

CHICAGO BRIDGE & IRON CO N V

Form 10-K

June 01, 2006

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005
- 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 1-12815
CHICAGO BRIDGE & IRON COMPANY N.V.**

Incorporated in The Netherlands

*IRS Identification Number:
not applicable*

**Polarisavenue 31
2132 JH Hoofddorp
The Netherlands
31-23-5685660**

(Address and telephone number of principal executive offices)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:

Name of Each Exchange on Which Registered:

Common Stock; Euro .01 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. YES NO

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Aggregate market value of common stock held by non-affiliates, based on a New York Stock Exchange closing price of \$22.86 as of June 30, 2005, was \$2,238,475,614.

The number of shares outstanding of a single class of common stock as of May 1, 2006 was 97,754,840.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2006 Proxy Statement

Part III

CHICAGO BRIDGE & IRON COMPANY N.V. AND SUBSIDIARIES

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PART I

Item 1. *Business*

Founded in 1889, Chicago Bridge & Iron Company N.V. and Subsidiaries (CB&I) is one of the world's leading engineering, procurement and construction (EPC) companies, specializing in lump-sum turnkey projects for customers that produce, process, store and distribute the world's natural resources. With more than 60 locations and approximately 10,000 employees worldwide, we capitalize on our global expertise and local knowledge to reliably and safely deliver projects virtually anywhere. CB&I is a fully integrated EPC service provider, offering a complete package of conceptual design, engineering, procurement, fabrication, field erection, mechanical installation and commissioning. Our projects include hydrocarbon processing plants, liquefied natural gas (LNG) terminals and peak shaving plants, offshore structures, pipelines, bulk liquid terminals, water storage and treatment facilities, and other steel structures and their associated systems. We also provide a broad range of repair and maintenance services, including complete turnarounds for petroleum refining and petrochemical plants. During 2005, we worked on approximately 650 contracts for customers in a variety of industries. Over the last several years, our customers have included:

large U.S., multinational and state-owned oil companies, such as Shell, ExxonMobil, Marathon, Valero Energy Corporation, BP, ConocoPhillips, Chevron, Saudi Aramco, Qatar Petroleum and Plus Petrol;

large EPC companies, such as Chiyoda, Bechtel, KBR and Technip;

LNG and natural gas producers and distributors, such as Dominion, Yankee Gas, South Hook LNG and Grain LNG;

municipal and private water companies.

Services

We provide a wide range of innovative and value-added EPC services, including:

Process and Technology. We provide EPC services for customers in the hydrocarbon industry, specializing in natural gas processing plants, refinery and petrochemical process units, and hydrogen and synthesis gas plants. We also provide offshore structures for oil and gas production and pipelines for product distribution. Natural gas processing plants treat natural gas to meet pipeline requirements and to recover valuable liquids and other enhanced products, through such technologies as cryogenic separation, amine treatment, dehydration and liquids fractionation. Refinery and petrochemical process units enable customers to extract products from the top and middle streams of the crude oil barrel using technologies such as catalytic reforming, vacuum and atmospheric distillation, fuels and distillate hydrotreating, hydrodesulfurization, alkylation and isomerization. Synthesis gas plants generate industrial gases for use in a variety of industries through technologies such as steam methane and auto-thermal reforming, partial oxidation reactors and pressure swing adsorption purification.

Low Temperature/Cryogenic Tanks and Systems. These facilities are used primarily for the storage and handling of liquefied gases. We specialize in providing refrigerated turnkey terminals and tanks. Refrigerated tanks are built from special steels and alloys that have properties to withstand cold temperatures at the storage pressure. These systems usually include special refrigeration systems to maintain the gases in liquefied form at the storage pressure. Applications extend from low temperature (+30 F to -100 F) to cryogenic (-100 F to -423 F). Customers in the

petroleum, chemical, petrochemical, specialty gas, natural gas, power generation and agricultural industries use these tanks and systems to store and handle liquefied gases such as LNG, methane, ethane, ethylene, liquefied petroleum gas (LPG), propane, propylene, butane, butadiene, anhydrous ammonia, oxygen, nitrogen, argon and hydrogen.

Pressure Vessels. Pressure vessels are built primarily from high strength carbon steel plates which may be formed in one of our fabrication shops and are welded together at the job site. Pressure vessels are constructed in a variety of shapes and sizes, some weighing in excess of 700 tons, with wall thickness in excess of four inches. Existing customers represent a cross-section of the petroleum, petrochemical, chemical, and

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pulp and paper industries, where process applications of high pressure and/or temperature are required. Typical pressure vessel usage includes process and storage vessels in the petroleum, petrochemical, and chemical industry; digesters in the pulp and paper industry; and egg-shaped digesters for wastewater treatment. We have designed and erected pressure vessels throughout the world.

Standard Tanks. Our standard tanks include aboveground storage systems and water storage and treatment structures. Aboveground storage tanks are sold primarily to customers operating in the petroleum, petrochemical and chemical industries. This industrial customer group includes nearly all of the world's major oil and chemical companies. Aboveground tanks can be used for storage of crude oil, refined products such as gasoline, raw water, potable water, chemicals, petrochemicals and a large variety of feedstocks for the manufacturing industry. The water storage line includes single pedestal spheroid, fluted column and concrete elevated tanks, as well as standpipes and reservoirs. These structures have a capacity range from 25,000 gallons to more than 30,000,000 gallons. Water storage structures provide potable water reserves and supply pressure to the water distribution system. The water treatment line includes solids contact clarifiers and standpipe mixing systems.

Specialty and Other Structures. Our specialty and other structures are marketed to a diverse group of customers. Examples of specialty structures include processing facilities or components used in the iron, aluminum and mining industries, hydroelectric structures such as penstocks and spiral cases, and other unique engineered structures.

Repairs and Turnarounds. Repair, maintenance and modification services are performed primarily on flat bottom tanks and pressure vessels for customers in the petroleum, chemical, petrochemical and water industries. A turnaround is a planned shutdown of a refinery, chemical plant or other process unit for repair and maintenance of equipment and associated systems. The work is usually scheduled on a multi-shift, seven day-per-week basis to minimize downtime of the facility. This service often requires short cycle times and unique construction procedures. We offer this service worldwide to our customers in the petroleum, petrochemical and chemical industries.

Certain Acquisitions

On April 29, 2003, we acquired certain assets and assumed certain liabilities of Petrofac Inc., an EPC company serving the hydrocarbon processing industry, for \$26.6 million, including transaction costs. The acquired operations, located in Tyler, Texas, have been fully integrated into our North America segment's CB&I Howe-Baker unit and have expanded our capacity to engineer, fabricate and install EPC projects for the oil refining, oil production, gas treating and petrochemical industries.

On May 30, 2003, we acquired certain assets and assumed certain liabilities of John Brown Hydrocarbons Limited (John Brown), for \$29.6 million, including transaction costs, net of cash acquired. John Brown provides comprehensive engineering, program and construction management services for the offshore, onshore and pipeline sectors of the hydrocarbon industry, as well as for LNG terminals. The acquired operations, located in London, Moscow, the Caspian Region and Canada, have been integrated into our Europe, Africa, Middle East segment. This addition has strengthened our international engineering and execution platform and expanded our capabilities into the upstream oil and gas sector.

Competitive Strengths

Our core competencies, which we believe are significant competitive strengths, include:

Worldwide Record of Excellence. We have established a record as a leader in the international engineering and construction industry by providing consistently superior project performance for 116 years.

Fully-Integrated Specialty EPC Provider. We are one of a very few global EPC providers that can deliver a project from conception to commissioning, including conceptual design, detail engineering, procurement, fabrication, field erection, mechanical installation, start-up assistance and operator training. We generally design what we build and build what we design, allowing us to provide innovative engineering solutions, aggressive schedules and work plans, and optimal quality and reliability.

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Global Execution Capabilities. With a global network of some 60 sales and operations offices and established labor and supplier relationships, we have the ability to rapidly mobilize people, materials and equipment to execute projects in locations ranging from highly industrialized countries to some of the world's more remote regions. We completed approximately 650 projects in 35 different countries in 2005. Our global reach makes us an attractive partner for large, global energy and industrial companies with geographically dispersed operations and also allows us to allocate our internal resources to geographies and industries with the greatest current demand. At the same time, because of our long-standing presence in numerous markets around the world, we have a prominent position as a local contractor in those markets.

History of Innovation. We have established a reputation for technical innovation ever since we introduced the first floating roof storage tank to the petroleum industry in 1923. We have since maintained a strong culture of developing technological innovations and currently possess approximately 70 active U.S. patents. We develop innovative technologies on behalf of our customers that are immediately applicable to improving hydrocarbon processing, storage technology and field erection procedures. We are equipped with well-established technology and proprietary know-how in refinery processes, synthesis gas production, gas-to-liquids processing, natural gas processing and sulfur removal and recovery processes, an important element for the production of low sulfur transportation fuels.

Our in-house engineering team includes internationally recognized experts in site-erected metal plate structures, pre-stressed concrete structures, stress analysis, welding technology, nondestructive examination, and cryogenic storage and processing. Several of our senior engineers are long-standing members of committees that have helped develop worldwide standards for storage structures and process vessels for the petroleum and water industries, including the American Petroleum Institute, American Water Works Association and American Society of Mechanical Engineers.

Strong Focus on Project Risk Management. We are experienced in managing the risk associated with bidding on and executing complex projects. Our position as a fully-integrated EPC service provider allows us to execute global projects on a competitively bid fixed-price, lump-sum basis. In addition, our ability to execute lump-sum contracts provides us with access to a growing segment of the E&C market that is demanding these types of contracts.

Strong Health, Safety and Environmental (HSE) Performance. Success in our industry depends in part on strong HSE performance. Because of our long and outstanding safety record, we are sometimes invited to bid on projects for which other competitors do not qualify. According to the U.S. Bureau of Labor Statistics (BLS), the national Lost Workday Case Incidence Rate for construction companies similar to CB&I was 3.6 per 100 full-time employees for 2004 (the latest reported year), while our rate for 2005 was only 0.04 per 100. The national BLS figure for Recordable Incidence Rate was 3.2 per 100 workers, while our rate was only 0.52. Our excellent HSE performance also translates directly to lower cost, timely completion of projects, and reduced risk to our employees, subcontractors and customers.

Management Team with Extensive Engineering and Construction Industry Experience. Members of our senior leadership team have an average of more than 25 years of experience in the engineering and construction industry.

Growth Strategy

We intend to increase shareholder value through the execution of the following growth strategies:

Expanding our Market Share in the High-Growth Energy Infrastructure Business. Growing worldwide demand for energy has led to a sustained period of historically high oil and natural gas prices. In turn, these factors have prompted an upsurge in capital spending in the oil and gas industry that is predicted to last for several years. We believe we will benefit from this higher spending curve in a number of areas where we can draw upon our experience and technical

capabilities.

In the natural gas market, higher demand and pricing are prompting the development of new LNG import and export facilities and the expansion of existing import terminals, as well increased development of unconventional natural gas reserves. LNG must be stored at cryogenic temperatures and then regassified for

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introduction into the natural gas pipeline grid. The desire to monetize stranded gas could also lead to the development of gas-to-liquids (GTL) projects. We have capabilities in cryogenic storage and systems which are used to store and regassify LNG; in natural gas processing systems that treat and condition natural gas for consumer use; and in the design and construction of process units used for the conversion of natural gas to liquid fuels.

In the refining market, higher demand and pricing, combined with declining reserves of sweet crude, are prompting refiners to add capacity and to improve their ability to process heavier and more sour grades of crude. Heavy crude requires more intense processing to remove sulfur, nitrogen, heavy metals and other contaminants and to yield higher-value products. Refiners are also adding process units to produce low sulfur gasoline and diesel to meet stricter worldwide clean fuels regulations. We have capabilities in such areas as hydrogen production, hydrodesulfurization, sulfur removal and recovery, catalytic conversion and heavy-wall process vessels that enable refiners to process heavy crude and to produce clean fuels.

Creating Growth from Acquisitions and Other Business Combinations. On an opportunistic basis, we may pursue growth through selective acquisitions of businesses or assets that will expand or complement our current portfolio of services and meet our stringent acquisition criteria. We expect to capitalize on any acquisitions across our global sales and execution platform. We will also focus on imparting best practices and technologies from acquired businesses throughout the organization.

Competition

We operate in an intensely competitive environment. Price, timeliness of completion, quality, safety record and reputation are the principal competitive factors within the industry. There are numerous regional, national and global competitors that offer services similar to ours.

Marketing and Customers

Through our global network of sales offices, we contract directly with hundreds of customers in a targeted range of industries that produce, process, store and distribute the world's natural resources. We rely primarily on direct contact between our technically qualified sales and engineering staff and our customers' engineering and contracting departments. Dedicated sales employees are located throughout our global offices.

Our significant customers, with many of which we have had longstanding relationships, are primarily in the hydrocarbon sector and include major petroleum companies, *e.g.*, Chevron, Shell, ExxonMobil and ConocoPhillips, and large EPC companies, *e.g.*, Chiyoda, Bechtel, KBR and Technip.

We are not dependent upon any single customer on an ongoing basis and do not believe the loss of any single customer would have a material adverse effect on our business. For the year ended December 31, 2005, we had one customer within our North America segment that accounted for more than 10% of our total revenue. Revenue for Valero Energy Corporation totaled approximately \$244.5 million or 11% of our total revenue. No single customer accounted for more than 10% of our revenue in 2004.

Segment Financial Information

Financial information by geographic area of operation can be found in the section entitled "Results of Operations" in Item 8. Financial Statements and Supplementary Data.

Backlog/New Business Taken

We had a backlog of work to be completed on contracts of \$3.2 billion as of December 31, 2005, compared with \$2.3 billion as of December 31, 2004. Due to the timing of awards and the long-term nature of some of our projects, certain backlog of our work may not be completed in the current fiscal year. New business taken was almost \$3.3 billion for the year ended December 31, 2005, compared with approximately \$2.6 billion for the year ended December 31, 2004.

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	Years Ended December 31,	
	2005	2004
	(In thousands)	
North America	\$ 1,518,317	\$ 1,448,055
Europe, Africa, Middle East	1,196,567	962,299
Asia Pacific	426,265	135,226
Central and South America	138,296	68,969
 Total New Business Taken	 \$ 3,279,445	 \$ 2,614,549

Types of Contracts

Our contracts are usually awarded on a competitive bid basis. We are primarily a fixed-price, lump-sum contractor. The balance of our work is performed on variations of cost reimbursable and target price approaches.

