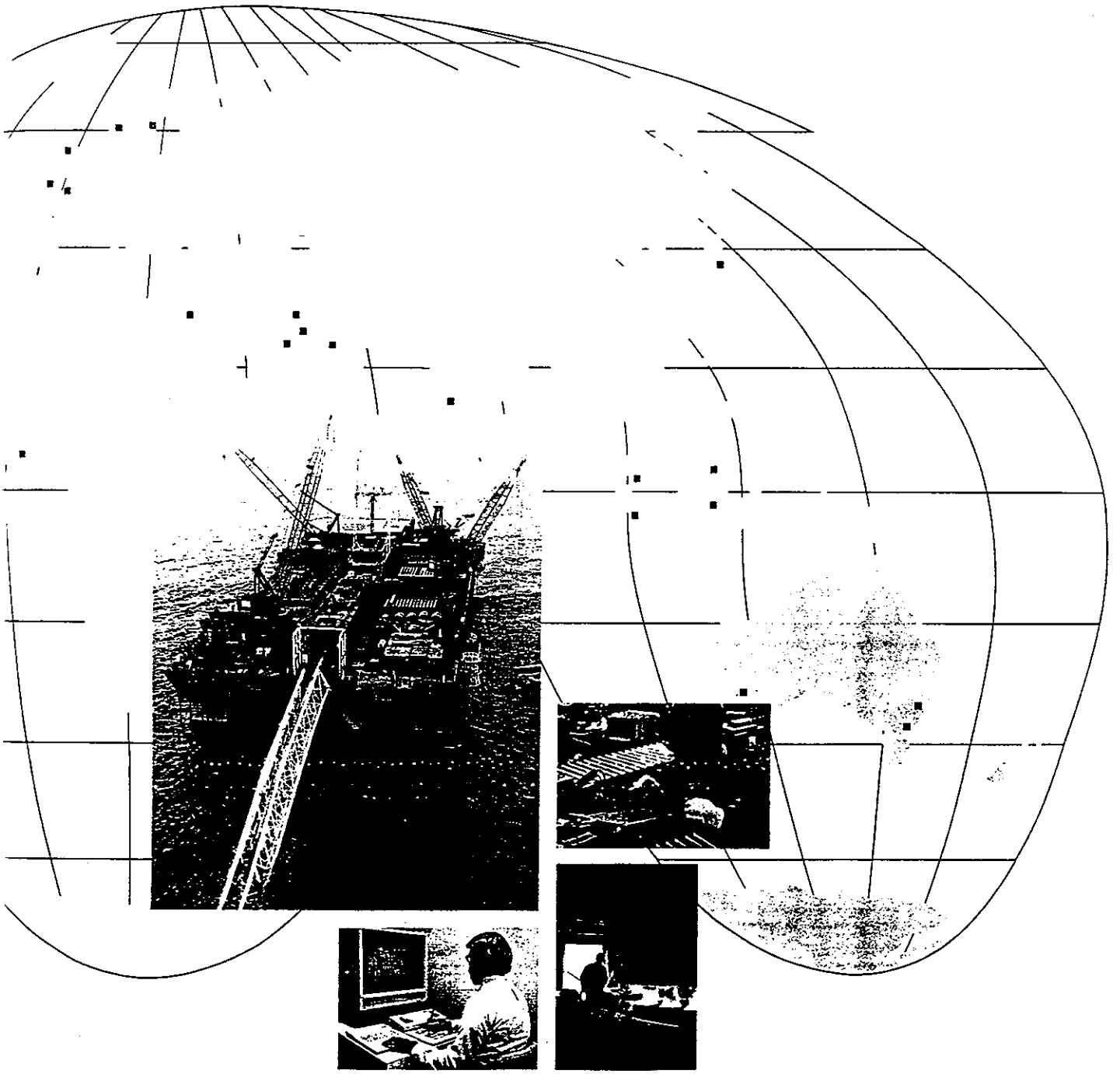
Annual Report

for the fiscal year ended
March 31, 1983

PLAINTIFF'S EXHIBIT

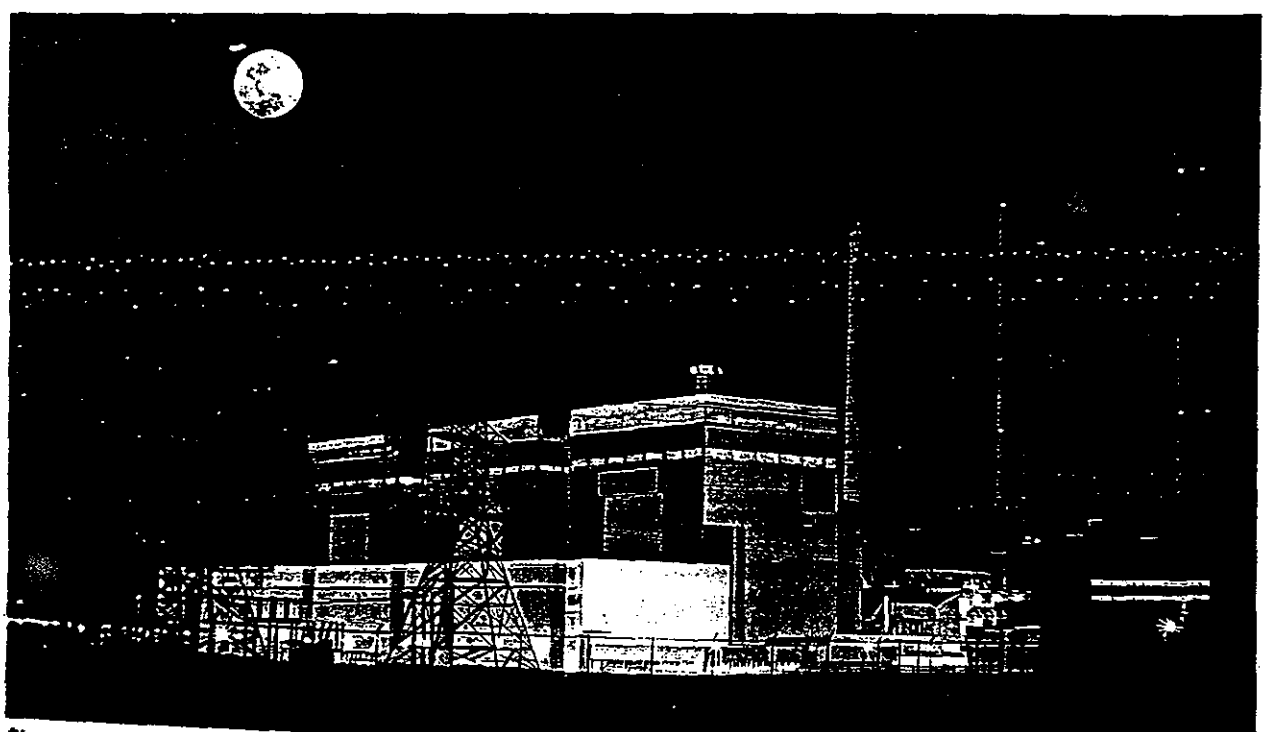


McDermott International, *inc.*

Results at a Glance

McDermott International, Inc. for the Fiscal Years ended March 31, 1983 and 1982
In thousands of dollars except per share amounts and number of employees

	1983	1982
Revenues	$ 3,707,767	$ 4,843,186
Operating income	179,077	410,267
Net income	55,664	183,589
Net earnings per common and common equivalent share	1.51	4.98
Stockholders' equity per common share	33.13	31.92
Cash dividends—common	63,215	60,621
Cash dividends per common share	1.80	1.65
Working capital	79,332	800,534
Capital expenditures	190,177	167,018
Backlog	4,366,604	5,716,000
Number of employees including subcontract labor	44,000	59,000



Electric utilities rely on Babcock & Wilcox specialized services to keep their power plants operating reliably and efficiently.

To Our Stockholders

The operating environment during fiscal 1983 was characterized by generally depressed conditions in all segments of the company's business, brought about by the worldwide economic recession, dramatically reduced drilling activity in the United States, surplus crude oil and natural gas, and uncertainty about the price of these resources.

Revenues and net income declined significantly from the record levels reported in 1982 to $3.7 billion and $56 million, respectively. Primary earnings per share were $1.51 compared with $4.98 per share in 1982. While these results are disappointing, they were not unexpected.

Several steps were taken to improve profitability, preserve and strengthen liquidity, and trim capacity to adjust to current and expected market conditions. Our work force has been reduced approximately 25 percent; several operating facilities have been closed; less efficient marine equipment has been withdrawn from service; and, where possible, capital spending programs have been reduced, deferred, or cancelled.

Marine Construction Services

In 1982, McDermott's Marine Construction business had record high revenues of $1.9 billion, which declined by 16 percent in 1983 to about $1.6 billion. Despite the decline in revenue, operating income increased approximately 73 percent to $125 million. This increase is a result of significant cost reductions, more favorable gross margins on recent contracts in the foreign operations, and reduced provisions for losses on certain large contracts.

In general, however, world crude oil and natural gas surpluses and price uncertainty have resulted in continued soft demand and intense competition for marine construction services, particularly in the United States.



During this period, we continued to strengthen our competitive edge through selective upgrading of offshore equipment, the consolidation of certain operations, and the ongoing process of organization streamlining.

The lifting capacity of our derrick barges has been increased from an average of 600 to 1,000 tons, and lifting capabilities of 1,200 to 2,400 tons are available to all geographic operating areas. Worldwide engineering capabilities have been strengthened, and U.S. engineering operations have been consolidated to be more responsive to customer demands. Less efficient operations are being reorganized or phased out, and a broad range of cost reduction programs has been implemented.

While we expect the demand for marine construction services to remain soft for another year, the unit is well positioned technologically and geographically to effectively compete for the limited work available and well prepared to take full advantage of opportunities as the offshore service business improves.

Power Generation Systems and Equipment

Despite the fact that fiscal 1983 was one of the most difficult in B&W's 115-year history, with revenues for the power generation and equipment segment declining 14 percent to approximately $1.7 billion, operating income increased by 9 percent to about $126 million. Improved cost performance on fossil and nuclear steam system fabrication and erection contracts, higher levels of nuclear service business, and improvement in defense-related business contributed to overall operating results.

It is expected that the annual growth in demand for electrical power in the United States will be limited to about 3 percent, and prospects for new utility generating capacity are insufficient to ensure profitable utilization of existing manufacturing facilities. As a result, we have closed the Brunswick, Georgia, and Canton, Ohio, plants and have implemented plans to close two additional facilities at Apollo, Pennsylvania, and Wilmington, North Carolina. This downsizing better positions the company to cost-effectively and aggressively meet the future demands of the American utility, industrial, and refuse boiler markets, and efficiently support current and projected business in connection with the maintenance and upgrading of existing power generation facilities.

Power Generation holds a position of leadership in providing maintenance and engineering services designed to improve the efficiency and reliability of customer units. They also provide our customers with extensive planning capabilities, technical support, training, replacement parts, and assist in the management of planned outage maintenance. The B&W Construction Company has an outstanding record in the area of field repair and plant improvement.

We continue to sharpen our focus on growth opportunities in this important sector of the power market and will continue to remain responsive to increased capacity needs on the part of both utility and industrial customers, as the demand for power increases.

Other equipment lines have also felt the effects of generally depressed conditions in power markets. However, Bailey Controls Company increased its international visibility and continues to build acceptance of its Network 90® microprocessor-based, distributed-control system in the processing industry. Hudson Products, a leading worldwide supplier of air-cooled heat exchangers, maintained a strong position in its markets, as did Diamond Power Specialty Company, the world's largest manufacturer of boiler cleaning equipment.

Engineered Materials

The deep and prolonged economic recession, as well as the oversupply of deliverable natural gas, contributed to the sharply reduced operating results of this segment, which was a major source of company revenues and operating income in fiscal 1982. Revenues declined 57 percent to $437 million and operating income decreased 99 percent to $2 million.

Revenues from petroleum production tubing, mechanical tubing, and other tubing and insulating products declined 72 percent, 59 percent, and 32 percent, respectively. The reduction in operating income resulted from decreased revenues, competitive pricing pressures arising out of very depressed market conditions, and higher unit costs at lower production levels. As the economy gains strength, the demand for certain product lines should improve, but it is unlikely that such improvement will materially affect near-term results because of the relatively low level of industry capacity utilization.

In an effort to align capacity with market demand, our Milwaukee, Wisconsin, plant has been temporarily closed; the company's fittings and forgings operation, which did not meet long-term strategic goals, was sold; and work forces at the remaining operating facilities have been reduced by approximately 57 percent. At the same time, we are proceeding with plans to improve cost effectiveness and enhance quality control through installation of a continuous caster at the Pennsylvania steel-making facility, which will make us more competitive with imports.

Outlook

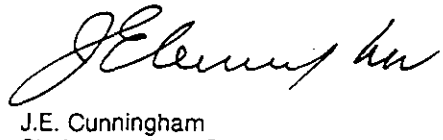
Fiscal 1983 has been a year of repositioning operations, rethinking long-term strategies and goals, and reorganizing the corporation to meet the challenges of tomorrow.

We entered fiscal 1984 with financial strength, operating capacity consistent with market conditions, and much improved operating and financial flexibility. While oil and natural gas prices now reflect a measure of stability and the economic recession appears to be moderating, conditions in all of the company's markets will remain competitive.

One ingredient necessary for the eventual recovery of the company's product lines is a stable economic environment in the United States. This stability can only be achieved through the pursuit of responsible monetary and fiscal policies. In particular, the United States Federal Reserve System must increase the money supply at a moderate and steady rate, while the U.S. Government must initiate efforts to slowly reduce the federal deficit as the emerging recovery becomes more widespread. These two policies will lead to a further reduction in inflation, which in turn should reduce interest rates, and encourage business investment.

The level of business investment is an important determinant of future McDermott sales. This company and the free world must have business conditions that encourage the energy industry and the entire private sector to allocate funds for new productive facilities. This investment, however, will only take place with the correct incentives. Therefore, it would be a mistake for the U.S. Government to reduce its budget deficit by raising income taxes, which reduce industry profits and consumer purchasing power. What is required instead is a more moderate level of U.S. Government spending accompanied by a tax system that encourages savings and investment. If additional taxes are necessary to reduce the federal deficit, they should take the form of a consumption tax instead of an income tax.

Once the proper incentives are put in place they, in consort with a stable economic climate, will enable McDermott, the energy industry, and the overall economy to benefit, and we as a company will become more competitive in the international marketplace.



