McDermott has served the energy industry since 1923. The Company’s integrated resources include more than 15,000 employees and a diversified fleet of marine vessels, fabrication facilities and engineering offices. McDermott has served the energy industry since 2023.
### 2010 Financial Highlights*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$2,403.7</td>
<td>$3,281.8</td>
<td>$3,098.1</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$ 314.9</td>
<td>$ 279.3</td>
<td>$ 107.0</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 236.6</td>
<td>$ 206.2</td>
<td>$  60.6</td>
</tr>
<tr>
<td>Earnings Per Diluted Share</td>
<td>$ 1.00</td>
<td>$  0.88</td>
<td>$  0.26</td>
</tr>
<tr>
<td>Weighted Average Shares</td>
<td>235.6</td>
<td>233.6</td>
<td>230.4</td>
</tr>
<tr>
<td>Cash and Investments**</td>
<td>$886.6</td>
<td>$639.7</td>
<td>$682.1</td>
</tr>
<tr>
<td>Long-Term Debt</td>
<td>$ 55.3</td>
<td>$  62.3</td>
<td>$   4.3</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$2,511.4</td>
<td>$2,411.4</td>
<td>$2,180.2</td>
</tr>
<tr>
<td>Backlog</td>
<td>$5,039.0</td>
<td>$3,260.8</td>
<td>$4,404.3</td>
</tr>
</tbody>
</table>

* Figures are presented on the basis of continuing operations
** Includes cash, cash equivalents, restricted cash and investments

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### REVENUES ($MM)

- **2010:** $2,404
- **2009:** $3,282
- **2008:** $3,098

### OPERATING INCOME ($MM)

- **2010:** $315
- **2009:** $279
- **2008:** $107

### CASH AND INVESTMENTS ($MM)

- **2010:** $887
- **2009:** $640
- **2008:** $682

### BACKLOG ($MM)

- **2010:** $5,039
- **2009:** $3,261
- **2008:** $4,404
Values: We are relentless in safeguarding our people, operations and the environment, and are dedicated to well-established business principles that have stood the test of time.

Solutions: We execute complex projects worldwide, providing fully integrated EPCI services for upstream field developments.

Quality: We are known for our proven processes and procedures, disciplined project execution and drive for continuous improvement.

Safety: Our superior safety culture is accomplished through an unrelenting pursuit of excellence, comprehensive training and a commitment to safety.

People: Spanning 55 nations and more than 50 languages and dialects, we draw from the expertise of approximately 15,000 employees worldwide.

Global Reach: Operating in approximately 20 countries, our integrated resources include a diversified fleet of marine vessels, fabrication facilities, marine bases and engineering offices.

Joint Ventures: Our joint venture companies provide floating production solutions including FPSOs, Spars, TLPs and Semis.

Innovation: With more than 85 years dedicated to serving the energy industry, we have pioneered multiple technological advancements.

Experience: We are well-versed in most every type and size of offshore project around the world; from shallow-water structures to floating facilities and deepwater subsea systems.
In looking back on this past year, 2010, I feel an enormous sense of pride in what your company, McDermott International, Inc. (“McDermott” or the “Company”), accomplished. In summary, outstanding financial results were delivered during a period that was nothing short of transformational.

The most significant event for McDermott, as compared to prior years, occurred on July 30, 2010 when we distributed to our shareholders all of the ownership of The Babcock & Wilcox Company, which previously represented our Government Operations and Power Generation Systems segments (together “B&W”). We are very pleased with the completion of this spin-off and the performance of both companies since, but for the remainder of this letter the focus will be on McDermott’s ongoing operations. Likewise, references to “records,” “our history” and the like throughout this annual report relate only to McDermott’s continuing operations.

Today, McDermott is a leading engineering, procurement, construction and installation (“EPCI”) company offering a pure-play on the desirable offshore oil and gas industry. Our major product offerings include fixed and floating production facilities, offshore pipelines and subsea systems. The Company’s customers include national and major energy companies throughout the Atlantic, Middle East and Asia Pacific regions where we operate. These regions now represent our reportable financial segments, and in each location we maintain engineering offices, one or more fabrication facilities and marine vessels.

As a new stand-alone Company with a history of industry leadership, this is truly an exciting time, and we believe our future is bright. However, let’s first review our summary results and accomplishments from 2010.

2010 Year in Review: Focused on the Business

Generally, financial metrics tend to be a significant component in evaluating the success of any given year. While I encourage you to fully review the attached Form 10-K for a comprehensive description of our financial results, it’s a pleasure to report these highlights from our 2010 continuing operations.