Raw Materials and Suppliers

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

We make planned use of subcontractors where it assists us in meeting customer requirements with regard to schedule, cost or technical expertise. These subcontractors may range from small local entities to companies with global capabilities, some of which may be utilized on a repetitive or preferred basis. We anticipate being able to locate and contract with qualified subcontractors in all global areas where we do business.

Environmental Matters

Our operations are subject to extensive and changing U.S. federal, state and local laws and regulations, as well as laws of other nations, that establish health and environmental quality standards. These standards, among others, relate to air and water pollutants and the management and disposal of hazardous substances and wastes. We are exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such substances or wastes.

In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. We are not aware of any manifestation by a potential claimant of its awareness of a possible claim or assessment with respect to any such facility.

We believe that we are currently in compliance, in all material respects, with all environmental laws and regulations. We do not anticipate that we will incur material capital expenditures for environmental controls or for investigation or remediation of environmental conditions during 2006 or 2007.

Patents

We hold patents and licenses for certain items incorporated into our structures. However, none is so essential that its loss would materially affect our business.

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Employees

We employed approximately 10,000 persons worldwide as of December 31, 2005. With respect to our total number of employees, as of December 31, 2005, we had 3,218 salaried employees and 6,773 hourly and craft employees. The number of hourly and craft employees varies in relation to the number and size of projects we have in process at any particular time. The percentage of our employees represented by unions generally ranges between 5 and 10 percent. Our unionized subsidiary, CBI Services, Inc., has agreements with various unions representing groups of its employees, the largest of which is with the Boilermakers Union. We have multiple contracts with various Boilermakers Unions, and each contract generally has a three-year term.

We enjoy good relations with our unions and have not experienced a significant work stoppage in any of our facilities in more than 10 years. Additionally, to preserve our project management and technological expertise as core competencies, we recruit, develop and maintain ongoing training programs for engineers and field supervision personnel.

Item 1A. Risk Factors

Any of the following risks (which are not the only risks we face) could have material adverse effects on our financial condition, operating results and cash flow.

Risk Factors Relating to Our Business

We Are Currently Subject to Securities Class Action Litigation, the Unfavorable Outcome of Which Might Have a Material Adverse Effect on Our Financial Condition, Results of Operations and Cash Flow.

As previously announced, a class action shareholder lawsuit was filed on February 17, 2006 against us, Gerald M. Glenn, Robert B. Jordan, and Richard E. Goodrich in the United States District Court for the Southern District of New York entitled *Welmon v. Chicago Bridge & Iron Co. NV, et al.* (No. 06 CV 1283). The complaint was filed on behalf of a purported class consisting of all those who purchased or otherwise acquired our securities from March 9, 2005 through February 3, 2006 and were damaged thereby.

The action asserts claims under the U.S. securities laws and alleges, among other things, that we materially overstated our financial results during the class period by misapplying percentage-of-completion accounting and did not follow our publicly stated revenue recognition policies.

Since the initial lawsuit, eleven other suits containing substantially similar allegations and with similar, but not exactly the same, class periods have been filed and have been consolidated in the Southern District of New York.

Under the initial scheduling order, a single Consolidated Amended Complaint is to be filed on or before June 19, 2006. Although we believe that we have meritorious defenses to the claims made in each of the above actions and intend to contest them vigorously, we do not anticipate filing a response until such time as the Consolidated Amended Complaint is filed.

An adverse result could reduce our available cash and necessitate increased borrowings under our credit facility, leaving less capacity available for letters of credit to support our new business, or result in our inability to comply with the covenants of our credit facility and other financing arrangements.

Our Revenue, Cash Flow and Earnings May Fluctuate, Creating Potential Liquidity Issues and Possible Under-Utilization of Our Assets.

Our revenue, cash flow and earnings may fluctuate from quarter to quarter due to a number of factors. Our revenue, cash flow and earnings are dependent upon major construction projects in cyclical industries, including the hydrocarbon refining, natural gas and water industries. The selection of, timing of or failure to obtain projects, delays in awards of projects, cancellations of projects or delays in completion of contracts could result in the under-utilization of our assets and reduce our cash flows. Moreover, construction projects for which our services are contracted may require significant expenditures by us prior to receipt of relevant payments by a customer and may expose us to potential credit risk if such customer should encounter financial difficulties. Such expenditures could reduce our cash flows and necessitate increased borrowings under our credit facilities (interest payments on our

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outstanding debt during 2005 totaled approximately \$8.7 million). Finally, the winding down or completion of work on significant projects that were active in previous periods will reduce our revenue and earnings if such significant projects have not been replaced in the current period.

Our New Business Awards and Liquidity May Be Adversely Affected by Bonding Capacity.

A portion of our new business requires the support of bid, performance, payment and retention bonds. Our primary use of surety bonds is to support water and wastewater treatment and standard tank projects in the U.S. A restriction, reduction, termination or change in surety agreements could limit our ability to bid on new project opportunities, thereby limiting our awards for new business, or increase our letter of credit utilization in lieu of bonds, thereby reducing availability under our credit facilities.

Our Revenue and Earnings May Be Adversely Affected by a Reduced Level of Activity in the Hydrocarbon Industry.

In recent years, demand from the worldwide hydrocarbon industry has been the largest generator of our revenue. Numerous factors influence capital expenditure decisions in the hydrocarbon industry, including:

- current and projected oil and gas prices;
- exploration, extraction, production and transportation costs;
- the discovery rate of new oil and gas reserves;
- the sale and expiration dates of leases and concessions;
- local and international political and economic conditions, including war or conflict;
- technological advances; and
- the ability of oil and gas companies to generate capital.

In addition, changing taxes, price controls, and laws and regulations may reduce the level of activity in the hydrocarbon industry. These factors are beyond our control. Reduced activity in the hydrocarbon industry could result in a reduction of our revenue and earnings and possible under-utilization of our assets.

Intense Competition in the Engineering and Construction Industry Could Reduce Our Market Share and Earnings.

We serve markets that are highly competitive and in which a large number of multinational companies compete. In particular, the engineering, procurement and construction markets are highly competitive and require substantial resources and capital investment in equipment, technology and skilled personnel. Competition also places downward pressure on our contract prices and margins. Intense competition is expected to continue in these markets, presenting us with significant challenges in our ability to maintain strong growth rates and acceptable margins. If we are unable to meet these competitive challenges, we could lose market share to our competitors and experience an overall reduction in our earnings.

We Could Lose Money if We Fail to Accurately Estimate Our Costs or Fail to Execute Within Our Cost Estimates on Fixed-Price, Lump-Sum Contracts.

Most of our net revenue is derived from fixed-price, lump-sum contracts. Under these contracts, we perform our services and execute our projects at a fixed price and, as a result, benefit from cost savings, but we may be unable to recover any cost overruns. If our cost estimates for a contract are inaccurate, or if we do not execute the contract within our cost estimates, we may incur losses or the project may not be as profitable as we expected. In addition, we are sometimes required to incur costs in connection with modifications to a contract (change orders) that may be unapproved by the customer as to scope and/or price, or to incur unanticipated costs (claims), including costs for customer-caused delays, errors in specifications or designs, or contract termination, that we may not be able to recover from our customer, or otherwise. These, in turn, could negatively impact our cash flow and earnings. The

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revenue, cost and gross profit realized on such contracts can vary, sometimes substantially, from the original projections due to changes in a variety of factors, including but not limited to:

unanticipated technical problems with the structures or systems being supplied by us, which may require that we spend our own money to remedy the problem;

changes in the costs of components, materials, labor or subcontractors;

difficulties in obtaining required governmental permits or approvals;

changes in local laws and regulations;

changes in local labor conditions;

project modifications creating unanticipated costs;

delays caused by local weather conditions; and

our suppliers or subcontractors failure to perform.

These risks are exacerbated if the duration of the project is long-term because there is an increased risk that the circumstances upon which we based our original bid will change in a manner that increases costs. In addition, we sometimes bear the risk of delays caused by unexpected conditions or events.

Our Use of the Percentage-of-Completion Method of Accounting Could Result in a Reduction or Reversal of Previously Recorded Revenue and Profit.

Revenue is primarily recognized using the percentage-of-completion method. A significant portion of our work is performed on a fixed-price or lump-sum basis. The balance of our work is performed on variations of cost reimbursable and target price approaches. Contract revenue is accrued based on the percentage that actual costs-to-date bear to total estimated costs. We utilize this cost-to-cost approach as we believe this method is less subjective than relying on assessments of physical progress. We follow the guidance of the Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for accounting policies relating to our use of the percentage-of-completion method, estimating costs, revenue recognition, and unapproved change order/claim recognition. The use of estimated cost to complete each contract, while the most widely recognized method used for percentage-of-completion accounting, is a significant variable in the process of determining income earned and is a significant factor in the accounting for contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates, which may result in a reduction or reversal of previously recorded revenue and profit.

We Have Identified Two Material Weaknesses in our Internal Control Over Financial Reporting, Which Could Adversely Affect our Ability to Report our Financial Condition and Results of Operations Accurately and on a Timely Basis.

In connection with our Audit Committee inquiry and our review of internal controls over financial reporting, we have identified two material weaknesses in our internal control. For a discussion of our internal control over financial reporting and a description of the identified two material weaknesses, see Item 9A. Controls and Procedures.

Material weaknesses in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information, as recently occurred. While we have implemented or will implement enhancements to our internal control over financial reporting which are designed to address the two material weaknesses and add additional rigor to internal controls, if we are unsuccessful in implementing or following our remediation plan, or fail to update our internal controls as our business evolves or to integrate acquired businesses into our control systems, we may not be able to timely or accurately report our financial condition, results of operations or cash flows, or maintain effective disclosure controls and procedures. If we are unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions by the Securities and

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Exchange Commission (SEC) and the New York Stock Exchange (NYSE), including a delisting from the NYSE, securities litigation, events of default under our credit facilities and senior note agreement, and a general loss of investor confidence, any one of which could adversely affect our business prospects and the valuation of our common stock. In addition, we may not be able to raise capital through the issuance of additional common shares or complete an acquisition utilizing our common shares.

Our Acquisition Strategy Involves a Number of Risks.

We intend to pursue growth through the opportunistic acquisition of companies or assets that will enable us to broaden the types of projects we execute and also expand into new markets to provide more cost-effective customer solutions. We routinely review potential acquisitions. However, we may be unable to implement this growth strategy if we cannot identify suitable companies or assets, reach agreement on potential strategic acquisitions on acceptable terms or for other reasons. Moreover, our acquisition strategy involves certain risks, including:

difficulties in the integration of operations and systems;

the key personnel and customers of the acquired company may terminate their relationships with the acquired company;

we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, financial reporting and internal controls;

we may assume or be held liable for risks and liabilities (including for environmental-related costs) as a result of our acquisitions, some of which we may not discover during our due diligence;

our ongoing business may be disrupted or receive insufficient management attention; and

we may not be able to realize the cost savings or other financial benefits we anticipated.

Future acquisitions may require us to obtain additional equity or debt financing, which may not be available on attractive terms. Moreover, to the extent an acquisition transaction financed by non-equity consideration results in additional goodwill, it will reduce our tangible net worth, which might have an adverse effect on our credit and bonding capacity.

Our Projects Expose Us to Potential Professional Liability, Product Liability, or Warranty or Other Claims.

We engineer and construct (and our structures typically are installed in) large industrial facilities in which system failure can be disastrous. We may also be subject to claims resulting from the subsequent operations of facilities we have installed. In addition, our operations are subject to the usual hazards inherent in providing engineering and construction services, such as the risk of work accidents, fires and explosions. These hazards can cause personal injury and loss of life, business interruptions, property damage, pollution and environmental damage. We may be subject to claims as a result of these hazards.

Although we generally do not accept liability for consequential damages in our contracts, any catastrophic occurrence in excess of insurance limits at projects where our structures are installed or services are performed could result in significant professional liability, product liability, warranty and other claims against us. These liabilities could exceed our current insurance coverage and the fees we derive from those structures and services. These claims could also make it difficult for us to obtain adequate insurance coverage in the future at a reasonable cost. Clients or subcontractors that have agreed to indemnify us against such losses may refuse or be unable to pay us. A partially or

completely uninsured claim, if successful, could result in substantial losses and reduce cash available for our operations.

We Are Exposed to Potential Environmental Liabilities.

We are subject to environmental laws and regulations, including those concerning:

emissions into the air;

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discharge into waterways;

generation, storage, handling, treatment and disposal of waste materials; and

health and safety.

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

The environmental health and safety laws and regulations to which we are subject are constantly changing, and it is impossible to predict the effect of such laws and regulations on us in the future. We cannot assure you that our operations will continue to comply with future laws and regulations or that these laws and regulations will not cause us to incur significant costs or adopt more costly methods of operation.

In connection with the historical operation of our facilities, substances that currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. We are not aware of any manifestation by a potential claimant of its awareness of a possible claim or assessment with respect to any such facility.

Although we maintain liability insurance, this insurance is subject to coverage limitations, deductibles and exclusions and may exclude coverage for losses or liabilities relating to pollution damage. We may incur liabilities that may not be covered by insurance policies, or, if covered, the dollar amount of such liabilities may exceed our policy limits. Such claims could also make it more difficult for us to obtain adequate insurance coverage in the future at a reasonable cost. A partially or completely uninsured claim, if successful, could cause us to suffer a significant loss and reduce cash available for our operations.

Certain Remedies Ordered in a Federal Trade Commission Order Could Adversely Affect Us.

In October 2001, the U.S. Federal Trade Commission (the "FTC" or the "Commission") filed an administrative complaint (the "Complaint") challenging our February 2001 acquisition of certain assets of the Engineered Construction Division of Pitt-Des Moines, Inc. ("PDM") that we acquired together with certain assets of the Water Division of PDM (The Engineered Construction and Water Divisions of PDM are hereafter sometimes referred to as the "PDM Divisions"). The Complaint alleged that the acquisition violated Federal antitrust laws by threatening to substantially lessen competition in four specific business lines in the United States: liquefied nitrogen, liquefied oxygen and liquefied argon (LIN/LOX/LAR) storage tanks; liquefied petroleum gas (LPG) storage tanks; liquefied natural gas (LNG) storage tanks and associated facilities; and field erected thermal vacuum chambers (used for the testing of satellites) (the "Relevant Products").