J.E. Cunningham
Chairman of the Board and
Chief Executive Officer

Marine Construction Services

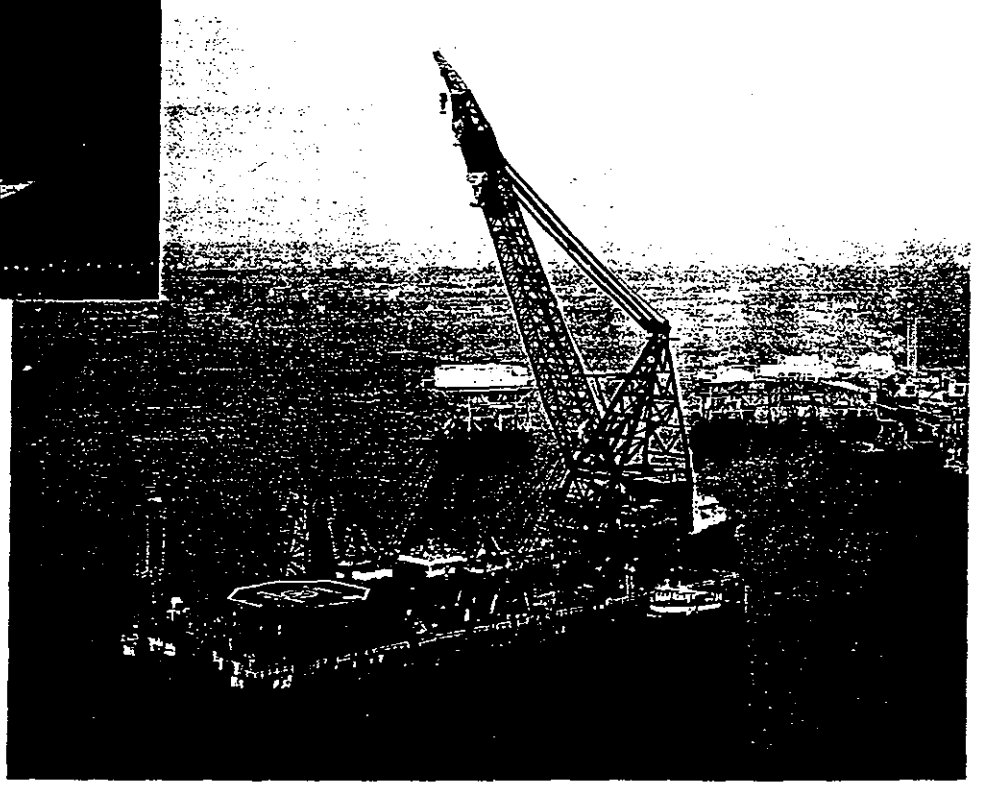
Marine Construction Services has fabricated and installed more fixed offshore platforms and laid more miles of underwater pipeline than any other company in the world. We have a fabrication yard near each major offshore oil-producing area; maintain the largest fleet of marine construction vessels in the world; and have broader engineering experience than other offshore contractors. Nor is Marine Construction's expertise concerned strictly with offshore projects. We design processing plants; operate three shipyards that build and repair tugs, supply boats, barges, and other vessels; and engineer and build facilities for oil and gas production in marsh and shoreline areas. McDermott's Marine Construction Services is universally recognized for its ability to handle major projects or everyday ones with imagination and efficiency.

For Fiscal Years Ended March 31,

	1983	1982
	(In thousands of dollars)	
Revenues:	**$ 1,605,194**	$ 1,907,820
Operating Income:	**124,995**	72,231



Left: McDermott leads the industry in the design, fabrication, and installation of deepwater offshore structures.
Below: DB 27, *a combination derrick- and pipelaying-barge, was recently refurbished and upgraded to a 2,400-ton lift capacity. It is part of McDermott's marine construction fleet, the world's largest.*

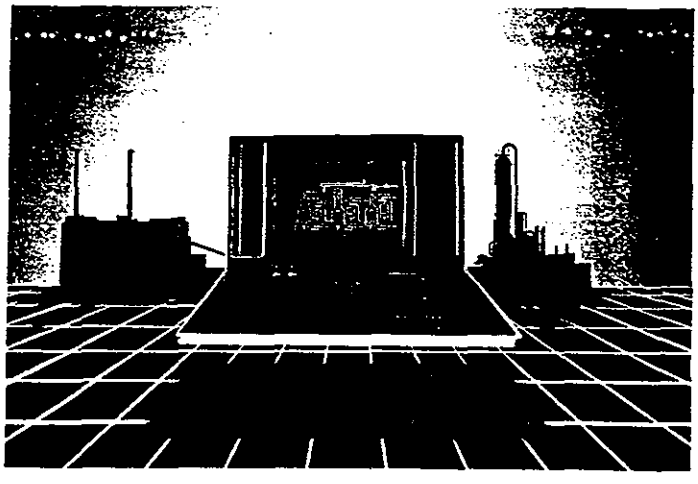


Power Generation Systems and Equipment

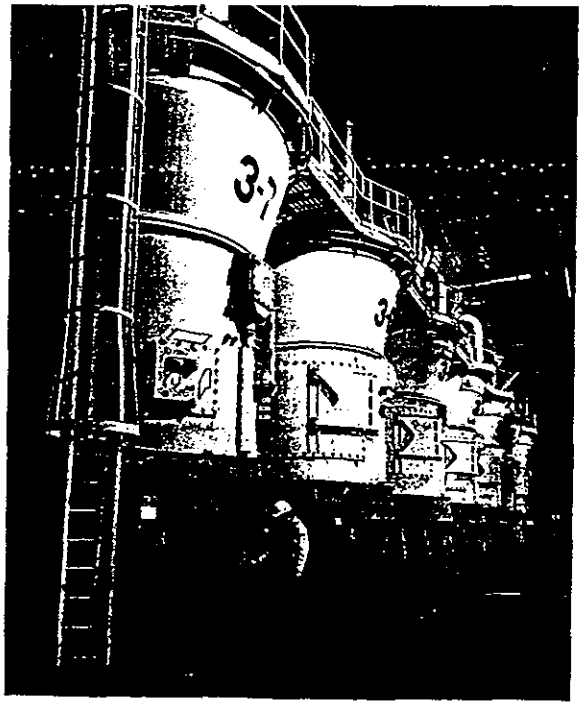
Owing to changes in the needs of our customers, Power Generation has stressed customer services designed to help equipment operate at peak efficiency. We continue to offer a complete line of products and services, including engineering, manufacture, and erection of fossil-fueled and nuclear steam systems used in power generation and in industrial and municipal waste-to-energy processes. Customer services include task and project management, maintenance, operator training, testing and inspection, replacement parts, and engineered modifications to steam systems for electric utility, industrial, and marine applications. We design and build air heaters, fans, precipitators, cleaning equipment, computer controls, and reflective metallic insulation. The company's construction unit erects, repairs, and alters power generation systems and equipment. At present, Power Generation is seeking to utilize the expertise and broad-based international facilities of Marine Construction to integrate and expand our presence in countries where electricity demand is growing. Our military and defense business, which includes building components for the nuclear navy, is strong and continues to grow.

For Fiscal Years Ended March 31,

	1983	1982
	(In thousands of dollars)	
Revenues:	**$ 1,738,747**	$ 2,019,018
Operating Income:	**126,152**	115,660



The Bailey Controls Network 90® microprocessor-based distributed control system, marketed to the process and utility industries, received the 1982 Vaaler Honors Award for outstanding developments in the chemical processing field.





Above: A rapid sleeving system, developed by B&W for Rochester Gas & Electric, combines robotics and a new repair technique to extend the life of nuclear steam generator tubes for utility customers.
Left: These B&W MPS coal pulverizers are setting high marks for performance and reliability at Detroit Edison's Monroe Station.

Engineered Materials

Highly specialized products for severe applications are the province of our Engineered Materials divisions, which include Tubular and Insulating Products. Tubular Products produces stainless, alloy, and carbon steel for use in seamless and welded tubes and pipe, tubular solid shapes, and extrusions. Applications include deep high-pressure oil and gas wells, power generation, rail transportation, automotive and farm equipment, and metal-working industries. Insulating products include kaolin clays, engineered and vacuum-formed ceramic fibers, insulating and specialty firebrick, plastics, mortars, castables, and special oxide refractories.

For Fiscal Years Ended March 31,

	1983	1982
	(In thousands of dollars)	
Revenues:	$ 437,179	$ 1,017,215
Operating Income:	2,009	294,706



Left: Piercing of tubing hollows at B&W's Ambridge, Pa., hot mill, one of the most modern and productive of its type in the U.S.
***Below:** B&W's Kaowool® ceramic fiber module installed in a forge furnace reduced the customer's fuel consumption by more than 11 percent.*



Directors & Management

Officer-Directors

J.E. Cunningham[2]
Chairman of the Board and Chief Executive Officer

Robert E. Howson
President and Chief Operating Officer, McDermott Marine Construction

John A. Lynott
Executive Vice President, Chief Financial and Administrative Officer

Walter M. Vannoy
President and Chief Operating Officer, Babcock & Wilcox

Directors

James L. Dutt[1]
Chairman of the Board and Chief Executive Officer, Beatrice Foods Company producer of food, chemical, and manufactured products

C.L. Graves
Former Chairman of the Board and Chief Executive Officer of the Company

James A. Hunt[1,2,3,4]
Partner—Kalb, Voorhis & Co. securities brokers

John A. Morgan[1,2,3]
Partner Morgan Lewis Githens & Ahn investment bankers

John D. Ritchie[2,3]
Consultant and Director of various corporations

William T. Seawell[2,3,4]
Retired Chairman of the Board and Chief Executive Officer, Pan American World Airways, Inc. - commercial air transportation

Walter B. Shaw[1,4]
Chairman of the Board, Chief Executive Officer and President, Turner Construction Company - general construction contractors

Walter O. Spencer[3]
Former Dean, Graduate School of Business Administration, Tulane University

John B. Tweedy[1,4]
Former Executive Vice President and Director, Tosco Corporation - oil refining and marketing

Russell L. Wagner[1,2,3]
Retired Chairman of the Board and Chief Executive Officer, NLT Corporation - insurance holding company

[1] *Audit Committee*
[2] *Directors Nominating Committee*
[3] *Officers Salary and Supplemental Compensation Committee*
[4] *Career Executive Stock Plan Committee*

Staff Organization

R.C. Bassett
Vice President, Materials & Transportation

K.J. Gilly
Vice President and General Counsel and Corporate Secretary

C.F. Kraus
Vice President, Tax Administration

E.A. Robidoux
Vice President and Controller

R.A. Jolliff
Treasurer

N.E. Mezey
President, McDermott International Investments Co., Inc.

J. Tusa
Vice President, Information Services

A. Salem
Vice President, Planning & Development

G.A. Stoddart
Vice President, Financial Relations

R.E. Woolbert
Vice President, Employee and Public Relations

G.F. Ellis
Vice President, Government Operations

Operating Organization

McDermott Marine Construction

W.E. Earles
Senior Vice President and Group Executive, North and South America Operations

V.J. LeBlanc
Vice President and General Manager, Shipyard Operations

F.J. San Miguel
Vice President, Morgan City and Gulfport Shipyards

R.D. Miller
Vice President and General Manager, Domestic Offshore and Fabrication Operations

R.V. Joffrion
Vice President, Offshore Operations

H.R. Reeves
Senior Vice President and Group Executive, North Sea and West Africa Operations

M.H. Lam
Vice President and General Manager, European & Marine Operations

B.J. McDonald
Vice President, McDermott Scotland

L.E. Walker
Vice President and General Manager, West Africa Operations

W.L. Higgins
Vice President and General Manager, Middle East Operations

R.J. Machen
Vice President and General Manager, Southeast Asia Operations

A.H. Cortese
Vice President, Southeast Asia Operations

E.J. Dressel
Vice President, General Estimating and Project Management

J.W. McCarte
Vice President and General Sales Manager

R.P. Stagg
Vice President and Chief Engineer, Marine Engineering

R.E. Curtis
Vice President, Singapore Engineering

W.H. Fraser
Vice President, London Engineering

S.P. Victory
Vice President, Houston Engineering

Babcock & Wilcox

D.R. Brown
Senior Vice President and Group Executive, Industrial Products & Services

J.S. Dziewisz,
President, TLT-Babcock, Inc.

J.B. Given
Vice President and General Manager, Insulating Products Division

M.A. Keyes
President, Bailey Controls Company

J.A. Pittman
Vice President and General Manager, Hudson Products Corporation

R.C. Scamehorn
President, Diamond Power Specialty Company

T.M. Krebs
Senior Vice President and Group Executive, Tubular Products

R.C. Angell
Vice President and General Sales Manager, Tubular Products

J.E. McCann
Vice President and General Manufacturing Manager, Tubular Products

J.H. MacMillan
Senior Vice President and Group Executive, Advanced Technology

J.F. Ewing
Vice President, Quality & Technology

E.S. Gaffney
Vice President and General Manager, Nuclear Equipment Division

W. Markert, Jr.
Vice President, Research & Development and Contract Research Divisions

E.C. Moncrief
Senior Vice President and Group Executive, Power Generation

C.J. Baroch
Vice President and General Manager, Advanced Energy and Environmental Systems Division

D.E. Gulbert
Vice President and General Manager, Utility Power Generation Division

J.W. Thompson
Vice President, Customer Service

E.A. Womack
Vice President, Utility Sales & Marketing

J.R. Hill
Vice President and General Manager, Manufacturing Division

E.O. Hooker
Vice President and General Manager, Industrial Power Generation Division

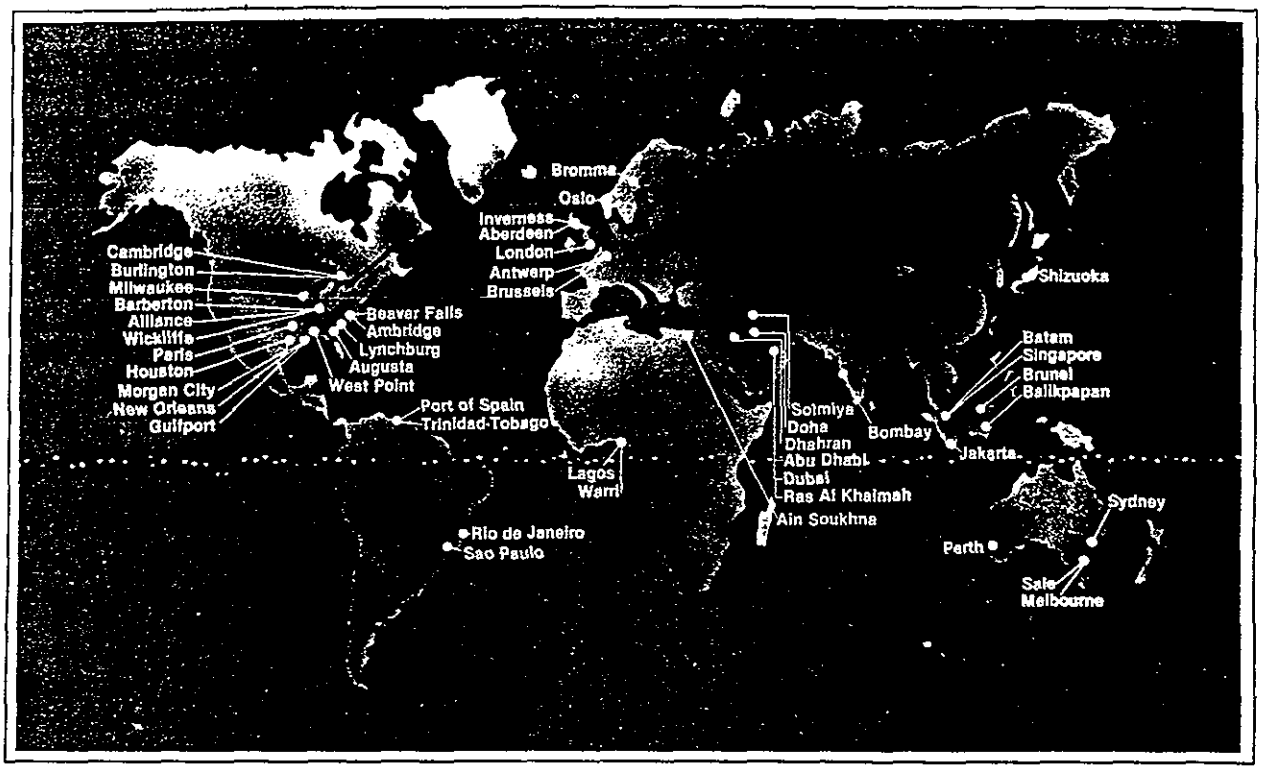
J.J. Stewart
Vice President and General Manager, Babcock & Wilcox International

