things, changes in estimates to complete various projects. These operational matters and commercial issues included the following:

- Of the $318 million fourth quarter 2013 operating loss, approximately $134 million was related to commercial issues, approximately $82 million was related to operational matters, approximately $86 million was related to impairment of assets and approximately $16 million was related to restructuring charges in the Americas segment and corporate reorganization.
- Of the approximate $134 million of fourth quarter 2013 operating losses related to commercial issues, key drivers included changes to recovery estimates on projects with unapproved change orders or claims outstanding with customers. Specifically, we recorded approximately $91 million of losses related to unapproved claims on two projects.
- Of the approximate $82 million of fourth quarter 2013 operating losses related to projects with operational matters, approximately $50 million related to our typical selling, general and administrative costs. In addition, a key driver was a $28 million loss related to a subsea project in Malaysia due primarily to mechanical downtime on the North Ocean 105. The vessel later resumed work and the project was completed in June 2014.

Business Outlook

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

The sustained low price of oil since 2014 and the slowdown of growth in certain developing countries has raised uncertainty around the economics of certain potential projects that have not yet been approved by our customers and, therefore, are not included in our backlog. We do not currently have any reason to expect cancellation of existing projects in our backlog. Nonetheless, the continued depression of the price of oil has adversely affected demand for our services and could, over a sustained period of time, materially adversely affect our financial condition, results of operations and cash flows.

Since the start of the substantial decline in the price of oil, many oil and gas companies made significant reductions in their capital expenditure budgets for 2015 and have announced that they are making significant reductions in their capital expenditure budgets for 2016. In particular, some of our customers have reduced their current levels of spending on exploration, development and production programs, including by deferring or delaying certain capital projects; however, we do expect other capital projects to continue, as they are economic or strategically necessary in a variety of oil and gas price environments. We also expect that project deferrals and delays, combined with the natural decline rates of existing production and the resetting of the industry cost base, will ultimately contribute to further investment by oil and gas producers in the long-term.

In the current environment, McDermott will concentrate on what we can control which includes continued focus on our highest value proposition opportunities, executing well our existing backlog, customer alignment and focus on our utilization and cost/liquidity management.

Segment Operations

Our segment operating results for each of the last three years are presented in the table below:

For additional information on the geographic distribution of our revenues, see Note 19, Segment Reporting, to our Consolidated Financial Statements included in this annual report.

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Revenues:			
AEA	$478,800	$567,608	$537,290
MEA	1,134,555	795,666	1,167,804
ASA	1,456,920	937,615	953,838
Total revenues	3,070,275	2,300,889	2,658,932
Cost of operations	2,691,284	2,113,013	2,801,426
Selling, general and administrative expenses	217,239	208,564	193,126
Impairment loss (recovery)	6,808	(9,002)	84,482
Loss (gain) on disposal of assets	1,443	(46,201)	(15,200)
Restructuring expenses	40,819	18,113	35,727
Total costs and expenses	2,957,593	2,284,487	3,099,561
Loss from Investments in Unconsolidated Affiliates	(21,486)	(7,848)	(16,116)
Operating income (loss):			
AEA	(19,741)	(49,337)	(215,362)
MEA	108,227	11,421	(169,224)
ASA	15,563	55,412	(72,159)
Corporate	(12,853)	(8,942)	-
Total operating income (loss)	91,196	8,554	(456,745)
Other Income (Expense):			
Interest income (expense), net	(50,058)	(60,877)	1,353
Gain (loss) on foreign currency, net	(464)	7,234	16,872
Other income (expense), net	2,450	(232)	(2,339)
Total other income (expense)	(48,072)	(53,875)	15,886
Income (loss) before provision for income taxes and noncontrolling interests	43,124	(45,321)	(440,859)
Provision for income tax	51,963	20,073	49,051
Net loss	(8,839)	(65,394)	(489,910)

Less: net income attributable to noncontrolling interest	9,144	10,600	18,958
Net loss attributable to McDermott International, Inc.	$(17,983)	$(75,994)	$(508,868)

Year Ended December 31, 2015 Compared to Year Ended December 31, 2014

Revenues

Revenues were $3,070 million and $2,301 million in 2015 and 2014, respectively, an increase of approximately 33%, or $769 million, primarily due to increased activity in our ASA and MEA segments, partially offset by decreased activity in our AEA segment.

AEA—Revenues decreased by 16%, or $89 million, in 2015 compared to 2014. This decrease was primarily due to a reduction in active projects in 2015 compared to 2014. Significant projects contributing to the 2014 revenues that were either complete or substantially complete in 2014 were Papa Terra, Jack & St. Malo, Gulfstar, Mafumeria Sul, Ayatsil-B, and Megalodon Platform Installation. During 2015, the following projects contributed to revenue: (1) completion of fabrication and installation activity and a $12 million reversal of a liquidated damage reserve related to the extension to the contract completion date associated with the PB Litoral project; (2) the completion of engineering work and near completion of marine activities associated with the Julia subsea tieback project; (3) completion of various marine installation campaign projects executed by the DB 50 in the Gulf of Mexico awarded in 2014 and 2015; (4) higher NO 102 vessel charter activities in Brazil; and (5) the start-up of fabrication for a jacket replacement and deck installation on Ayatsil-C, an EPCI project awarded in 2015.

MEA—Revenues increased by 43%, or $339 million, in 2015 compared to 2014. This increase in 2015 was primarily due to (1) significant increases in fabrication, marine pipelay, marine cable laying and hookup activities on the Karan 45 and Abu Ali Cables projects; (2) the installation of jackets and an observation platform on the Manifa project; (3) the commencement of engineering and fabrication activities on the replacement of power systems on the Marjan project; (4) the start of two new projects; (a) a lump-sum EPCI project under the LTA II and (b) a project to supply 12 platform jackets; and (5) multiple change order awards on existing and new projects, all with Saudi Aramco. Increased fabrication and marine activities on the ADMA 4 GI project in the U.A.E and increased marine and commissioning activity on the KJO Ratawi project in the Neutral Zone also contributed to the increase in revenues. In 2014, the following projects contributed to revenue (1) marine and fabrication activities on the Saudi Aramco Safaniya Phase-2 project; (2) completion of a pipelay project in the Caspian; and (3) substantial completion of the Saudi Aramco Five Jackets project.

ASA—Revenues increased by 55%, or $519 million, in 2015 compared to 2014. This increase was primarily due to (1) a significant increase in marine activity on the Ichthys project; and (2) the start of two new projects in 2015 (a) Brunei Shell Petroleum (“BSP”) pipeline replacement project, which was completed in 2015; and (b) the Jangkrik subsea isolation valve and manifolds fabrication project in Indonesia. In 2014, the following projects contributed to revenue: (1) the Siakap subsea development project in Malaysia; (2) the Kepodang gas development project in Indonesia; (3) the Champion Waterflood project in Brunei; (4) the Banyu Urip project in Indonesia; and (5) the DB 101 marine campaign projects, all of which were either complete or substantially complete in 2014.

Cost of Operations

Cost of operations was $2,691 million and $2,113 million, in 2015 and 2014, respectively, an increase of approximately 27%, or $578 million, primarily due to increased cost of operations in our ASA and MEA segments, partially offset by reduced cost of operations in our AEA segment.

AEA—Cost of operations decreased by 30%, or $180 million, in 2015 compared to 2014. This decrease was primarily due to the completion of the Jack & St. Malo and Gulfstar projects and substantial completion of the Papa Terra, Mafumeria Sul, Ayatsil-B and Megalodon Platform Installation projects in 2014. In addition, 2014 included an unfavorable change in estimate of $69 million on the PB Litoral project, with no corresponding impact in 2015. See

Note 3, Use of Estimates to our Consolidated Financial Statements for further information.

The cost of operations in 2015 included costs associated with new or increased activity for the following projects: (1) the marine installation campaign on the Julia subsea tieback project; (2) completion of fabrication and installation activities on our PB Litoral project; (3) completion of various marine installation campaigns by the DB 50 vessel in the Gulf of Mexico awarded in 2014 and 2015; (4) completion of NO 102 vessel charter activities in Brazil; and (5) startup of fabrication activity on the Ayatsil-C project awarded in 2015. The 2015 cost of operations also included a $17 million charge associated with a legal settlement discussed in Note 17, Commitments and Contingencies to our Consolidated Financial Statements and a non-cash mark-to-market pension charge of $26 million in the fourth quarter of 2015 discussed in Note 10, Pension and Postretirement Benefits, to our Consolidated Financial Statements.

MEA—Cost of operations increased by 32%, or $228 million, in 2015 compared to 2014. This increase was primarily due to (1) significant fabrication, marine pipelay, marine cable laying and hookup activities on the Karan 45 and Abu Ali Cables projects; (2) fabrication and installation of jackets and an observation platform on the Manifa project; (3) the commencement of engineering and fabrication activities on the Marjan power systems replacement project; and (4) the start of two new projects; (a) a lump-sum EPCI project under the LTA II and (b) the fabrication and installation of 12 jackets project, all with Saudi Aramco. The increased activity on the ADMA 4 GI project in the U.A.E. and the KJO Ratawi project in the Neutral Zone also contributed to the increase in cost of operations. The 2014 cost of operations included costs associated with (1) marine and fabrication activities on the Saudi Aramco Safaniya Phase-2 project; (2) completion of a pipelay project in the Caspian; and (3) substantial completion of the Saudi Aramco Five Jackets project.

ASA—Cost of operations increased by 67%, or $530 million, in 2015 compared to 2014. This increase in cost of operations was primarily driven by (1) significant progress, driven by marine activity, on the Ichthys project; (2) the start and completion of the BSP pipeline replacement project in Brunei; and (3) significant progress on the Jangkrik subsea isolation valve and manifolds fabrication project. The 2014 cost of operations included costs related to projects which were completed in 2014, mainly, the Banyu project in Indonesia, the Siakap subsea development project, the DB101 marine campaign projects in Malaysia, the Champion Waterflood project in Brunei and the substantially complete Kepodang gas development project in Indonesia.

Operating Income

Operating income is frequently influenced by the resolution of change orders, project close-outs and settlements. Although 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.

Operating income improved by $83 million in 2015 compared to 2014, primarily due to improvements in our AEA and MEA segments.

Segment Analysis

AEA—Operating income improved by $30 million in 2015 compared to 2014 primarily due to unfavorable changes in estimates in 2014 with no corresponding impact in 2015. The 2014 results were negatively impacted by changes in estimates of $69 million on the PB Litoral project, primarily due to increased costs arising from project delays, increases in projected fabrication, procurement and marine installation costs, reduced productivity and recognition of liquidated damages. Those negative factors in 2014 were partially offset by (1) approximately $40 million of operating income related to the Papa Terra project in Brazil in 2014, mainly due to project close-out improvements, savings on marine costs and increased recoveries from additional weather-related compensation and (2) $24 million of operating income in 2014 contributed by the successful completion of the Jack & St Malo and Gulfstar projects. The 2014 operating income also included $35 million in gains from asset sales, which were not repeated in 2015.

The following contributed to our AEA segment's 2015 operating income: (1) increased fabrication and marine activities, as well as a $12 million reversal of a liquidated damage reserve due to the extension of the PB Litoral project contract completion date; (2) $21 million from Agile, NO 105, and NO 102 marine charter activities in Brazil, on various projects; (3) $19 million resulting from the DB 50 vessel working on various projects in the Gulf of Mexico; and (4) a $14 million benefit resulting from additional close-out improvements and compensation for weather related delays on the Papa Terra project. The 2015 operating results also included charges associated with (1) $17 million charge associated with a legal settlement as discussed in Note 17, Commitments and Contingencies, to our Consolidated Financial Statements and (2) a $26 million non-cash mark-to-market pension charge, as discussed in Note 10, Pension and Postretirement Benefits, to our Consolidated Financial Statements.

MEA—Operating income improved by $97 million in 2015 compared to 2014. The improvement in 2015 operating income was primarily due to: (1) increased marine and hookup activities, improved marine vessel productivity and reimbursement for mobilization costs on the Karan 45 project; (2) improved productivity and lower demobilization costs on the Abu Ali Cables project; (3) increased jacket and deck installation activity on the Manifa project; and (4) reimbursement for vessel downtime/standby time on various projects, all with Saudi Aramco. Close out improvements on the KJO Ratawi project also contributed $16 million of benefit to operating income. Those increases were partially offset by a $20 million operating income deterioration on our ADMA 4 GI project in the U.A.E. because of changes in our execution plan, increased costs associated with the DB 32 vessel demobilization and productivity related cost increases during hookup and pre-commissioning work. See Note 3, Use of Estimates to our Consolidated Financial Statements for further information on this change.

The 2014 operating income included a $66 million benefit from a pipelay project in the Caspian, which had minimal activity in 2015. In addition, 2014 included deteriorations of approximately $15 million primarily due to a revision in execution plan as a result of delayed access to the KJO Ratawi project in the Neutral Zone and $13 million related to vessel downtime due to weather and standby delays on the Saudi Aramco Safaniya Phase-1 project, not repeated in 2015.