On June 12, 2003, an FTC Administrative Law Judge ruled that our acquisition of PDM assets threatened to substantially lessen competition in the four business lines identified above and ordered us to divest within 180 days of a final order all physical assets, intellectual property and any uncompleted construction contracts of the PDM

Divisions that we acquired from PDM to a purchaser approved by the FTC that is able to utilize those assets as a viable competitor.

We appealed the ruling to the full Federal Trade Commission. In addition, the FTC Staff appealed the sufficiency of the remedies contained in the ruling to the full Federal Trade Commission. On January 6, 2005, the Commission issued its Opinion and Final Order. According to the FTC's Opinion, we would be required to divide our industrial division, including employees, into two separate operating divisions, CB&I and New PDM, and to

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divest New PDM to a purchaser approved by the FTC within 180 days of the Order becoming final. By order dated August 30, 2005, the FTC issued its final ruling substantially denying our petition to reconsider and upholding the Final Order as modified.

We believe that the FTC's Order and Opinion are inconsistent with the law and the facts presented at trial, in the appeal to the Commission, as well as new evidence following the close of the record. We have filed a petition for review of the FTC Order and Opinion with the United States Court of Appeals for the Fifth Circuit. We are not required to divest any assets until we have exhausted all appeal processes available to us, including the United States Supreme Court. Because (i) the remedies described in the Order and Opinion are neither consistent nor clear, (ii) the needs and requirements of any purchaser of divested assets could impact the amount and type of possible additional assets, if any, to be conveyed to the purchaser to constitute it as a viable competitor in the Relevant Products beyond those contained in the PDM Divisions, and (iii) the demand for the Relevant Products is constantly changing, we have not been able to definitively quantify the potential effect on our financial statements. The divested entity could include, among other things, certain fabrication facilities, equipment, contracts and employees of CB&I. The remedies contained in the Order, depending on how and to the extent they are ultimately implemented to establish a viable competitor in the Relevant Products, could have an adverse effect on us, including the possibility of a potential write-down of the net book value of divested assets, a loss of revenue relating to divested contracts and costs associated with a divestiture.

We Cannot Predict the Outcome of the Current Investigation by the Securities and Exchange Commission in Connection with its Investigation Titled In the Matter of Halliburton Company, File No. HO-9968.

We were served with a subpoena for documents on August 15, 2005 by the SEC in connection with its investigation titled In the Matter of Halliburton Company, File No. HO-9968, relating to an LNG construction project on Bonny Island, Nigeria, where we served as one of several subcontractors to a Halliburton affiliate. We are cooperating fully with such investigation.

We Are and Will Continue to Be Involved in Litigation That Could Negatively Impact Our Earnings and Financial Condition.

We have been and may from time to time be named as a defendant in legal actions claiming damages in connection with engineering and construction projects and other matters. These are typically claims that arise in the normal course of business, including employment-related claims and contractual disputes or claims for personal injury (including asbestos-related lawsuits) or property damage which occur in connection with services performed relating to project or construction sites. Contractual disputes normally involve claims relating to the timely completion of projects, performance of equipment, design or other engineering services or project construction services provided by our subsidiaries. Management does not currently believe that pending contractual, personal injury or property damage claims will have a material adverse effect on our earnings or liquidity; however, such claims could have such an effect in the future. We may incur liabilities that may not be covered by insurance policies, or, if covered, the dollar amount of such liabilities may exceed our policy limits or fall below applicable deductibles. A partially or completely uninsured claim, if successful and of significant magnitude, could cause us to suffer a significant loss and reduce cash available for our operations.

We May Not Be Able to Fully Realize the Revenue Value Reported in Our Backlog.

We have a backlog of work to be completed on contracts totaling \$3.2 billion as of December 31, 2005. Backlog develops as a result of new business taken, which represents the revenue value of new project commitments received by us during a given period. Backlog consists of projects which have either (i) not yet been started or (ii) are in progress and are not yet complete. In the latter case, the revenue value reported in backlog is the remaining value

associated with work that has not yet been completed. We cannot guarantee that the revenue projected in our backlog will be realized, or if realized, will result in earnings. From time to time, projects are cancelled that appeared to have a high certainty of going forward at the time they were recorded as new business taken. In the event of a project cancellation, we may be reimbursed for certain costs but typically have no contractual right to the total revenue reflected in our backlog. In addition to being unable to recover certain direct costs, cancelled projects may

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also result in additional unrecoverable costs due to the resulting under-utilization of our assets. Finally, poor project or contract performance could also unfavorably impact our earnings.

Political and Economic Conditions, Including War or Conflict, in Non-U.S. Countries in Which We Operate Could Adversely Affect Us.

A significant number of our projects are performed outside the United States, including in developing countries with political and legal systems that are significantly different from those found in the United States. We expect non-U.S. sales and operations to continue to contribute materially to our earnings for the foreseeable future.

Non-U.S. contracts and operations expose us to risks inherent in doing business outside the United States, including:

unstable economic conditions in the non-U.S. countries in which we make capital investments, operate and provide services;

the lack of well-developed legal systems in some countries in which we operate, which could make it difficult for us to enforce our contracts;

expropriation of property;

restriction on the right to convert or repatriate currency; and

political upheaval and international hostilities, including risks of loss due to civil strife, acts of war, guerrilla activities, insurrections and acts of terrorism.

Political instability risks may arise from time to time on a country-by-country (not geographic segment) basis where we happen to have a large active project. For example, we continue to operate in Saudi Arabia where terrorist activity might significantly increase our costs or cause a delay in the completion of a project. However, we believe that the recent level of threat from terrorists in Saudi Arabia has been reduced and at present, we are contracting for and building our standard work projects with a minimum level of expatriate employees. We will continue with this strategy until risks of terrorist activity are reduced to a level where expatriate employees and additional support services can be maintained in Saudi Arabia. Having reduced our current activity in Venezuela to a low level, having the aforementioned strategy in Saudi Arabia and having no current projects in Iraq, we do not believe we have any material risks at the present time attributable to political instability.

We Are Exposed to Possible Losses from Foreign Exchange Risks.

We are exposed to market risk from changes in foreign currency exchange rates. Our exposure to changes in foreign currency exchange rates arises from receivables, payables, forecasted transactions and firm commitments from international transactions, as well as intercompany loans used to finance non-U.S. subsidiaries. We may incur losses from foreign currency exchange rate fluctuations if we are unable to convert foreign currency in a timely fashion. We seek to minimize the risks from these foreign currency exchange rate fluctuations through a combination of contracting methodology and, when deemed appropriate, use of foreign currency forward contracts. In circumstances where we utilize forward contracts, our results of operations might be negatively impacted if the underlying transactions occur at different times or in different amounts than originally anticipated. Regional differences have little bearing on how we view or handle our currency exposure, as we approach all these activities in the same manner. We do not use financial instruments for trading or speculative purposes.

We Have a Risk that Our Goodwill and Indefinite-Lived Intangible Assets May be Impaired and Result in a Charge to Income.

We have accounted for our past acquisitions using the purchase method of accounting. Under the purchase method we recorded, at fair value, assets acquired and liabilities assumed, and we recorded as goodwill the difference between the cost of acquisitions and the sum of the fair value of tangible and identifiable intangible assets acquired, less liabilities assumed. Indefinite-lived intangible assets were segregated from goodwill and recorded based upon expected future recovery of the underlying assets. At December 31, 2005, our goodwill balance was \$230.1 million, attributable to the excess of the purchase price over the fair value of assets acquired relative to acquisitions within our North America segment and our Europe, Africa, Middle East segment. Our indefinite-lived

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intangible assets balance as of December 31, 2005, was \$24.9 million, primarily attributable to tradenames purchased in conjunction with the 2000 Howe-Baker International acquisition. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), our recorded goodwill and indefinite-lived intangible asset balances are not amortized but instead are subject to an impairment review on at least an annual basis. Since our adoption of SFAS No. 142 during the first quarter of 2002, we have had no indicators of impairment. In the future, if our goodwill or other intangible assets were determined to be impaired, the impairment would result in a charge to income from operations in the year of the impairment with a resulting decrease in our recorded net worth.

If We Are Unable to Attract and Retain Key Personnel, Our Business Could Be Adversely Affected.

Our future success depends on our ability to attract, retain and motivate highly skilled personnel in various areas, including engineering, project management and senior management. If we do not succeed in retaining and motivating our current employees and attracting new high quality employees, our business could be adversely affected.

Uncertainty in Enforcing United States Judgments Against Netherlands Corporations, Directors and Others Could Create Difficulties for Holders of Our Securities.

We are a Netherlands company and a significant portion of our assets are located outside the United States. In addition, members of our management and supervisory boards may be residents of countries other than the United States. As a result, effecting service of process on each person may be difficult, and judgments of United States courts, including judgments against us or members of our management or supervisory boards predicated on the civil liability provisions of the federal or state securities laws of the United States, may be difficult to enforce.

There Are Risks Related to Our Previous Use of Arthur Andersen LLP as Our Independent Public Accountant.

In 2002, Arthur Andersen LLP, our former independent public accountant, ceased practicing before the SEC. Although we immediately replaced Arthur Andersen with Deloitte & Touche LLP effective May 10, 2002, as our independent registered public accountant, we did not engage Deloitte & Touche to re-audit our Consolidated Financial Statements for the fiscal year ended December 31, 2001. Our current independent registered public accountant is Ernst & Young LLP, who has also not been engaged to re-audit our Consolidated Financial Statements for the fiscal year ended December 31, 2001.

You may be unable to seek remedies against Arthur Andersen under applicable securities laws for any untrue statement of a material fact contained in our past financial statements audited by Arthur Andersen or any omission of a material fact required to be stated in those financial statements. Also, it is unlikely that any assets would be available from Arthur Andersen to satisfy any claims.

Risk Factors Associated with Our Common Stock

Our Revenue Is Unpredictable, our Operating Results Are Likely to Fluctuate from Quarter to Quarter, and if We Fail to Meet Expectations of Securities Analysts or Investors, Our Stock Price Could Decline Significantly.

Our revenue and earnings may fluctuate from quarter to quarter due to a number of factors, including the selection of, timing of, or failure to obtain projects, delays in awards of projects, cancellations of projects, delays in the completion of contracts and the timing of approvals of change orders or recoveries of claims against our customers. It is likely that in some future quarters our operating results may fall below the expectations of investors, as they did in 2005. In this event, the trading price of our common stock could decline significantly.

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Certain Provisions of Our Articles of Association and Netherlands Law May Have Possible Anti-Takeover Effects.

Our Articles of Association and the applicable law of The Netherlands contain provisions that may be deemed to have anti-takeover effects. Among other things, these provisions provide for a staggered board of Supervisory Directors, a binding nomination process and supermajority shareholder voting requirements for certain significant transactions. Such provisions may delay, defer or prevent takeover attempts that shareholders might consider in the best interests of shareholders. In addition, certain United States tax laws, including those relating to possible classification as a controlled foreign corporation described below, may discourage third parties from accumulating significant blocks of our common shares.

We Have a Risk of Being Classified as a Controlled Foreign Corporation and Certain Shareholders Who Do Not Beneficially Own Shares May Lose the Benefit of Withholding Tax Reduction or Exemption Under Dutch Legislation.

As a company incorporated in The Netherlands, we would be classified as a controlled foreign corporation for United States federal income tax purposes if any United States person acquires 10% or more of our common shares (including ownership through the attribution rules of Section 958 of the Internal Revenue Code of 1986, as amended (the Code), each such person, a U.S. 10% Shareholder) and the sum of the percentage ownership by all U.S. 10% Shareholders exceeds 50% (by voting power or value) of our common shares. We do not believe we are a controlled foreign corporation. However, we may be determined to be a controlled foreign corporation in the future. In the event that such a determination were made, all U.S. 10% Shareholders would be subject to taxation under Subpart F of the Code. The ultimate consequences of this determination are fact-specific to each U.S. 10% Shareholder, but could include possible taxation of such U.S. 10% Shareholder on a pro rata portion of our income, even in the absence of any distribution of such income.

Under the double taxation convention in effect between The Netherlands and the United States (the Treaty), dividends paid by Chicago Bridge & Iron Company N.V. (CB&I N.V.) to a resident of the United States (other than an exempt organization or exempt pension organization) are generally eligible for a reduction of the 25% Netherlands withholding tax to 15%, or in the case of certain U.S. corporate shareholders owning at least 10% of the voting power of CB&I N.V., 5%, unless the common shares held by such residents are attributable to a business or part of a business that is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands. Dividends received by exempt pension organizations and exempt organizations, as defined in the Treaty, are completely exempt from the withholding tax. A holder of common shares other than an individual will not be eligible for the benefits of the Treaty if such holder of common shares does not satisfy one or more of the tests set forth in the limitation on benefits provisions of Article 26 of the Treaty. According to an anti-dividend stripping provision, no exemption from, reduction of, or refund of, Netherlands withholding tax will be granted if the ultimate recipient of a dividend paid by CB&I N.V. is not considered to be the beneficial owner of such dividend. The ability of a holder of common shares to take a credit against its U.S. taxable income for Netherlands withholding tax may be limited.

If We Need to Sell or Issue Additional Common Shares to Finance Future Acquisitions, Your Share Ownership Could be Diluted.

Part of our business strategy is to expand into new markets and enhance our position in existing markets throughout the world through acquisition of complementary businesses. In order to successfully complete targeted acquisitions or fund our other activities, we may issue additional equity securities that could dilute our earnings per share and your share ownership.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements. You should read carefully any statements containing the words expect, believe, anticipate, project, estimate, predict, intend, should, could, may, might, or similar, or the negative of any of these terms.