W.D. Wick
Vice President and General Manager, B&W Construction Company

J.P. Eckert
Vice President and General Manager, Naval Nuclear Fuel Division

D.E. Heyburn
Vice President, Marketing and Customer Service

Principal Locations



CORPORATE HEADQUARTERS
New Orleans, Louisiana

Marine Construction Services

- Equipment and Materials
  New Orleans, Louisiana
- McDermott Marine Engineering
  Houston, Texas
  New Orleans/Lafayette, Louisiana
  London, England
  Singapore
  Oslo, Norway
- McDermott Shipyards
  Morgan City/New Iberia, Louisiana
  Gulfport, Mississippi
- McDermott Structural
  McDermott Fabricators Division
  Morgan City, Louisiana
  McDermott Offshore Division
  Marine Pipeline Division
  McDermott Divers Dept.
  Morgan City, Louisiana
- Central and South America
  Rio de Janeiro, Brazil
  Port of Spain, Trinidad-Tobago
- Middle East
  Ain Soukhna/Cairo, Egypt
  Bombay, India
  Solmiya, Kuwait
  Doha, Qatar
  Dhahran, Saudi Arabia
  Abu Dhabi/Dubai/Ras Al Khaimah, United Arab Emirates
  Beirut, Lebanon
- North Sea
  Antwerp/Brussels, Belgium
  London, England
  Sandvika/Stavanger/Haugesund, Norway
  Aberdeen/Inverness, Scotland
- Southeast Asia
  Melbourne, Australia
  Kuala Belait, Brunei
  Balikpapan/Batam Island/Jakarta, Indonesia
  Kuala Lumpur, Malaysia
  Miri/Sarawak, East Malaysia
  Philippines
  Singapore
- West Africa
  Lagos/Warri, Nigeria

Power Generation Systems and Equipment

- Advanced Energy and Environmental Systems Division
  Barberton, Ohio
- Babcock & Wilcox International
  Cambridge, Ontario, Canada
- B&W Construction Company
  Copley, Ohio
- Bailey Controls Company
  Wickliffe, Ohio
  Williamsport, Pennsylvania
  Burlington, Ontario, Canada
  Regents Park, New South Wales, Australia
  Sao Paulo, Brazil
  Shizuoka, Japan
- Contract Research Division
  Alliance, Ohio
- Diamond Power Specialty Company
  Lancaster, Ohio
  Burlington, Ontario, Canada
  Bromma, Sweden
  Dumbarton, Scotland
- Hudson Products Corporation
  Beasley/Houston, Texas
- Industrial Power Generation Division
  North Canton, Ohio
- Manufacturing Division
  Barberton, Ohio
  Paris, Texas
  West Point, Mississippi
- Naval Nuclear Fuel Division
  Lynchburg, Virginia
- Nuclear Equipment Division
  Barberton, Ohio
- Research & Development Division
  Alliance, Ohio
  Lynchburg, Virginia
- TLT-Babcock, Inc.
  Akron/Medina, Ohio
- Utility Power Generation Division
  Lynchburg, Virginia

Engineered Materials

- Insulating Products Division
  Augusta/Hephzibah, Georgia
  Burlington, Ontario, Canada
  Ponce, Puerto Rico
  Rio de Janeiro, Brazil
- Tubular Products
  Alliance, Ohio
  Ambridge/Beaver Falls, Pennsylvania
  Milwaukee, Wisconsin
  Bryan, Texas

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 March 31, 1983 — Commission File number 1-8430

McDermott International, *inc.*

(Exact name of Registrant as specified in its Charter)

Republic of Panama (State or other Jurisdiction of Incorporation or Organization)	**72-0593134 (I.R.S. Employer Identification No.)**
1010 Common Street, New Orleans, Louisiana (Address of Principal Executive Offices)	**70112 (Zip Code)**

Registrant's Telephone Number, including area code 504/587-5400

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock $1 Par Value	New York Stock Exchange
Warrants to purchase Common Stock $1 Par Value	New York Stock Exchange

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

None

(Title of Class)

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, and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

The aggregate market value of voting stock held by nonaffiliates of the registrant is $736,046,494 as of May 20, 1983.

The number of shares outstanding of the Company's common stock at May 20, 1983 was 36,962,816.

The Proxy Statement for the 1983 Annual Meeting of Shareholders is incorporated by reference into Part III of this report.

McDERMOTT INTERNATIONAL, INC.

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PART I

Items 1. and 2. BUSINESS AND PROPERTIES

A. GENERAL

McDermott International, Inc. ("International") was incorporated as a wholly-owned subsidiary of McDermott Incorporated (the "Delaware Company") under the laws of the Republic of Panama in 1959.

During the fiscal year ended March 31, 1983, the McDermott group was reorganized into an internationally based organization in which International became the parent company whose common shares are publicly held and the Delaware Company became a subsidiary of International with its only publicly held shares being shares of Series A Convertible Preferred Stock and Series B Preferred Stock.

Unless the context otherwise requires, hereinafter "International" will be used to mean McDermott International, Inc., a Panama corporation; the "Delaware Company" will be used to mean McDermott Incorporated, a Delaware corporation; and "McDermott International" will be used to mean the consolidated enterprise.

McDermott International operates in three business segments: Marine Construction Services to the oil and gas industry on a worldwide basis for offshore development drilling and for production and transportation of oil and gas; Power Generation Systems and Equipment principally to the electric utility industry and the United States Government; and Engineered Materials, consisting of metal tubular products for mechanical and pressure applications in a variety of industries including the petroleum and petrochemical industries, and insulating products for a variety of industries. These last two segments are provided primarily through a subsidiary of the Delaware Company, The Babcock & Wilcox Company ("B&W"), which was acquired in 1978.

McDermott International has a continuing program of reviewing acquisition opportunities.

The following tables show revenues, operating income and their respective percentage contributions for the business segments of McDermott International for the three years ended March 31, 1983. See Note 9 of notes to consolidated financial statements for additional information with respect to McDermott International's business segments and foreign and domestic geographic operations.

REVENUES AND PERCENT OF REVENUES

(Dollars in Millions)

	For Fiscal Years Ended March 31,					
	1983		1982		1981	
Marine Construction Services	$ 1,605.2	43%	$ 1,907.8	39%	$ 1,417.2	37%
Power Generation Systems and Equipment	1,738.7	47%	2,019.0	42%	1,832.5	48%
Engineered Materials	437.2	12%	1,017.2	21%	706.9	18%
Intersegment Transfer Eliminations	(73.3)	(2%)	(100.8)	(2%)	(116.9)	(3%)
Total	$ 3,707.8	100%	$ 4,843.2	100%	$ 3,839.7	100%

OPERATING INCOME[1] AND PERCENT OF OPERATING INCOME

(Dollars in Millions)

	For Fiscal Years Ended March 31,					
	1983		1982		1981	
Marine Construction Services	$ 125.0	49%	$ 72.2	15%	$ 5.2	2%
Power Generation Systems and Equipment	126.2	50%	115.7	24%	126.8	56%
Engineered Materials	2.0	1%	294.7	61%	97.4	42%
Total	$ 253.2	100%	$ 482.6	100%	$ 229.4	100%

(1) Reconciling items between Operating Income and Income before Provision for Income Taxes, Minority Interest and Extraordinary Item are General Corporate Expenses and Other Income (Expense).

B. MARINE CONSTRUCTION SERVICES

General

The marine construction services segment consists of the design, construction and installation of specialized offshore fixed platforms and marine pipelines used for development drilling, production and transportation of oil and gas. Marine construction services also includes engineering and construction services for oil production in shoreline and marshland areas (principally in Louisiana and Texas); operation of three shipyards in the Southeastern United States for the construction, repair and maintenance of tugboats, barges and other small vessels; and the engineering and construction of processing plants for the oil, gas and petrochemical and mineral industries, primarily for offshore installation.

Fixed platforms, which are fastened to the seafloor by pilings driven through their structural legs, have been installed by McDermott International in water depths of more than 1,000 feet. These platforms have been engineered to withstand increasingly greater weights and stresses as the search for oil and gas has expanded into deeper water and into areas subject to severe weather conditions.

McDermott International, a world leader in the fabrication of offshore structures, has a principal fabrication yard located on approximately 1,535 acres of leased land near Morgan City, Louisiana. This segment also operates fabrication yards on leased property in South East Asia at Singapore, and on Batam Island, Indonesia; in the Middle East at Dubai, United Arab Emirates and Ain Soukhna, Egypt; in West Africa at Warri, Nigeria; and on its own property near Inverness, Scotland. The equipment used at these yards, which is capable of fabricating a full range of offshore structures, consists principally of cranes, welding equipment, machine tools and other fabrication equipment, most of which is movable. This segment also operates shipyards in Morgan City and New Iberia, Louisiana; and Gulfport, Mississippi.

Expiration dates, including renewal options, of leases covering land for fabrication yards are as follows:

Morgan City, Louisiana	Years 2001-2024
Warri, Nigeria	Year 2065
Singapore	Year 2000
Batam Island, Indonesia	Year 2008
Dubai, U. A. E.	Monthly
Ain Soukhna, Egypt	Year 2001

Underwater pipelaying operations conducted by this segment have also required the development of new techniques and equipment as water depths have increased. McDermott International has the capability of installing pipelines with an outside diameter (including concrete coating) of up to 72 inches. The Marine Pipeline Division has installed one of the world's deepest marine pipelines from a platform that stands in over 1,000 feet of water in the Gulf of Mexico.

In connection with its construction and pipelaying activities, this segment conducts extensive diving operations which, because of the water depths involved, require sophisticated equipment, including diving bells and an underwater habitat.

This segment operates one of the largest fleets of marine equipment used in offshore construction. The nucleus of a "construction spread" is a large derrick barge, pipelaying barge or combination derrick-pipelaying barge capable of offshore operations for an extended period of time in remote locations. The lifting capacities of the derrick and combination derrick-pipelaying barges range from 250 tons to 2,000 tons. Fourteen (14) of this segment's barges have lifting capacities of 500 tons or more. The barges, which range in length from 240 feet to 554 feet, are fully equipped with revolving cranes, auxiliary cranes, welding equipment, pile driving hammers, anchor winches and a variety of additional gear. The largest of the existing vessels provides quarters for approximately 550 workers.

This segment owns and operates 10 derrick barges, 9 pipelaying barges, 10 combination derrick-pipelaying barges and 4 pipeburying barges. These include three semisubmersible vessels presently assigned to the North Sea, of which two are derrick barges each capable of lifting 2,000 tons, one of which is self-propelled. The other semisubmersible vessel is a lay barge capable of laying 72 inch diameter pipe in water depths up to 2,000 feet. McDermott International also owns or leases a substantial number of other vessels such as tugs, utility boats and cargo barges to support the major marine vessels. Major spreads of equipment are in the Gulf of Mexico, the Middle East, South East Asia, the North Sea, West Africa, and South America.

McDermott International owns a 49% interest in a Mexican Joint Venture that operates 3 self-propelled combination barges. Two of these barges are capable of lifting 2,000 tons.

This segment's Shipyard Group supplies complete maintenance and construction facilities and is a builder of large tugs, packaged rigs, dredges, oceanographic research and ocean-going work vessels.

Foreign Operations

The amounts of marine construction's revenues and operating income derived from operations outside of the United States ("Foreign"), and approximate percentages of those revenues to McDermott International's total revenues and operating income were as follows:

	REVENUES		OPERATING INCOME (LOSS)	
Fiscal Year	Amount	Percent	Amount	Percent
	(In thousands of dollars)			
1983	$ 1,152,131	31	$ 98,364	39
1982	1,240,930	26	(12,158)	—
1981	785,340	20	(45,130)	—

The favorable trend in operating income is the result of cost reductions and more favorable gross margins on certain recent contracts. Additionally, provisions for losses on certain large contracts were substantially less in fiscal 1983 than in fiscal 1982 and fiscal 1981. Although profitable in fiscal 1983, operating results continued to be depressed as a result of continued competitive pressures brought on by the lower demand for oil and uncertainties concerning oil prices.

Raw Materials

The raw materials used by this segment in its marine construction services, such as carbon and alloy steel in various forms, welding gases, concrete, fuel oil and gasoline, are available from many sources and this segment is not dependent upon any single supplier or source. Although shortages in certain raw materials and fuels required to be purchased by this segment have existed from time to time, no serious shortage exists at the present time.

Customers and Competition

This segment's principal customers are the larger oil and gas companies and foreign governments. Customers generally contract with this segment for the design, construction and installation of specific platforms, pumping stations, marine pipelines, and production networks. Contracts are usually awarded on a competitive bid basis.

McDermott International's main competitor in offshore construction has operations comparable in size to those of McDermott International but is a subsidiary of a company that also provides other services to the oil and gas industry. A number of small companies also compete effectively with McDermott International in various parts of the world, but none has the geographical distribution or the range of capabilities of McDermott International and its main competitor.

Backlog

As of March 31, 1983 and 1982 the marine construction services backlog amounted to $777,604,000 and $1,396,000,000 respectively, a decrease of approximately 44%. Of the March 31, 1983 backlog, $711,148,000 is expected to be recognized in fiscal 1984, and $66,456,000 in fiscal 1985-1987. Included therein are two contracts with a foreign government oil company totalling approximately 24% of this segment's backlog. Work is performed on a fixed price, cost plus or day rate basis. Almost all contracts call for progress payments and McDermott International attempts to cover increased costs of anticipated changes in general labor rates and material costs on long-term contracts, either through an estimation of such changes, which is reflected in the original fixed price, or through price escalation clauses. This segment's contracts for work in foreign areas generally provide for payment in United States dollars, with exceptions for payments in foreign currencies in amounts approximately equal to expenses to be incurred by this segment in those currencies.