ASA—Operating income decreased by $40 million in 2015 compared to 2014. The 2014 operating income included favorable changes in estimates of $52 million compared to $23 million in 2015, see Note 3, Use of Estimates, to the Consolidated Financial Statements. The 2014 favorable change in estimate improved our operating income by $63 million mainly related to two EPCI projects, both completed in 2014, the Siakap subsea development project in Malaysia and the Champion Waterflood project in Brunei. In addition, 2015 included a $20 million restructuring charge, see Note 4, Restructuring, to our Consolidated Financial Statements. The following projects contributed $77 million of operating income in 2015: (1) higher marine activities and change in scope in 2015 on our Ichthys project with no comparable benefits in 2014 and (2) completion of the BSP pipeline replacement project, which started in 2015.

Other Items in Operating Income

Selling, general and administrative expenses increased by $9 million in 2015 as compared to 2014, primarily due to a fourth quarter non-cash mark-to-market pension charge of $26 million, partially offset by cost savings realized by the MPI.

Gain (loss) on disposal of asset for 2014 primarily related to the following sales and disposals: (1) sale of the DB 16 and the KP1, resulting in a $11 million gain; (2) a gain from the sale of our Harbor Island facility near Corpus Christi, Texas of approximately $25 million and (3) an aggregate gain of approximately $10 million from the disposal of various assets from our Morgan City facility.

Losses from investments in unconsolidated affiliates increased by $14 million from an $8 million loss in 2014 to a $22 million loss in 2015, primarily due to increased operating losses on the joint ventures Qingdao McDermott Wuchuan Offshore, io Oil & Gas and THHE Fabricators Sdn. Bhd.

Impairment loss of $7 million was recognized in the second quarter of 2015 for a marine pipelay welding system that we abandoned.

Restructuring expenses included in operating income were $41 million and $18 million in 2015 and 2014, respectively, an increase of $23 million. See Note 4, Restructuring, to the accompanying Consolidated Financial Statements. As a part of our restructuring, in the first quarter of 2015 one of our vessels, the DB101, which was held and used in the ASA segment, was written down to a fair value of $14 million, resulting in a non-cash impairment charge of $4 million. In the second quarter of 2015, we disposed of the asset and recognized an additional loss of $3 million.

Other Income (Expense)

Interest expense, net was $50 million in 2015 and $61 million in 2014. The 2015 interest expense was lower compared to 2014 primarily due to a one-time $28 million interest charge for unamortized issuance fees in the second quarter of 2014 related to the termination of bridge financing arrangements with an affiliate of Goldman Sachs. Interest expense for 2015 includes full-year interest on all of our long-term debt obligations issued in April 2014.

Provision for Income Taxes

For the year ended December 31, 2015, we recognized income before provision for income taxes of $43 million, compared to a loss before provision for income taxes of $45 million for the year ended December 31, 2014. The provision for income taxes was $52 million and $20 million for the years ended December 31, 2015 and 2014, respectively. The increase in the provision for income taxes was primarily driven by increased profits in certain jurisdictions in which we operate (primarily Saudi Arabia and Australia). In addition, we were able to utilize past losses in certain jurisdictions which were previously un-benefited to offset our improving income (primarily Saudi Arabia and Singapore).

Net Income Attributable to Non-controlling Interest

Net income attributable to noncontrolling interests was $9 million and $11 million for 2015 and 2014, respectively. The decrease was primarily due to our acquisition of our partner's interest in our North Ocean joint venture related to the NO 102, partially offset by increased income from two of our consolidated affiliates.

Year Ended December 31, 2014 Compared to Year Ended December 31, 2013

Revenues

Revenues decreased approximately 13%, or $358 million, to $2,301 million in 2014 compared to $2,659 million in 2013. The decline in revenues was primarily attributable to the decrease in our MEA segment discussed below.

AEA—Revenues increased by approximately 6%, or $31 million, to $568 million in 2014 compared to $537 million in 2013. The increase was primarily due to higher marine activity on the Papa Terra project, the NO 105 and NO 102 charter projects in Brazil and Jack & St. Malo and Gulfstar projects in the U.S. Gulf of Mexico in 2014, as compared to 2013. Those increases were partially offset by completion of activities on the Discovery Junction, Fab 4-Pile, 2 Living Quarters, Hibiscus Fab and Noble Alen projects that were being executed from our Morgan City fabrication facility in 2013.

MEA—Revenues decreased by approximately 32%, or $373 million, to $795 million in 2014, compared to $1,168 million in 2013. The decrease was primarily due to the completion of activities on a pipelay project in the Caspian Sea, an EPCI project Cluster-7 well platform in India and marine activity on Safaniya Phase-1, a Saudi Aramco project, each of which had higher activity during 2013 compared to 2014. Those declines were partially offset by increased activity on Safaniya Phase-2, a Saudi Aramco project.

ASA—Revenues decreased by approximately 2%, or $16 million, to $938 million in 2014, compared to $954 million in 2013. The decline was largely due to the completion of the Macedon gas development and KTT projects in Australia in 2013 and the KPOC marine installation project in Malaysia, which had significant marine activity in 2013. Also contributing to the revenue decrease was approximately $50 million of successful project close-out negotiations and resolution of pending change orders on KTT project, which occurred in 2013. In addition, the completion of activities on the Siakap subsea development project in Malaysia, the Gorgon fabrication project in Australia and the Kepodang gas development project in Malaysia, each of which had significant activity during 2013, also led to decreased revenue during 2014. These decreases were partially offset by an increase in revenues associated with increased fabrication activity on the Ichthys project in Australia and increased marine activity on the Champion Waterflood in Brunei.

Cost of Operations

Cost of operations decreased approximately 25%, or $688 million, from $2,801 million in 2013 compared to $2,113 million in 2014, primarily driven by reduced activity in our MEA segment.

AEA—Cost of operations decreased by 9%, or $57 million, from $649 million in 2013 compared to $592 million in 2014. The decrease was primarily due to the completion of activities on the Discovery Junction, Fab 4-Pile, 2 Living Quarters, Hibiscus Fab and Noble Alen projects that were being executed from our Morgan City fabrication facility in 2013 and the completion of activities on the Ayatsil-B project in our Altamira facility. The Ayatsil-B project was impacted by changes in estimates related to higher procurement costs and reduced labor productivity in 2013, as discussed in Note 3, Use of Estimates to our Consolidated Financial Statements. The decrease was partially offset by increased costs associated with higher marine activity on the Papa Terra and NO 105 and 102 charter projects in Brazil as well as the Jack & St. Malo and Gulfstar projects in the U.S. Gulf of Mexico in 2014 as compared to 2013. Further, cost of operations on the PB Litoral project in Altamira increased by approximately $60 million, primarily due to changes in cost estimates recorded in 2014.

MEA—Cost of operations decreased by approximately 42%, or $522 million, from $1,248 million in 2013 to $726 million in 2014. This decrease was primarily due to the substantial completion of a pipelay project in the

Caspian Sea, an EPCI project Cluster-7 well platform in India and marine activity on Safaniya Phase-1 Saudi Aramco project, each of which had higher activity in 2013. Safaniya Phase-1 project was significantly influenced by an increase in cost estimates of approximately $63 million in 2013, largely due to an extended offshore hookup campaign as discussed in Note 3, Use of Estimates to our Consolidated Financial Statements. These declines were partially offset by increased activity on an ongoing EPCI Safaniya Phase-2 Saudi Aramco project.

ASA—Cost of operations decreased by approximately 12%, or $109 million, from $904 million in 2013 to $795 million in 2014. The decline was primarily due to the completion of the Macedon and KTT projects in 2013 and the KPOC marine installation project in Malaysia, which had significant activity in 2013. The decrease was also due to the completion of marine activity on the Siakap subsea development project during the first half of 2014. This project, which was in a loss position, was significantly impacted by project charges associated with changes in estimates related to the availability of marine vessels in 2013, as discussed in Note 3, Use of Estimates to our Consolidated Financial Statements. Further, the Gorgon and Kepodang gas development projects, were also substantially completed during 2013, which contributed to a decline in the cost of operations in 2014 as compared to 2013. These decreases were partially offset by increased costs associated with marine activity on the Champion Waterflood project and fabrication activity on the Ichthys project in 2014.

Operating Income (Loss)

Operating income is frequently influenced by the resolution of change orders, project close-outs and settlements. Although 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.

Segment Analysis

Operating results improved by $466 million from an operating loss of $457 million in 2013 to an operating income of $9 million in 2014, attributable to improvements experienced in each of our segments.

AEA—The segment's operating losses were $49 million and $215 million in 2014 and 2013, respectively, an improvement of $166 million. The operating income on the Papa Terra project in Brazil increased by $40 million due to project close-out improvements from marine cost reductions upon completion of activities and increased recoveries due to successful developments from the ongoing approval process for additional weather-related compensation. The operating income on the Jack & St. Malo project in the U.S. Gulf of Mexico improved by $19 million mainly due to positive developments from the ongoing settlement negotiations with the customer, partially offset by adverse changes in estimates primarily due to increased costs from marine equipment downtime as discussed in Note 3, Use of Estimates to our Consolidated Financial Statements. An improvement of $16 million resulted from the completion of activities on the Ayatsil-B project at Altamira in 2014. This project was impacted by changes in estimates related to higher procurement costs and reduced labor productivity in 2013, as discussed in Note 3, Use of Estimates to our Consolidated Financial Statements. In addition, increased marine activity on the I600 and NO 105 charters in the U.S. Gulf of Mexico and Brazil during 2014, as compared to 2013, resulted in a net improvement of $17 million. These improvements were partially offset by a $47 million decrease in operating income from the PB Litoral project at Altamira, primarily due to increased project management costs arising from project delays, projected fabrication cost increases reflecting reduced productivity and changes to the execution plan to mitigate further project delays, as well as procurement and marine installation cost increases and the recognition of corresponding liquidated damages. This project is estimated to be completed in the first quarter of 2016.

MEA—Operating income was $11 million in 2014, compared to an operating loss of $169 million in 2013. The improvement of $180 million was primarily attributable to a pipelay project in the Caspian Sea, where the results improved by approximately $124 million in 2014, primarily due to increased revenue and reduced cost estimates of approximately $54 million from the project closeout process with the customer. This project was significantly impacted by project charges associated with changes in estimates related to cost recovery estimates in 2013, as discussed in Note 3, Use of Estimates, to our Consolidated Financial Statements. In addition, on Safaniya Phase-1 project our operating loss in 2014 was lower compared to 2013 by approximately $36 million. This project was impacted by project charges of approximately $63 million associated with changes in estimates in 2013, as discussed in Note 3, Use of Estimates to our Consolidated Financial Statements. During 2014, we increased our estimated cost to complete on this project by $19 million, primarily due to increased cost estimates to complete the onshore scope. Although the project suffered negative cost estimate changes during 2013 and 2014, it remained in an overall profitable position and is substantially complete.

ASA—Operating income was $55 million in 2014, compared to an operating loss of $72 million in 2013. The improvement was primarily driven by an improvement of $167 million on the Siakap subsea development project in 2014 compared to 2013. This project was significantly impacted by project charges associated with net changes in estimates of approximately $127 million related to the availability of marine vessels in 2013, as discussed in Note 3, Use of Estimates, to our Consolidated Financial Statements. During 2014, this project experienced positive changes in cost estimates of approximately $34 million, mainly due to productivity improvements on our marine vessels and offshore support activities and project close-out savings. An improvement of $17 million resulted primarily from additional recovery in 2014 on the Macedon project that was completed in 2013. This project was impacted by project charges associated with changes in estimates related to negotiations with the customer in 2013. In addition, increased fabrication activity on the Ichthys project and increased marine activity on the Champion Waterflood project, completed in 2014, resulted in a combined improvement of $54 million in 2014 as compared to 2013. The improvement was partially offset by an approximately $107 million decline in operating income from the KTT project that was completed in 2013, which had significant marine activity in 2013, including approximately $50 million relating to successful project close-out negotiations and the resolution of pending change orders with our customer. In addition, completion of the KPOC, Gorgon and Kepodang gas development projects, each of which had higher activity in 2013, resulted in a decrease in operating income of approximately $36 million in 2014.

Other Items in Operating Income

Selling, general and administrative expenses increased by $16 million from $193 million in 2013 to $209 million in 2014, primarily due to higher benefit expense and higher administrative expense in the North Sea and Africa regions.

Impairment loss decreased by $94 million in 2014 compared to 2013. In June 2014, we cancelled a pipelay system originally intended for the CSV 108, which resulted in an $11 million improvement to the cancellation cost estimate included in the $38 million of vessel-impairment charges recognized in 2013 (discussed below). This was partially offset by a charge of $2 million recorded in 2014 related to the full impairment of certain of our intangible assets. In 2013, we recorded a goodwill impairment of $47 million, which represented the total amount of our goodwill, primarily related to a 2007 acquisition. Based on market conditions and expected future utilization of our entire marine fleet, we had also recognized impairment charges totaling approximately $38 million in 2013 related to the cancellation of in-progress upgrades to one of our existing marine vessels and the deferral of a portion of the scope of work relating to one of our marine vessels under construction.