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Forward-looking statements involve known and unknown risks and uncertainties. In addition to the material risks listed under Item 1A. Risk Factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by any forward-looking statements, the following factors could also cause our results to differ from such statements:

our ability to realize cost savings from our expected execution performance of contracts;

the uncertain timing and the funding of new contract awards, and project cancellations and operating risks;

cost overruns on fixed price, target price or similar contracts;

risks associated with percentage-of-completion accounting;

our ability to settle or negotiate unapproved change orders and claims;

changes in the costs or availability of, or delivery schedule for, components, materials, labor or subcontractors;

adverse impacts from weather may affect our performance and timeliness of completion, which could lead to increased costs and affect the costs or availability of, or delivery schedule for, components, materials, labor or subcontractors;

increased competition;

fluctuating revenue resulting from a number of factors, including the cyclical nature of the individual markets in which our customers operate;

lower than expected activity in the hydrocarbon industry, demand from which is the largest component of our revenue;

lower than expected growth in our primary end markets, including but not limited to LNG and clean fuels;

risks inherent in our acquisition strategy and our ability to obtain financing for proposed acquisitions;

our ability to integrate and successfully operate acquired businesses and the risks associated with those businesses;

adverse outcomes of pending claims or litigation or the possibility of new claims or litigation, including pending securities class action litigation, and the potential effect on our business, financial condition and results of operations;

the ultimate outcome or effect of the pending FTC order on our business, financial condition and results of operations;

two material weaknesses have been identified in our internal control over financial reporting, which could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis;

lack of necessary liquidity to finance expenditures prior to the receipt of payment for the performance of contracts and to provide bid and performance bonds and letters of credit securing our obligations under our bids

and contracts;

proposed and actual revisions to U.S. and non-U.S. tax laws, and interpretation of said laws, and U.S. tax treaties with non-U.S. countries (including The Netherlands), that seek to increase income taxes payable;

political and economic conditions including, but not limited to, war, conflict or civil or economic unrest in countries in which we operate; and

a downturn or disruption in the economy in general.

Although we believe the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future performance or results. We are not obligated to update or revise any forward-looking statements,

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whether as a result of new information, future events or otherwise. You should consider these risks when reading any forward-looking statements.

Access to SEC filings is available free of charge at our Internet website, www.cbi.com.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

We own or lease the properties used to conduct our business. The capacities of these facilities depend upon the components of the structures being fabricated and constructed. The mix of structures is constantly changing, and, consequently, we cannot accurately state the extent of utilization of these facilities. We believe these facilities are adequate to meet our current requirements. The following list summarizes our principal properties:

Location	Type of Facility	Interest
<i>North America</i>		
Beaumont, Texas	Engineering, fabrication facility, operations and administrative office	Owned
Birmingham, Alabama	Warehouse	Leased
Clive, Iowa	Fabrication facility, warehouse, operations and administrative office	Owned
Everett, Washington	Fabrication facility, warehouse, operations and administrative office	Leased
Fort Saskatchewan, Canada	Warehouse, operations and administrative office	Owned
Franklin, Tennessee	Warehouse	Owned
Houston, Texas	Engineering and fabrication facility	Owned
Houston, Texas	Engineering and administrative office	Leased
Houston, Texas	Warehouse	Leased
Kankakee, Illinois	Warehouse	Owned
Liberty, Texas	Fabrication facility	Leased
Niagara Falls, Canada	Engineering and administrative office	Leased
Pittsburgh, Pennsylvania	Engineering, operations and administrative office	Leased
Pittsburgh, Pennsylvania	Warehouse	Owned
Plainfield, Illinois (1)	Engineering, operations and administrative office	Leased
Provo, Utah	Fabrication facility, warehouse, operations and administrative office	Owned
Richardson, Texas	Engineering and administrative office	Leased
San Luis Obispo, California	Warehouse and fabrication facility	Owned
Tyler, Texas	Engineering, fabrication facility, operations and administrative office	Owned
Warren, Pennsylvania	Fabrication facility	Leased
The Woodlands, Texas	Engineering, operations and administrative office	Owned
<i>Europe, Africa, Middle East</i>		
Al Aujam, Saudi Arabia	Fabrication facility and warehouse	Owned
Dubai, United Arab Emirates		Leased

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	Engineering, operations, administrative office and warehouse	
Hoofddorp, The Netherlands	Principal executive office	Leased
London, England	Engineering, operations and administrative office	Leased
Secunda, South Africa	Fabrication facility and warehouse	Leased

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Location	Type of Facility	Interest
<i>Asia Pacific</i>		
Bangkok, Thailand	Administrative office	Leased
Batangas, Philippines	Fabrication facility and warehouse	Leased
Blacktown, Australia	Engineering, operations and administrative office	Leased
Kwinana, Australia	Fabrication facility, warehouse and administrative office	Owned
Shanghai, China	Sales office	Leased
Tokyo, Japan	Sales office	Leased
<i>Central and South America</i>		
Caracas, Venezuela	Administrative and engineering office	Leased
Puerto Ordaz, Venezuela	Fabrication facility and warehouse	Leased

(1) Sold and leased back to us on June 30, 2001.

We also own or lease a number of sales, administrative and field construction offices, warehouses and equipment maintenance centers strategically located throughout the world.

Item 3. Legal Proceedings

We have been and may from time to time be named as a defendant in legal actions claiming damages in connection with engineering and construction projects and other matters. These are typically claims that arise in the normal course of business, including employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with services performed relating to project or construction sites. Contractual disputes normally involve claims relating to the timely completion of projects, performance of equipment, design or other engineering services or project construction services provided by our subsidiaries. Management does not currently believe that pending contractual, personal injury or property damage claims will have a material adverse effect on our earnings or liquidity.

Antitrust Proceedings In October 2001, the U.S. Federal Trade Commission (the *FTC* or the *Commission*) filed an administrative complaint (the *Complaint*) challenging our February 2001 acquisition of certain assets of the Engineered Construction Division of Pitt-Des Moines, Inc. (*PDM*) that we acquired together with certain assets of the Water Division of PDM (The Engineered Construction and Water Divisions of PDM are hereafter sometimes referred to as the *PDM Divisions*). The Complaint alleged that the acquisition violated Federal antitrust laws by threatening to substantially lessen competition in four specific business lines in the United States: liquefied nitrogen, liquefied oxygen and liquefied argon (LIN/LOX/LAR) storage tanks; liquefied petroleum gas (LPG) storage tanks; liquefied natural gas (LNG) storage tanks and associated facilities; and field erected thermal vacuum chambers (used for the testing of satellites) (the *Relevant Products*).

On June 12, 2003, an FTC Administrative Law Judge ruled that our acquisition of PDM assets threatened to substantially lessen competition in the four business lines identified above and ordered us to divest within 180 days of a final order all physical assets, intellectual property and any uncompleted construction contracts of the PDM Divisions that we acquired from PDM to a purchaser approved by the FTC that is able to utilize those assets as a viable competitor.

We appealed the ruling to the full Federal Trade Commission. In addition, the FTC Staff appealed the sufficiency of the remedies contained in the ruling to the full Federal Trade Commission. On January 6, 2005, the Commission issued its Opinion and Final Order. According to the FTC's Opinion, we would be required to divide our industrial division, including employees, into two separate operating divisions, CB&I and New PDM, and to divest New PDM to a purchaser approved by the FTC within 180 days of the Order becoming final. By order dated August 30, 2005, the FTC issued its final ruling substantially denying our petition to reconsider and upholding the Final Order as modified.

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We believe that the FTC's Order and Opinion are inconsistent with the law and the facts presented at trial, in the appeal to the Commission, as well as new evidence following the close of the record. We have filed a petition for review of the FTC Order and Opinion with the United States Court of Appeals for the Fifth Circuit. We are not required to divest any assets until we have exhausted all appeal processes available to us, including the United States Supreme Court. Because (i) the remedies described in the Order and Opinion are neither consistent nor clear, (ii) the needs and requirements of any purchaser of divested assets could impact the amount and type of possible additional assets, if any, to be conveyed to the purchaser to constitute it as a viable competitor in the Relevant Products beyond those contained in the PDM Divisions, and (iii) the demand for the Relevant Products is constantly changing, we have not been able to definitively quantify the potential effect on our financial statements. The divested entity could include, among other things, certain fabrication facilities, equipment, contracts and employees of CB&I. The remedies contained in the Order, depending on how and to the extent they are ultimately implemented to establish a viable competitor in the Relevant Products, could have an adverse effect on us, including the possibility of a potential write-down of the net book value of divested assets, a loss of revenue relating to divested contracts and costs associated with a divestiture.

Securities Class Action As previously announced, a class action shareholder lawsuit was filed on February 17, 2006 against us, Gerald M. Glenn, Robert B. Jordan, and Richard E. Goodrich in the United States District Court for the Southern District of New York entitled *Welmon v. Chicago Bridge & Iron Co. NV, et al.* (No. 06 CV 1283). The complaint was filed on behalf of a purported class consisting of all those who purchased or otherwise acquired our securities from March 9, 2005 through February 3, 2006 and were damaged thereby.

The action asserts claims under the U.S. securities laws and alleges, among other things, that we materially overstated our financial results during the class period by misapplying percentage-of-completion accounting and did not follow our publicly stated revenue recognition policies.

Since the initial lawsuit, eleven other suits containing substantially similar allegations and with similar, but not exactly the same, class periods have been filed and have been consolidated in the Southern District of New York.

Under the initial scheduling order, a single Consolidated Amended Complaint is to be filed on or before June 19, 2006. Although we believe that we have meritorious defenses to the claims made in each of the above actions and intend to contest them vigorously, we do not anticipate filing a response until such time as the Consolidated Amended Complaint is filed.

Asbestos Litigation We are a defendant in lawsuits wherein plaintiffs allege exposure to asbestos due to work we may have performed at various locations. We have never been a manufacturer, distributor or supplier of asbestos products. As of December 31, 2005, we have been named a defendant in lawsuits alleging exposure to asbestos involving approximately 2,900 plaintiffs, and of those claims, approximately 467 claims were pending and 2,433 have been closed through dismissals or settlements. As of December 31, 2005, the claims alleging exposure to asbestos that have been resolved have been dismissed or settled for an average settlement amount per claim of approximately one thousand dollars. With respect to unasserted asbestos claims, we cannot identify a population of potential claimants with sufficient certainty to determine the probability of a loss and to make a reasonable estimate of liability, if any. We review each case on its own merits and make accruals based on the probability of loss and our ability to estimate the amount of liability and related expenses, if any. We do not currently believe that any unresolved asserted claims will have a material adverse effect on our future results of operations or financial position and at December 31, 2005, we had accrued \$1,348 for liability and related expenses. We are unable to quantify estimated recoveries for recognized and unrecognized contingent losses, if any, that may be expected to be recoverable through insurance, indemnification arrangements or other sources because of the variability in the coverage amounts, deductibles, limitations and viability of carriers with respect to our insurance policies for the years in question.

Other We were served with a subpoena for documents on August 15, 2005 by the Securities and Exchange Commission in connection with its investigation titled In the Matter of Halliburton Company, File No. HO-9968, relating to an LNG construction project on Bonny Island, Nigeria, where we served as one of several subcontractors to a Halliburton affiliate. We are cooperating fully with such investigation.

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Environmental Matters Our operations are subject to extensive and changing U.S. federal, state and local laws and regulations, as well as laws of other nations, that establish health and environmental quality standards. These standards, among others, relate to air and water pollutants and the management and disposal of hazardous substances and wastes. We are exposed to potential liability for personal injury or property damage caused by any release, spill, exposure or other accident involving such substances or wastes.

In connection with the historical operation of our facilities, substances which currently are or might be considered hazardous were used or disposed of at some sites that will or may require us to make expenditures for remediation. In addition, we have agreed to indemnify parties to whom we have sold facilities for certain environmental liabilities arising from acts occurring before the dates those facilities were transferred. We are not aware of any manifestation by a potential claimant of its awareness of a possible claim or assessment with respect to any such facility.

We believe that we are currently in compliance, in all material respects, with all environmental laws and regulations. We do not anticipate that we will incur material capital expenditures for environmental controls or for investigation or remediation of environmental conditions during 2006 or 2007.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter ended December 31, 2005.

PART II**Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our Common Stock is traded on the New York Stock Exchange. As of May 1, 2006, we had approximately 20,000 shareholders. The following table presents the range of Common Stock prices on the New York Stock Exchange and the cash dividends paid per share of common stock for the years ended December 31, 2005 and 2004:

	Range of Common Stock Prices			Dividends per Share
	High	Low	Close	
Year Ended December 31, 2005				
Fourth Quarter	\$ 32.75	\$ 19.49	\$ 25.21	\$ 0.03
Third Quarter	\$ 33.00	\$ 22.83	\$ 31.09	\$ 0.03
Second Quarter	\$ 25.25	\$ 18.25	\$ 22.86	\$ 0.03
First Quarter	\$ 23.87	\$ 17.83	\$ 22.02	\$ 0.03
Year Ended December 31, 2004				
Fourth Quarter	\$ 20.56	\$ 14.49	\$ 20.00	\$ 0.02
Third Quarter	\$ 15.23	\$ 13.25	\$ 15.00	\$ 0.02
Second Quarter	\$ 15.18	\$ 10.80	\$ 13.93	\$ 0.02
First Quarter	\$ 16.25	\$ 12.25	\$ 13.92	\$ 0.02

Table of Contents**Item 6. Selected Financial Data**

We derived the following summary financial and operating data for the five years ended December 31, 2001 through 2005 from our audited Consolidated Financial Statements, except for Other Data. You should read this information together with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements, including the related notes, appearing in Item 8. Financial Statements and Supplementary Data.