- Revenues of $2.4 billion produced operating income of $315 million, our second highest level ever, and an operating margin of 13%.
- Net income was $237 million, or $1.00 per diluted share, our second consecutive year-over-year increase in both metrics.
- Key line items of McDermott’s financial foundation, our balance sheet, include:
  - Total assets of $2.5 billion;
  - Cash and investments of approximately $887 million;
  - Working capital, defined as current assets less current liabilities, of $420 million;
  - Total debt of only $55 million, a very modest sum;
  - Shareholders’ equity of $1.5 billion, or 58% of assets.
- Backlog of $5 billion at year end, which represents future expected revenues under contract, is our highest year-end level ever as a result of $4.2 billion in new awards during the year.
- Of the backlog amount, $3.1 billion is expected to be realized through revenues in 2011, which provides good visibility for the coming year.
- To continue serving both shareholders and customers, the Company invested about $187 million in capital expenditures, which we expect to increase in 2011. These investments keep assets well-maintained and enable pursuit of growth initiatives.
- McDermott’s safety statistics remained outstanding in 2010—better than a year ago and our targets. In fact, we were recognized for our achievements in safety with Chevron’s “Contractor of the Year” award.
- Finally, the metric that shareholders tend to follow closely, McDermott’s stock price, increased approximately 65% following the B&W spin-off through year-end. While many factors influence valuations, I believe a portion of our strong appreciation relates to the enthusiasm investors have for McDermott and our industry.

Building for Our Future: Leveraging a Strong Market

While I’m more than satisfied with our results and achievements during 2010, my true enthusiasm is reserved for McDermott’s years ahead. And, the Company’s future is always more important than past results.
While McDermott’s results for 2010 were strong, our path forward can be better if we successfully address a number of priorities. For instance, even after delivering the second best full year for earnings in our history, the Atlantic segment did not contribute to this achievement and, in fact, recorded an operating loss. While it would be tempting to place the blame on the Macondo accident, we instead are proactively taking action. To help return the segment to profitability, we’ve installed new management, begun cutting costs and most importantly, have recently won new work. Clearly, additional projects are still needed and it will take time to return the segment to profitability, however, through this multi-prong approach, we are actively pursuing the opportunity.

Another priority relates to continuing with our vessel renewal program. As you’ve seen throughout this annual report, our EPCI business model is at the heart of the Company’s value proposition. In our active markets, we believe our fabrication facilities are second to none and our marine vessels have been fully maintained, serving their respective markets well. However, as we plan for the future, we do expect a number of vessel retirements and replacements over the next two decades. We have already begun the process of upgrading our marine fleet, including broadening certain capabilities, with the purchase of an interest in the North Ocean 102, the recent completion of the LB32 shallow-water lay barge and the ongoing construction of the North Ocean 105. In addition, we are upgrading the DB50 in 2011, in anticipation of a more complex workload in the years to come. Ensuring access to the right number of vessels, with the right capabilities and in the right regions will increase our ability to generate strong returns and better serve our customers in the years ahead.

Finally, while the Company serves a historically cyclical industry and faces formidable competition for new awards, we understand the owners of our Company rightfully expect our management team to grow the Company, improve our financial results, invest wisely and plan for the future. We gladly accept this directive and are pursuing it through several avenues. We have actively increased our capital expenditures in recent years pursuing organic growth, such as the deeper water and subsea expansion initiatives. Additionally, we are engaging in partnership discussions in several markets to give us enhanced growth opportunities at lower cost and have formed a global marine organization to better utilize our propeller-driven assets. We are also looking for growth beyond our current footprint, as evidenced by diversification into “brown field” work and entering new regions such as Brazil. Finally, we will regularly evaluate accelerated opportunities achievable through mergers and acquisitions.

The examples above remind us that even with the stellar results of 2010 and better visibility for 2011, our work is never complete; because, like us, our owners are focused on the future. And, I believe there is no better time to plan for the times ahead than right now—while our workload is solid, our results strong and the industry is growing. The macro fundamentals of our industry are promising, and the simple reality is the Company has more opportunities available to us than we can realistically pursue. As such, the Board and our management team have become much more focused on the expected returns on invested capital—to better allocate both our human and financial resources for shareholders’ maximum benefit.

As of this writing, I am approaching just my second anniversary with McDermott. However, my professional background includes almost 40 years of diversified engineering and construction experience, so I feel qualified to state that McDermott is a special company. McDermott’s leadership in the industry, the projects we’ve built and the relationships with our clients are all unmatched. However, what truly separates McDermott from the competition are my 15,000 co-workers who strive everyday to exceed our customers’ expectations. It is my honor and privilege to serve alongside them, and I fully appreciate their efforts in 2010 and commitment to the Company’s future.