Loss (gain) on disposal of assets was $46 million in 2015, a $31 million positive increase from prior year, primarily due to a gain of approximately $25 million from the sale of our Harbor Island facility near Corpus Christi, Texas.

Restructuring expenses decreased by $18 million from $36 million in 2013 to $18 million in 2014, primarily due to lower expense relating to Americas restructuring in 2014.

Loss from investments in unconsolidated affiliates decreased by $8 million, from $16 million to $8 million in 2014, primarily due to improved results generated by our FloaTEC joint venture.

Other Income (Expense)

Interest expense, net for 2014 was significantly impacted by increased interest expense related to our term loan and senior secured notes. Net interest expense in 2014 was $61 million as compared to net interest income of $1 million in 2013. With the completion of the financing transactions in April 2014 discussed in Note 9, Debt, to our Consolidated Financial Statements, we terminated the bridge loan commitment we had obtained from an affiliate of Goldman, Sachs, & Co. (“Goldman Sachs”). As a result of the termination of the bridge loan commitment, the fee we previously paid to Goldman Sachs to obtain the bridge loan commitment was recognized as interest expense in the first half of 2014. Due to the replacement of our former credit agreement, the unamortized issuance fees related to the former credit agreement were also recognized as interest expense in the first half of 2014. The total additional interest expense related to these items was approximately $28 million.

Gain on foreign currency, net decreased by $10 million, from income of $17 million in 2013 to income of $7 million in 2014, primarily due to lower derivative instruments and hedging activities gains. For derivative instruments and hedging activities, approximately $7 million of gain was recognized in 2014, compared to approximately $13 million of gain in 2013. The foreign currency exchange gains were under $0.5 million in 2014 compared to foreign currency exchange gains of approximately $4 million in 2013.

Provision for Income Taxes

Our loss before provision for income taxes and non-controlling interests was $45 million and $441 million for 2014 and 2013, respectively. Provision for income taxes was $20 million and $49 million for 2014 and 2013, respectively. We were able to utilize past losses in certain jurisdictions which were previously un-benefited to offset our improving income (primarily Kuwait and Singapore). In addition, our provision for incomes taxes decreased as a result of changes in tax positions taken in prior periods, primarily related to expiring statute of limitations in certain foreign tax jurisdictions.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests was $11 million and $19 million in 2014 and 2013, respectively, an $8 million decrease, primarily due to decreased activity and lower net income at two of our consolidated affiliates during 2014.

Inflation and Changing Prices

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

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

Liquidity and Capital Resources

Our primary ongoing sources of liquidity are cash flows generated from operations and cash and cash equivalents on hand. Management believes that our cash flows from operations and the sources of liquidity and capital resources described below will be sufficient to fund our liquidity requirements for at least the next twelve months.

Cash and Cash Equivalents

As of December 31, 2015, we had $782 million cash and cash equivalents and restricted cash compared to $853 million as of December 31, 2014. At December 31, 2015, we had $36 million of cash in jurisdictions outside the U.S., principally in the United Kingdom, Saudi Arabia, and Indonesia. Approximately 1% of our outstanding cash balance is held in countries that have established government imposed currency restrictions that could impede the ability of our subsidiary to transfer funds to us.

At December 31, 2015, we had restricted cash and cash equivalents totaling $117 million compared to $188 million as of December 31, 2014. The decrease is primarily associated with the $65 million reduction in cash collateral under the LC Facility. The amount as of December 31, 2015 and 2014 includes $102 million and $154 million of cash collateral for letters of credit which generally may be replaced with letters of credit under the LC Facility.

Cash Flow Activities

Operating activities Net cash provided by operating activities in 2015 and 2014 was $55 million and $7 million, respectively, and net cash used by operating activities in 2013 was $257 million.

The cash provided (used) by operating activities primarily reflected our net loss, 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 project.

We believe our anticipated future operating cash flows and capacity under our credit facilities will be sufficient to finance our capital expenditures, settle our commitments and contingencies and address our working capital needs for the foreseeable future.

In the first half of 2015, we reached agreements with a representative we previously utilized in our Middle East operations and certain of its affiliates and associates regarding: (1) the value and timing of payment of ongoing future amounts that were to be paid under a representation agreement that we elected to allow to expire, with respect to: (a) commissions on customer contracts that we had entered into prior to such expiration; and (b) future commissions payable on customer contracts we expected to enter into during a specified post-expiration period under the representation agreement (pursuant to provisions that provided for commissions to be payable on customer contracts entered into during such post-expiration period); and (2) our repurchase of shares of capital stock in one of our subsidiaries previously held by them. Under these agreements, we agreed to make a series of payments in respect of the commissions that were expected to become due and payable under the prior arrangement. We paid approximately $21 million in March 2015, $26 million in April 2015 and $4 million in the second half of 2015 in connection with these agreements. In connection with those payments, we have recorded amounts in both “contracts in progress” and "other assets," which we intend to reduce over time as expenses are recognized on the associated customer contracts in accordance with percentage-of-completion accounting.

Investing activities Our net cash used in investing activities was $25 million, $409 million and $231 million in 2015, 2014 and 2013, respectively.

The change in cash used in investing activities in 2015 compared to 2014 was primarily due to lower capital expenditures and a decrease in restricted cash and cash equivalents attributable to the reduction in cash collateral under the LC Facility in 2015. A lower level of capital spending in 2015 compared to 2014 was primarily due to the delay in completion of our Deepwater Lay Vessel 2000 ("DLV 2000"), resulting from deferrals of milestone payments, and lower payments in 2015 for our CSV 108 vessel, which was completed and put in service in the first quarter of 2015.

The change in cash used in investing activities in 2014 compared to 2013 was primarily due to higher capital expenditures and an increase in restricted cash and cash equivalents attributable to the proceeds from the financing transactions in 2014. Higher capital expenditures were primarily due to milestone payments for DLV 2000 and CSV 108 vessels, which were under construction.

Financing activities. Our net cash used in financing activities was $28 million in 2015, compared to net cash provided by financing activities of $951 million in 2014. The change was primarily attributable to the financing transactions completed in April 2014.

Our net cash provided by financing activities was $951 million in 2014, compared to net cash used in financing activities of $34 million in 2013. The change was primarily attributable to the financing transactions completed in April 2014.

Credit facilities and Debt

Our primary internal source of liquidity is cash flow generated from operations and cash on hand. Capacity under our existing credit arrangements is also available, if necessary, to provide necessary letters of credit, bank guarantees and surety bonds. These letters of credit, bank guarantees and surety bonds are generally issued to customers in the ordinary course of business to support advance payments and performance guarantees, in lieu of retention on our contracts.

Credit Agreement

During April 2014, we refinanced our obligations under, and replaced in its entirety, our then-existing $950 million credit agreement with a new credit agreement (the “Credit Agreement”), which initially provided for:

- a $400 million first-lien, first-out three-year letter of credit facility (the “LC Facility”), which is scheduled to mature in 2017; and
- a $300 million first-lien, second-out five-year term loan (the “Term Loan”), which is scheduled to mature in 2019.

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 (collectively, the “Guarantors”). In connection with the Credit Agreement, we paid certain fees to the lenders thereunder, as well as certain arrangement fees to the arrangers and agents for the Credit Agreement, which we have capitalized and are amortizing to interest expense over the respective terms of the LC Facility and the Term Loan. We also paid certain fees to the initial purchasers of the senior secured notes and to the underwriter of the tangible equity units referred to below, which we have capitalized and are amortizing to interest expense over the respective terms of the related indebtedness.

LC Facility and Cash-Collateralized Bilateral Letters of Credit—In October 2015, we entered into an Amendment No. 1 and Commitment Increase Supplement (the “Commitment Increase Supplement”), which amended the Credit Agreement primarily to increase the existing LC Facility from $400 million to $520 million, by adding to the Credit Agreement a new letter of credit lender and by allowing existing letter of credit lenders to increase their respective letter of credit commitments. Costs associated with the Commitment Increase Supplement were not material. Letters of credit issuable under the LC Facility support the obligations of McDermott and its affiliates and joint ventures. Financial letters of credit do not support ordinary course of business performance obligations or bids. The aggregate amount of the LC Facility available for financial letters of credit is capped at 25% of the total LC Facility.

As of December 31, 2015 and 2014, the aggregate face amount of letters of credit issued under the LC Facility was $384 million and $196 million, respectively. There were no financial letters of credit issued under the LC facility as of either date. The LC Facility 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 facility. As of December 31, 2015 and 2014, we had an aggregate face amount of approximately $102 million and $89 million of such letters of credit outstanding supported by cash collateral, including financial letters of credit of $45 million and $20 million, respectively.

The LC Facility is secured on a first-lien, first-out basis (with relative priority over the Term Loan) by pledges of the capital stock of all the Guarantors and mortgages on, or other security interests in, substantially all the tangible and intangible assets of our company and the Guarantors, subject to specific exceptions.

The LC Facility contains various customary affirmative covenants, as well as specific affirmative covenants, including specific reporting requirements and a requirement for ongoing periodic financial reviews by a financial advisor. The LC Facility also requires compliance with various negative covenants, including limitations with respect to the incurrence of other indebtedness and liens, restrictions on acquisitions, capital expenditures and other investments, restrictions on sale/leaseback transactions and restrictions on prepayments of other indebtedness.

The LC Facility requires us to generate consolidated earnings before interest, taxes, depreciation and amortization, as adjusted ("Covenant EBITDA") of minimum amounts over the term of the LC Facility. As of December 31, 2015 the Covenant EBITDA required over the remaining term of the LC Facility is a minimum of $251 million. The Covenant EBITDA is a non-GAAP measure, with a specific definition under the terms of the LC Facility. The definition includes a provision for increasing the Covenant EBITDA calculation results by an amount up to $40 million on a trailing twelve month (TTM) basis, less the aggregate amount of all adjustments for prior periods. As of December 31, 2015, we had not increased the Covenant EBITDA and, as of December 31, 2014, we had increased the Covenant EBITDA by approximately $12 million, on the TTM basis. As of December 31, 2015, the remaining provision available for further utilization was $28 million.

On February 19, 2016, we entered into an Amendment No. 2 to the Credit Agreement, which amended the Credit Agreement to permit us to add to Covenant EBITDA certain cash restructuring expenses related to the conclusion of MPI or implementation of AOR for the quarters ending on or after March 31, 2016 but before April 16, 2017, in an aggregate amount not to exceed $25 million (as of any date of determination).

A comparison of the Covenant EBITDA covenant and current compliance is as follows:

	Twelve months ended December 31, 2015	Twelve months ended September 30, 2015	Twelve months ended June 30, 2015	Twelve months ended March 31, 2015	Twelve months ended December 31, 2014
	(In millions)				
Calculated Covenant EBITDA (TTM)	$338.4	$ 322.6	$272.8	$198.8	$ 130.9
Provision utilized (TTM)	-	-	5.5	5.5	12.0
Actual Covenant EBITDA attributable to McDermott International, Inc. (TTM)	$ 338.4	$ 322.6	$ 278.3	$ 204.3	$ 142.9
Required Covenant EBITDA (TTM)	$251.0	$ 227.0	$170.0	$169.0	$ 127.0

Covenant EBITDA is presented above for the purpose of disclosing our compliance with the covenants in the Credit Agreement. Covenant EBITDA is not a substitute for or superior to, operating income, net income, operating cash flow and other measures of financial performance prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The GAAP measure most directly comparable to Covenant EBITDA is net income. Covenant EBITDA has a specific definition as per the LC Facility and may differ in the method of calculation from similarly titled measures used by other companies.

The following shows the calculation of Covenant EBITDA based on net income for each of the periods presented:

	Quarter ended December 31,	Quarter ended September 30, 2015	Quarter ended June 30,	Quarter ended March 31,	Quarter ended December 31, 2014

	2015 (In millions)		2015	2015	
Net Income (loss) attributable to McDermott International, Inc.	$(18.7)	$ 3.7	$11.5	$(14.5)	$ 8.2
Adjustments:					
Interest Expense (including interest capitalized)	17.9	18.6	18.4	18.7	18.9
Tax expense (benefit)	21.5	9.1	16.5	4.9	10.3
Depreciation, drydock and amortization (excluding attributable to Nonguarantors)	27.3	27.8	27.7	31.1	26.1
Other items:					
Equity (income) loss	2.7	4.5	7.5	6.7	2.2
(Gain) loss on assets disposal	-	(0.1)	1.9	(0.4)	0.1
Impairment loss	-	-	6.8	-	-
Restructuring - asset impairment and disposal	-	-	3.3	4.2	-
Restructuring - other expense	8.7	6.3	12.1	6.2	6.0
Pension expense	24.5	(1.6)	(1.2)	(1.5)	(3.3)
Others	4.8	6.0	9.5	6.0	4.4
Total adjustments	$107.4	$ 70.6	$102.5	$75.9	$ 64.7
Calculated Covenant EBITDA attributable to McDermott International, Inc.	88.7	74.3	114.0	61.4	72.9
Calculated Covenant EBITDA attributable to McDermott International, Inc. - Cumulative/TTM	338.4	322.6	272.8	198.8	130.9

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The LC Facility also requires us to maintain a ratio of fair market value of vessel collateral to the sum of (1) the outstanding principal amount of the Term Loan, (2) the aggregate amount of undrawn financial letters of credit outstanding under the LC Facility, (3) all drawn but unreimbursed letters of credit under the LC Facility, and (4) mark-to-market foreign exchange exposure that is not cash secured of at least 1.2:1.0. As of December 31, 2015, the actual ratio was 2.11 to 1.0.