Years Ended December 31,	2005(8)	2004(7)	2003	2002(6)	2001
	(In thousands, except per share and employee data)				
Income Statement Data					
Revenue	\$ 2,257,517	\$ 1,897,182	\$ 1,612,277	\$ 1,148,478	\$ 1,081,824
Cost of revenue	2,109,113	1,694,871	1,415,715	992,927	945,048
Gross profit	148,404	202,311	196,562	155,551	136,776
Selling and administrative expenses	106,937	98,503	93,506	73,155	67,519
Intangibles amortization	1,499	1,817	2,548	2,529	5,819
Other operating income, net(1)	(10,267)	(88)	(2,833)	(1,818)	(691)
Exit costs/special charges(2)				3,972	9,686
Income from operations	50,235	102,079	103,341	77,713	54,443
Interest expense	(8,858)	(8,232)	(6,579)	(7,114)	(8,392)
Interest income	6,511	2,233	1,300	1,595	1,854
Income before taxes and minority interest	47,888	96,080	98,062	72,194	47,905
Income tax expense	(28,379)	(31,284)	(29,713)	(20,233)	(13,480)
Income before minority interest	19,509	64,796	68,349	51,961	34,425
Minority interest in (income) loss	(3,532)	1,124	(2,395)	(1,812)	(2,503)
Income from continuing operations	15,977	65,920	65,954	50,149	31,922
Discontinued operations:(3)					
Loss from discontinued operations, net of taxes					(2,321)
Loss on disposal of discontinued operations, net of taxes					(9,898)
Net income	\$ 15,977	\$ 65,920	\$ 65,954	\$ 50,149	\$ 19,703
Per Share Data(2)(5)					
Net income basic					
Income from continuing operations	\$ 0.16	\$ 0.69	\$ 0.73	\$ 0.58	\$ 0.37
Loss from discontinued operations					(0.14)

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Net income	\$	0.16	\$	0.69	\$	0.73	\$	0.58	\$	0.23
Net income diluted										
Income from continuing operations	\$	0.16	\$	0.67	\$	0.69	\$	0.56	\$	0.36
Loss from discontinued operations										(0.14)
Net income	\$	0.16	\$	0.67	\$	0.69	\$	0.56	\$	0.22
Cash dividends	\$	0.12	\$	0.08	\$	0.08	\$	0.06	\$	0.06

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Years Ended December 31,	2005(8)	2004(7)	2003	2002(6)	2001
	(In thousands, except per share and employee data)				
Balance Sheet Data					
Goodwill	\$ 230,126	\$ 233,386	\$ 219,033	\$ 157,903	\$ 138,444
Total assets	\$ 1,377,819	\$ 1,102,718	\$ 932,362	\$ 754,613	\$ 665,975
Long-term debt	\$ 25,000	\$ 50,000	\$ 75,000	\$ 75,000	\$ 75,000
Total shareholders' equity	\$ 483,668	\$ 469,238	\$ 389,164	\$ 282,147	\$ 212,223
Cash Flow Data					
Cash flows from operating activities	\$ 164,999	\$ 132,769	\$ 90,366	\$ 72,030	\$ 105,796
Cash flows from investing activities	\$ (26,350)	\$ (26,051)	\$ (102,030)	\$ (36,957)	\$ (35,775)
Cash flows from financing activities	\$ (41,049)	\$ 16,754	\$ 22,046	\$ 16,985	\$ (27,034)
Other Financial Data					
Gross profit percentage	6.6%	10.7%	12.2%	13.5%	12.6%
Depreciation and amortization	\$ 18,216	\$ 22,498	\$ 21,431	\$ 19,661	\$ 25,105
Capital expenditures	\$ 36,869	\$ 17,430	\$ 31,286	\$ 23,927	\$ 8,917
Other Data					
New business taken(4)	\$ 3,279,445	\$ 2,614,549	\$ 1,708,210	\$ 1,641,128	\$ 1,160,374
Backlog(4)	\$ 3,199,395	\$ 2,339,114	\$ 1,590,381	\$ 1,310,987	\$ 835,255
Number of employees:					
Salaried	3,218	3,204	2,895	2,152	2,054
Hourly and craft	6,773	7,824	7,337	4,770	5,204

- (1) Other operating income, net, generally represents gains on the sale of technology, property, plant and equipment.
- (2) In 2002, we recognized special charges of \$4.0 million. Included in the 2002 special charges were \$3.4 million for personnel costs including severance and personal moving expenses associated with the relocation of our administrative offices, \$0.5 million for integration costs related to integration initiatives associated with the acquisition of the Engineered Construction and Water Divisions (PDM Divisions) of Pitt-Des Moines, Inc. and \$0.4 million for facilities costs relating to the closure and relocation of facilities. During 2002, we also recorded income of \$0.4 million in relation to adjustments associated with the sale of our XL Technology Systems, Inc. subsidiary. In 2001, we recognized special charges of \$9.7 million. Included in the 2001 special charges were \$5.7 million for personnel costs including severance and personal moving expenses associated with the relocation, closure or downsizing of offices, and our voluntary resignation offer; \$2.8 million for facilities and other charges related to the sale, closure, downsizing or relocation of operations; and \$1.2 million for integration costs primarily related to integration initiatives associated with the PDM Divisions acquisition.
- (3) During the second quarter of 2001, we decided to discontinue our high purity piping business, UltraPure Systems, due primarily to continuing weak market conditions in the microelectronics industry. The loss on disposal of discontinued operations of \$9.9 million after tax includes the write-down of equipment (net of proceeds), lease terminations, severance and other costs, and losses during the phase-out period. Our actions

necessary to discontinue UltraPure Systems were essentially complete at December 31, 2001.

- (4) New business taken represents the value of new project commitments received by us during a given period. These commitments are included in backlog until work is performed and revenue is recognized or until cancellation. Backlog may also fluctuate with currency movements.
- (5) On February 25, 2005, we declared a two-for-one stock split effective in the form of a stock dividend paid March 31, 2005, to stockholders of record at the close of business on March 21, 2005. The per share amounts reflect the impact of the stock split for all periods presented.

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- (6) We changed our method of accounting for goodwill upon adoption of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, on January 1, 2002. See Note 5 to our Consolidated Financial Statements included within Item 8. Financial Statements and Supplementary Data.
- (7) Included in our 2004 results of operations were losses associated with the recognition of potentially unrecoverable costs on two projects, one in our Europe, Africa, Middle East (EAME) segment's Saudi Arabia region and the other in our North America segment, as fully described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (8) Included in our 2005 results of operations were losses associated with the recognition of potentially unrecoverable costs on four projects, two in our North America segment and two in our EAME segment, as fully described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations is provided to assist readers in understanding our financial performance during the periods presented and significant trends which may impact our future performance. This discussion should be read in conjunction with our Consolidated Financial Statements and the related notes thereto included within Item 8. Financial Statements and Supplementary Data.

We are a global engineering, procurement and construction (EPC) company serving customers in a number of key industries including oil and gas; petrochemical and chemical; power; water and wastewater; and metals and mining. We have been helping our customers produce, process, store and distribute the world's natural resources for more than 100 years by supplying a comprehensive range of engineered steel structures and systems. We offer a complete package of design, engineering, fabrication, procurement, construction and maintenance services. Our projects include hydrocarbon processing plants, liquefied natural gas (LNG) terminals and peak shaving plants, offshore structures, pipelines, bulk liquid terminals, water storage and treatment facilities, and other steel structures and their associated systems. We have been continuously engaged in the engineering and construction industry since our founding in 1889.

RECENT DEVELOPMENTS

Audit Committee Inquiry

In October 2005, and in connection with the preparation of our results for the third quarter of 2005, the Audit Committee (the Audit Committee) of the Supervisory Board of CB&I received a memo from a senior member of its accounting department alleging accounting improprieties primarily with respect to draft financial results for the third quarter. As a result we did not release the draft financial results nor file our Form 10-Q for the quarter ended September 30, 2005 until the issues in the memo were investigated and resolved. The memo included concerns primarily associated with the accounting for claims on two projects as well as the assessment of costs to complete on two projects. The Audit Committee, composed of independent outside directors, promptly initiated an independent inquiry with respect to these matters and engaged legal counsel and accounting advisors to assist in that inquiry.

The Audit Committee has completed its inquiry, which primarily focused on the circumstances surrounding the preparation of draft results for our 2005 third quarter, including accounting entries made or proposed to be made with respect thereto, and management's role in that process. The inquiry also dealt with certain other matters related to prior periods. During the course of the Audit Committee inquiry, our management undertook a separate review of the issues raised in the memo and inquiry and the internal controls relating thereto. We have completed our review and concluded that, as they relate to the memo and inquiry, the consolidated financial statements for prior periods are fairly presented as previously issued. We also evaluated the issues raised in the memo and made corrections to the

draft third quarter results. The final results for the third quarter of 2005 are included in the Form 10-Q for such quarter filed concurrently with the filing of this Form 10-K.

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Restatement of Quarterly Information

Separate from the issues that were the focus of the inquiry, we recently concluded that certain errors in our financial statements for the second quarter of 2005 related to accounting for project segmentation/intercompany eliminations, project cost estimates not updated, and derivatives required correction. The errors were not material to prior year financial statements. We have restated our second quarter 2005 financial statements as described in Note 16 to our audited financial statements. The impact of restating our second quarter was a reduction of \$6.2 million of net income or \$0.06 per share.

The segmentation/intercompany eliminations error was the result of allocating portions of one contract to different business units within the Company at differing profit margin rates and without eliminating intercompany profits. U.S. GAAP requires that a single contract be recorded unless specific criteria have been met, at the overall contract margin rate. For project cost estimates we found that a project subcontractor cost forecast had not been updated for changes from a lump sum contract to a higher cost time and materials contract. With respect to the accounting for derivatives, losses were incurred on certain foreign currency derivatives used to hedge certain material purchases where hedge effectiveness was lost due to extended delays in the actual purchase of the materials. U.S. GAAP requires immediate recognition of the loss or gain on the derivative in these circumstances and the offsetting gain or loss on the material purchase being hedged is recognized over the life of the project as an adjustment to the overall project margin.

Material Weaknesses

In connection with the aforementioned Audit Committee inquiry and our review of internal controls over financial reporting, we identified the following material weaknesses as of December 31, 2005:

Control Environment An entity level material weakness existed related to the control environment component of internal control over financial reporting. The ineffective control environment related to management communication and actions that, in certain instances, overly emphasized meeting earnings targets resulting in or contributing to the lack of adherence to existing internal control procedures and U.S. GAAP. Additionally, we did not provide adequate support and resources at appropriate levels to prevent and detect lack of compliance with our existing policies and procedures.

Project Accounting A material weakness existed related to controls over project accounting. On certain projects, cost estimates were not updated to reflect current information and insufficient measures were taken to independently verify uniform and reliable cost estimates by certain field locations, and on some contracts revenues were initially recorded on change orders/claims without proper support or verification. Additionally, insufficient measures were taken to determine that when one Company subsidiary subcontracts a portion of a customer contract to another subsidiary that the profit margin on the subcontract was consistent with the profit margin on the overall contract with the customer and intercompany profit was eliminated as required by U.S. GAAP.

Because of the material weaknesses described above, our management concluded that as of December 31, 2005, our internal control over financial reporting was not effective. In light of these issues, we delayed filing both our third quarter and annual audited financial statements and performed additional analyses and other procedures to determine that our Consolidated Financial Statements included in this Form 10-K were prepared in accordance with U.S. GAAP. These measures included, among other things, an extensive review of certain of our existing contracts to determine proper reporting of financial performance. As a result of these and other expanded procedures, we concluded that the Consolidated Financial Statements included in this Form 10-K present fairly, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

We have implemented or will implement enhancements to our internal control over financial reporting which are designed to address the two material weaknesses and add additional rigor to internal controls.

Table of Contents**Management Changes**

In February 2006, our Supervisory Board announced the terminations of Gerald M. Glenn as Chairman, President and Chief Executive Officer, and Robert B. Jordan as Executive Vice President and Chief Operating Officer, effective February 3, 2006. The Supervisory Board elected Philip K. Asherman as President and Chief Executive Officer and Jerry H. Ballengee as non-executive Chairman. On February 14, 2006, Richard A. Byers resigned as Vice President and acting Chief Financial Officer and Richard E. Goodrich was named acting Chief Financial Officer.

RESULTS OF OPERATIONS

Our new business taken, revenue and income from operations in the following geographic segments are as follows:

Years Ended December 31,	2005	2004	2003
		(In thousands)	
New Business Taken(1)			
North America	\$ 1,518,317	\$ 1,448,055	\$ 1,105,369
Europe, Africa, Middle East	1,196,567	962,299	380,493
Asia Pacific	426,265	135,226	147,238
Central and South America	138,296	68,969	75,110
Total new business taken	\$ 3,279,445	\$ 2,614,549	\$ 1,708,210
Revenue			
North America	\$ 1,359,878	\$ 1,130,096	\$ 970,851
Europe, Africa, Middle East	582,918	508,735	329,947
Asia Pacific	222,720	175,883	218,201
Central and South America	92,001	82,468	93,278
Total revenue	\$ 2,257,517	\$ 1,897,182	\$ 1,612,277
Income (Loss) From Operations			
North America	\$ 43,799	\$ 73,709	\$ 67,762
Europe, Africa, Middle East	(11,969)	12,625	17,384
Asia Pacific	8,898	4,445	6,000
Central and South America	9,507	11,300	12,195
Total income from operations	\$ 50,235	\$ 102,079	\$ 103,341

(1) New business taken represents the value of new project commitments received by us during a given period. These commitments are included in backlog until work is performed and revenue is recognized or until cancellation.

2005 VERSUS 2004

New Business Taken/Backlog In 2005, new business taken was \$3.3 billion, compared with \$2.6 billion in 2004. Approximately 46% of our new business taken during 2005 was for contracts awarded in North America. During 2005, North America's new business taken increased 5% due to major awards in units that process heavy crude and improve refinery throughput in the United States (U.S.) and an LNG award in Canada. New business taken in our Europe, Africa, Middle East (EAME) segment increased 24%, attributable to LNG import terminal awards in the United Kingdom, as well as liquefied petroleum gas and petrochemical storage awards in the Middle East. New business taken in our Asia Pacific (AP) segment increased 215%, primarily due to a large LNG terminal and tank award in China. New business taken in the Central and South America (CSA) segment increased 101% due to the award of a natural gas processing plant in South America. In 2006, we anticipate new

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business to range between \$3.5 and \$4.0 billion based on the strength of the oil and gas market, our expertise in refining, processing and storage, as well as our position in high growth geographies such as China, the Middle East and parts of Africa.

Due to our strong performance in new business taken, our backlog has increased from \$2.3 billion in 2004 to \$3.2 billion in 2005. We expect our backlog to continue to grow in keeping with our strong new business taken.

Revenue Revenue in 2005 of \$2.3 billion increased \$360 million, or 19%, compared with 2004. Our revenue fluctuates based on the changing project mix and is dependent on the amount and timing of new awards, and on other matters such as project schedules. During 2005, revenue increased 20% in the North America segment, 15% in the EAME segment, 27% in the AP segment and 12% in the CSA segment. The increase in the North America segment was primarily a result of higher backlog going into the year and a larger volume of LNG and process related work in the U.S. Revenue growth in the EAME segment resulted from the significant LNG projects under way in the United Kingdom. AP's increase was primarily attributable to higher volume in Australia, while CSA's increase was a result of higher backlog going into the year and higher new awards. We anticipate total revenue for 2006 will be between \$2.6 and \$2.9 billion. Based upon the current backlog and prospects for new awards, we expect the majority of our 2006 revenue growth to come in the North America and EAME segments.

Gross Profit Gross profit in 2005 was \$148.4 million, or 6.6% of revenue, compared with \$202.3 million, or 10.7% of revenue, in 2004. The 2005 and 2004 results were impacted by several key factors including the following:

In both periods, we recognized potentially unrecoverable costs on certain projects forecasted to close in a significant loss position. Total provisions charged to earnings during 2005 were comparable to 2004.

During 2005, we increased forecasted construction costs to complete several projects in the U.S., primarily related to third party construction sublets. As further described below, these forecasted costs increased substantially during the second half of 2005 due to tight market conditions, which were further impacted by Hurricanes Katrina and Rita.