Finally, I want to thank you, our owners, for your ongoing trust and investment in McDermott.

Kindest regards,

Stephen M. Johnson
DEEPWATER FLOATING SOLUTIONS
McDermott has partnered with KeppelFELS through our joint-venture FloaTEC, LLC to provide a unique floating production solution for a challenging deepwater field development offshore Brazil. Our combined resources provide world-class proprietary technology, global engineering, project management, construction resources and installation capability; and broad industry experience to this approximately $1 billion project.

SUBSEA INSTALLATION
Under construction in Spain, the new high-speed North Ocean 105 will support McDermott’s subsea strategy and fleet renewal program. Along with our subsea engineering capabilities, this high-capacity rigid and flexible pipelay vessel will improve our overall EPCI offering in subsea, floating and conventional project work around the world.
McDermott International, Inc.

WORLDWIDE SOLUTIONS

McDermott utilized its integrated resources for a customer in Australia to deliver the world’s first modularized LNG plant, designed to produce 4.4 million tons per year. 75 pre-assembled racks and units totaling approximately 17,500 metric tons were constructed at our Indonesian fabrication facility and shipped to Western Australia.

FLOATING PRODUCTION STORAGE AND OFFLOADING SYSTEMS

McDermott recently demonstrated its international teamwork for fast-track completion of a project offshore Brazil. Engineering for the 8,800-tons of FPSO topsides was performed in Houston, procurement was shared between Singapore and Houston, and fabrication and mechanical completion was carried out at our Indonesian fabrication facility.

CONVENTIONAL FIELD DEVELOPMENT

A recently awarded EPCI project in the Neutral Zone of the Arabian Gulf will have McDermott undertake the design and construction of a number of offshore platforms, as well as modifications to existing infrastructure and more than 100 kilometers of pipelines and cables. The structures will be built at our Middle East fabrication facility and our DB27 and LB32 construction vessels will support the installation scope.

MODULAR FABRICATION

McDermott utilized its integrated resources for a customer in Australia to deliver the world’s first modularized LNG plant, designed to produce 4.4 million tons per year. 75 pre-assembled racks and units totaling approximately 17,500 metric tons were constructed at our Indonesian fabrication facility and shipped to Western Australia.
McDermott’s integrated resources include more than 15,000 employees and a diversified fleet of marine vessels, fabrication facilities and engineering assets. Together they deliver fixed and floating production facilities, pipelines and subsea systems from concept to commissioning. McDermott’s customers include national and major energy companies. Operating in approximately 20 countries across the Atlantic, Middle East and Asia Pacific regions, the Company undertakes no obligation to update or revise any forward-looking statement.

This annual report includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to our backlog, to the extent backlog may be viewed as an indicator of future revenues, our belief that our track is bright, our expectation that we will increase capital expenditures in 2011, our enthusiasm for McDermott’s years ahead, our expectations that a number of vessels will retire and be replaced over the next two decades, our anticipation of a more complex workload in the years to come, and the expected scope, value, timing and execution associated with certain projects. These statements involve uncertainties that may impact the Company’s expectations and predictions, including, but not limited to, disruptions experienced with customers and suppliers, the inability to retain key personnel, reductions in the capital expenditures of oil companies, adverse changes in the industry in which we operate or in the marketplace for our products and services, changes in the value of currencies in which we operate, new or future laws or regulations, changes in tax laws, the inability to complete contracts on time or on schedule, changes in project scope or estimates, contract cancellations, change orders and other modifications, and difficulties executing on projects. If one or more of these risks materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected. For a more complete discussion of the factors that may affect our future results, please refer to our annual report on Form 10-K for the year ended December 31, 2010.

McDermott International, Inc.

We are

McDermott International, Inc.

McDermott International, Inc. (NYSE: MDI) is a leading engineering, procurement, construction and installation (“EPCI”) company focused on executing complex offshore oil and gas projects worldwide. Providing fully integrated EPCI services for upstream field developments, McDermott delivers fixed and floating production facilities, pipelines and subsea systems from concept to commissioning. McDermott’s customers include national and major energy companies. Operating in approximately 20 countries across the Atlantic, Middle East and Asia Pacific regions, the Company’s integrated resources include more than 15,000 employees and a diversified fleet of marine vessels, fabrication facilities and engineering offices. McDermott has served the energy industry since 1910.