The LC Facility also specifies maximum capital expenditures over the term of the facility and requires us to maintain at least $200 million of minimum available cash at the end of each quarter. We have remained in compliance with the covenants under the LC Facility through December 31, 2015.

The LC Facility provides for a commitment fee of 0.50% per year on the unused portion of the LC Facility and letter of credit fees at an annual rate of 2.25% for performance letters of credit and 4.50% for financial letters of credit, as well as customary issuance fees and other fees and expenses.

Term Loan—The Term Loan bears interest at a floating rate, which can be, at our option, either: (1) a LIBOR rate for a specified interest period (subject to a LIBOR "Floor" of 1.00%) plus an applicable margin of 4.25%; or (2) an alternate base rate (subject to a base rate "floor" of 2.00%) plus an applicable margin of 3.25%. The Term Loan was incurred with 25 basis points of original issue discount.

The Term Loan is secured on a first-lien, second-out basis (with the LC Facility having relative priority over the Term Loan) by pledges of the capital stock of all the Guarantors and mortgages on, or other security interests in, substantially all tangible and intangible assets of our company and the Guarantors, subject to specific exceptions. As of December 31, 2015 and 2014, we had $296 million and $299 million, respectively, in borrowings outstanding under the Term Loan, of which $3 million was classified as current notes payable as of both dates.

The Term Loan requires mandatory prepayments from: (1) the proceeds from the sale of assets, as well as insurance proceeds, in each case subject to certain exceptions, to the extent such proceeds are not reinvested in our business within 365 days of receipt; (2) net cash proceeds from the incurrence of indebtedness not otherwise permitted under the Credit Agreement; and (3) 50% of amounts deemed to be "excess cash flow," subject to specified adjustments. The Term Loan also requires $750,000 quarterly payments of principal.

The Term Loan requires compliance with various customary affirmative and negative covenants. We are required to maintain a ratio of "ownership adjusted fair market value" of marine vessels to the sum of (1) the outstanding principal amount of the Term Loan and (2) the aggregate principal amount of unreimbursed drawings and advances under the LC Facility of at least 1.75:1.0. As of December 31, 2015, the actual ratio was 4.28 to 1.0.

Under the terms of the Credit Agreement we are restricted in our ability to pay junior priority indebtness, which would include dividends to MDR shareholders to $50 million prior to April 16, 2017 and $150 million after April 16, 2017.

Senior Notes

In April 2014 we issued $500 million in aggregate principal amount of 8% 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, at an annual rate of 8%. The Notes are scheduled to mature on May 1, 2021. As of December 31, 2015 and 2014, there was $500 million principal amount of Senior Notes outstanding.

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.

At any time, or from time to time, on or after May 1, 2017, at our option, we may redeem the Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount of the Notes to be redeemed) set forth below, together with accrued and unpaid interest to the redemption date, if redeemed during the 12-month period beginning May 1 of the years indicated:

Year	Percentage
2017	104%
2018	102%
2019 and thereafter	100%

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.

Tangible Equity Units

In April 2014, we issued 11,500,000 6.25% tangible equity units (“Units”), each with a stated amount of $25. Each Unit consists of (1) a prepaid common stock purchase contract and (2) a senior amortizing note due April 1, 2017 (each an “Amortizing Note”) that has an initial principal amount of $4.1266 per Amortizing Note, bears interest at a rate of 7.75% per annum and has a final scheduled installment payment date of April 1, 2017.

The prepaid common stock purchase contracts were accounted for as additional paid-in capital totaling $240 million. As of December 31, 2015, the Amortizing Notes were recorded as long-term debt totaling $25 million, of which $16 million was classified as current notes payable.

Each prepaid common stock purchase contract will automatically settle on April 1, 2017, unless settled earlier: (1) at the holder’s option, upon which we will deliver shares of our common stock, based on the applicable settlement rate and applicable market value of our stock as determined under the purchase contract; or (2) at our option, upon which we will deliver shares of our common stock, based upon the stated maximum settlement rate of 3.5562 shares per Unit, subject to adjustment. Potential dilutive common shares that may be issued for the settlement of the common stock purchase contracts totaled 40.9 million at December 31, 2015 and 2014, based on the maximum number of shares issuable per Unit. The potential minimum number of shares issuable is 33.4 million, which represents 2.9030 per Unit. The maximum and minimum settlement rates for the Units are subject to adjustment for certain dilutive events.

North Ocean 105 Financing

On September 30, 2010, MDR, as guarantor, and North Ocean 105 AS, in which we have a 75% ownership interest, as borrower, entered into a financing agreement to finance 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. MDR unconditionally guaranteed all amounts to be borrowed under the agreement. The agreement has $41 million and $49 million in borrowings outstanding as of December 31, 2015 and 2014, respectively, bears interest at 2.76% per year, and requires principal repayment in 17 consecutive semi-annual installments of $4 million, which commenced on October 1, 2012.

Bank Guarantees

In 2015, MDR executed a reimbursement agreement with a Middle East-based bank which provides an uncommitted line of credit in support of our contracting activities in the Middle East. There are no administrative or commitment fees associated with the agreement. As of December 31, 2015, bank guarantees issued under that agreement were $18 million. Bank guarantees issued under other general reimbursement arrangements totaled $100 million and $56 million as of December 31, 2015 and 2014, respectively.

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 2015, 2014 and 2013 were $103 million, $321 million and $284 million, respectively. 2015 capital expenditures were primarily attributable to the construction of the DLV 2000, as well as certain upgrades and equipment expenditures associated with other vessels in our marine fleet. Capital expenditures in 2014 and 2013 were primarily attributable to construction of the DLV 2000 and CSV 108 vessels, development of our Altamira, Mexica fabrication yard, and certain upgrades and equipment expenditures associated with other vessels in our marine fleet. The CSV 108 vessel was substantially complete at December 31, 2014, and the vessel was put into service in February 2015.

As of December 31, 2015, we have an outstanding obligation of $189 million, excluding capitalized interest, related to the construction of the DLV 2000, all of which is due in 2016.

In October 2014, we exercised our option to purchase the interest of our joint venture partner, Oceanteam Shipping ASA, in the NO 102 vessel-owning entities, at a net cost of approximately $33 million. We completed the acquisition of the additional interest in December 2014.

Contractual Obligations

In the table below, we set forth our contractual and other obligations as of December 31, 2015. Certain amounts included in this table are based on our estimates and assumptions about these obligations, including their duration, anticipated actions by third parties and other factors. The contractual and other obligations we will actually pay in future periods may vary from those reflected in the table because the estimates and assumptions are subjective.

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Debt and capital lease obligations(1)	$864,111	$28,062	$31,866	$304,186	$499,997
Estimated interest payments(2)	282,576	58,726	117,778	86,072	20,000
Operating leases(3)	245,152	25,860	47,349	27,717	144,226
DLV 2000 obligations(4)	188,626	188,626	-	-	-
Purchase obligations	99,718	75,822	23,896	-	-

(1) Amounts represent the expected cash payments for the principal amounts related to our debt, including capital lease obligations. Amounts do not include any deferred issuance costs and interest.
(2) Amounts represent the expected cash payments for interest on our long-term debt and capital lease obligations.
(3) Amounts represent future minimum payments under non-cancelable operating leases with initial or remaining terms of one year or more.
(4) Amounts represents outstanding obligation related to our vessel construction contract on the DLV 2000.

We have recorded a $53 million liability as of December 31, 2015 for unrecognized tax positions and the payment of related interest and penalties. Due to the uncertainties related to these tax matters, we are unable to make a reasonably reliable estimate as to when cash settlement with a taxing authority will occur.

Our contingent commitments under letters of credit, bank guarantees and surety bonds currently outstanding expire as follows (in thousands):

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Contingent commitments	$603,776	170,563	246,285	76,881	110,047

Critical Accounting Policies and Estimates

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

Use of Estimates We use estimates and assumptions to prepare our financial statements in conformity with GAAP. These estimates and assumptions affect the amounts we report in our financial statements and accompanying notes. Our actual results could differ from these estimates, and variances could materially affect our financial condition and results of operations in future periods. Changes in project estimates generally exclude change orders and changes in scope, but may include, without limitation, unexpected changes in weather conditions, productivity, unanticipated vessel repair requirements, customer, subcontractor and supplier delays and other costs. We generally expect to experience a variety of unanticipated events, and some of these events can result in significant cost increases above cost amounts we previously estimated. As of December 31, 2015, we have provided for our estimated costs to complete on all of our ongoing contracts. 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.

The following is a discussion of our most significant changes in estimates, which impacted 2015 and 2014 operating income.

Year ended December 31, 2015

Operating income for 2015 was impacted by net favorable changes in cost estimates totaling approximately $53 million.

AEA The segment had net favorable changes in estimates aggregating approximately $10 million. During 2015, the extension of the PB Litoral project completion date resulted in a $12 million reversal of liquidated damages. The Agile charter project provided $11 million of favorable changes due to (1) productivity improvements and (2) our cost reduction initiatives. Those were partly offset by a $17 million charge associated with a legal settlement, see Note 17, Commitments and Contingencies. Other projects experienced net favorable changes in estimate of $4 million, which were individually not material.

MEA The segment had net favorable changes in estimates aggregating approximately $20 million. Two Saudi Aramco projects were positively impacted in aggregate $24 million related to: (1) productivity improvements and associated cost savings on the Intermac 406 vessel, which is working on the Abu Ali cable-lay project; and (2) offshore installation-related cost savings as well as reimbursement for standby cost incurred on the Manifa project. The KJO Hout project in the Neutral Zone was positively impacted by $9 million due to a favorable discussion with the customer on reimbursement for vessel downtime and cost savings resulting from customer-approved design optimization. Those net favorable changes were partly offset by a $20 million change in estimate to complete on the ADMA 4 GI project in the U.A.E. because of changes in our execution plan, increased costs associated with the DB 32 vessel demobilization and productivity related cost increases during hookup and pre-commissioning work. Other projects experienced net positive changes in estimate of $7 million, which were individually not material.

ASA The segment had net favorable changes in estimates aggregating approximately $23 million. It was positively impacted by $5 million benefit on our Ichthys project due to project execution cost savings. Our Gorgon MRU project in the ASA had net positive changes in estimates of $4 million due to close out improvements. Other multiple projects experienced net positive changes in estimate of $14 million, which were individually not material.

Year ended December 31, 2014

Operating income for 2014 was impacted by changes in estimates relating to projects in each of our segments.

AEA The segment was negatively impacted by net unfavorable changes in estimates aggregating $37 million associated with five projects. On the PB Litoral, an EPCI project in Mexico, we increased our estimated cost to complete by approximately $69 million, due to liquidated damages and extended project management costs arising from unexpected project delays and projected fabrication cost increases reflecting reduced productivity, and execution plan changes to mitigate further project delays, as well as procurement and marine installation cost increases. This project is in a loss position and is estimated to be completed in the first quarter of 2016. On the Jack & St. Malo subsea project, in the Gulf of Mexico, we increased our estimated cost to complete by approximately $6 million, primarily due to equipment downtime issues on the North Ocean 102 (the “NO 102”), our primary vessel working on the project, partially offset by project close-out savings on marine spread costs and increased cost recovery estimates based on positive developments from the ongoing negotiations with the customer. This project, which was in a loss position, was completed in 2014. On a fabrication project in Morgan City, the BG Comp Module, completed during

2013, we reduced our cost recovery estimates by approximately $8 million, mainly based on an agreement in principle with the customer in 2014, which resulted in lower-than-anticipated recoveries. These negative impacts were partially offset by $40 million of project close-out improvements on the Papa Terra EPCI project in Brazil, which resulted from marine cost reductions upon completion of activities and increased recoveries due to successful developments from the ongoing approval process for additional weather-related compensation. We also recognized $5 million of cost reductions on the Gulf of Mexico, a marine installation project in, the Gulfstar project, primarily due to project close-out improvements.

MEA The segment was negatively impacted by net unfavorable changes aggregating about $4 million, primarily attributable to changes on four projects. On Safaniya Phase-2, a Saudi Aramco EPCI project, we increased our estimated cost at completion by approximately $23 million, net. Increases of $43 million were primarily as a result of vessel downtime due to weather and standby delays, and were partially offset by increased cost recovery estimates of approximately $20 million based on positive discussions with the customer during the fourth quarter of 2014. On Safaniya Phase-1, another Saudi Aramco project, we increased our estimated cost to complete by $19 million, primarily as a result of increased cost estimates to complete the onshore scope. Although the project recognized a loss in 2013, it remains in an overall profitable position and is substantially complete. On the KJO Ratawi project, we increased our estimated costs to complete by approximately $12 million, to reflect cost overruns related to (1) the onshore work, which was substantially completed in July 2014, and (2) delays in completing the offshore work, due to delayed access to the project site, resulting in a revised execution plan. The revised execution plan included the costs of an incremental mobilization and reflected inefficiencies of executing out-of-sequence work. This project was completed in the third quarter of 2015. These negative changes were partially offset by approximately $54 million of increased cost recovery estimates on a completed pipelay project in the Caspian based on positive negotiations with the customer in 2014, in connection with the ongoing project close-out process.