During 2004 we reported substantial savings on several U.S. projects that were substantially complete. In 2005, we did not experience similar savings and as a result of revisions to total cost estimates on certain U.S. projects anticipated savings were not fully realized in 2005.

As fully described under the foreign currency heading of Note 2 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data, in 2005 we reported significant foreign currency exchange losses, primarily attributable to the mark-to-market of hedges, compared with exchange gains in 2004.

During 2005, we incurred significant legal and consulting fees to pursue claims recovery on several projects. During 2004, we incurred minimal fees associated with claims pursuit and negotiated recovery of a claim that had been previously written off.

North America

Our North America segment was impacted by several key factors, including recognition of potentially unrecoverable costs on two projects, one that is substantially complete and another that was partially canceled and is currently on hold, as well as increases in forecasted costs to complete several projects in the U.S. resulting from higher than expected construction costs, primarily related to third party construction sublets. Our third party construction sublet costs increased substantially during the second half of 2005 due to tight market conditions, which were further

impacted by the effects of Hurricanes Katrina and Rita. The reconstruction effort led by FEMA attracted a large portion of construction capacity, raising cost profiles and making resources scarce for other work in the U.S. unrelated to Gulf Coast reconstruction efforts. The impact of these factors is expected to be limited to certain projects in backlog, as escalation clauses, cost adjustments, or similar protections have been included in our bids for new projects.

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North America Projects in a Loss Position

Our gross profit was negatively affected by the provision for potentially unrecoverable costs on a non-construction, fabrication-only project in the U.S. The project was scheduled for completion by the end of 2006, but a dispute arose. We have ceased fabrication and we and our customer have filed legal claims against one another for breach of contract. Because the contract is currently forecasted to result in a loss, provision for such loss was made resulting in a \$9.4 million charge to earnings in 2005. The loss does not include possible additional losses that might be incurred in connection with the termination dispute.

A second project, where we had engineering, procurement and construction responsibility, was forecasted to close in a profitable position through the first quarter of 2005. However, as the project moved into the construction phase during the second quarter, construction costs increased substantially as a result of engineering changes and the cost escalation factors previously described above. As the project was forecasted to close in a loss position in the second quarter, provision for such loss was made, resulting in a \$5.8 million charge to earnings in the period. During the third and fourth quarters, there were additional unexpected increases in third party sublet costs primarily as a result of scarcity of resources due to Hurricanes Katrina and Rita. As such, provisions for additional losses were made in the third quarter, resulting in a \$4.9 million charge to earnings in this period. Total provisions charged to earnings during 2005 for this project were \$9.6 million. The project was substantially complete at December 31, 2005.

During 2004, we had recognized charges of \$23.0 million relative to unrecoverable costs associated with a completed contract in this segment. No significant provisions were charged to earnings for this project during 2005.

EAME

The decrease in the EAME segment was primarily attributable to provisions for a project forecasted to be in a loss position, as further described below, higher legal costs associated with the pursuit of claims recovery and progress on a mix of lower margin work compared with 2004. Also impacting the segment were adjustments to projected costs to complete a project in our Middle East region which experienced delays for which we intend to submit and pursue change orders and claims, and losses attributable to the mark-to-market of hedges deemed to be ineffective. Provisions charged to income in 2004 within this segment for an unrelated project in a loss position within our Saudi region were \$26.6 million. There were no significant charges to earnings during 2005 for this project.

EAME Project in a Loss Position

A project in the Europe region of our EAME segment was forecasted to close in a profitable position through the second quarter of 2005. However, in the third quarter of 2005, our forecast of total project costs increased as a result of a series of unforeseen events. We had previously committed to completing a section of the project prior to the winter season on an accelerated basis. However, due to the early onset of harsh weather conditions, savings from the expected early completion were not realized and additional costs were required for demobilization, storage and remobilization procedures. These procedures required additional costs for various items, including expatriate civil supervision, termination benefits for local direct hire employees and retraining of civil workers to be hired to complete this work upon remobilization. Also impacting the project was a shortage of available local specialty material. This required substantial increases in cost estimates due to increased market prices for the material and unexpected freight costs during a period of escalating fuel prices. As a result of these previously unforeseen events, in the third quarter of 2005 we increased our estimate of all costs expected to be incurred to complete the project. As the project was forecasted to result in a loss in the third quarter, provision for such loss was made in the period. Also during the third quarter, as a result of a change in the probability of collection of certain claims previously recognized to the extent of identified cost incurred, we established a \$3.0 million reserve for such claims. These increased forecasted costs and reserves were provided for in the period, resulting in a total charge of \$33.2 million in the third quarter. Total

provisions charged to earnings during 2005 for this project were \$31.1 million.

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At December 31, 2005, we had outstanding unapproved change orders/claims recognized of \$48.5 million, net of reserves, of which \$43.5 million is associated with a completed project in our EAME segment. Regarding the change orders/claims associated with the EAME segment project, we have received substantial cash advances. While we have received a settlement offer for more than the cash received through December 31, 2005, we believe our net exposure is approximately \$11.1 million, which represents the contract price less cash received to date. If in the future we determine collection of the \$43.5 million of unapproved change orders/claims is not probable, it would result in a charge to earnings in the period such determination is made. As of December 31, 2004, we had outstanding unapproved change orders/claims recognized of \$46.1 million, net of reserves.

Selling and Administrative Expenses Selling and administrative expenses were \$106.9 million, or 4.7% of revenue, in 2005, compared with \$98.5 million, or 5.2% of revenue, in 2004. The absolute dollar increase compared with 2004 related primarily to increased professional fees, including fees relating to the inquiry conducted by our Supervisory Board's Audit Committee and the proceedings involving the U.S. Federal Trade Commission.

Income from Operations During 2005, income from operations was \$50.2 million, representing a \$51.8 million decrease compared with 2004. As described above, our results were unfavorably impacted during the year by lower gross profit levels, as well as increased selling, general and administrative costs. The overall decrease was partially offset by higher revenue volume and increased gains on the sale of property, plant, equipment and technology, primarily attributable to a \$7.9 million gain associated with the sale of non-core business related technology.

Interest Expense and Interest Income Interest expense increased \$0.6 million from the prior year to \$8.9 million, primarily due to higher foreign short-term borrowing levels and interest associated with our contingent tax obligations, partially offset by the impact of a scheduled principle installment payment of \$25.0 million on our senior notes. Interest income increased \$4.3 million from 2004 to \$6.5 million primarily due to higher short-term investment levels and associated returns.

Income Tax Expense Income tax expense for 2005 and 2004 was \$28.4 million, or 59.3% of pre-tax income, and \$31.3 million, or 32.6% of pre-tax income, respectively. The rate increase compared with 2004 was primarily due to the U.S./non-U.S. income mix, the establishment of valuation allowances against foreign losses primarily generated from the previously discussed EAME segment projects, recording of tax reserves, provision to tax return adjustments and foreign withholding taxes. As of December 31, 2005, we had approximately \$23.9 million of U.S. net operating loss carryforwards (NOLs), none of which were subject to limitation under Internal Revenue Code Section 382. We expect our 2006 rate to return to a more normal level of 30.0% to 35.0%.

We operate in more than 60 locations worldwide and, therefore, are subject to the jurisdiction of multiple taxing authorities. Determination of taxable income in any given jurisdiction requires the interpretation of applicable tax laws, regulations, treaties, tax pronouncements and other tax agreements. As a result, we are subject to tax assessments in such jurisdictions, including assessments related to the determination of taxable income, transfer pricing and the application of tax treaties, among others. We believe we have adequately provided for any such known or anticipated assessments. We believe that the majority of the amount currently provided under Statement of Financial Accounting Standards (SFAS) No. 5, Accounting for Contingencies (SFAS No. 5), will not be settled in the next twelve months and such possible settlement will not have a significant impact on our liquidity.

Minority Interest in (Income) Loss Minority interest in income in 2005 was \$3.5 million compared with minority interest in loss of \$1.1 million in 2004. The change from 2004 primarily relates to the prior year recognition of our minority partner's share of losses within our EAME segment.

2004 VERSUS 2003

New Business Taken/Backlog New business taken was \$2.6 billion during 2004, compared with \$1.7 billion in 2003. Approximately 55% of the new business taken during 2004 was for contracts awarded in North America. During 2004, new business taken increased 31% in the North America segment, due primarily to significant LNG expansion and peak shaving awards in the United States. New business taken for the EAME segment increased

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153% primarily due to the award of an LNG import terminal project in the United Kingdom valued in excess of \$700.0 million. New business taken in our AP segment decreased 8% primarily due to fewer standard tank awards in China and Thailand. New business taken in the CSA segment decreased 8% during 2004 as a result of fewer LNG awards in the Caribbean.

Backlog increased \$748.7 million or 47% to \$2.3 billion at December 31, 2004, primarily due to the LNG import terminal new award in the United Kingdom, noted above.

Revenue Revenue in 2004 of \$1.9 billion increased \$285 million, or 18% compared with 2003. The growth over 2003 was primarily attributable to strong backlog going into 2004 and progress on significant projects in our North America and EAME segments. During 2004, revenue increased 16% in the North America segment and 54% in the EAME segment, but declined 19% in the AP segment and 12% in the CSA segment. The increase in the North America segment related primarily to higher volumes of LNG and turnaround projects in the United States. Revenue growth in the EAME segment resulted from significant LNG projects under way in Nigeria and Russia and the inclusion of a full year of revenue from the John Brown Hydrocarbons Limited (John Brown) acquisition made in 2003. AP's decrease is primarily attributable to the completion of significant projects in Australia, while CSA's decline was a result of fewer new awards in certain Latin American markets.

Gross Profit Gross profit in 2004 was \$202.3 million, or 10.7% of revenue, compared with \$196.6 million, or 12.2% of revenue, in 2003. Gross profit as a percentage of revenue fell primarily as a result of the recognition of potentially unrecoverable costs on two projects, one in our EAME segment's Saudi Arabia region and the other in our North America segment. The overall decrease as a percentage of revenue was partially offset by the impact of strong project execution, which resulted in cost savings.

Saudi Arabian Project

The Saudi project was forecasted to close in a loss position of \$1.4 million as of the end of 2003. In the first quarter of 2004, we recognized unanticipated costs for work performed on the project for which we were contractually obligated without the benefit of immediate owner approval. The increased costs were provided for in the period, resulting in a total charge of \$6.9 million in the first quarter. Events in the Saudi Arabia region of our EAME segment during the second quarter resulted in an unanticipated level of uncertainty and instability in the region. As a result of disruptions, real or perceived, caused by terrorist activity beginning in May 2004, we incurred additional costs and encountered unexpected difficulties and delays on the Saudi project due to increased physical security requirements and the inefficiencies, delays and disruption caused by the need to replace employees choosing to depart the Kingdom. In the second quarter, we increased our estimate of all costs expected to be incurred to complete the project. As the project was still forecasted to result in a loss in the second quarter, additional provision for such loss was made, resulting in a \$16.4 million charge in the second quarter. Provision for additional loss on the project resulted in a \$2.1 million charge to earnings in the third quarter and \$1.2 million in the fourth quarter. Total provisions charged to earnings during 2004 for this project were \$26.6 million.

At December 31, 2004, we had not recognized revenue for unapproved change orders or claims associated with this project. However, we intend to continue pursuing customer approval. If these change orders or claims are approved, associated revenue will be recognized at such time, which would impact future operating results. The project was essentially complete at December 31, 2004.

North American Project

On the North America segment project, a major general contractor for us (Jones LG LLC) filed for bankruptcy in late September 2003, and we undertook to take over and complete the project on an expedited basis to ensure that our

significant client's requirements were met. During the fourth quarter of 2003, work that had been performed by the contractor's subcontractors was suspended at a critical stage pending authorization from the bankruptcy court to proceed. Also during the fourth quarter of 2003, the general contractor gave us an estimate of the amount of the work completed and remaining to be completed. Late in the fourth quarter, we began to mobilize and believed we could perform within the budget. During the first quarter of 2004, costs increased from the impact of our taking over the work and included the continuation of mobilization; hiring and deployment of craft labor; selection of subcontractors and planning and organization of the takeover of the work and performance of work that had not

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been satisfactorily completed by the general contractor or its subcontractors. An \$8.0 million charge to earnings was recognized in the first quarter for the increase in forecasted total costs and the resulting reduced forecasted gross margin on the project.

During the second quarter of 2004, our forecast of total project costs increased as a result of a series of unexpected events that required us to perform unplanned work and incur unforecasted costs including the rework of components of the most critical equipment on the project, decreases in labor productivity and longer than anticipated equipment utilization. Additionally, commissioning and preparation for start-up of the facility began before construction was complete and much of the work had to be completed on an expedited basis in order to support an aggressive commissioning and start-up program, necessitating additional costs. Due to these previously unforeseen costs, the project was now forecasted to result in a negative gross margin. As a result, a provision for such loss was made, resulting in a \$15.0 million charge to earnings in the second quarter. Total provisions charged to earnings during 2004 for this project were \$23.0 million. At December 31, 2004, the project was complete.

Other

At December 31, 2004, we had recorded \$46.1 million of unapproved claims/change orders at cost, net of reserves, of which \$36.8 million was associated with an ongoing project in our EAME segment. While this project was substantially complete, we had not reached agreement regarding the final value of certain change orders and agreements. As of December 31, 2004, we had received cash advances totaling \$17.8 million to fund a portion of the costs associated with the change orders and agreements. Subsequent to year-end 2004, we received an additional \$10.0 million of funding associated with the change orders and agreements and reached agreement on an additional \$3.5 million.

Selling and Administrative Expenses Selling and administrative expenses were \$98.5 million, or 5.2% of revenue, in 2004, compared with \$93.5 million, or 5.8% of revenue, in 2003. The absolute dollar increase compared with 2003 related primarily to increased professional fees and labor costs associated with Sarbanes-Oxley documentation and compliance testing, higher incentive program costs and the full-year impact of operations acquired in the second quarter of 2003.

Income from Operations Income from operations in 2004 was \$102.1 million, representing a \$1.3 million decrease compared with 2003. Operating income decreased due to the recognition of potentially unrecoverable costs on the North America and EAME segment projects discussed above, partially offset by higher revenue volume, cost savings attributable to strong project execution, and higher fixed cost coverage related to overhead and selling and administrative expenses.