Factors Affecting Demand

Marine construction activity has traditionally been a cyclical industry depending mainly on the capital expenditure outlay of major oil and gas companies and foreign governments for developmental construction. These expenditures are influenced by the sale and expiration dates of offshore leases in the United States and abroad, the discovery rates of new oil and gas reserves in offshore areas, local and international political and economic conditions, the price of oil, and the ability of the oil and gas industry to generate capital.

Oil prices have a strong effect on exploration and production which ultimately affects the demand for marine construction activity. The oil surplus which the world has been experiencing has a depressing impact on oil prices, and until demand meets production, the pressure for lower oil prices will remain. McDermott International expects over the long term an end to the current oil surplus, and more stable prices resulting in an improved level of demand for its marine construction services.

C. POWER GENERATION SYSTEMS AND EQUIPMENT

General

The power generation systems and equipment segment, which business is primarily performed through B&W, includes individually engineered complete fossil fuel boilers, nuclear steam systems, and nuclear fuel and nuclear fuel assemblies for the electric utility industry, as well as fossil fuel boilers for industrial processes and power generation. Power generation systems and equipment also includes replacement parts, customer services and engineered modifications of existing fossil and nuclear steam systems, and specially engineered accessories and components, such as air heaters and precipitators; cleaning systems for heat transfer surfaces, nuclear reactor components, control and performance computers, and automatic controls and instruments and nuclear control rod drives. In addition, it includes process recovery boilers and pollution control systems for the process and utility industries, heavy pressure vessels and air and water-cooled heat exchangers, hollow forgings for steam piping and other uses and reflective metallic thermal insulation. This segment also includes nuclear reactor and fuel components and other components for the Department of Energy and the Department of Defense. B&W, through a separate construction unit, is engaged in the erection of utility plants and industrial facilities and the repair and alteration of such existing equipment.

In regard to commercial nuclear power generation, utilities have delayed certain construction programs and in many cases have cancelled orders for nuclear steam generating systems. As a consequence, customer services and fuel assemblies for refueling existing nuclear reactors have become the major part of this segment's commercial nuclear activity. In fiscal 1983, 1982 and 1981, total commercial nuclear revenues were approximately 6% of McDermott International's total revenues for each of the three years. Commercial nuclear activity was profitable in all three years and benefited significantly from termination claims on the cancellation of nuclear steam system contracts and the related sales of surplus uranium. Commercial nuclear steam systems have become a less significant portion of this segment's business over this period of time and represents less than 1% of segment revenues in fiscal 1983. No contracts for nuclear steam systems have been awarded in several years.

Sales to the United States Government primarily related to the Navy's nuclear shipbuilding operations have become an increasing part of this segment's business. Revenues related to U.S. Goverment activity in fiscal 1983, 1982 and 1981 were approximately 9%, 6%, and 6%, respectively, of McDermott International's total revenues. This activity was profitable in fiscal 1983 and fiscal 1982 but sustained a loss in fiscal 1981 primarily due to cost increases on two major programs that could not be recovered.

The principal plants of B&W manufacturing power generation systems and equipment are situated at Barberton, Lancaster and Wickliffe, Ohio; Lynchburg, Virginia; Paris, Texas; West Point, Mississippi; and Cambridge, Ontario. These plants and properties are owned by B&W and are well maintained, have suitable equipment and are of adequate size. The low level of orders for power generation systems and equipment, coupled with delays and suspensions of certain contracts in backlog, have caused B&W to review its capacity requirements and to close or commence the closing of certain of its facilities, other than those listed above. Provisions have been made in the accounts for these closings.

Raw Materials

The principal raw materials used by B&W to construct power generation systems and equipment consist of carbon and alloy steels in various forms, such as plate, structurals, bars, sheet, strip, heavy wall pipe and tubes. Significant amounts of components are also purchased for assembly into the equipment. These raw materials and components generally are purchased by B&W as needed for individual contracts except that requirements for tubes are supplied mainly from within B&W. Significant amounts of natural gas are used in the manufacture of power generation systems and equipment.

The principal raw materials used by B&W in the manufacture of nuclear fuel components and assemblies consist of uranium (customer furnished), zircalloy and nickel.

Although shortages in certain raw materials and fuels required to be purchased by B&W have existed from time to time, no serious shortage exists at the present time.

Customers and Competition

The principal customers of this business segment are the electric utility industry (including government-owned utilities), the United States Government, and the pulp and paper, chemical, and other process industries. The electric utility industry (including government-owned utilities) accounted for 27%, 25% and 30% of McDermott International's total revenues for fiscal years 1983, 1982 and 1981, respectively. The U.S. Government accounted for 9%, 6% and 6% of McDermott International's total revenues for the same periods, respectively.

Power generation systems and equipment orders are customarily awarded in response to competitive bids submitted pursuant to proposals based on the estimated cost of each job. Domestically, a relatively small number of companies specializing in large steam generating equipment compete with B&W in the fossil fuel steam system field. In international markets, these companies plus several foreign based companies compete with B&W. In the sale of nuclear steam systems, B&W competes with a small number of companies including two major manufacturers whose reported sales of these systems significantly exceed those of B&W, but which do not compete with it in the sale of fossil fuel boilers. In the sale of nuclear fuel, B&W competes with each of the other manufacturers of nuclear steam systems, as well as with one petroleum company which is a supplier of nuclear fuel. A number of companies are in competition with B&W in small industrial boilers. Other suppliers of fossil and nuclear fuel steam systems, as well as many other businesses, in the case of fossil fuel systems, compete for repair and alterations and other services required for backfitting and maintaining existing systems.

Backlog

In fiscal 1983, McDermott International adopted the practice of stating all orders in backlog at the value expected to be reported as revenues including all appropriate contract escalation. Prior to this change, escalation was not included in backlog on certain major long lead orders until revenue recognition began. If in management's judgment it becomes doubtful whether contracts will proceed, the backlog is adjusted accordingly. Backlog, as of March 31, 1983, was $3,534,000,000. Adjusted backlog at March 31, 1982, was $4,133,000,000. Of the March 31, 1983 backlog, it is expected that approximately $1,050,000,000 will be recorded in revenues in fiscal 1984, $1,665,000,000 in fiscal 1985-1987, and $820,000,000 thereafter.

The reduced electric demand growth, excess generating capacity, environmental restraints and financial pressures on the utility industry have resulted in continued delays, suspensions and cancellations of steam systems and environmental control systems. In fiscal 1983 two environmental control system contracts were cancelled. At March 31, 1983 delayed and suspended utility boiler and environmental control system contracts included in the backlog constituted 14% of McDermott International's total backlog. B&W, at the present time, believes that these fossil fuel utility boiler and environmental control system contracts will proceed after the period of delay or suspension. If contracts are delayed, suspended or cancelled, B&W is entitled to a financial settlement related to the individual circumstances of the contract. B&W's backlog related to commercial nuclear activity, at March 31, 1983, primarily nuclear fuel assemblies, constituted 13% of McDermott International's total backlog. This segment's backlog with the U.S. Government primarily for the Navy's nuclear shipbuilding operations, was approximately 25% of McDermott International's total backlog at March 31, 1983.

B&W attempts to cover increased costs of anticipated changes in labor, material and service costs of long-term contracts either through an estimation of such changes which is reflected in the original price or through price escalation clauses. Most utility proposals and new contracts contain escalation clauses. Most long-term contracts have provisions for progress payments.

Factors Affecting Demand

New orders by the U. S. electric utility industry have been at extremely low levels for the past several years because of the decline in electric demand growth and resultant increased reserve margins, primarily due to cost induced conservation and the slowdown in the U.S. economy. Accordingly, B&W has increased its efforts to obtain orders outside the United States. As orders for new power generating systems and equipment have decreased, backfitting of existing systems requiring replacement parts, repair and alterations, and other services have become a more important part of this segment's business.

D. ENGINEERED MATERIALS

General

Engineered materials consists of tubular and insulating products designed and manufactured by B&W.

Tubular products include stainless, alloy and carbon steel, seamless and welded tubes and tubular and solid shapes, extrusions, special metal tubes and seamless rolled rings. These are principally "specialty" products of high quality and engineered for special mechanical and pressure tubing applications, including high quality tubing for petroleum production operations.

Insulating products include kaolin clays, specially engineered and vacuum formed ceramic fibers, insulating and specialty firebrick, fire protection insulation, plastics, mortars, castables and special oxide refractories. These insulating products are used in high temperature furnaces for various heating and heat treating purposes and in other applications where the temperatures and rates of combustion or chemical reactions are unusually demanding.

B&W's principal plants manufacturing tubular products are located at Beaver Falls and Ambridge, Pennsylvania; Alliance, Ohio; Milwaukee, Wisconsin; and Bryan, Texas. B&W is installing a continuous caster at its Beaver Falls facility. B&W manufactures insulating products principally at Augusta, Georgia and Burlington, Ontario and mines kaolin clay at Hepzibah, Georgia. All of these plants and properties are owned by B&W, are well maintained, have suitable equipment, and are of adequate size. During fiscal 1982 B&W divested its fittings and forgings product line. The cost associated with this divestiture was fully provided for in fiscal 1981. Revenues from this product line were not material in relation to McDermott International's total revenues. In response to reduced demand for mechanical and pressure tubing, B&W has temporarily closed its Milwaukee, Wisconsin plant.

Raw Materials

The principal raw materials used by B&W in the manufacture of tubular products consist of steel, steel scrap, special metals and alloying materials. Most of the steel and special metals used for seamless tubemaking purposes are produced by B&W's own electric furnace facilities, except that B&W purchases its requirements for strip steel in the open market. Most of the steel scrap and all alloying materials utilized in the manufacturing process are also purchased in the open market.

The principal raw material used to produce this segment's insulating products is kaolin clay which it obtains from its own mine. Also used are bauxite, alumina, silicon carbide, gypsum, plaster and wood chips, all of which are purchased on the open market.

Significant amounts of natural gas and oil are used in the manufacture of tubular and insulating products.

Although shortages in certain raw materials and fuels required to be purchased by this B&W segment have existed from time to time, no serious shortage exists at the present time.

Customers and Competition

The principal customers of the tubular products portion of this business segment are the petroleum and petrochemical, bearing, automotive, agricultural and construction machinery, primary metal, fabricated metal, and process and power generation industries. In addition, material quantities of tubes are manufactured by this segment for B&W's own requirements for power generation systems and equipment.

The principal customers of the insulating products portion of this business segment are the iron and steel, chemical process, ceramic and foundry and furnace builders industries.

A number of companies, both domestic and foreign, are in competition with B&W with respect to tubular and insulating products.

Backlog

As of March 31, 1983 the engineered materials backlog was $55,000,000 compared with $187,000,000 as of March 31, 1982.

Factors Affecting Demand

Increases in oil prices prior to fiscal 1982 provided a strong incentive for increased exploration for and production of petroleum products. This led to a significant increase in demand for high quality production tubing for the oil and gas industry in fiscal 1981 and fiscal 1982. However, the recent oil and natural gas surplus and uncertainty relating to oil and, particularly, natural gas prices have caused a significant decrease in demand for oil country production tubing in fiscal 1983. In addition, this segment supplies mechanical tubing to the automotive, bearing, and agricultural and construction machine industries, and purchases of tubular products by these industries fell to severely depressed levels in fiscal 1983. This segment also supplies other pressure tubing to makers of steam generating equipment for use in power plants, refineries, chemical and petrochemical plants and pulp and paper and other process industries. Demand for such tubing is closely tied to capital spending plans of these industries or their ultimate customers, and such spending levels are currently depressed. Insulating products provided by this segment fall into two major categories, high temperature insulations and special performance refractories. Demand for such insulating products comes primarily from the iron and steel, refining and chemical processing, ceramics and utilities industries and is dependent upon capital spending for modernization and expansion, production levels and energy conservation in such industries. Demand associated with capital spending and production levels in such user industries has been declining for the past two fiscal years.

E. PATENTS AND LICENSES

Many U. S. and foreign patents have been issued to McDermott International and it has many pending patent applications. Patents and licenses have been acquired and licenses have been granted to others when advantageous to McDermott International. While McDermott International regards its patents and licenses to be of value, no single patent or license or group of related patents or licenses is believed to be material in relation to its business as a whole.

F. RESEARCH AND DEVELOPMENT ACTIVITIES

McDermott International maintains research and development activities in Alliance, Ohio; Lynchburg, Virginia; and New Orleans, Louisiana; and also conducts development activities at its various manufacturing plants and engineering and design offices. During the fiscal years ended March 31, 1983, 1982 and 1981, approximately $74,000,000, $106,000,000 and $81,300,000, respectively, was spent by McDermott International

on research and development activities, of which approximately $36,400,000, $54,000,000 and $39,000,000, respectively, was paid for by customers of McDermott International. Research and development activities sponsored by McDermott International were related to both development and improvement of new and existing products and equipment, improving operating techniques, and conceptual and engineering evaluation for translation into practical applications. The majority of customer sponsored research activities were related to the development of new products. Approximately 383 employees were engaged full time in this activity.

G. INSURANCE

McDermott International maintains liability and property insurance that it considers normal in the industry. It does not maintain insurance covering certain risks for which insurance is not available or is only available at rates which McDermott International considers uneconomical. Among such risks are war and confiscation in certain areas of the world at certain times, and pollution liability in excess of relatively low limits. Depending on competitive conditions and other factors, McDermott International endeavors to obtain contractual protection against uninsured risks from its customers.

In addition to coverage under nuclear liability and property insurance for its five nuclear facilities, two of these are covered by the limitations of liability and indemnity provisions of the Price-Anderson Act which, among other things, limit the public liability of manufacturers of licensed nuclear facilities and other indemnified parties to an aggregate of $560,000,000 per nuclear incident and indemnify such persons in an aggregate amount which when added to amounts available under commercially available liability insurance policies will total $560,000,000.

McDermott International's insurance policies do not cover liability and property damage losses resulting from nuclear incidents at facilities of its utility customers. To protect against such losses McDermott International has obtained contractual indemnification from such customers and waivers of their insurers' rights of subrogation and generally has been named as an additional insured under its customers' nuclear property insurance policies. In addition, McDermott International's third-party nuclear liability is an insured risk under such customers' nuclear liability policies and the Price-Anderson Act indemnity discussed above.

McDermott International's offshore construction business is subject to the usual risks of operations at sea, with additional exposure due to the utilization of expensive and technical construction equipment under sometimes extreme weather conditions, often in remote areas of the world. In addition, McDermott International operates in many cases on or in proximity to existing offshore facilities which are subject to damage by McDermott International and such damage could result in the escape of oil and gas into the sea.

McDermott International has two wholly-owned insurance subsidiaries. To date, these subsidiaries have written policies concerning general liability, builders' risk within certain limits, marine hull, and workmen's compensation for McDermott International. As of March 31, 1983, the only insurance written for unrelated parties was a participation in a reinsurance contract with a major domestic insurance company.