ASA The segment experienced net favorable changes aggregating approximately $52 million, primarily attributable to changes in estimates on seven projects. Changes in estimates on the Siakap subsea development ("Siakap") project in Malaysia resulted in an improvement of approximately $34 million in 2014, primarily related to productivity improvements on our marine vessels and offshore support activities, as well as the favorable resolution of cost contingencies relating to offshore performance risks. On the BSP Champion marine installation project in Brunei, a reduction in estimated cost to complete due to productivity improvements on marine vessels and offshore support activities resulted in project savings of approximately $12 million. On the Dai Hung SURF and Macedon projects, insurance claim collection and final project close-out adjustments resulted in an additional recovery of approximately $10 million during in 2014. In addition, completion of the Sepat FEED and Esso KTT projects resulted in project close-out savings of approximately $6 million. These positive changes were partially offset by a negative change in estimate of $11 million on the Ichthys project in Australia, primarily due to lower than expected fabrication productivity, increase in procurement costs as well as an increase in marine costs primarily due to changes in marine asset utilization.

Revenue Recognition—We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the activity involved.

At the outset of each project, we prepare a detailed analysis of our estimated cost to complete the project. Total estimated project costs, and resulting contract income, are affected by changes in the expected cost of materials and labor, productivity, vessel costs, scheduling and other factors. In order to record revenue and profits on these projects, we multiply the total estimated profit over the life of the project by the current percentage towards completion based on the appropriate units noted above. Estimated losses on a project are recorded in full in the period the loss becomes known.

Estimated profit over the life of a project includes consideration of contract price, change orders, claims, costs incurred and estimated costs to complete. Change orders, which are a normal and recurring part of our business, can increase (sometimes substantially) the future scope and cost of a job. Revenue from unapproved change orders is generally recognized to the extent of the lesser of amounts we expect to recover or costs incurred. To the extent claims included in backlog are not resolved in our favor, there could be reductions in, or reversals of previously reported amounts of, revenues and profits, and charges against current earnings, which could be material.

We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit, proportionate to the job percentage of completion in the period, when those estimates are revised. External factors such as weather, customer requirements, timely availability of materials, productivity, and other factors outside of our control may affect the progress and estimated cost of a project's completion which could materially impact the timing and amount of our revenue and income recognition. See Note 1, Basis of Presentation and Significant Accounting Policies, and Note 2, Revenue Recognition, to our Consolidated Financial Statements for further information.

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

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

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

	Pretax Pension Expense in 2015	Effect on Pension Benefit Obligation at December 31, 2015
	(In Millions)	
25-basis-point change in discount rate	$ 13	$ 13
25-basis-point change in expected long-term rate of return	1	-

See Note 10, Pension and Postretirement Benefits, to our Consolidated Financial Statements included in this annual report for information on our pension plans.

Impairment—We review our tangible long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation is required, the fair value of each applicable asset is compared to its carrying value. Factors that impact our determination of potential impairment include forecasted utilization of equipment and estimates of forecasted cash flows from projects expected to be performed in future periods. Our estimates of cash flow may differ from actual cash flow due to, among other things, economic conditions or changes in operating performance. Any changes in such factors may negatively affect our business segments and result in future asset impairments.

Deferred Taxes—We believe that our deferred tax assets recorded as of December 31, 2015 are realizable through carrybacks, future reversals of existing taxable temporary differences and future taxable income. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. If we subsequently determine that we will be able to realize deferred tax assets in the future in excess of our net recorded amount, the resulting adjustment would increase earnings for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Any changes to our estimated valuation allowance could be material to our consolidated financial condition and results of operations. See Note 14, Income Taxes, to our Consolidated Financial Statements for information on our deferred taxes.

Accounting and Reporting Changes

For a discussion of the potential impact of new accounting pronouncements on our Consolidated Financial Statements, see Note 1, Basis of Presentation and Significant Accounting Policies, to our Consolidated Financial Statements.

Item 7A. 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 and interest rate risk. Our exposure to market risk from changes in interest rates relates primarily to the Term Loan, cash equivalents and our investment portfolio, which primarily consists of investments in commercial paper and other highly liquid money market instruments denominated in U.S. dollars. We are averse to principal loss and seek to ensure the safety and preservation of our invested funds by limiting default risk, market risk and reinvestment risk.

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.

We have exposure to changes in interest rates under the Term Loan. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources, and Note 9, Debt, to the Consolidated Financial Statements included in this annual report. As of December 31, 2015, we had no material future earnings or cash flow exposures from changes in interest rates on our other 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.

Interest Rate Sensitivity

The following tables provide information about our financial instruments that are sensitive to changes in interest rates. The tables present principal cash flows and related weighted-average interest rates by expected maturity dates.

At December 31, 2015:	Principal Amount by Expected Maturity (in thousands)							
	Years Ending December 31,							Fair Value at December 31, 2015
	2016	2017	2018	2019	2020	Thereafter	Total	
Investments	$-	$-	$-	$-	$-	$746	$746	$746
Average Interest Rate								
Long-term Debt — fixed rate	25,062	17,260	8,606	9,516	8,170	499,997	568,611	480,827

Average Interest Rate	7.64	%	7.72	%	7.79	%	7.87	%	7.96	%	7.98	%		
Long-term Debt — floating rate	3,000		3,000		3,000		286,500		-		-		295,500	296,807
Average Interest Rate	5.42	%	5.99	%	6.36	%	6.40	%						

The impact of a hypothetical 10% change in interest rates as of December 31, 2015 would be under $2 million of interest charges.

Currency Exchange Rate Sensitivity

The following table provides information about our foreign currency forward contracts outstanding at December 31, 2015 and presents such information in U.S. dollar equivalents. The table presents notional amounts and related weighted-average exchange rates by expected (contractual) maturity dates and constitutes a forward-looking statement. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract. The average contractual exchange rates are expressed using market convention, which is dependent on the currencies being bought and sold under the forward contract.

Forward Contracts to Purchase or Sell Foreign Currencies in U.S. Dollars (In thousands)

Foreign Currency	Year Ending December 31, 2016	Fair Value at December 31, 2015	Average Contractual Exchange Rate
Australian Dollar	$ 263,795	$ (17,161)	0.7875
Danish Krone	32,768	(1,362)	6.5630
Euros	77,335	(2,186)	1.1222
Pound Sterling	4,918	(89)	1.5266
Indian Rupee	12,495	(25)	68.0214
Norwegian Kroner	84,704	(4,421)	8.3048
Singapore Dollar	116,555	952	1.4314
Swiss Franks	14,489	(690)	0.9448

Foreign Currency	Year Ending December 31, 2017	Fair Value at December 31, 2015	Average Contractual Exchange Rate
Australian Dollar	$ 19,632	$ (3,957)	0.9062
Swiss Franks	287	(4)	0.9599
Indian Rupee	9,976	215	71.5669
Euros	6,279	(56)	1.1145

A hypothetical 10% adverse change in the value of all our foreign currency positions relative to the United States dollar as of December 31, 2015 would result in a $48 million, pre-tax, loss.

For 2014 and 2013, gain on foreign currency, net in the Consolidated Statements of Operations was $7 million and $17 million, respectively. For 2015 the amount was under $1 million U.S. dollars.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
To the Board of Directors and Stockholders of McDermott International, Inc.

Houston, Texas

We have audited the accompanying consolidated balance sheets of McDermott International, Inc. and subsidiaries (the "Company") as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, cash flows, and equity for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of McDermott International, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

February 22, 2016

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2015	2014	2013
	(In thousands, except share and per share amounts)		
Revenues	$3,070,275	$2,300,889	$2,658,932
Costs and Expenses:			
Cost of operations	2,691,284	2,113,013	2,801,426
Selling, general and administrative expenses	217,239	208,564	193,126
Impairment loss (recovery)	6,808	(9,002)	84,482
Loss (gains) on asset disposals	1,443	(46,201)	(15,200)
Restructuring expenses	40,819	18,113	35,727
Total costs and expenses	2,957,593	2,284,487	3,099,561
Loss from Investments in Unconsolidated Affiliates	(21,486)	(7,848)	(16,116)
Operating Income (Loss)	91,196	8,554	(456,745)
Other Income (Expense):			
Interest income (expense), net	(50,058)	(60,877)	1,353
Gain (loss) on foreign currency, net	(464)	7,234	16,872
Other income (expense), net	2,450	(232)	(2,339)
Total other income (expense)	(48,072)	(53,875)	15,886
Income (loss) before provision for income taxes and noncontrolling interests	43,124	(45,321)	(440,859)
Provision for income taxes	51,963	20,073	49,051
Net Loss	(8,839)	(65,394)	(489,910)
Less: net income attributable to noncontrolling interest	9,144	10,600	18,958
Net loss attributable to McDermott International, Inc.	$(17,983)	$(75,994)	$(508,868)
Loss per share			
Net loss attributable to McDermott International, Inc.			
Basic:	(0.08)	(0.32)	(2.15)
Diluted:	(0.08)	(0.32)	(2.15)
Shares used in the computation of loss per share:			
Basic:	238,240,763	237,229,086	236,514,584
Diluted:	238,240,763	237,229,086	236,514,584

See accompanying Notes to the Consolidated Financial Statements.

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

	Year Ended December 31,		
	2015	2014	2013
	(in thousands)		
Net Loss	$(8,839)	$(65,394)	$(489,910)
Other comprehensive income (loss), net of tax:			
Unrealized gain on investments	6	3	2,554
Gain (loss) on derivatives	18,480	(37,537)	(57,176)
Foreign currency translation	(14,713)	(12,653)	804
Other comprehensive income (loss), net of tax	3,773	(50,187)	(53,818)
Total Comprehensive Loss	$(5,066)	$(115,581)	$(543,728)
Less: Comprehensive Income Attributable to Non-controlling Interests	9,064	10,511	18,903
Comprehensive Loss Attributable to McDermott International, Inc.	$(14,130)	$(126,092)	$(562,631)

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(In thousands, except share and per share amounts)	
Assets		
Current Assets:		
Cash and cash equivalents	$664,844	$665,309
Restricted cash and cash equivalents	116,801	187,585
Accounts receivable – trade, net	208,474	143,370
Accounts receivable – other	66,689	79,915
Contracts in progress	435,829	357,617
Deferred income taxes	8,133	7,514
Other current assets	34,641	46,071
Total Current Assets	1,535,411	1,487,381
Property, Plant and Equipment	2,467,352	2,487,815
Less accumulated depreciation	(856,493)	(830,467)
Net Property, Plant and Equipment	1,610,859	1,657,348
Accounts Receivable – Long-Term Retainages	155,061	137,468
Investments in Unconsolidated Affiliates	26,551	38,186
Deferred Income Taxes	10,689	17,313
Other Assets	48,505	79,183
Total Assets	$3,387,076	$3,416,879
Liabilities and Equity		
Current Liabilities:		
Notes payable and current maturities of long-term debt	$24,882	$23,678
Accounts payable	279,821	219,384
Accrued liabilities	330,943	369,749
Advance billings on contracts	164,773	199,865
Deferred income taxes	17,273	19,753
Income taxes payable	23,787	25,165
Total Current Liabilities	841,479	857,594
Long-Term Debt	819,001	840,791
Self-Insurance	18,653	17,026
Pension Liability	24,066	18,403
Non-current Income Taxes	52,559	49,229
Other Liabilities	84,597	94,722
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, par value $1.00 per share, authorized 400,000,000 shares; issued 246,841,128 and 245,209,850 shares, respectively	246,841	245,210

Capital in excess of par value (including prepaid common stock purchase contracts)	1,687,059	1,676,815
Accumulated Deficit	(260,884)	(239,572)
Treasury stock, at cost: 7,824,204 and 7,400,027 shares, respectively	(92,262)	(96,441)
Accumulated other comprehensive loss	(93,955)	(97,808)
Stockholders' Equity - McDermott International, Inc.	1,486,799	1,488,204
Noncontrolling interest	59,922	50,910
Total Equity	1,546,721	1,539,114
Total Liabilities and Equity	$3,387,076	$3,416,879