Interest Expense and Interest Income Interest expense increased \$1.7 million from the prior year to \$8.2 million, primarily due to fees associated with our increased capacity on revolving credit facilities and higher foreign short-term borrowing levels. Interest income increased \$0.9 million from 2003 to \$2.2 million primarily due to higher short-term investment levels.

Income Tax Expense Income tax expense for 2004 and 2003 was \$31.3 million, or 32.6% of pre-tax income, and \$29.7 million, or 30.3% of pre-tax income, respectively. The rate increase compared with 2003 is primarily due to the establishment of valuation allowances on non-U.S. losses and adjustments to tax reserves. As of December 31, 2004, we had U.S. NOLs of approximately \$30.5 million, of which \$6.4 million was subject to limitation under Internal Revenue Code Section 382. The U.S. NOLs will expire from 2019 to 2024.

Minority Interest in (Income) Loss Minority interest in loss in 2004 was \$1.1 million compared with minority interest in income of \$2.4 million in 2003. The change over 2003 primarily relates to recognition of our minority partner's

share of losses resulting from the Saudi Arabian project discussed above.

LIQUIDITY AND CAPITAL RESOURCES

As a result of a delay in furnishing financial information for the quarter ended September 30, 2005, we would have been in technical default of covenants related to our revolving credit facility and our senior notes, had waivers not been obtained. On November 14, 2005, we obtained waivers from the bank group and senior noteholders, extending the deadline of our quarterly financial submissions until January 13, 2006. On January 13, 2006, we

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obtained waivers from the bank group and senior noteholders which extended the deadline until April 1, 2006. On March 30, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline of our quarterly and fiscal year end 2005 and first quarter 2006 financial submissions until May 31, 2006. On May 31, 2006, we obtained waivers from the bank group and senior noteholders which extended the deadline of our quarterly and fiscal year end 2005 and first quarter 2006 financial submissions until June 16, 2006 and extended the deadline for providing a three year budget until September 30, 2006. Upon obtaining these waivers, we were in compliance with all debt covenants at December 31, 2005.

At December 31, 2005, cash and cash equivalents totaled \$334.0 million.

Operating During 2005, our operations generated \$165.0 million of cash flows, primarily attributable to decreased working capital levels.

Investing In 2005, we incurred \$36.9 million for capital expenditures, primarily for field equipment to support projects in our EAME and North America segments. Cash provided by investing activities during 2005 included proceeds from the sale of technology, property, plant and equipment.

We continue to evaluate and selectively pursue opportunities for expansion of our business through acquisition of complementary businesses. These acquisitions, if they arise, may involve the use of cash or may require debt or equity financing.

Financing Net cash flows used in financing activities were \$41.0 million. Cash utilized during 2005 included payment of the first of three equal annual installments of \$25.0 million on our senior notes during the third quarter, the repayment of \$7.7 million of short-term international borrowings and approximately \$5.0 million to repurchase shares of our stock. Cash dividends of \$11.7 million paid during 2005 increased \$4.1 million over 2004 resulting from a 50% increase in our annual dividend from \$0.08 to \$0.12 per share. Cash provided by financing activities during 2005 included \$9.5 million from the issuance of common stock, primarily from the exercise of stock options.

Subsequent to December 31, 2005, a former executive received, pursuant to and as required by the Management Defined Contribution Plan dated March 26, 1997 (Plan), distribution of approximately 2.5 million restricted stock units from a rabbi trust. To satisfy our responsibility under the Plan for all applicable tax withholding, we withheld approximately 0.9 million shares, as treasury shares, and utilized \$20.1 million of cash to pay withholding tax on this taxable share distribution.

Our primary internal source of liquidity is cash flow generated from operations. Capacity under a revolving credit facility is also available, if necessary, to fund operating or investing activities. We have a five-year \$600.0 million, committed and unsecured revolving credit facility, which terminates in May 2010. As of December 31, 2005, no direct borrowings were outstanding under the revolving credit facility, but we had issued \$181.3 million of letters of credit under the five-year facility. As of December 31, 2005, we had \$418.7 million of available capacity under this facility. The facility contains certain restrictive covenants, including a minimum fixed charge coverage ratio and a minimum net worth level, among other restrictions. The facility also places restrictions on us with regard to subsidiary indebtedness, sales of assets, liens, investments, type of business conducted, and mergers and acquisitions, among other restrictions.

We also have various short-term, uncommitted revolving credit facilities across several geographic regions of approximately \$560.7 million. These facilities are generally used to provide letters of credit or bank guarantees to customers in the ordinary course of business to support advance payments, as performance guarantees, or in lieu of retention on our contracts. At December 31, 2005, we had available capacity of \$215.7 million under these uncommitted facilities. In addition to providing letters of credit or bank guarantees, we also issue surety bonds in the

ordinary course of business to support our contract performance. For a further discussion of letters of credit and surety bonds, see Note 10 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

As previously referenced, we issue letters of credit and bank guarantees in the ordinary course of business for performance, advance payments from the customer, or in lieu of retention. Subsequent to December 31, 2005, we have provided approximately \$21.5 million of cash collateral as support for a bank guarantee issued under a U.K.

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banking facility. Under the terms of the collateral agreement, the cash will remain restricted until the guarantee has terminated, expired or has been replaced by another bank. We intend to replace or remove the bank guarantee, thereby removing the restriction on our cash.

Our \$50.0 million of senior notes also contain a number of restrictive covenants, including a maximum leverage ratio and minimum levels of net worth and debt and fixed charge ratios, among other restrictions. The notes also place restrictions on us with regard to investments, other debt, subsidiary indebtedness, sales of assets, liens, nature of business conducted and mergers, among other restrictions.

As of December 31, 2005, the following commitments were in place to support our ordinary course obligations:

Commitments	Total	Amounts by Expiration Period			After 5 Years
		Less Than 1 Year	1-3 Years (In thousands)	4-5 Years	
Letters of credit/bank guarantees	\$ 526,259	\$ 194,858	\$ 242,199	\$ 79,177	\$ 10,025
Surety bonds	305,616	255,762	49,854		
Total commitments	\$ 831,875	\$ 450,620	\$ 292,053	\$ 79,177	\$ 10,025

Note: Letters of credit includes \$35,604 of letters of credit issued in support of our insurance program.

Contractual obligations at December 31, 2005 are summarized below:

Contractual Obligations	Total	Payments Due by Period			After 5 Years
		Less Than 1 Year	1-3 Years (In thousands)	4-5 Years	
Senior notes(1)	\$ 55,505	\$ 28,670	\$ 26,835	\$	\$
Operating leases(2)	81,127	24,315	23,176	16,208	17,428
Purchase obligations(3)					
Self-insurance obligations(4)	21,240	21,240			
Pension funding obligations(5)	3,973	3,973			
Postretirement benefit funding obligations(5)	1,848	1,848			
Total contractual obligations	\$ 163,693	\$ 80,046	\$ 50,011	\$ 16,208	\$ 17,428

(1) Includes interest accruing at a rate of 7.34%.

(2) Subsequent to December 31, 2005, we terminated an existing facility lease agreement that was to expire in 2010 and concurrently entered into a new facility lease agreement that expires in 2021. Total future minimum

payments under the new lease, which are not reflected in the table, exceed the total payments under the terminated lease by approximately \$60.0 million.

- (3) In the ordinary course of business, we enter into purchase commitments to satisfy our requirements for materials and supplies for contracts that have been awarded. These purchase commitments, that are to be recovered from our customers, are generally settled in less than one year. We do not enter into long-term purchase commitments on a speculative basis for fixed or minimum quantities.
- (4) Amount represents expected 2006 payments associated with our self-insurance program. Payments beyond one year have not been included as non-current amounts are not determinable on a year-by-year basis.
- (5) Amounts represent expected 2006 contributions to fund our defined benefit and other postretirement plans, respectively. Contributions beyond one year have not been included as amounts are not determinable.

We believe cash on hand, funds generated by operations, amounts available under existing credit facilities and external sources of liquidity, such as the issuance of debt and equity instruments, will be sufficient to finance capital expenditures, the settlement of commitments and contingencies (as fully described in Note 10 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data) and working capital needs for the foreseeable future. However, there can be no assurance that such funding will be available, as our

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

We are a defendant in a number of lawsuits arising in the normal course of business and we have in place appropriate insurance coverage for the type of work that we have performed. As a matter of standard policy, we review our litigation accrual quarterly and as further information is known on pending cases, increases or decreases, as appropriate, may be recorded in accordance with SFAS No. 5.

For a discussion of pending litigation, including lawsuits wherein plaintiffs allege exposure to asbestos due to work we may have performed, matters involving the U.S. Federal Trade Commission and securities class action lawsuits against us, see Note 10 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

OFF-BALANCE SHEET ARRANGEMENTS

We use operating leases for facilities and equipment when they make economic sense. In 2001, we entered into a sale (for approximately \$14.0 million) and leaseback transaction of our Plainfield, Illinois administrative office with a lease term of 20 years, which is accounted for as an operating lease. Rentals under this and all other lease commitments are reflected in rental expense and future rental commitments as summarized in Note 10 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

We have no other significant off-balance sheet arrangements.

NEW ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment (SFAS No. 123(R)). This standard requires compensation costs related to share-based payment transactions to be recognized in the financial statements. Compensation cost will generally be based on the grant-date fair value of the equity or liability instrument issued, and will be recognized over the period that an employee provides service in exchange for the award. SFAS No. 123(R) applies to all awards granted for fiscal years beginning after June 15, 2005, to awards modified, repurchased, or cancelled after that date and to the portion of outstanding awards for which the requisite service has not yet been rendered. For share-based awards that accelerate the vesting terms based upon retirement, SFAS No. 123(R) requires compensation cost to be recognized through the date that the employee first becomes eligible for retirement, rather than upon actual retirement as is currently practiced. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under the current guidelines. We anticipate applying the modified prospective method as prescribed under SFAS No. 123(R) upon adoption. Pro forma results, which approximate the historical impact of this standard, are presented under the stock plans heading of Note 2 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data.

Staff Accounting Bulletin 107 (SAB 107) was issued in March of 2005 and provides guidance on implementing SFAS No. 123(R). SAB 107 will impact our accounting for stock held in trust (Note 11 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data) upon the adoption of SFAS No. 123(R)

as it requires for share-based payments that could require the employer to redeem the equity instruments for cash that the redemption amount should be classified outside of permanent equity (temporary equity). While the stock held in trust contains a put feature back to us, the stock held in trust is presented as permanent equity in our historical financial statements with an offsetting stock held in trust contra equity account as allowed under existing rules. SAB 107 also requires that if the share-based payments are based on fair value (which is our case) subsequent increases or decreases in the fair value do not impact income applicable to common

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shareholders but temporary equity should be recorded at fair value with changes in fair value reflected by offsetting impacts recorded directly to retained earnings. As a result, at adoption of SFAS No. 123(R), we will record \$40.3 million of redeemable common stock with an offsetting decrease to additional paid in capital to reflect the fair value of share-based payments that could require cash funding by us. Subsequent movements in the fair value of the \$40.3 million of redeemable common stock will be recorded to retained earnings. There will be no effect on earnings per share.

In October 2005, the FASB issued FASB Staff Position (FSP) FAS 123(R)-2, Practical Accommodation to the Application of Grant Date as Defined in FAS 123(R) (FSP 123(R)-2). FSP 123(R)-2 provides guidance on the application of grant date as defined in SFAS No. 123(R). In accordance with this standard, a grant date of an award exists if a) the award is a unilateral grant and b) the key terms and conditions of the award are expected to be communicated to an individual recipient within a relatively short time period from the date of approval. We will adopt this standard when we adopt SFAS No. 123(R), and we do not anticipate that it will have a material impact on our consolidated financial position, results of operations or cash flows.

In November 2005, the FASB issued FSP FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards (FSP 123(R)-3). FSP 123(R)-3 provides an elective alternative method that establishes a computational component to arrive at the beginning balance of the additional paid-in capital pool related to employee compensation and a simplified method to determine the subsequent impact of the additional paid-in-capital pool of employee awards that are fully vested and outstanding upon the adoption of SFAS No. 123(R). We are currently evaluating this transition method.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections A replacement of Accounting Principles Board (APB) Opinion No. 20 and FASB Statement No. 3 (SFAS No. 154). SFAS No. 154 replaces APB Opinion No. 20, Accounting Changes, and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for, and reporting of, a change in accounting principles. This statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. Under previous guidance, changes in accounting principle were recognized as a cumulative effect in the net income of the period of the change. SFAS No. 154 requires retrospective application of changes in accounting principle, limited to the direct effects of the change, to prior periods financial statements, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. Additionally, this Statement requires that a change in depreciation, amortization or depletion method for long-lived, nonfinancial assets be accounted for as a change in accounting estimate affected by a change in accounting principle and that correction of errors in previously issued financial statements should be termed a restatement. The provisions in SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We intend to adopt the disclosure requirements upon the effective date of the pronouncement. We do not believe that the adoption of this pronouncement will have a material effect on our consolidated financial position, results of operations or cash flows.

In June 2005, the Emerging Issues Task Force (EITF) reached consensus on Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements (EITF 05-6). EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. Adoption of this standard is not expected to have a material impact on our consolidated financial position, results of operations or cash flows.

In October 2005, the FASB issued FSP No. 13-1, Accounting for Rental Costs Incurred During a Construction Period (FSP 13-1). Generally, the staff position requires companies to expense rental costs incurred during a construction

period. FSP 13-1 is effective for fiscal years beginning after December 15, 2005. We do not believe that the adoption of this pronouncement will have a material effect on our consolidated financial position, results of operations or cash flows.

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CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of financial condition and results of operations are based upon our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an on-going basis, based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Our management has discussed the development and selection of our critical accounting estimates with the Audit Committee of our Supervisory Board of Directors. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition Revenue is primarily recognized using the percentage-of-completion method. A significant portion of our work is performed on a fixed-price or lump-sum basis. The balance of our work is performed on variations of cost reimbursable and target price approaches. Contract revenue is accrued based on the percentage that actual costs-to-date bear to total estimated costs. We utilize this cost-to-cost approach as we believe this method is less subjective than relying on assessments of physical progress. We follow the guidance of the Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts, for accounting policies relating to our use of the percentage-of-completion method, estimating costs, revenue recognition, and unapproved change order/claim recognition. The use of estimated cost to complete each contract, while the most widely recognized method used for percentage-of-completion accounting, is a significant variable in the process of determining income earned and is a significant factor in the accounting for contracts. The cumulative impact of revisions in total cost estimates during the progress of work is reflected in the period in which these changes become known. Due to the various estimates inherent in our contract accounting, actual results could differ from those estimates.