H. EMPLOYEES

At March 31, 1983, McDermott International employed, under its direct supervision, approximately 44,000 persons compared with 59,000 at March 31, 1982. Approximately 10,000 employees were members of labor unions at March 31, 1983 compared to 15,600 at March 31, 1982. McDermott International considers its relations with its employees to be satisfactory.

I. GOVERNMENT REGULATIONS

McDermott International's compliance with United States Federal, State and local environmental protection regulations necessitated capital expenditures of $357,000 in 1983, and it expects to spend another $8,639,000 over the next five years. However, McDermott International cannot predict all the environmental requirements or circumstances which will exist in the future. The recurring costs of complying with environmental regulations was a charge against income before taxes of approximately $10,165,000 in 1983.

J. INTERCOMPANY AGREEMENT

In connection with the plan of reorganization, International and the Delaware Company entered into a Stock Purchase and Sale Agreement (the "Intercompany Agreement"), pursuant to which the Delaware Company has the right to sell to International and International has the right to buy from the Delaware Company units of stock, each unit consisting of one share of International common stock and one share of International Series A Preferred Stock. If a unit is purchased by International upon the Delaware Company's exercise of its right to sell under the Intercompany Agreement, the purchase price of such unit will be 90% of the then current value of the unit, as defined in the agreement (the "unit value"). If a unit is purchased by International pursuant to an exercise of its right to purchase under the Intercompany Agreement, the purchase price of such unit will be 110% of the unit value. As of December 31, 1982 (the most recent date as of which data is available for the calculation of the unit value under the terms of the Intercompany Agreement) the unit value was $6,103 and the aggregate unit value of the Delaware Company's 100,000 units was $610,268,000.

Item 3. LEGAL PROCEEDINGS AND PROPOSED TAX DEFICIENCY

On December 14, 1978 a United States Federal grand jury in New Orleans, Louisiana indicted the Delaware Company, Brown & Root, Inc. ("Brown & Root") and certain of their officers on charges of conspiring to allocate contracts and to fix prices and contract terms for marine construction projects in violation of Section 1 of the Sherman Act and other U.S. Federal statutes. In 1978 the Delaware Company and Brown & Root each pleaded nolo contendere to the Sherman Act charges and were each fined $1,000,000. In March and April 1979, four officers, including a former chief operating officer, and a former chief executive officer of the Delaware Company (all but one of whom were directors of the Delaware Company) pleaded nolo contendere to the Sherman Act charges and certain related charges of mail fraud and wire fraud. The Delaware Company and Brown & Root (and in some cases, International and certain former officers of the Delaware Company) have been named as defendants in over 65 actions which have been filed in or transferred to the United States District Court for the Eastern District of Louisiana instituted by or on behalf of purchasers of marine construction services in the United States and abroad alleging a combination and conspiracy to restrain or eliminate competition in marine construction in violation of Sections 1 and 2 of the Sherman Act and various state laws through a conspiracy to allocate contracts, fix prices and contract terms and other means. Plaintiffs seek treble damages and other relief for injuries allegedly sustained, in some cases as early as the mid-1950's. The Delaware Company and International have filed answers denying the material allegation of wrongdoing in the complaints and in some cases have filed counterclaims. Discovery is proceeding in these cases and trial dates have not been fixed. Other private parties have received temporary waivers of the statute of limitations, and these parties may assert additional treble damage claims against the Delaware Company and International. Two other actions were recently filed against the Delaware Company, International, and Brown & Root in the United States District Court for the Southern District of Texas by oil company purchasers of marine construction services abroad, alleging similar claims, and these two cases are in the process of being transferred to the Eastern District of Louisiana. The Delaware Company and Brown & Root have entered into settlement agreements with 25 natural gas transmission companies which are plaintiffs in 14 of the purchaser actions. The proposed settlement, which is subject to the approval of the Federal Energy Regulatory Commission, provides for a total payment of approximately $27,500,000, of which the Delaware Company would pay approximately $13,000,000. Since January 1983, the Delaware Company and International have settled an additional 9 actions commenced by oil companies pursuant to which the Delaware Company has paid or agreed to pay approximately $4,000,000. The outcome of the remaining actions, whether or not the settlement with the natural gas transmission companies is approved, could have a material adverse effect on McDermott International.

In June 1981 the Florida Power Corporation, a customer of B&W, filed an action, *Florida Power Corporation v. B&W and McDermott,* in the Middle District of Florida against the Delaware Company and B&W alleging breach of contract, breach of warranties, negligence, strict liability and fraud in the inducement arising out of an incident at the Florida Power Crystal River Unit 3 site. Crystal River Unit 3 is a nuclear reactor facility for which B&W supplied the nuclear steam supply system. During operation in February 1978, a piece of a lump burnable poison rod assembly escaped from the core of the reactor and traveled through the reactor to the interface with the steam generator where damage was done to the top of the steam generator. Florida Power Corporation, not specifying the amount of damages except to allege that such amount exceeds $10,000, seeks damages which are both direct and consequential, including replacement power. The Delaware Company and B&W filed answers denying the material allegations of the complaint and asserting various affirmative defenses, and also filed a third-party demand on the nuclear insurers of Florida Power Corporation. Discovery

in the form of document production has commenced, and it is expected that deposition discovery will commence early in 1983. Management believes that any liability arising from these proceedings will not have a material adverse effect on the consolidated financial statements of McDermott International.

In October 1981 a trustee for a stockholder of the Delaware Company filed an alleged shareholder's derivative action, *Richardson v. Graves, et al.*, in the Court of Chancery of the State of Delaware for New Castle County, against the Delaware Company, its directors (except Messrs. Dutt and Howson), a former director and officer of the Delaware Company and a former officer of the Delaware Company alleging that certain defendants engaged in, and the remaining defendants authorized or acquiesced in, various instances of unlawful conduct which resulted, among other things, in the Delaware Company paying fines or forfeiture of profits of at least $2,000,000 in 1978 and 1979 and being named as a defendant in the pending civil treble damage action arising out of alleged violations of the U.S. Federal antitrust laws. The plaintiff seeks a broad range of relief, including replacement of the Delaware Company's Board of Directors and the appointment of a receiver to manage the Delaware Company; an accounting of the expenses incurred in connection with the litigations and investigations caused by the unlawful acts alleged; an award of damages in the amount sustained by the Delaware Company, and an injunction prohibiting the defendants from acting in the manner set forth above; a declaration that the defendants have committed a gross abuse of trust and have violated their fiduciary duties to the Delaware Company and its stockholders; an order requiring certain named defendants, who are officers and directors or former officers and directors of the Delaware Company, to return portions of the compensation received by them respectively from the Delaware Company; and punitive damages. On January 22, 1982 the defendants, with one exception, moved to dismiss this action for the reason that the plaintiff had failed to make formal demand on the Board of Directors, prior to filing the action. The Independent Committee on Litigation of the Board of Directors, comprised entirely of outside directors, has been charged with the reponsibility of investigating and assessing the allegations of the complaint. On June 7, 1982, the Committee issued a report which determined that it would be contrary to the best interests of the Delaware Company and its shareholders to pursue the antitrust-related allegations of the Richardson complaint at this time, or to pursue the other claims of the Richardson complaint. On August 30, 1982, defendants moved to dismiss the Richardson complaint or, in the alternative, for summary judgment on the basis of the Committee's report and determination. Management believes that any liability arising out of this proceeding will not have a material adverse effect on the consolidated financial statements of McDermott International.

A class action entitled *Osofsky v. Zipf, et al.*, was commenced in January 1978 and is pending in the United State District Court for the Southern District of New York, together with a consolidated class action entitled *Udoff v. Babcock & Wilcox Company, et al.*, against the Delaware Company, the directors of B&W and the financial advisors to the Delaware Company and B&W. Plaintiffs have filed a Consolidated and Amended Complaint which in substance alleges that the Delaware Company in its 1977 tender offer for shares of B&W misrepresented or failed to fulfill an alleged promise that it would offer, on any subsequent business combination of the Delaware Company and B&W, securities worth approximately $65 per share. Plaintiffs allege violation of Sections 10(b), 14(a) and 14(e) of the U.S. Federal securities laws and also allege claims based on theories of breach of fiduciary duty and breach of contract. Damages are sought for a class of the former holders of approximately 6 million shares of B&W stock in an amount representing the difference between $65 per share and $59.625 per share. A trial on a bifurcated basis is scheduled to commence in early June 1983. Based on information presently available to it, management believes that any liability arising out of the proceeding will not have a material adverse effect upon the consolidated financial statements of McDermott International.

The Internal Revenue Service (the "IRS") has examined the U.S. Federal income tax returns of the Delaware Company for its fiscal years ended March 31, 1976 through March 31, 1979; and those of International for its fiscal years ended November 30, 1976 through November 30, 1979; and those of B&W for its fiscal years ended December 31, 1977 and March 31, 1978, the latter being the year ended on the day B&W was acquired by the Delaware Company. The IRS has issued notices which propose additions to the U.S. Federal income tax liability of the Delaware Company and International in respect of each of these years.

Such notices assert that the Delaware Company is subject to U.S. Federal income tax on unremitted earnings of International on the ground that the portion thereof which constituted "Subpart F" income under Sections 951 through 964 of the Internal Revenue Code substantially exceeded the portion so classified by the Delaware Company in its U.S. Federal income tax returns. The additional U.S. Federal income taxes asserted by the notices in question and allocable to Subpart F income items are approximately $200,000,000.

In the notices issued by it, the IRS does not state specifically the grounds upon which additional taxes under Subpart F are asserted. Revenue Agents' reports delivered in connection with such notices assert that the income of International constituted Subpart F income because it was realized from the performance of services on behalf of the Delaware Company. These reports assert, in the alternative, that International was engaged in the business of manufacturing rather than in the construction business, with consequential effects on the calculation of Subpart F income. The Delaware Company is contesting the additional U.S. Federal income taxes with respect to Subpart F income items proposed in the notices and believes it will succeed with respect thereto.

The notices to International essentially represent alternative grounds for asserting a deficiency with respect to a portion of the aforesaid Subpart F income. International believes it will succeed in contesting these deficiencies.

The notices also propose additional U.S. Federal income taxes for the years in question on grounds other than the Subpart F rules, including additional taxes arising out of transactions done and contracts entered into by B&W before its acquisition by the Delaware Company and the consequential effects thereof on the Delaware Company for its fiscal year ended March 31, 1979. The additional U.S. Federal income taxes which the IRS has asserted on these grounds are substantial. The Delaware Company, however, believes that any U.S. Federal income taxes ultimately assessed on the basis of such notices will not exceed reserves established with respect thereto.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On February 8, 1983 a Special Meeting of Shareholders of International was held and consideration was given to various matters, including the following:

1. A proposal to approve and adopt the 1983 Long-Term Performance Incentive Compensation Program, as described in the Proxy Statement;

Number of Votes Cast For	Number of Votes Cast Against
21,112,523	5,091,698

2. A proposal to adopt as a plan of International the currently existing 1972 Stock Option Plan of the Delaware Company, as described in the Proxy Statement;

Number of Votes Cast For	Number of Votes Cast Against
24,634,791	1,569,430

3. A proposal to adopt as a plan of International the currently existing 1974 Career Executive Stock Plan of the Delaware Company, as described in the Proxy Statement.

Number of Votes Cast For	Number of Votes Cast Against
24,278,861	1,925,360

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

International's Common Stock has traded on a regular basis on the New York Stock Exchange since December 31, 1982. High and low stock prices and dividends since that time were:

	FISCAL 1983		
	SALES PRICE		CASH DIVIDENDS
QUARTER ENDED	High	Low	DECLARED
December 31, 1982	20-1/4	19-1/4	$0.45
March 31, 1983	21-1/8	16-1/2	$0.45

As of March 31, 1983, the approximate number of holders of common stock was 7,612.

Item 6. SELECTED FINANCIAL DATA

	For The Fiscal Years Ended March 31,				
	1983	1982	1981	1980	1979
	(In thousands except for per share amounts)				
Revenues	$ 3,707,767	$ 4,843,186	$ 3,839,698	$3,167,059	$ 3,414,577
Net Income	$ 55,664	$ 183,589	$ 69,271	$ 60,525	$ 82,689
Earnings Per Common and Common Equivalent Share					
Primary	$ 1.51	$ 4.98	$ 1.89	$ 1.85	$ 2.55
Fully Diluted	$ 1.51	$ 4.56	$ 1.88	$ 1.84	$ 2.53
Total Assets	$ 3,820,689	$ 4,063,484	$ 3,906,261	$ 3,541,912	$ 3,294,728
Long-Term Obligations	$ 525,086	$ 419,259	$ 436,397	$ 471,853	$ 492,647
Subsidiary's Redeemable Preferred Stocks	204,783	393,763	394,192	394,468	394,507
Total	$ 729,869	$ 813,022	$ 830,589	$ 866,321	$ 887,154
Cash Dividends per common share	$ 1.80	$ 1.65	$ 1.45	$ 1.25	$ 1.00

The data presented above has been prepared reflecting a plan of reorganization which took place during fiscal year 1983 which was accounted for in a manner similar to a pooling of interests. For further information, see Note 1 of notes to the consolidated financial statements.

Included in net income above for the fiscal year ended March 31, 1983 is extraordinary income of $5,142,000 ($0.14 per share) for tax benefits arising from the utilization of operating loss carryforwards.

As discussed in Note 6 of notes to consolidated financial statements, International and the Delaware Company have been named as defendants in pending actions alleging violations of Section 1 and 2 of the Sherman Act and various state laws. The ultimate amount of any liability that might result from such actions is not presently determinable.

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

Results of Operations

1983 VS 1982

Marine construction services' revenues declined by $302,626,000. This decline in revenues was principally related to domestic operations. As a result of higher profit margins on contracts and significant reductions in expenses which offset lower utilization of marine construction equipment and fabrication facilities, the segment operating income increased by $52,764,000 reflecting higher foreign operating income and lower domestic operating income. Losses incurred or provided for on certain contracts were less in fiscal 1983 than in fiscal 1982.

Europe and West Africa revenues were $524,111,000 for fiscal 1983, a decrease of $98,198,000 vs. fiscal 1982. The decline in revenues is totally attributed to West Africa. Operating income improved by $69,515,000 as a result of work on a significant contract and overall improved profit margins offset somewhat by lower utilization of marine construction equipment and fabrication facilities. Additionally, losses incurred or provided for on certain contracts were less in fiscal 1983 that in fiscal 1982.

A surplus of natural gas in the United States and uncertainty regarding the future of oil prices in fiscal 1983 resulted in a continued softening in the demand for marine construction services in certain areas of this business segment, particularly in domestic operations.