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash flows from operating activities:			
Net Loss	$(8,839)	$(65,394)	$(489,910)
Non-cash items included in net loss:			
Depreciation and amortization	100,334	93,185	84,580
Drydock amortization	17,947	19,719	18,467
Loss (gain) on asset impairments	6,808	(9,002)	84,482
Stock-based compensation charges	16,593	18,565	21,100
Loss from investments in unconsolidated affiliates	21,486	7,848	16,116
Loss (gain) on foreign currency, net	6,238	(10,310)	(13,247)
Restructuring expense (gain)	7,473	(2,310)	18,044
Loss (gain) on asset disposals	1,443	(46,201)	(15,200)
Deferred income taxes	3,525	891	(5,359)
Pension expense	19,821	(4,291)	(3,865)
Debt issuance cost amortization	12,767	22,915	3,715
Other non-cash items	1,269	686	(2,164)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable	(82,697)	166,385	30,156
Contracts in progress net of advance billings on contracts	(113,338)	(10,695)	171,397
Accounts payable	78,646	(154,439)	(17,493)
Accrued and other current liabilities	(33,969)	(2,801)	(22,155)
Pension liability	(1,506)	(1,861)	(30,828)
Income taxes	1,778	(4,668)	(54,431)
Other assets and liabilities	(507)	(11,262)	(50,016)
Total cash provided by (used in) operating activities	55,272	6,960	(256,611)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(102,851)	(321,187)	(283,962)
(Increase) decrease in restricted cash and cash equivalents	70,784	(163,933)	(5,536)
Purchases of available-for-sale securities	-	(3,695)	(10,535)
Sales and maturities of available-for-sale securities	3,176	12,978	43,959
Investments in unconsolidated affiliates	(7,038)	(2,420)	(9,354)
Proceeds from asset dispositions	10,724	71,961	37,386
Other investing activities	417	(2,706)	(3,113)
Total cash used in investing activities	(24,788)	(409,002)	(231,155)
Cash flows from financing activities:			
Proceeds from debt	-	1,328,875	296,000
Repayment of debt	(26,938)	(298,534)	(310,146)
Issuance of common stock	682	327	68
Repurchase of common stock	(1,720)	(1,707)	(1,106)
Payment of debt issuance costs	(170)	(39,112)	(4,905)
Distributions to noncontrolling interests	-	(6,352)	(13,743)

Acquisition of noncontrolling interest	(24)	(32,943)	-
Total cash provided by (used in) financing activities	(28,170)	950,554	(33,832)
Effects of exchange rate changes on cash and cash equivalents	(2,779)	(1,905)	153
Net increase (decrease) in cash and cash equivalents	(465)	546,607	(521,445)
Cash and cash equivalents at beginning of year	665,309	118,702	640,147
Cash and cash equivalents at end of year	$664,844	$665,309	$118,702
Supplemental Cash Flow Information:			
Cash paid during the period for:			
Income taxes (net of refunds)	$40,560	$26,661	105,444
Cash paid for interest, net of amounts capitalized	40,690	28,390	-
Supplemental Disclosure of Noncash Investing Activities:			
Non-cash investment in unconsolidated affiliates	2,396	-	-
Capital lease	-	3,407	-
Supplemental Disclosure of Noncash Financing Activities:			
Non-cash acquisition of noncontrolling interest	-	11,136	-

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF EQUITY

	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings/ (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Treasury Stock	Stockholders' Equity	Noncontrolling Interest ("NCI")	Total Equity
	(in thousands)							
Balance at January 1, 2013	$243,442	$1,391,271	$345,290	$6,053	$(98,725)	$1,887,331	$64,774	$1,952,105
Net Income (loss)	-	-	(508,868)	-	-	(508,868)	18,958	(489,910)
Other comprehensive loss, net of tax	-	-	-	(53,763)	-	(53,763)	(55)	(53,818)
Common stock issued	529	(322)	-	-	-	207	-	207
Stock-based compensation charges	-	18,936	-	-	2,164	21,100	-	21,100
Purchase of treasury shares	-	-	-	-	(1,106)	(1,106)	-	(1,106)
Sales of subsidiary shares to NCI	-	4,613	-	-	-	4,613	20,896	25,509
Distributions to NCI	-	-	-	-	-	-	(13,743)	(13,743)
Other	300	(41)	-	-	(259)	-	-	-
Balance at December 31, 2013	$244,271	$1,414,457	$(163,578)	$(47,710)	$(97,926)	$1,349,514	$90,830	$1,440,344
Net Income (loss)	-	-	(75,994)	-	-	(75,994)	10,600	(65,394)
Other comprehensive loss, net of tax			-	(50,098)	-	(50,098)	(89)	(50,187)
Common stock issued	939	(612)	-	-	-	327	-	327
Stock-based compensation charges	-	13,324	-	-	3,192	16,516	-	16,516
	-	11,136	-	-	-	11,136	(44,079)	(32,943)

Acquisition of NCI								
Issuance of tangible equity units	-	240,044	-	-	-	240,044	-	240,044
Purchase of treasury shares	-		-	-	(1,707)	(1,707)	-	(1,707)
Sales of subsidiary shares to NCI	-	(1,534)	-	-	-	(1,534)	-	(1,534)
Distributions to NCI	-		-	-	-	-	(6,352)	(6,352)
Balance at December 31, 2014	$245,210	$1,676,815	$(239,572)	$(97,808)	$(96,441)	$1,488,204	$50,910	$1,539,114
Net loss	-	-	(17,983)	-	-	(17,983)	9,144	(8,839)
Other comprehensive loss, net of tax	-	-	-	3,853	-	3,853	(80)	3,773
Common stock issued	1,673	(8,750)	(3,329)	-	11,085	679	-	679
Stock-based compensation charges	-	20,753	-	-	(5,359)	15,394	-	15,394
Purchase of treasury shares	-	-	-	-	(1,720)	(1,720)	-	(1,720)
Share cancellation	(42)	(131)	-	-	173	-	-	-
Other	-	(1,628)	-	-	-	(1,628)	(52)	(1,680)
Balance at December 31, 2015	$246,841	$1,687,059	$(260,884)	$(93,955)	$(92,262)	$1,486,799	59,922	1,546,721

See accompanying Notes to the Consolidated Financial Statements.

McDERMOTT INTERNATIONAL, INC.

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McDERMOTT INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2015

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") 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 Americas, Europe, Africa, the Middle East, 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

We have presented our Consolidated Financial Statements in U.S. Dollars in accordance with accounting principles generally accepted in the United States ("GAAP"). These Consolidated Financial Statements include the accounts of McDermott International, Inc., its consolidated subsidiaries and controlled entities. Subsidiaries are defined as being those companies over which we, either directly or indirectly, have control through a majority of the voting rights or the right to exercise control or to obtain the majority of the benefits and be exposed to the majority of the risks. Subsidiaries are consolidated from the date on which control is obtained until the date that such control ceases. All intercompany transactions and balances have been eliminated in consolidation.

Business Segments

We report financial results under three reporting segments 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." Corporate and Other primarily reflects corporate personnel and activities, incentive compensation programs and other costs, which are generally fully allocated to our operating segments. For financial information about our segments, see Note 19, Segment Reporting.

Revenue Recognition

Contracts We determine the appropriate accounting treatment for each of our contracts with customers before work on the project begins. We generally recognize contract revenues and related costs on a percentage-of-completion method for individual contracts or combinations of contracts based on work performed, man hours, or a cost-to-cost method, as applicable to the activity involved. We include the amount of accumulated contract costs and estimated earnings that exceed billings to customers in contracts in progress. We include billings to customers that exceed accumulated contract costs and estimated earnings in advance billings on contracts. Most long-term contracts contain provisions for progress payments. We expect to invoice customers for all unbilled revenues. Certain costs are generally excluded from the cost-to-cost method of measuring progress, such as significant costs for materials and third-party subcontractors. Costs incurred prior to a project award are generally expensed during the period in which they are incurred. Total estimated project costs and resulting contract income are affected by changes in the expected cost of materials and labor, productivity, vessel costs, scheduling and other factors. Additionally, external factors such as weather, customer requirements and other factors outside of our control may affect the progress and estimated cost of a project's completion and, therefore, the timing and amount of revenue and income recognition. We regularly review contract price and cost estimates as the work progresses and reflect adjustments in profit proportionate to the job percentage of completion during the period in which those estimates are revised. Revenue from unapproved change orders is generally recognized to the extent of the lesser of amounts we expect to recover and costs incurred. Additionally, to the extent that claims included in backlog, including those which arise from change orders which are under dispute or which have been previously rejected by the customer, are not resolved in our favor, there could be reductions in or reversals of previously reported amounts of revenues and profits and charges against current earnings which could be material.

Unapproved Change Orders Change orders, which are a normal and recurring part of our business, can increase, sometimes substantially, the future scope and cost of a job. Therefore, change order awards, although frequently beneficial in the long term, can have the short-term effect of reducing the job percentage of completion and thus the revenues and profits recognized to date.

Revenues and gross profit on contracts can be significantly affected by change orders that may not be approved by the customer until the later stages of a contract or subsequent to the date a project is completed. If it is not probable that the costs will be recovered through a change in contract price, the costs attributable to change orders are treated as contract costs without incremental revenue. For certain contracts where it is probable that the costs will be recovered through a change order, total estimated contract revenue is increased by the lesser of the amounts management expects to recover and the costs expected to be incurred.

Claims Revenue—Claims revenue may relate to various factors, including the procurement of materials, equipment performance failures, change order disputes or schedule disruptions and other delays, including those associated with weather and sea conditions. Claims revenue, when recorded, is only recorded to the extent of the lesser of the amounts management expects to recover and the associated costs incurred. We include certain unapproved claims in the applicable contract values when we have a legal basis to do so, consider collection to be probable and believe we can reliably estimate the ultimate value. Amounts attributable to unapproved change orders are not included in claims. 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. Claims are generally negotiated over the course of the respective projects, many of which are long-term in nature.

Deferred Profit Recognition For contracts as to which we are unable to estimate the final profitability due to their uncommon nature, including first-of-a-kind projects, we recognize equal amounts of revenue and cost until the final results can be estimated more precisely. For these contracts, we only recognize gross margin when reliably estimable and the level of uncertainty has been significantly reduced, which we generally determine to be when the contract is at least 70% complete. We treat long-term construction contracts that contain such a level of risk and uncertainty that estimation of the final outcome is impractical as deferred profit recognition contracts. If, while being accounted for under our deferred profit recognition policy, a current estimate of total contract costs indicates a loss, the projected loss is recognized in full and the project is accounted for under our normal revenue recognition guidelines. Currently, we are not accounting for any projects under our deferred profit recognition policy.

Completed Contract Method Under the completed contract method, revenue and gross profit is recognized only when a contract is complete or substantially complete. We generally do not enter into fixed-price contracts without an estimate of cost to complete that we believe to be accurate. However, it is possible that in the time between contract award and the commencement of work on a project we could lose the ability to forecast costs to complete adequately based on intervening events, including, but not limited to, experience on similar projects, civil unrest, strikes and volatility in our expected costs. In such a situation, we would use the completed contract method of accounting for that project. During 2015, 2014 or 2013, we did not enter into any contracts that we accounted for under the completed contract method.

Loss Recognition A risk associated with fixed-priced contracts is that revenue from customers may not cover increases in our costs. It is possible that current estimates could materially change for various reasons, including, but not limited to, fluctuations in forecasted labor and vessel productivity, vessel repair requirements, weather downtime, subcontractor or supplier performance, pipeline lay rates or steel and other raw material prices. Increases in costs associated with our fixed-price contracts could have a material adverse impact on our consolidated financial condition, results of operations and cash flows. Alternatively, reductions in overall contract costs at completion could materially improve our consolidated financial condition, results of operations and cash flows.

See Note 2, Revenue Recognition, for discussion on Revenue.

Use of Estimates

We use estimates and assumptions to prepare our financial statements in conformity with GAAP. Those estimates and assumptions affect the amounts we report in our consolidated financial statements and accompanying notes. Our actual results could differ from those estimates, and variances could materially affect our financial condition and results of operations in future periods. Changes in project estimates generally exclude change orders and changes in scope, but may include, without limitation, changes in cost recovery estimates, unexpected changes in weather conditions, changes in productivity, unidentified required vessel repairs, customer and vendor delays and other costs. We generally expect to experience a reasonable amount of unanticipated events, and some of those events can result in significant cost increases above cost amounts we previously estimated. As of December 31, 2015, we have provided for our estimated costs to complete on all of our ongoing contracts. 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 all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

Loss Contingencies

We record liabilities for loss contingencies when it is probable that a liability has been incurred and the amount of loss is reasonably estimable. We provide disclosure when there is a reasonable possibility that the ultimate loss will exceed the recorded provision or if such loss is not reasonably estimable. We are currently involved in litigation and other proceedings, as discussed in Note 17, Commitments and Contingencies. We have accrued our estimates of the probable losses associated with these matters and associated legal costs are generally recognized as incurred. However, our losses are typically resolved over long periods of time and are often difficult to estimate due to various factors, including the possibility of multiple actions by third parties. Therefore, it is possible future earnings could be affected by changes in our estimates related to these matters.

Stock-Based Compensation

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

Cash and Cash Equivalents

Our cash and cash equivalents are highly liquid investments with maturities of three months or less when we purchase them. We record cash and cash equivalents as restricted when we are unable to freely use such cash and cash equivalents for our general operating purposes. A majority of our restricted cash and cash equivalents serves as collateral for outstanding letters of credit, as further discussed in Note 9, Debt.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount based on contracted prices. Amounts collected on accounts receivable are included in net cash provided by operating activities in the Consolidated Statements of Cash Flows.