Contract revenue reflects the original contract price adjusted for approved change orders and estimated minimum recoveries of unapproved change orders and claims. We recognize unapproved change orders and claims to the extent that related costs have been incurred when it is probable that they will result in additional contract revenue and their value can be reliably estimated. At December 31, 2005, we had outstanding unapproved change orders/claims recognized of \$48.5 million, net of reserves, of which \$43.5 million is associated with a completed project in our EAME segment. Regarding the change orders/claims associated with the EAME segment project, we have received substantial cash advances. While we have received a settlement offer for more than the cash received through December 31, 2005, we believe our net exposure is approximately \$11.1 million, which represents the contract price less cash received to date. If in the future we determine collection of the \$43.5 million of unapproved change orders/claims is not probable, it would result in a charge to earnings in the period such determination is made. As of December 31, 2004, we had outstanding unapproved change orders/claims recognized of \$46.1 million net of reserves.

Losses expected to be incurred on contracts in progress are charged to earnings in the period such losses are known. Provisions for additional costs associated with contracts projected to be in a significant loss position at December 31, 2005, resulted in \$53.0 million of charges to earnings during 2005. Charges to earnings during 2004 were \$53.5 million.

As discussed under Item 9A. Controls and Procedures, of this Form 10-K, management identified certain control deficiencies in our internal controls relating to project accounting, and as a result, concluded that these deficiencies constituted a material weakness in our internal control over financial reporting. In light of this material weakness, we implemented processes and performed additional procedures designed to ensure that the financial statements were

prepared in accordance with GAAP (see Item 9A. Controls and Procedures).

Credit Extension We extend credit to customers and other parties in the normal course of business only after a review of the potential customer's creditworthiness. Additionally, management reviews the commercial terms of all significant contracts before entering into a contractual arrangement. We regularly review outstanding receivables

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and provide for estimated losses through an allowance for doubtful accounts. In evaluating the level of established reserves, management makes judgments regarding the parties' ability to make required payments, economic events and other factors. As the financial condition of these parties changes, circumstances develop or additional information becomes available, adjustments to the allowance for doubtful accounts may be required.

Financial Instruments Although we do not engage in currency speculation, we periodically use forward contracts to mitigate certain operating exposures, as well as hedge intercompany loans utilized to finance non-U.S. subsidiaries. Forward contracts utilized to mitigate operating exposures are generally designated as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). Therefore, gains and losses associated with marking highly effective instruments to market are included in accumulated other comprehensive loss on the Consolidated Balance Sheets, while the gains and losses associated with instruments deemed ineffective during the period are recognized within cost of revenue in the Consolidated Statements of Income. Additionally, gains or losses on forward contracts to hedge intercompany loans are included within cost of revenue in the Consolidated Statements of Income. Our other financial instruments are not significant.

Income Taxes Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The final realization of the deferred tax asset depends on our ability to generate sufficient taxable income of the appropriate character in the future and in appropriate jurisdictions.

Under the guidance of SFAS No. 5, we provide for income taxes in situations where we have and have not received tax assessments. Taxes are provided in those instances where we consider it probable that additional taxes will be due in excess of amounts reflected in income tax returns filed worldwide. As a matter of standard policy, we continually review our exposure to additional income taxes due and as further information is known, increases or decreases, as appropriate, may be recorded in accordance with SFAS No. 5.

Estimated Reserves for Insurance Matters We maintain insurance coverage for various aspects of our business and operations. However, we retain a portion of anticipated losses through the use of deductibles and self-insured retentions for our exposures related to third-party liability and workers' compensation. Management regularly reviews estimates of reported and unreported claims through analysis of historical and projected trends, in conjunction with actuaries and other consultants, and provides for losses through insurance reserves. As claims develop and additional information becomes available, adjustments to loss reserves may be required. If actual results are not consistent with our assumptions, we may be exposed to gains or losses that could be material. A 10% change in our self-insurance reserves at December 31, 2005, would have impacted our net income by approximately \$1.5 million for the year ended December 31, 2005.

Recoverability of Goodwill Effective January 1, 2002, we adopted SFAS No. 142 Goodwill and Other Intangible Assets (SFAS No. 142), which states that goodwill and indefinite-lived intangible assets are no longer to be amortized but are to be reviewed annually for impairment. The goodwill impairment analysis required under SFAS No. 142 requires us to allocate goodwill to our reporting units, compare the fair value of each reporting unit with our carrying amount, including goodwill, and then, if necessary, record a goodwill impairment charge in an amount equal to the excess, if any, of the carrying amount of a reporting unit's goodwill over the implied fair value of that goodwill. The primary method we employ to estimate these fair values is the discounted cash flow method. This methodology is based, to a large extent, on assumptions about future events which may or may not occur as anticipated, and such deviations could have a significant impact on the estimated fair values calculated. These assumptions include, but are not limited to, estimates of future growth rates, discount rates and terminal values of reporting units. See further discussion in Note 5 to our Consolidated Financial Statements included in Item 8. Financial Statements and

Supplementary Data. Our goodwill balance at December 31, 2005, was \$230.1 million.

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Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are exposed to market risk from changes in foreign currency exchange rates, which may adversely affect our results of operations and financial condition. One exposure to fluctuating exchange rates relates to the effects of translating the financial statements of our non-U.S. subsidiaries, which are denominated in currencies other than the U.S. dollar, into the U.S. dollar. The foreign currency translation adjustments are recognized in shareholders' equity in accumulated other comprehensive loss as cumulative translation adjustment, net of any applicable tax. We generally do not hedge our exposure to potential foreign currency translation adjustments.

Another form of foreign currency exposure relates to our non-U.S. subsidiaries' normal contracting activities. We generally try to limit our exposure to foreign currency fluctuations in most of our engineering, procurement and construction contracts through provisions that require customer payments in U.S. dollars or other currencies corresponding to the currency in which costs are incurred. As a result, we generally do not need to hedge foreign currency cash flows for contract work performed. However, where construction contracts do not contain foreign currency provisions, we generally use forward exchange contracts to hedge foreign currency exposure of forecasted transactions and firm commitments. The gains and losses on these contracts are intended to offset changes in the value of the related exposures. However, certain of these hedges became ineffective during the year as it became probable that their underlying forecasted transaction would not occur within their originally specified periods of time. The loss associated with these instruments' change in fair value totaled \$6.5 million and was recognized within cost of revenue in the 2005 Consolidated Statement of Income. At December 31, 2005, the notional amount of cash flow hedge contracts outstanding was \$297.2 million, and the total notional amount exceeded the total present value of these contracts by approximately \$9.4 million. The terms of these contracts extend up to three years.

In circumstances where intercompany loans and/or borrowings are in place with non-U.S. subsidiaries, we will also use forward contracts which generally offset any translation gains/losses of the underlying transactions. If the timing or amount of foreign-denominated cash flows vary, we incur foreign exchange gains or losses, which are included within cost of revenue in the Consolidated Statements of Income. We do not use financial instruments for trading or speculative purposes.

The carrying value of our cash and cash equivalents, accounts receivable, accounts payable and notes payable approximates their fair values because of the short-term nature of these instruments. At December 31, 2005 and 2004, the fair value of our fixed rate long-term debt was \$25.7 million and \$53.1 million, respectively, based on the current market rates for debt with similar credit risk and maturities. See Note 8 to our Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for quantification of our financial instruments.

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Item 8. *Financial Statements and Supplementary Data*

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting. Our evaluation was based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our principal executive officer and principal financial officer concluded our internal control over financial reporting was not effective as of December 31, 2005.

A material weakness is a control deficiency, or a combination of control deficiencies, that results in a more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Management concluded we had the following two material weaknesses in our internal control over financial reporting as of December 31, 2005:

1. **Control Environment** An entity level material weakness existed related to the control environment component of internal control over financial reporting. The ineffective control environment related to management communication and actions that, in certain instances, overly emphasized meeting earnings targets resulting in or contributing to the lack of adherence to existing internal control procedures and U.S. GAAP. Additionally we did not provide adequate support and resources at appropriate levels to prevent and detect lack of compliance with our existing policies and procedures. This material weakness could affect our ability to provide accurate financial information and it specifically resulted in certain adjustments to the draft financial statements for the third quarter.

2. Project Accounting A material weakness existed related controls over project accounting. On certain projects, cost estimates were not updated to reflect current information and insufficient measures were taken to independently verify uniform and reliable cost estimates by certain field locations, and on some contracts revenues were initially recorded on change orders/claims without proper support or verification. Additionally, insufficient measures were taken to determine that when one Company subsidiary subcontracts a portion of a customer contract to another subsidiary that the profit margin on the subcontract was consistent with the profit margin on the overall contract with the customer and intercompany profit was eliminated as required by U.S. GAAP. This material weakness could affect project related accounts, and it specifically resulted in adjustments to revenue and cost of sales on certain contracts in connection with our restatement of

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previously reported financial statements for the second quarter of 2005 and in connection with our preparation of draft financial statements for the third quarter of 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

/s/ Philip K. Asherman

Philip K. Asherman
President and Chief Executive Officer

May 25, 2006

/s/ Richard E. Goodrich

Richard E. Goodrich
Acting Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Supervisory Board and Shareholders of
Chicago Bridge & Iron Company N.V.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Chicago Bridge & Iron Company N.V. and subsidiaries (the Company) did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of the material weaknesses identified in management's assessment and described below, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Chicago Bridge & Iron Company N.V. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment:

Control Environment An entity level material weakness existed related to the control environment component of internal control over financial reporting. The ineffective control environment related to management communication and actions that, in certain instances, overly emphasized meeting earnings targets resulting in or contributing to the lack of adherence to existing internal control procedures and U.S. GAAP. Additionally management did not provide adequate support and resources at appropriate levels to prevent and detect lack of compliance with the Company's

existing policies and procedures. This material weakness could affect the Company's ability to provide accurate financial information and it specifically resulted in certain adjustments to the draft financial statements for the third quarter.

Project Accounting A material weakness existed related to controls over project accounting. On certain projects, cost estimates were not updated to reflect current information and insufficient measures were taken to independently verify uniform and reliable cost estimates by certain field locations, and on some

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contracts revenues were initially recorded on change orders/claims without proper support or verification. Additionally, insufficient measures were taken to determine that when one Company subsidiary subcontracts a portion of a customer contract to another subsidiary that the profit margin on the subcontract was consistent with the profit margin on the overall contract with the customer and intercompany profit was eliminated as required by U.S. GAAP. This material weakness could affect project related accounts, and it specifically resulted in adjustments to revenue and cost of sales on certain contracts in connection with the Company's restatement of previously reported financial statements for the second quarter of 2005 and in connection with the Company's preparation of draft financial statements for the third quarter of 2005.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 financial statements, and this report does not affect our report dated May 25, 2006 on those financial statements.

In our opinion, management's assessment that Chicago Bridge & Iron Company N.V. and subsidiaries did not maintain effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO control criteria. Also, in our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Chicago Bridge & Iron Company N.V. and subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2005, based on the COSO control criteria.

/s/ Ernst & Young LLP

Houston, Texas
May 25, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Supervisory Board and Shareholders of
Chicago Bridge & Iron Company N.V.

We have audited the accompanying consolidated balance sheet of Chicago Bridge & Iron Company N.V. and subsidiaries (the Company) as of December 31, 2005, and the related consolidated statements of income, shareholders equity, and cash flows for the year then ended. Our audit also included the financial statement schedule for the year ended December 31, 2005 listed in the Index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chicago Bridge & Iron Company N.V. and subsidiaries at December 31, 2005, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic 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 effectiveness of Chicago Bridge & Iron Company N.V.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 25, 2006 expressed an unqualified opinion on management's assessment and an adverse opinion on the effectiveness of internal control over financial reporting.

/s/ Ernst & Young LLP

Houston, Texas
May 25, 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Supervisory Board of
Chicago Bridge & Iron Company N.V.

We have audited the accompanying consolidated balance sheet of Chicago Bridge & Iron Company N.V. (a Netherlands corporation) and subsidiaries (the Company) as of December 31, 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 Chicago Bridge & Iron Company N.V. and subsidiaries at December 31, 2004, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas
March 11, 2005

Table of Contents**CHICAGO BRIDGE & IRON COMPANY N.V. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31,	2005	2004	2003
	(In thousands, except per share data)		
Revenue	\$ 2,257,517	\$ 1,897,182	\$ 1,612,277
Cost of revenue	2,109,113	1,694,871	1,415,715
Gross profit	148,404	202,311	196,562
Selling and administrative expenses	106,937	98,503	93,506
Intangibles amortization (Note 5)	1,499	1,817	2,548
Other operating income, net	(10,267)	(88)	(2,833)
Income from operations	50,235	102,079	103,341
Interest expense	(8,858)	(8,232)	(6,579)
Interest income	6,511	2,233	1,300
Income before taxes and minority interest	47,888	96,080	98,062
Income tax expense (Note 13)	(28,379)	(31,284)	(29,713)
Income before minority interest	19,509	64,796	68,349
Minority interest in (income) loss	(3,532)	1,124	(2,395)
Net income	\$ 15,977	\$ 65,920	\$ 65,954
Net income per share (Note 2) (1)			
Basic	\$ 0.16	\$ 0.69	\$ 0.73
Diluted	\$ 0.16	\$ 0.67	\$ 0.69
Cash dividends on shares			
Amount	\$ 11,738	\$ 7,648	\$ 7,257
Per Share(1)	\$ 0.12	\$ 0.08	\$ 0.08

(1) On February 25, 2005, we declared a two-for-one stock split effective in the form of a stock dividend paid March 31, 2005, to stockholders of record at the close of business on March 21, 2005. The above per share amounts reflect the impact of the stock split for all periods presented.

The accompanying Notes to Consolidated Financial Statements are an integral part of these financial statements.

Table of Contents**CHICAGO BRIDGE & IRON COMPANY N.V. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

December 31,	2005	2004
	(In thousands, except share data)	
ASSETS		
Cash and cash equivalents	\$ 333,990	\$ 236,390
Accounts receivable, net of allowance for doubtful accounts of \$2,300 in 2005 and \$726 in 2004	379,044	252,377
Contracts in progress with costs and estimated earnings exceeding related progress billings (Note 4)	157,096	135,902
Deferred income taxes (Note 13)	27,770	26,794
Other current assets	52,703	33,816
Total current assets	950,603	685,279