Power generation systems and equipment revenues of $1,738,747,000 were $280,271,000 lower than fiscal 1982. Termination claim settlements on nuclear steam system contracts were lower than last year by $89,389,000 and sales of surplus uranium resulting from certain other terminated nuclear contracts were also lower by $19,365,000 than in fiscal 1982. In addition, lower revenues were reported this year from fossil steam systems for the utility industry, process recovery boilers for the pulp and paper industry, environmental control systems, and fossil steam systems repair and alteration and replacement parts business. Also, revenues last fiscal year included the machine tool business which was divested in May of this year. Lower revenues from these sources were partially offset by higher levels in nuclear services for the utility industry, nuclear fuel components and other components for the U.S. Government, refuse boilers, and construction activity. Operating income of $126,152,000 for the twelve months ended March 31, 1983 however, was $10,492,000 higher than the same period last year. Principal factors contributing to this increase were improved performance on fossil and nuclear steam system fabrication and erection contracts, the higher levels of nuclear service business, increased shipments of nuclear fuel and other components to the Navy and lower spending for research and development. Partially offsetting these increases were lower termination claim settlements on nuclear steam system contracts. These settlements were approximately $9,000,000 in fiscal 1983, or $42,000,000 lower than in fiscal 1982. In addition, income in fiscal 1982 included $7,550,000 from excess uranium sales as well as the operating income from the divested machine tool line. The low level of orders for power generation systems and equipment, coupled with delays and supensions of certain contracts in backlog has caused B&W to review its capacity requirements and to provide for the closing of certain of its facilities.

Engineered Materials revenues of $437,179,000 decreased $580,036,000 compared to fiscal year 1982 due to the current extremely depressed market conditions for the product lines in this segment. Revenues from petroleum production tubing decreased 72% while revenues from mechanical tubing which services varied markets decreased 59%. Insulating products revenues decreased 23%. Operating income of $2,009,000 decreased $292,697,000 due to the decreased revenues, competitive pricing pressures resulting from the depressed market conditions and higher unit costs at the lower levels of production, partially offset by stringent cost reduction measures.

Equity in earnings of joint venture companies decreased $19,626,000, from the same period last year principally attributable to the Mexican joint venture company.

Other expense increased $19,388,000 in fiscal 1983 over fiscal 1982. The principal item contributing to this increase was the provision of approximately $17,000,000 for the settlement of certain antitrust civil litigation. Other expense includes provisions for facility closings and disposition of product lines of $42,300,000 in fiscal 1983 and $51,000,000 in fiscal 1982 most of which relates to power generation systems and equipment facilities.

Provision for income taxes decreased by $117,008,000 due to a decrease in pretax income of $250,375,000, partially offset by a higher effective tax rate of 52% in fiscal 1983 vs. 49% in fiscal 1982. The increase in the effective tax rate was due primarily to lower effective foreign tax benefits which result from the dispersion of profits and losses among jurisdictions with varying rates of taxation, as well as the provision for U.S. income taxes withheld on income related to U.S. government obligations which were purchased by International during fiscal 1983.

1982 VS 1981

Marine construction services' revenues increased by $490,598,000. This increase in revenues was principally related to foreign operations. As a result of higher profit margins, higher revenues and increased utilization of marine vessels, this segment's operating income increased by $67,024,000. Domestic and foreign operations contributed to the improvement in operating income. Losses were incurred or provided for on certain marine contracts in both fiscal 1982 and 1981.

Lower oil prices in fiscal 1982 resulted in a softening in the demand for marine construction services in certain areas of this business segment, particularly in domestic operations.

Power generation systems and equipment revenues for fiscal 1982 of $2,019,018,000 were $186,494,000 higher than fiscal 1981 principally due to higher revenues from fossil steam generating systems, termination claim settlements of nuclear steam system contracts, and improved boiler parts and service. In addition, improvements were recorded in revenues from process recovery boilers and controls, heat exchangers for the process and utility industry, as well as nuclear fuel and other components for the Navy.

Partially offsetting these favorable results were a lower level of repair and alteration business, lower environmental systems business and divestment of the control valve product line and the industry wide slump in machine tool orders. Operating income of this segment for fiscal 1982 of $115,660,000 was $11,123,000 lower than fiscal 1981. Principal factors contributing to this decrease were higher unrecoverable costs on certain fossil steam generating system contracts, increased costs for the repair of certain nuclear steam generators, higher spending on research and development and increased selling expenses and divestment of the control valve product line. Partially offsetting these unfavorable factors were termination claim settlements of nuclear steam system contracts and the related sales of surplus uranium which contributed approximately $32,588,000 more to this segment's operating income in fiscal 1982, compared with fiscal 1981. In addition, losses were recorded in fiscal 1981 on two major government nuclear programs due to higher than anticipated costs which could not be recovered. The low level of orders for power generation systems and equipment, coupled with delays and suspensions of certain contracts in backlog, has caused International to review its capacity requirements and to provide for the closing of certain of its facilities. In addition, an agreement in principle was reached to sell the automated machine and machine tool product lines in fiscal 1983 and a provision was made in fiscal 1982 for this disposition. These provisions are included in Other Income (Expense).

Engineered Materials revenues were $310,300,000 higher than last year, principally reflecting the strong demand and improved pricing for petroleum industry related tubing. Operating income increased $197,261,000 primarily due to the higher volume and improved prices for pressure and mechanical tubing shipped to the petroleum industry. Higher operating levels resulting in lower per unit costs, cost reduction programs and elimination of certain low margin and unprofitable products from this segment have also aided results.

Other income decreased by $42,922,000 resulting in a net other expense of $28,540,000. This decrease is primarily attributable to provisions of $51,000,000 for plant closings and disposition of product lines referred to above and to losses of $7,918,000 in foreign exchange translation in fiscal 1982 compared with a gain in fiscal 1981.

Provision for income taxes increased by $95,100,000 with effective tax rates of 49% and 53% for the respective periods. Taxes increased due to the higher income before provision for income taxes in the current period. However, a lower effective tax rate in the current year was primarily due to higher effective foreign tax benefits which result from the dispersion of profits and losses among jurisdictions with varying rates of taxation.

Impact of Inflation and Changing Prices on Revenues and Net Income

As a result of continued inflation, historical dollar accounting (as reflected in the financial statements) does not reflect the cumulative effect of increasing costs and changes in the purchasing power of the dollar.

The effects of inflation and its impact upon McDermott International and its reported results are shown pursuant to FASB No. 33 in Note 11 to the Consolidated Financial Statements.

McDermott International attempts to cover increased costs of anticipated changes in labor, material and service costs on long-term contracts either through an estimation of such changes which is reflected in the original price or through price escalation clauses. However, increased competition in some areas has prevented the full recovery of increasing costs, and, consequently, profit margins are under pressure.

Liquidity and Capital Resources

At March 31, 1983, McDermott International's working capital was $79,332,000, a net decrease of $721,202,000 from March 31, 1982. This was principally due to a change in the McDermott International's investment portfolio from short-term to long-term investments by the purchase of U.S. government obligations with an amortized cost of $688,585,000 and a market value of $790,227,000 at March 31, 1983. In addition, there was a reduction of $377,534,000 in accounts and notes receivable and a reduction of $100,529,000 in inventories due principally to lower revenues and in particular the lower level of business in the Engineered Materials segment. Partially offsetting the above decreases was a reduction in notes payable and current maturities of long term debt of $19,936,000 and accounts payable of $53,707,000 reflecting the lower level of business throughout McDermott International's operations.

McDermott International has committed to make capital expenditures of $104,514,000 during fiscal 1984. These proposed expenditures are principally to increase capacity and upgrade and modernize McDermott International's Marine fleet and its support facilities and to modernize McDermott International's steelmaking facilities. McDermott International expects to obtain funds for these expenditures from its operations and through borrowings.

During the fiscal year ended March 31, 1983, International established a short-term line of credit with various banks totalling $90,000,000. As of March 31, 1983, there were no borrowings against this line of credit.

In addition, the Delaware Company has available to it from various banks a further short-term line of credit totalling $68,000,000 and a revolving credit agreement totalling $200,000,000. As of March 31, 1983, there were no borrowings against any of these lines of credit. Such funds are available to the Delaware Company and its subsidiaries, but the Delaware Company and its subsidiaries are limited, principally as a result of credit agreement covenants, in their ability to transfer funds to International in intercompany loans, advances or cash dividends. At March 31, 1983 approximately $1,096,000,000 of the net assets of such subsidiaries were subject to such restrictions. It is not expected that these restrictions will have any significant effect on International's liquidity.

During the fiscal year ended March 31, 1983, McDermott International's outstanding borrowings under its short-term lines of credit and revolving credit agreements averaged $16,763,000.

For the twelve months ended March 31, 1983, working capital provided from operations was $206,379,000. During this same period, McDermott International expended $190,177,000 for additions to property, plant and equipment, and $63,215,000 for cash dividends on common stock.

At March 31, 1983, the ratio of long term debt to total common stock and other stockholders equity was .43 as compared with .36 at March 31, 1982 and .42 at March 31, 1981.

In connection with the plan of reorganization as described elsewhere in this document, McDermott International expended $11,186,000 during the fiscal year 1983 for a premium paid to stockholders who tendered stock under the plan. Also under this plan, McDermott International completed an exchange offer whereby the Delaware Company exchanged $25 principal amount of Delaware 10% subordinated debentures and one International warrant for each share of Series A Preferred Stock or each share of Series B Preferred Stock. Under this offer, the Delaware Company issued $150,000,000 principal amount of Delaware 10% subordinated debentures plus 6,000,000 warrants to purchase 6,000,000 shares of International common stock and $1,051,100 in cash in exchange for 3,449,128 shares of Series A Preferred Stock and 2,592,916 shares of Series B Preferred Stock.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Company Report on Consolidated Financial Statements

McDermott International has prepared the consolidated financial statements and related financial information included in this report. McDermott International has the primary responsibility for the financial statements and other financial information and for ascertaining that the data fairly reflect the financial position and results of operations of McDermott International. The financial statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and necessarily reflect estimates and judgments by appropriate officers of McDermott International with appropriate consideration given to materiality.

McDermott International believes that it maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that the financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. The concept of reasonable assurance is based on the recognition that the cost of a system of internal control must not exceed the related benefits. Although accounting control procedures are designed to achieve these objectives, it must be recognized that errors or irregularities may nevertheless occur. McDermott International seeks to assure the objectivity and integrity of its accounts by its selection of qualified personnel, by organizational arrangements that provide an appropriate division of responsibility and by the establishment and communication of sound business policies and procedures throughout the organization. McDermott International believes that its accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected.

McDermott International's accompanying consolidated financial statements have been examined by its certified public accountants, who provide McDermott International with expert advice on the application of U.S. generally accepted accounting principles to McDermott International's business and also provide an objective assessment of the degree to which McDermott International meets its reponsibility for the fairness of financial reporting. They regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to reach and express an opinion on the fairness of the financial statements. The report of the certified public accountants appears elsewhere herein.

The Board of Directors pursues its responsibility for McDermott International's consolidated financial statements through its Audit Committee which is composed solely of directors who are not officers or employees of McDermott International. The Audit Committee meets periodically with the certified public accountants, management and the internal auditors to review matters relating to the quality of financial reporting and internal accounting control and the nature, extent and results of the audit effort. In addition, the Audit Committee is responsible for recommending to the Board of Directors the engagement of certified public accountants for McDermott International, who in turn submit the engagement to the stockholders for their approval. The certified public accountants, as well as the internal auditors, have free access to the Audit Committee.

May 27, 1983

Report of Certified Public Accountants

The Board of Directors and Stockholders
McDermott International, Inc.

We have examined the accompanying consolidated balance sheet of McDermott International, Inc. at March 31, 1983 and 1982, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended March 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in Note 6 to the financial statements, McDermott International, Inc. and McDermott Incorporated have been named as defendants in pending actions alleging violations of Sections 1 and 2 of the Sherman Act and various state laws. Additional similar claims may also be asserted. The ultimate amount of any liability that might result from such actions is not presently determinable.

In our opinion, the financial statements mentioned above present fairly the consolidated results of operations and changes in financial position of McDermott International, Inc. for each of the three years in the period ended March 31, 1983, and, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the preceding paragraph been known, the consolidated financial position at March 31, 1983 and 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

New Orleans, Louisiana
May 27, 1983

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
MARCH 31, 1983 and 1982

ASSETS:

	1983	1982
	(In thousands)	
Current Assets:		
Cash	$ 12,746	$ 26,865
Short-term investments, principally time deposits at cost which approximates market	130,812	507,594
Accounts and notes receivable	775,813	1,153,347
Contracts in progress	259,962	297,791
Inventories	267,268	367,797
Prepaid expenses	15,297	11,993
Total Current Assets	1,461,898	2,365,387
Property, Plant and Equipment, at Cost:		
Land	38,369	38,937
Buildings	263,482	270,864
Machinery and equipment	1,645,348	1,529,097
Property under construction	113,664	87,306
	2,060,863	1,926,204
Less accumulated depreciation and amortization	837,527	728,576
Net Property, Plant and Equipment	1,223,336	1,197,628
Investments in U.S. Government Obligations, At Amortized Cost	688,585	—
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Accumulated Amortization of $49,434,000 at March 31, 1983 and $40,198,000 at March 31, 1982)	329,546	338,782
Other Assets	117,324	161,687
TOTAL	$ 3,820,689	$ 4,063,484

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1983	1982
	(In thousands)	
Current Liabilities:		
Notes payable to banks and current maturities of long-term debt	$ 19,411	$ 39,347
Accounts payable	190,316	244,023
Accrued employee benefits	133,556	155,725
Accrued liabilities - other	396,666	379,899
Advance billings on contracts	322,165	398,414
Provision for warranty expense	96,363	97,659
U. S. and foreign income taxes	199,942	225,438
Dividends payable	24,147	24,348
Total Current Liabilities	1,382,566	1,564,853
Deferred and Non-Current Income Taxes	342,116	373,329
Long-Term Debt	525,086	419,259
Other Liabilities	136,968	130,554
Contingencies		
Minority Interest:		
Subsidiary's Redeemable Preferred Stocks:		
Series A $2.20 Cumulative Convertible, $1.00 par value; at redemption value	88,390	196,340
Series B $2.60 Cumulative, $1.00 par value; at redemption value	116,393	197,423
Other Minority Interest	7,858	7,168
Total Minority Interest	212,641	400,931
Preferred Stock	—	—
Common Stock and Other Stockholders' Equity:		
Common stock, par value $1.00 per share, authorized 150,000,000 shares; outstanding 36,861,493 at March 31, 1983; 36,799,839 at March 31, 1982	36,861	36,800
Capital in excess of par value	312,549	259,514
Retained earnings	874,209	881,760
	1,223,619	1,178,074
Less: Unamortized deferred career executive stock plan expense	2,307	3,516
Total Common Stock and Other Stockholders' Equity	1,221,312	1,174,558
TOTAL	$ 3,820,689	$ 4,063,484