We establish allowances for doubtful accounts based on our assessments of our customers' willingness and abilities to pay. In addition to such allowances, there are often items in dispute or being negotiated that may require us to make an estimate as to the ultimate outcome. Past due receivable balances are written off when our internal collection efforts have been unsuccessful in collecting the amounts due.

Retainage, included in accounts receivable, represents amounts withheld from billings by our clients pursuant to provisions in the applicable contracts and may not be paid to us until the completion of specific tasks or the completion of the project and, in some instances, for even longer periods. Retainage may also be subject to restrictive conditions, such as performance guarantees.

Property, Plant and Equipment

We carry our property, plant and equipment at depreciated cost. Except for major marine vessels, we depreciate our property, plant and equipment using the straight-line method, over an estimated economic useful lives of eight to 33 years for buildings and three to 28 years for machinery and equipment. We do not depreciate property, plant and equipment classified as held for sale.

We depreciate major marine vessels using the units-of-production method based on the utilization of each vessel. Our units-of-production method of depreciation involves the calculation of depreciation expense on each vessel based on the product of actual utilization for the vessel for the period and the applicable daily depreciation value (which is based on vessel book value, standard utilization and vessel life) for the vessel. Our actual utilization is determined based on the actual days that the vessel was working or otherwise actively engaged (other than in transit between regions) under a contract, as determined by daily vessel operating reports prepared by the crew of the vessel. Our standard utilization is determined by vessel at least annually based on recent actual utilization combined with an expectation of future utilization, both of which allow for idle time. We ensure that a minimum amount of accumulated depreciation of at least 50% of equivalent life-to-date straight-line depreciation is recorded. Additionally, in periods of very low utilization, a minimum amount of depreciation expense of at least 25% of an equivalent straight-line depreciation expense (which is based on an initial 25-year life) is recorded.

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

Investments in Unconsolidated Affiliates

We account for equity investments using the equity method of accounting if we have the ability to exercise significant influence over, but not control of, an investee. Significant influence generally exists if we have an ownership interest representing between 20% and 50% voting rights. Under the equity method of accounting, investments are stated initially at cost and are adjusted for subsequent additional investments and our proportionate share of profit or losses and distributions.

We record our share of the profit or losses of the equity method investments, net of income taxes, in the Consolidated Statements of Operations. When our share of losses in an equity investment equals or exceeds our interest in the equity investment, including any other unsecured receivables, we do not recognize further losses, unless we have incurred obligations or made payments on behalf of the equity investment.

We evaluate our equity method investments for impairment when events or changes in circumstances indicate, in our management's judgment, that the carrying value of such investments may have experienced an other-than-temporary decline in value. When evidence of loss in value has occurred, we compare the estimated fair value of investment to the carrying value of investment to determine whether an impairment has occurred. If the estimated fair value is less than the carrying value and our management considers the decline in value to be other-than-temporary, the excess of the carrying value over the estimated fair value is recognized in the Consolidated Financial Statements as an impairment.

Derivative Financial Instruments

Our worldwide operations give rise to exposure to changes in certain market conditions, which may adversely impact our financial performance. When we deem it appropriate, we use derivatives as a risk management tool to mitigate the potential impacts of certain market risks. The primary market risk we manage through the use of derivative instruments is movement in foreign currency exchange rates. We use foreign currency derivative contracts to reduce the impact of changes in foreign currency exchange rates on our operating results. We use these instruments to hedge our exposure associated with revenues and/or costs on our long-term contracts and other cash flow exposures that are denominated in currencies other than our operating entities' functional currencies. We do not hold or issue financial instruments for trading or other speculative purposes.

In certain cases, contracts with our customers contain provisions under which some payments from our customers are denominated in U.S. Dollars and other payments are denominated in a foreign currency. In general, 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 foreign currency exchange rate fluctuations arising from differences in timing of our foreign currency cash inflows and outflows. We recognize all derivatives at fair value on the balance sheet. Derivatives that are not accounted for as hedges under ASC 815 - Derivatives and Hedging, are adjusted to fair value, and such changes are reflected through our results of operations. If a derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. See Note 11, Derivative Financial Instruments for additional information.

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 generally are included as a component of gain (loss) on foreign currency—net in our Consolidated Statements of Operations.

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. An established hierarchy for inputs is used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the factors that market participants would use in valuing the asset or liability.

Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

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

The carrying amounts that we have reported for financial instruments, including cash and cash equivalents, restricted cash and cash equivalents, accounts receivables and accounts payable approximate their fair values due to the short maturity of those instruments. See Note 12, Fair Value Measurements, for additional information regarding fair value measurements.

Insurance and Self-Insurance

Our wholly owned "captive" insurance subsidiary provides coverage for our retentions under employer's liability, general and products liability, automobile liability and workers' compensation insurance and, from time to time, builder's risk and marine hull insurance within certain limits. We may also have business reasons in the future to arrange for our insurance subsidiary to insure other risks which we cannot or do not wish to transfer to outside insurance companies. Premiums charged and reserves related to these insurance programs are based on the facts and circumstances specific to the insurance claims, our past experience with similar claims, loss factors and the performance of the outside insurance market for the type of risk at issue. The actual outcome of insured claims could differ significantly from estimated amounts. We maintain actuarially determined accruals in our consolidated balance sheets to cover self-insurance retentions for the coverages discussed above. These accruals are based on various assumptions developed utilizing historical data to project future losses. Loss estimates in the calculation of these accruals are adjusted as required based upon actual claim settlements and reported claims. We reduced our self-insurance accruals, primarily due to fewer and less severe workers' compensation claims, by $2 million, $8 million and $7 million during 2015, 2014 and 2013, respectively, and recognized these reductions in cost of operations in our Consolidated Statements of Operations.

Concentration of Credit Risk

Our principal customers are businesses in the offshore oil and gas industry. This concentration of customers may impact our overall exposure to credit risk, either positively or negatively, in that our customers may be similarly affected by changes in economic or other conditions. In addition, we and many of our customers operate worldwide and are therefore exposed to risks associated with the economic and political forces of various countries and geographic areas. We generally do not obtain any collateral for our receivables. See Note 19, Segment Reporting, for additional information about our operations in different geographic areas.

Pension and Postretirement Benefit Plans

We have both defined benefit (funded and unfunded) and defined contribution plans. For the defined benefit plans, a projected benefit obligation is calculated annually by independent actuaries using the unit credit method.

We recognize actuarial gains and losses on pension and postretirement benefit plans immediately in our operating results. These gains and losses are generally measured annually as of December 31 and accordingly will normally be recorded during the fourth quarter, unless an earlier remeasurement is required. Should actual experience differ from actuarial assumptions, the projected pension benefit obligation and net pension cost and accumulated postretirement benefit obligation and postretirement benefit cost would be affected in future years.

Pension costs primarily represent the increase in the actuarial present value of the obligation for pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of expected return on plan assets and recognized in the Statement of Operations during the year.

For defined contribution plans, we pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognized as employee benefit expense when due.

Foreign Currency Translation

We translate assets and liabilities of our foreign operations, other than operations in highly inflationary economies, into U.S. Dollars at year-end exchange rates, and we translate income statement items at average exchange rates for the periods presented. We record adjustments resulting from the translation of foreign currency financial statements as a component of other comprehensive income (loss), net of tax.

Impairment Review

We review our tangible long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If an evaluation is required, the fair value of each applicable asset is compared to its carrying value. Factors that impact our determination of potential impairment include forecasted utilization of equipment and estimates of forecasted cash flows from projects expected to be performed in future periods. Our estimates of cash flow may differ from actual cash flow due to, among other things, economic conditions or changes in operating performance. Any changes in such factors may negatively affect our business segments and result in future asset impairments.

Income Taxes

We provide for income taxes based on the tax laws and rates in the countries in which we conduct our operations. MDR is a Panamanian corporation that earns all of its income outside of Panama. As a result, we are not subject to income tax in Panama. We operate in various taxing jurisdictions around the world. Each of these jurisdictions has a regime of taxation that varies, not only with respect to nominal rates, but also with respect to the basis on which these rates are applied. These variations, along with changes in our mix of income or loss from these jurisdictions, may contribute to shifts, sometimes significant, in our effective tax rate.

We believe that our deferred tax assets recorded as of December 31, 2015 are realizable through carrybacks, future reversals of existing taxable temporary differences and future taxable income. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, as well as the net tax effects of net operating loss carryforwards.

We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. If we subsequently determine that we will be able to realize deferred tax assets in the future in excess of our net recorded amount, the resulting adjustment would increase earnings for the period in which such determination was made. We will continue to assess the adequacy of the valuation allowance on a quarterly basis. Any changes to our estimated valuation allowance could be material to our consolidated financial condition and results of operations. See Note 14, Income Taxes, for additional disclosures relating to income taxes.

Classification

During the quarter ended September 30, 2014, we committed to a plan to sell certain vessel equipment, including dynamic positioning thrusters and a deepwater pipelay winch system. Those assets were classified as held for sale in subsequent quarterly and annual financial statements. In June 2015, we reclassified those assets as held for use in Property, Plant and Equipment in our Consolidated Balance Sheet. The decision to reclassify these assets was based on our determination not to proceed with a sale and to explore alternative uses for these assets within our vessel fleet instead, which we expect to be economically advantageous compared to a sale in the current environment.

Our Consolidated Financial Statements classify current derivative financial instrument assets as a component of Other current assets and current derivative financial instrument liabilities as a component of Accrued liabilities. In 2014, $1 million of current derivative financial instrument assets and $32 million of derivative financial instrument liabilities were reported in Accounts receivable–other and Accounts payable, respectively.

Recently Issued and Adopted Accounting Guidance

Debt—In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in ASU 2015-03 does not affect the recognition and measurement of debt issuance costs. Therefore, the amortization of debt issuance costs will continue to be calculated using the interest method and reported as interest expense.

In August 2015, the FASB issued ASU 2015-15, Interest—Imputation of Interest—Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements, which clarifies guidance within ASU 2015-03 and establishes that debt issuance costs related to line-of-credit arrangements may be deferred and presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

Retrospective application of those ASUs are required for public entities for annual and interim periods beginning on or after December 15, 2015, and early adoption was permitted. We adopted ASU 2015-03 and ASU 2015-15 in the first quarter and the third quarter of 2015, respectively. As a result, our accompanying Consolidated Financial Statements reflect debt issuance costs related to long-term debt as components of Long-term debt. These costs were previously reported by us as Other Assets (see Note 9, Debt). Costs associated with line-of-credit arrangements continue to be reported as Other Assets. All comparable periods presented have been revised to reflect this change.

Extraordinary Items—In January 2015, the FASB issued ASU 2015-01, Income Statement-Extraordinary and Unusual Items, Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items, which eliminates the concept of extraordinary items. Under this new guidance, entities will no longer be required to separately classify, present and disclose extraordinary events and transactions. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. We adopted this ASU in the second quarter of 2015. Our adoption of this ASU did not have any impact on the accompanying Consolidated Financial Statements.

Discontinued Operations—In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements and Property, Plant, and Equipment—Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity, which amends the definition of a discontinued operation by raising the threshold for a disposal to qualify as discontinued operations. ASU 2014-08 also requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The pronouncement is effective prospectively for all disposals (except disposals classified as held for sale before the adoption date) or components initially classified as held for sale in periods beginning on or after December 15, 2014. The application of this ASU did not have any impact on the accompanying Consolidated Financial Statements.

Accounting Guidance Issued But Not Adopted as of December 31, 2015

Financial Assets and Liabilities—In January 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). Under this new guidance, entities will be required to measure all investments in equity securities, not subject to equity method or consolidation accounting, at fair value with changes recognized in net income. Fair value changes related to instrument-specific credit risk in financial liabilities accounted for under the fair value option in ASC 825 must be recorded in other comprehensive income instead of earnings. It also changes presentation and disclosure requirements for financial assets and liabilities. ASU 2016-01 is effective for interim and annual periods beginning after December 15, 2017, with early adoption not permitted except related to the changes in fair value for financial liabilities. We are currently assessing the impact of these amendments on our future Consolidated Financial Statements and related disclosures.

Income Tax—In November 2015, the FASB issued ASU 2015-07, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes. Under this ASU an entity shall classify deferred tax assets and liabilities as noncurrent. Early adoption is permitted. Our prospective adoption of this amendment is not expected to have a material impact on the presentation of our Consolidated Financial Statements.

Consolidation—In September 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This ASU eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. Early adoption was permitted. Our adoption of this ASU is not expected to have a material impact on the accompanying Consolidated Financial Statements.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis, which amends and changes the consolidation analysis currently required under U.S. GAAP. This ASU modifies the process used to evaluate whether limited partnerships and similar entities are variable interest entities or voting interest entities; affects the analysis performed by reporting entities regarding variable interest entities, particularly those with fee arrangements and related party relationships; and provides a scope exception for certain investment funds. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2015. Early adoption was permitted. Our adoption of this ASU is not expected to have a material impact on the accompanying Consolidated Financial Statements.

Going Concern—In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. Currently, there is no guidance in effect under U.S. GAAP regarding management's responsibility to assess whether there is substantial doubt about an entity's ability to continue as a going concern. Under ASU 2014-15, we will be required to assess our ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about our ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016 and interim periods thereafter with early adoption permitted. We are currently assessing the impact of the adoption of ASU 2014-15 on our future Consolidated Financial Statements and related disclosures.

Revenue—In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This ASU will supersede 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.

In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date, which defers the effective date of ASU 2014-09 to annual periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period.

We are currently evaluating the requirements of these ASUs and have not yet determined their impact on our future Consolidated Financial Statements and related disclosures.

NOTE 2—REVENUE RECOGNITION

Claims Revenue

The amount of revenues and costs included in our estimates at completion (i.e., contract values) associated with such claims was $10 million and $7 million as of December 31, 2015 and 2014, 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 in their 2015, 2014 and 2013 financial results.

None of the claims included in our estimates at completion at December 31, 2015 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

As of December 31, 2015, we have provided for our estimated costs to complete on all of our ongoing contracts. 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 all contracts, if a current estimate of total contract cost indicates a loss, the projected loss is recognized in full when determined.

As of December 31, 2015, two significant active projects in our AEA segment were in loss positions, as a result of which future revenues are expected to equal costs when recognized. PB Litoral, an EPCI project, in Mexico, is expected to be completed in the first quarter of 2016, and the five-year Agile vessel charter project in Brazil is expected to be completed in the first quarter of 2017. Total backlog related to all projects in loss positions was approximately $75 million as of December 31, 2015. 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.

NOTE 3—USE OF ESTIMATES

The following is a discussion of our most significant changes in estimates, which impacted 2015, 2014 and 2013 operating income.

Year ended December 31, 2015

Operating income for 2015 was impacted by net favorable changes in cost estimates totaling approximately $53 million.

AEA The segment had net favorable changes in estimates aggregating approximately $10 million. During 2015, the extension of the PB Litoral project completion date resulted in a $12 million reversal of liquidated damages. The Agile charter project provided $11 million of favorable changes due to (1) productivity improvements and (2) our cost reduction initiatives. Those were partly offset by a $17 million charge associated with a legal settlement, see Note 17, Commitments and Contingencies. Other projects experienced net favorable changes in estimate of $4 million, which were individually not material.

MEA The segment had net favorable changes in estimates aggregating approximately $20 million. Two Saudi Aramco projects were positively impacted in aggregate $24 million related to: (1) productivity improvements and associated cost savings on the Intermac 406 vessel, which is working on the Abu Ali cable-lay project; and (2) offshore installation-related cost savings as well as reimbursement for standby cost incurred on the Manifa project. The KJO Hout project in the Neutral Zone was positively impacted by $9 million due to a favorable discussion with the customer on reimbursement for vessel downtime and cost savings resulting from customer-approved design optimization. Those net favorable changes were partly offset by a $20 million change in estimate to complete on the ADMA 4 GI project in the U.A.E. because of changes in our execution plan, increased costs associated with the DB 32 vessel demobilization and productivity related cost increases during hookup and pre-commissioning work. Other projects experienced net positive changes in estimate of $7 million, which were individually not material.

ASA The segment had net favorable changes in estimates aggregating approximately $23 million. It was positively impacted by $5 million benefit on our Ichthys project due to project execution cost savings. Our Gorgon MRU project in the ASA had net positive changes in estimates of $4 million due to close out improvements. Other multiple projects experienced net positive changes in estimate of $14 million, which were individually not material.

Year ended December 31, 2014

Operating income for 2014 was impacted by changes in estimates relating to projects in each of our segments.

AEA The segment was negatively impacted by net unfavorable changes in estimates aggregating $37 million associated with five projects. On the PB Litoral, an EPCI project in Mexico, we increased our estimated cost to complete by approximately $69 million, due to liquidated damages and extended project management costs arising from unexpected project delays and projected fabrication cost increases reflecting reduced productivity, and execution plan changes to mitigate further project delays, as well as procurement and marine installation cost increases. This project is in a loss position and is estimated to be completed in the first quarter of 2016. On the Jack & St. Malo subsea project, in the Gulf of Mexico, we increased our estimated cost to complete by approximately $6 million, primarily due to equipment downtime issues on the North Ocean 102 (the “NO 102”), our primary vessel working on the project, partially offset by project close-out savings on marine spread costs and increased cost recovery estimates based on positive developments from the ongoing negotiations with the customer. This project, which was in a loss position, was completed in 2014. On a fabrication project in Morgan City, the BG Comp Module, completed during 2013, we reduced our cost recovery estimates by approximately $8 million, mainly based on an agreement in principle with the customer in 2014, which resulted in lower-than-anticipated recoveries. These negative impacts were partially offset by $40 million of project close-out improvements on the Papa Terra EPCI project in Brazil, which resulted from marine cost reductions upon completion of activities and increased recoveries due to successful developments from the ongoing approval process for additional weather-related compensation. We also recognized $5 million of cost reductions on the Gulf of Mexico, a marine installation project in, the Gulfstar project, primarily due to project close-out improvements.

MEA The segment was negatively impacted by net unfavorable changes aggregating about $4 million, primarily attributable to changes on four projects. On Safaniya Phase-2, a Saudi Aramco EPCI project, we increased our estimated cost at completion by approximately $23 million, net. Increases of $43 million were primarily as a result of vessel downtime due to weather and standby delays, and were partially offset by increased cost recovery estimates of approximately $20 million based on positive discussions with the customer during the fourth quarter of 2014. On Safaniya Phase-1, another Saudi Aramco project, we increased our estimated cost to complete by $19 million, primarily as a result of increased cost estimates to complete the onshore scope. Although the project recognized a loss in 2013, it remains in an overall profitable position and is substantially complete. On the KJO Ratawi project, we increased our estimated costs to complete by approximately $12 million, to reflect cost overruns related to (1) the onshore work, which was substantially completed in July 2014, and (2) delays in completing the offshore work, due to delayed access to the project site, resulting in a revised execution plan. The revised execution plan included the costs of an incremental mobilization and reflected inefficiencies of executing out-of-sequence work. This project was completed in the third quarter of 2015. These negative changes were partially offset by approximately $54 million of increased cost recovery estimates on a completed pipelay project in the Caspian based on positive negotiations with the customer in 2014, in connection with the ongoing project close-out process.

ASA The segment experienced net favorable changes aggregating approximately $52 million, primarily attributable to changes in estimates on seven projects. Changes in estimates on the Siakap subsea development (“Siakap”) project in Malaysia resulted in an improvement of approximately $34 million in 2014, primarily related to productivity improvements on our marine vessels and offshore support activities, as well as the favorable resolution of cost contingencies relating to offshore performance risks. On the BSP Champion marine installation project in Brunei, a reduction in estimated cost to complete due to productivity improvements on marine vessels and offshore support activities resulted in project savings of approximately $12 million. On the Dai Hung SURF and Macedon projects, insurance claim collection and final project close-out adjustments resulted in an additional recovery of approximately $10 million during in 2014. In addition, completion of the Sepat FEED and Esso KTT projects resulted in project close-out savings of approximately $6 million. These positive changes were partially offset by a negative change in estimate of $11 million on the Ichthys project in Australia, primarily due to lower than expected fabrication productivity, increase in procurement costs as well as an increase in marine costs primarily due to changes in marine asset utilization.

Year ended December 31, 2013

In 2013, we recognized net project losses of approximately $315 million due to changes in estimates across all three operating segments.

AEA The segment was negatively impacted by changes in estimates on six projects resulting in approximately $79 million of project losses. On the Hereema project in Morgan City, we incurred additional fabrication costs of approximately $9 million, primarily due to labor productivity. That project was completed during the fourth quarter of 2013. On the Kambesah marine project in Mexico, which was completed during 2012, we reversed previously recognized claim revenue by approximately $10 million due to unsuccessful claim resolution efforts. On the five-year charter of the Agile in Brazil, we increased the estimated cost to complete the project by approximately $9 million. The completion of this charter is expected during the first quarter of 2017. On two EPCI projects at Altamira, Ayatsil-B and PB Litoral, we increased our estimated costs at completion by approximately $41 million, primarily due to higher procurement costs, reduced labor productivity, and reduced utilization of the fabrication facility. Both of those projects were in loss positions. Ayatsil-B project was completed in 2014 and PB Litoral is expected to complete in the first quarter of 2016. On the Jack & St. Malo subsea project, we recognized a loss of approximately $10 million, primarily driven by liquidated damages due to the anticipated late arrival of vessels currently engaged on projects in Brazil and Malaysia. This project was completed in December 2014.

MEA The segment was negatively impacted by losses of $174 million due to changes in estimates on four projects. On the pipelay project in the Caspian Sea, we reduced the estimate of cost recovery as a result of ongoing negotiations with the customer. This project was completed in June 2014 with subsequent improvements of approximately $54 million in 2014, as discussed above. On Safaniya Phase-1, a Saudi Aramco EPCI project, we increased our estimated cost at completion by approximately $63 million, primarily as a result of revisions to the project's execution plans, increases in our estimated cost to complete due to an extended offshore hookup campaign requiring multiple vessel mobilizations and delays in completion of onshore activities. On the KJO Ratawi EPCI project in the Neutral Zone, we increased our estimated cost to complete by approximately $17 million, primarily due to weather downtime and revisions to our estimated cost to complete the hookup campaign. On the KJO Hout EPCI project in the Neutral Zone, we increased our estimated cost to complete by approximately $16 million due to procurement and design issues which were settled on less favorable terms than previously expected.

ASA The segment was negatively impacted by net losses of approximately $62 million due to changes in estimates on four projects. On the Siakap subsea development project in Malaysia, we increased our estimated cost at completion by approximately $127 million primarily due to downtime on the NO 105 resulting from mechanical and offshore productivity issues. This project was completed in June 2014 with subsequent improvements of approximately $34 million in 2014, as discussed above. On an EPCI project in Australia we completed a settlement with the customer which resulted in lower-than-expected recoveries. This project was completed in the first quarter of 2013 and the settlement documents were executed in February 2014. These deteriorations were partially offset by improvements on two projects. On an EPCI project in Australia, we reduced estimated costs to complete the project by approximately $64 million as a result of efficiencies and productivity improvements related to offshore hookup activities. This project was completed in early 2013. On a fabrication project in Australia, we increased our change order recovery and bonuses recognized by approximately $15 million resulting from settlements and achieved milestones. This project was completed in March 2014.

NOTE 4—RESTRUCTURING

In 2014 we completed a major review of our cost structure, and implemented a plan, which we referred to as the McDermott Profitability Initiative (the “MPI”), to increase our profitability and flexibility through reduced fixed and variable costs. The plan included personnel reductions, centralization of operational activities, other cost reduction initiatives and certain asset impairments.

In addition, the Company continued its efforts to improve its cost structure by initiating the Additional Overhead Reduction program (“AOR”) during fourth quarter 2015. AOR actions are expected to be substantially complete in the first quarter of 2016 and include personnel reductions affecting direct operating expense and SG&A. Under AOR, we expect to incur approximately $5 million in restructuring costs.

During 2013 and 2014, we implemented a restructuring of our Americas operations, which involved our Morgan City, Louisiana, Houston, Texas, New Orleans, Louisiana and some Brazil locations. The restructuring involved, among other things, reductions of management, administrative, fabrication and engineering personnel, and the discontinued utilization of the Morgan City facility.

We completed a Corporate restructuring during 2014. Costs associated with our Corporate restructuring activities primarily included severance, relocation and other personnel-related costs and costs for advisors, as well as costs for certain executive management changes that became effective during the fourth quarter of 2013.

The following table presents restructuring costs incurred in 2015, 2014 and 2013, and costs expected to be incurred in the future, by major type of cost and by segment.

	Year ended December 31,			Incurred From inception to December 31,	Estimate of Remaining amounts to be	
	2015	2014	2013	2015	incurred	Total
	(In thousands)					
Americas Restructuring						
Impairments and write offs	$-	$(1,240)	$14,163	$ 12,923	$ -	$12,923
Severance and other personnel-related costs	601	3,735	9,645	13,981	-	13,981
Morgan City environmental accrual	-	-	5,925	5,925	-	5,925
Morgan City yard-related expenses	1,707	6,675	4,175	12,557	-	12,557
Other	-	-	158	158	-	158
	2,308	9,170	34,066	45,544	-	45,544
Corporate Restructuring						
Severance and other personnel-related costs	-	938	1,661	2,599	-	2,599
Legal and other advisor fees	-	3,204	-	3,204	-	3,204
Other	-	798	-	798	-	798
	-	4,940	1,661	6,601	-	6,601
MPI						
Severance and other personnel-related costs						
AEA	6,646	-	-	6,646	-	6,646
MEA	856	-	-	856	-	856
ASA	6,104	-	-	6,104	2,100	8,204
Corporate and other	1,611	-	-	1,611	-	1,611
Asset impairment and disposal						
ASA	7,471	-	-	7,471	-	7,471
Legal and other advisor fees						