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1983

	1983	1982	1981
		(In thousands)	
Revenues	$ 3,707,767	$ 4,843,186	$ 3,839,698
Costs and Expenses:			
Cost of operations	3,096,375	3,977,476	3,235,309
Depreciation and amortization	141,380	140,076	126,222
Selling, general and administrative expenses	290,935	315,367	305,191
	3,528,690	4,432,919	3,666,722
Operating Income	179,077	410,267	172,976
Other Income (Expense):			
Interest income	97,601	77,830	72,691
Interest expense	(54,525)	(54,583)	(59,820)
Equity in earnings of joint venture companies	(1,911)	17,715	12,426
Other	(47,928)	(28,540)	14,382
	(6,763)	12,422	39,679
Income Before Provision For Income Taxes, Minority Interest and Extraordinary Item	172,314	422,689	212,655
Provision for Income Taxes:			
Current	50,960	133,553	65,985
Deferred	39,492	73,907	46,375
	90,452	207,460	112,360
Income Before Minority Interest and Extraordinary Item	81,862	215,229	100,295
Minority Interest			
Dividends on Preferred Stock of Subsidiary	30,242	29,860	30,290
Other Minority Interest	1,098	1,780	734
Income Before Extraordinary Item	50,522	183,589	69,271
Extraordinary Item:			
Tax Benefit of Operating Loss Carryforwards	5,142	—	—
Net Income	55,664	183,589	69,271
Retained Earnings, Beginning of Year	881,760	758,792	742,534
Deduct:			
Cash dividends - common ($1.80 in 1983, $1.65 in 1982, and $1.45 in 1981 per share)	63,215	60,621	53,013
Retained Earnings, End of Year	$ 874,209	$ 881,760	$ 758,792
Earnings Per Common and Common Equivalent Share			
Primary -			
Before Extraordinary Item	$ 1.37	$ 4.98	$ 1.89
Extraordinary Item	.14	—	—
Net Earnings	$ 1.51	$ 4.98	$ 1.89
Fully Diluted			
Before Extraordinary Item	$ 1.37	$ 4.56	$ 1.88
Extraordinary Item	.14	—	—
Net Earnings	$ 1.51	$ 4.56	$ 1.88

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1983

	1983	1982	1981
		(In thousands)	
SOURCE OF FUNDS:			
Operations:			
Income before extraordinary item	$ 50,522	$ 183,589	$ 69,271
Charges (credits) not affecting working capital:			
Depreciation and amortization	141,380	140,076	126,222
Deferred income taxes	20,832	55,190	42,692
Equity in earnings of joint venture companies net of dividends received of $399,000 in 1983, $11,801,000 in 1982 and $4,976,000 in 1981	2,310	(5,914)	(7,450)
Tax benefit of operating loss carryforwards	5,142	—	—
Other	(13,807)	10,585	18,873
Working capital provided from operations	206,379	383,526	249,608
Issuance of common stock	644	3,139	4,686
Proceeds from sale and exchange of property, plant and equipment	32,671	31,352	2,782
Issuance of common stock warrants	25,100	—	—
Debentures issued in retirement of preferred stock	124,125	—	—
Gain on exchange by subsidiary of debentures for preferred stock	38,538	—	—
Long-term borrowing (including fluctuations under the revolving credit agreement)	162,528	170,000	131,357
Other - net	63,661	—	—
	653,646	588,017	388,433
APPLICATION OF FUNDS:			
Purchase of government obligations	688,585	—	—
Additions to property, plant and equipment	190,177	167,018	272,377
Exchange by subsidiary of debentures for preferred stock	188,814	—	—
Premium on exchange of common stock in reorganization	11,186	—	—
Reduction of long-term debt (including fluctuations under the revolving credit agreement)	180,826	187,138	166,813
Reduction of deferred and non-current income taxes	52,045	38,223	69,046
Cash dividends	63,215	60,621	53,013
Other - net	—	38,621	2,451
	1,374,848	491,621	563,700
NET INCREASE (DECREASE) IN WORKING CAPITAL	$ (721,202)	$ 96,396	$ (175,267)
CHANGES IN COMPONENTS OF WORKING CAPITAL:			
Increase (decrease) in current assets:			
Cash and short-term investments	$ (390,901)	$ 87,604	$ (77,292)
Accounts and notes receivable	(377,534)	92,957	192,482
Contracts in progress	(37,829)	(106,588)	161,380
Inventories	(100,529)	5,992	(60,544)
Prepaid expenses	3,304	1,887	(4,783)
	(903,489)	81,852	211,243
Increase (decrease) in current liabilities:			
Notes and accounts payable and accrued liabilities	(79,045)	49,491	191,169
Advance billings on contracts	(76,249)	(42,060)	115,699
Provision for warranty expense	(1,296)	4,072	(13,316)
U.S. & foreign income taxes	(25,496)	(28,166)	89,652
Dividends payable	(201)	2,119	3,306
	(182,287)	(14,544)	386,510
NET INCREASE (DECREASE) IN WORKING CAPITAL	$ (721,202)	$ 96,396	$ (175,267)

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1983

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements are presented in U.S. Dollars in accordance with accounting principles generally accepted in the United States and include the accounts of McDermott International, Inc. and all significant subsidiaries. Investments in joint-venture companies (20% to 50% owned) are accounted for on the equity method. All significant intercompany transactions and accounts have been eliminated.

Unless the context otherwise requires, hereinafter "International" will be used to mean McDermott International, Inc. a Panama corporation, the "Delaware Company" will be used to mean McDermott Incorporated, a Delaware corporation, and "McDermott International" will be used to mean the consolidated enterprise of which International is the parent company. References to "domestic" and "foreign", respectively, mean operations within and outside the United States.

Pursuant to a plan of reorganization announced by the Delaware Company on October 28, 1982, International, at that time a wholly-owned subsidiary of the Delaware Company, has become the parent company and the Delaware Company is now a subsidiary of International.

Under the terms of the plan of reorganization, International issued cash plus 36,861,493 shares of its common stock in exchange for a like number of shares of common stock of the Delaware Company. The consolidated financial statements reflect the reorganization accounted for in a manner similar to a pooling of interests. Preferred dividends of the Delaware Company previously reported in the Delaware Company's consolidated financial statements as a deduction from retained earnings have been reflected as minority interest in the accompanying Consolidated Statement of Income and Retained Earnings.

In addition certain amounts previously reported in the Delaware Company's consolidated financial statements have been reclassified to conform with the presentation at March 31, 1983.

Contracts and Revenue Recognition

Contract revenues and related costs for marine construction services and power generation systems and equipment are principally recognized on a percentage of completion method for individual contracts or components thereof based upon work performed or the ratio of costs incurred to total estimated costs, as applicable to the product or activity involved. Revenues and related costs so recorded, plus accumulated contract cost that exceeds amounts invoiced to customers under the terms of the contract are included in contracts in progress. Billings that exceed accumulated contract costs and revenues and costs recognized under percentage of completion are included in advance billings. Most long-term contracts have provisions for progress payments. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in income in the period when such estimates are revised. Provisions are made currently for all known or anticipated losses. Claims for extra work or changes in scope of work are included in contract revenues when collection is probable. International and certain of its subsidiaries keep books and file tax returns on the completed contract method of accounting.

McDermott International is usually entitled to financial settlements relative to the individual circumstances of deferrals or cancellations of power generation systems and equipment contracts. McDermott International does not recognize such settlements or claims for additional compensation until final settlement is reached.

Included in accounts and notes receivable are amounts representing retainages on contracts as follows:

	1983	1982
	(In thousands)	
Retainages	$ 179,176	$ 210,097
Retainages expected to be collected after one year	$ 68,994	$ 67,549

Depreciation, Maintenance and Repairs and Drydocking Expenses

Property, plant and equipment is depreciated by the straight-line method, using estimated useful lives of 8 to 40 years for buildings and 2 to 28 years for machinery and equipment.

Maintenance, repairs and renewals which do not materially prolong the useful life of an asset are expensed as incurred except for drydocking costs for the marine fleet, which are estimated and accrued pro rata over the period of time between drydockings, and such accruals are charged to operations currently.

Investments in Government Obligations

At March 31, 1983 McDermott International held $885,900,000 face amount ($688,585,000 amortized cost) of government debt instruments as a long term investment. The market value of these obligations at March 31, 1983 was $790,227,000.

Amortization of Excess of Cost Over Fair Value of Net Assets of Purchased Businesses

The excess of McDermott International's investment in The Babcock & Wilcox Company (B&W) over the fair value of net assets acquired is being amortized on a straight-line basis over forty years. Excess cost arising from business combinations prior to 1971 is not being amortized because, in the opinion of management, there has been no diminution in value.

Warranty Expense

McDermott International provides for estimated future warranty expense which may be required to satisfy contractual requirements, primarily of the power generation systems and equipment segment. Such provision is accrued relative to revenue recognition on the respective contracts.

Research and Development

The cost of research and development which is not performed on specific contracts is charged to operations as incurred. Such expense was $37,600,000, $52,000,000 and $42,300,000 in fiscal 1983, 1982 and 1981, respectively.

Capitalization of Interest Cost

In fiscal 1983, 1982 and 1981 total interest cost incurred was $61,671,000, $61,620,000 and $67,267,000, respectively, of which $7,146,000, $7,037,000 and $7,447,000 was capitalized.

Tax Benefit Leases

Pursuant to the Safe Harbor Leasing provisions under the Economic Recovery Act of 1981, McDermott International acquired tax benefits in 1982 from other companies in connection with the purchase and lease-back of capital equipment. There was no effect on net income in 1983 and 1982 and there will be no material effect on net income in future years as a result of these leases.

Foreign Currency Translation

The accounts of foreign subsidiaries maintained in foreign currencies are translated into U. S. Dollars based on current exchange rates at the end of the fiscal year for assets and liabilities except for inventories, prepaid expenses, property, plant and equipment, and stockholders' equity for which historical exchange rates are used. Average exchange rates prevailing during the fiscal years are used for revenues and expenses other than depreciation and prepaid expenses. Exchange gains and losses are recognized in the year of occurrence. Included in other income (expense) are losses of $9,286,000 for fiscal 1983 and $7,918,000 for fiscal 1982, and gains of $3,446,000 for fiscal 1981.

Effective with fiscal 1984, McDermott International will adopt FASB Statement No. 52 on Foreign Currency Translation. McDermott International does not expect the adoption of this standard to have a material impact nor would earlier adoption have had a material effect on net income for fiscal 1983.

Earnings Per Share

Primary earnings per share are based on the weighted average number of common and common equivalent shares outstanding during the year. Fully diluted earnings per share include the dilutive effect of convertible preferred stock and debentures.

NOTE 2 - INVENTORIES

Inventories are carried at the lower of cost or market. Cost is determined on an average cost basis except for certain construction materials inventories, for which the last-in first out (LIFO) method is used. The cost of approximately 8% and 11%, respectively, of total inventories was determined using the LIFO method at March 31, 1983 and 1982. Consolidated inventories at March 31, 1983 and 1982 are summarized below:

	1983	1982
	(In thousands)	
Raw Materials and Supplies	$ 125,399	$ 164,843
Work in Progress	104,174	150,472
Finished Goods	37,695	52,482
	$ 267,268	$ 367,797

NOTE 3 - PENSION PLANS

McDermott International provides retirement benefits, primarily through non-contributory pension plans, for substantially all of its regular full time employees, except certain non-resident alien employees of foreign subsidiaries who are not citizens of a European Common Market country or who do not earn income in the United States, Canada, or the United Kingdom. McDermott International's policy is to fund the amounts expensed. Total pension expenses included in cost and expenses were $84,557,000, $83,072,000, and $72,675,000 in fiscal 1983, 1982, and 1981, respectively, which includes amortization of prior service costs over periods of 30 and 40 years. The following table presents information regarding the financial condition of McDermott International's pension plans as defined in FASB No. 36 and estimated by McDermott International and its consulting actuaries on that basis:

	January 1, 1982	1981
	(In thousands)	
Actuarial present value of accumulated plan benefits:		
Vested	$ 466,294	$ 441,350
Nonvested	63,475	73,853
Total	$ 529,769	$ 515,203
Net Assets available for benefits	$ 651,080	$ 581,399

The assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 10% in fiscal 1983 and 9% in fiscal 1982.

NOTE 4 - INCOME TAXES

Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted. All income has been earned outside of Panama and McDermott International is not subject to income tax in Panama on income earned outside of the country. Therefore, there is no expected relationship between provision for income taxes and income before provision for income taxes. The major reasons for the variation in tax provision in relation to income before tax provision is that income is earned within and subject to the taxation laws of various countries, each of which has a regime of taxation which varies from that of any other country (not only with respect to nominal rate but also with respect to the allowability of deductions, credits and other benefits) and because the proportional extent to which income is earned in, and subject to tax by, any particular country or countries varies from year to year.

The provision for income taxes consists of:

	1983		1982		1981	
	Current	Deferred	Current	Deferred	Current	Deferred
			(In thousands)			
U.S. - Federal	$ 13,774	$ 15,884	$ 85,763	$ 77,019	$ 47,885	$ 41,781
U.S. - State & Local	642	3,973	21,247	2,226	8,406	2,821
Other than U.S.	36,544	19,635	26,543	(5,338)	9,694	1,773
	$ 50,960	$ 39,492	$ 133,553	$ 73,907	$ 65,985	$ 46,375

The provision for U.S. Federal income taxes includes withholding taxes on government obligations the income of which is included below in Other than United States. The provision for income taxes is based on income before provision for income taxes as follows:

	1983	1982	1981
		(In thousands)	
U.S.	$ 11,850	$ 376,242	$ 207,109
Other than U.S.	160,464	46,447	5,546
	$ 172,314	$ 422,689	$ 212,655

Investment tax credits, accounted for on the flow-through method utilized to reduce the United States federal provision in fiscal 1983, 1982 and 1981, were $7,293,000, $6,738,000 and $9,234,000, respectively.

Deferred income taxes are provided in the financial statements due to timing differences between financial and taxable income. The principal timing differences in recognizing certain revenues and expenses for tax return and financial statement purposes and their effect on the provision for deferred income taxes were:

	1983	1982	1981
		(In thousands)	
Long-term contracts, primarily on the completed contract method for tax purposes	$ 19,603	$ 42,979	$ 43,260
Excess tax over financial depreciation	25,696	24,295	14,792
Warranty expense	209	(10,146)	(11,442)
Estimated loss on facility closings and dispositions	(10,774)	(24,594)	(4,688)
Purchased tax benefits	14,050	38,335	—
Interest on proposed tax deficiencies	(7,842)	(4,401)	(5,876)
Deferred gain (loss) on casualty	7,644	(1,438)	—
Reserve for supplemental compensation	4,493	3,597	748
Antitrust Settlement	(4,074)	—	—
Other	(9,513)	5,280	9,581
	$ 39,492	$ 73,907	$ 46,375

Undistributed income of United States subsidiaries included in retained earnings at March 31, 1983, amounted to approximately $391,068,000. Distributions from U.S. subsidiaries to International are subject to withholding of United States income tax at a rate of 30 percent. No provision for such taxes has been made in the consolidated financial statements as it is International's intention to indefinitely reinvest said undistributed earnings in the United States subsidiaries.

The Internal Revenue Service has proposed substantial additional taxes relating to years prior to March 31, 1980 which McDermott International is contesting. McDermott International believes that the outcome of any income taxes ultimately assessed on the basis of such notices will not have a material adverse effect on its consolidated financial statement.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of:

	1983	1982
	(In thousands)	
Unsecured Debt:		
7.30% Note payable $3,000,000 annually to 1998	$ 48,000	$ 51,000
10.20% Sinking fund debentures due 1999 with annual sinking fund installments of $2,500,000	39,450	47,500
9.40% Notes due 1984	35,000	35,000
10% Subordinated debentures ($150,000,000 face amount) due 2003 with annual sinking fund installments of $15,000,000 beginning 1994	124,125	—
4-3/4% Convertible subordinated debentures due 1987	—	767
9-5/8% Sinking fund debentures due 2004 with annual sinking fund installments of $9,850,000 beginning 1990	150,000	150,000
6.80% Pollution control revenue bonds due 2009 with annual sinking fund installments of $4,250,000 beginning 2006	17,000	17,000
8-1/2% Note payable $3,960,000 annually to 1997	56,040	60,000
9% Note payable $3,300,000 annually to 1991	30,200	33,500
9% Note payable $1,650,000 annually to 1996	23,350	25,000
Other notes payable through 1999 and capitalized lease obligations	16,359	17,279
	539,524	437,046
Less due within one year	14,438	17,787
	$ 525,086	$ 419,259

At March 31, 1983, McDermott International had available a $200,000,000 line of credit. McDermott International may elect to borrow at the prime rate, 1/2 of 1% plus the London Interbank Offered Rate, or 1/2 of 1% plus the certificate of deposit rate. On June 14, 1985, all outstanding borrowings will convert to a term loan, payable in sixteen equal quarterly installments and bearing interest at the applicable rate of 1/4 of 1% plus the prime rate, 3/4 of 1% plus the London Interbank Offered Rate, or 3/4 of 1% plus the certificate of deposit rate, to maturity at June 14, 1989. McDermott International pays a commitment fee at the rate of 3/8 of 1% and a fee of 5% of the prime per annum on the unused portion. No amounts were outstanding under the facility as of March 31, 1983.

Maturities of long-term debt during the five fiscal years subsequent to March 31, 1983 are as follows: 1984 - $14,438,000; 1985 - $48,275,000; 1986 - $15,169,000; 1987 - $15,656,000; 1988 - $15,636,000.

Certain consolidated subsidiaries and affiliated companies are restricted, principally as a result of credit agreement covenants, in their ability to transfer funds to International through intercompany loans, advances or cash dividends. At March 31, 1983, approximately $1,096,000,000 of the net assets of such subsidiaries and affiliated companies were subject to such restrictions. It is not expected that these restrictions will have any significant practical effect on International's liquidity.

NOTE 6 - CONTINGENCIES AND COMMITMENTS

On December 14, 1978 a United States Federal grand jury in New Orleans, Louisiana indicted the Delaware Company, Brown & Root, Inc. ("Brown & Root") and certain of their officers on charges of conspiring to allocate contracts and to fix prices and contract terms for marine construction projects in violation of Section 1 of the Sherman Act and other U.S. Federal statutes. In 1978 the Delaware Company and Brown & Root each pleaded nolo contendere to the Sherman act charges and were each fined $1,000,000. In March and April 1979, four officers, including a former chief operating officer, and a former chief executive officer of the Delaware Company (all but one of whom were directors of the Delaware Company) pleaded nolo contendere to the Sherman Act charges and certain related charges of mail fraud and wire fraud. The Delaware Company and Brown & Root (and in some cases, International and certain former officers of the Delaware Company) have been named as defendants in over 65 actions which have been filed in or transferred to the United States District Court for the Eastern District of Louisiana instituted by or on behalf of purchasers of marine construction services in the United States and abroad alleging a combination and conspiracy to restrain or eliminate competition in marine construction in violation of Sections 1 and 2 of the Sherman Act and various state laws through a conspiracy to allocate contracts, fix prices and contract terms and other means. Plaintiffs seek treble damages and other relief for injuries allegedly sustained, in some cases as early as the mid-1950's. The Delaware Company and International have filed answers denying the material allegation of wrongdoing in the complaints and in some cases have filed counterclaims. Discovery is proceeding in these cases and trial dates have not been fixed. Other private parties have received temporary waivers of the statute of limitations, and these parties may assert additional treble damage claims against the Delaware Company and International. Two other actions were recently filed against the Delaware Company, International, and Brown & Root in the United States District Court for the Southern District of Texas by oil company purchasers of marine construction services abroad, alleging similar claims, and these two cases are in the process of being transferred to the Eastern District of Louisiana. The Delaware Company and Brown & Root have entered into settlement agreements with 25 natural gas transmission companies which are plaintiffs in 14 of the purchaser actions. The proposed settlement, which is subject to the approval of the Federal Energy Regulatory Commission, provides for a total payment of approximately $27,500,000, of which the Delaware Company would pay approximately $13,000,000. Since January 1983, the Delaware Company and International have settled an additional 9 actions commenced by oil companies pursuant to which the Delaware Company has paid or agreed to pay approximately $4,000,000. The outcome of the remaining actions, whether or not the settlement with the natural gas transmission companies is approved, could have a material adverse effect on McDermott International.

International and certain of its officers, directors and subsidiaries are defendants in numerous other legal proceedings claiming amounts which are material. Management and general counsel believe that the outcome of these proceedings will not have a material adverse effect upon the consolidated financial statements.

Operating Leases - Future minimum payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at March 31, 1983 are as follows: 1984 - $22,853,000; 1985 - $17,019,000; 1986 - $11,277,000; 1987 - $7,198,000; 1988 - $6,532,000; and thereafter - $41,067,000. Future minimum lease payments and leased property under capital leases are not material. Total rental expense for fiscal 1983, 1982 and 1981 was $131,851,000, $186,262,000 and $143,338,000, respectively. These expense figures include contingent rentals and are net of sublease income, both of which are not material.

Other - McDermott International performs significant amounts of work for the U.S. Government under both prime contracts and subcontracts and thus is subject to continuing reviews by government agencies.

Firm and contemplated commitments for capital expenditures amounted to approximately $131,000,000 at March 31, 1983.

McDermott International is contingently liable under standby letters of credit totalling $218,149,000 primarily issued in the normal course of business which relate primarily to indemnity agreements for performance bonds on contracts.

NOTE 7 - SUBSIDIARY'S REDEEMABLE PREFERRED STOCKS

At March 31, 1982 25,000,000 shares of $1 par value preferred stock of the Delaware Company were authorized, 6,600,000 shares were designated Series A $2.20 Cumulative Convertible Preferred Stock and 6,600,000 shares were designated Series B $2.60 Cumulative Preferred Stock. As a result of a March 15, 1983 amendment to the Certificate of Incorporation of the Delaware Company, at March 31, 1983 13,000,000 shares of preferred stock were authorized. Of the authorized shares, 2,828,425 and 3,724,629 shares of Series A and Series B Preferred Stock, respectively, were outstanding at March 31, 1983 and 6,282,875 and 5,775,545 (excluding 542,000 reissued subsequent to year end) shares, respectively, were outstanding at March 31, 1982. The outstanding shares are entitled to $31.25 per share in liquidation. The outstanding shares were issued in connection with the acquisition of B&W and are stated at the mandatory redemption value which approximated market value at the time the shares were issued. Both series of preferred stock are entitled to general voting rights of one-half vote for each share. The Board of Directors of the Delaware Company may authorize additional series of preferred stock and may set terms of each new series except that the Delaware Company cannot create any series of stock senior to the existing Series A and Series B Preferred Stock without the consent of the holders of at least 50% of the shares of such preferred stock.

Each share of the outstanding Series A Preferred Stock is convertible into one share of common stock of International plus $0.10 cash. The shares are redeemable at the option of the Company on or after March 31 of each of the following years, at the following prices, plus accrued dividends: 1983 - $33.45; 1984 - $33.09; 1985 - $32.72; 1986 - $32.35; 1987 - $31.97; 1988 - $31.62; and 1989 through 2008 - $31.25. On March 31, 1989 and each subsequent year through March 31, 2008, the Delaware Company is obligated to redeem, at a redemption price of $31.25 plus accrued dividends, 5% of the number of shares which are outstanding at December 31, 1988.

Series B Preferred Stock is redeemable at the option of the Delaware Company on or after March 31 of each of the following years, at the following prices plus accrued dividends: 1983 - $32.25; 1984 - $32.00; 1985 - $31.75; 1986 - $31.50; 1987 through 2008 - $31.25. For the periods March 31, 1986 through March 31, 1995, March 31, 1996 through March 31, 2006, and March 31, 2007 through March 31, 2008, the Delaware Company is obligated to redeem during each year shares of Series B Preferred Stock equal to 5%, 4% and 3% respectively, of the number of shares which are outstanding at December 31, 1985. The obligation to redeem Series B Preferred Stock is $9,866,000 for each of the fiscal years 1986, 1987 and 1988.

Additional shares of Series A or Series B Preferred Stock, equal to the number of shares the Delaware Company is obligated to redeem, may be redeemed on each mandatory redemption date by the Delaware Company, on a non-cumulative basis. The Delaware Company may apply to the mandatory sinking fund obligations any Series A or B Preferred Stock owned, previously redeemed or surrendered for conversion which have not been previously credited against the mandatory sinking fund obligations. At March 31, 1983 the Delaware Company owned 3,449,128 and 2,592,916 shares of Series A and Series B Preferred Stock, respectively, which were acquired pursuant to an exchange offer for debentures of the Delaware Company and warrants to purchase common stock of International.

NOTE 8 - CAPITAL STOCK

Common Stock - Changes in common stock during the three years ended March 31, 1983 are summarized as follows:

	Shares	Par Value	Capital In Excess Of Par Value
		(In thousands except for share data)	
Balance, March 31, 1980	36,457,913	$ 36,458	$ 252.031
Conversion of 4-3/4% convertible subordinated debentures	84,589	85	1.313
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	8,837	9	267
Shares issued upon exercise of stock options	80,178	80	1.581
Shares issued under the Career Executive Stock Plan (net of forfeitures)	37,000	37	1.314
Balance, March 31, 1981	36,668,517	$ 36,669	$ 256.506
Conversion of 4-3/4% convertible subordinated debentures	93,064	93	1.449
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	13,708	14	415
Shares issued upon exercise of stock options	24,550	24	1.144
Balance, March 31, 1982	36,799,839	$ 36,800	$ 259.514
Issuance of Warrants	—	—	25.100
Conversion of 4-3/4% convertible subordinated debentures	36,830	37	183
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	5,322	5	161
Shares issued upon exercise of stock options	19,502	19	239
Premium on exchange of common stock in reorganization	—	—	(11.186)
Gain on exchange of preferred stock for debentures	—	—	38.538
Balance, March 31, 1983	36,861,493	$ 36,861	$ 312.549

At March 31, 1983 and 1982, 10,982,341 shares and 8,492,056 shares of common stock, respectively, were reserved for issuance in connection with exercise of warrants, the 1974 Career Executive Stock Plan, exercise of stock options, the Long-Term Performance Incentive Compensation Programs, conversion of Series A cumulative convertible preferred stock and conversion of 4-3/4% convertible subordinated debentures.

Stock Options - In connection with the acquisition of B&W, options granted under a B&W stock option plan became options to purchase two shares of the Delaware Company's common stock. This plan was adopted as a plan of International effective March 15, 1983. All options outstanding under this plan are non-qualified stock options and no additional options will be granted under the plan. Options were granted at an option price equal to at least 100% of the fair market value on the date of grant (adjusted to October 31, 1974 closing price for options issued prior to that date).

Changes in the number of shares covered by the stock option plan during the three years ended March 31, 1983 are as follows:

Outstanding and Exercisable	Number of Shares	Option Price Per Share	Total
Balance, March 31, 1980	198,220		$ 1,823,000
Exercised	80,178	$6.813 - $9.688	733,000
Expired	1,500	9.688	15,000
Balance, March 31, 1981	116,542		$ 1,075,000
Exercised	24,550	$6.813 - $9.688	$ 227,000
Expired	—	—	—
Balance, March 31, 1982	91,992		$ 848,000
Exercised	19,502	$6.813 - $9.688	$ 176,000
Expired	1,450	$6.813 - $9.688	14,000
Balance, March 31, 1983	71,040		$ 658,000

Long-Term Performance Incentive Compensation Programs - Under the 1983 program, which was adopted February 8, 1983, the Career Executive Stock Plan Committee (the "Committee") may grant to the officers and key employees options to purchase in the aggregate up to 2,000,000 shares of common stock at 100% of the fair market value on the date of grant. Effective March 15, 1983, the 1980 program which was substantially the same as the 1983 program was terminated and all outstanding stock options and stock appreciation rights were cancelled. Under the 1983 program, options are exercisable not less than one year and not more than ten years after the date of grant. The Committee may grant stock appreciation rights in connection with the granting of options under the program. Such stock appreciation rights would permit the holders thereof to surrender exercisable options in exchange for shares of common stock having a fair market value on the date of such surrender equal to the excess of the fair market value on such date of the shares to which such surrendered option relates over the aggregate option price under the related options up to, but not in excess of, twice the fair market value of such underlying shares on the date of grant. The Committee may, at its discretion, grant holders of stock appreciation rights the right to receive up to 50% of such excess in cash in lieu of shares of common stock. The program also authorizes the Committee to grant performance unit awards which are earned by the achievement of performance standards established by the Committee. Performance units are paid in cash or shares of common stock or both at the discretion of the Committee. At March 31, 1982 and 1983, 430,235 and 411,785 shares for stock options and stock appreciation rights awards were awarded and outstanding at an average price of $28.52 and $18.125 per share under the 1980 and 1983 programs, respectively. During 1983, no stock options and stock appreciation rights awards were made under the 1980 program and 411,785 shares for stock options and stock appreciation rights were awarded under the 1983 program. Awards relating to 37,630 and 45,060 shares were forfeited during 1983 and 1982, respectively. Charges to income with respect to stock appreciation rights and performance units were $2,042,000 and $1,521,000 during fiscal 1982 and 1981, respectively.

Career Executive Stock Plan - This plan, which was adopted as a plan of International effective March 15, 1983, originally authorized 600,000 shares of common stock to be issued to eligible employees in consideration of their services. Employees granted stock under the plan pay $1.00 per share as the option purchase price. Shares may be issued pursuant to the plan until June 30, 1984. Restrictions with respect to issued shares lapse in approximately equal amounts on the second through tenth anniversary dates of the date of issuance. The cost of the plan, based on fair market value on the date of issuance of common stock, is amortized over a ten year period following the date of issuance. Upon forfeiture of stock by employees, previous expense attributable to unvested stock is credited to income. No shares were forfeited under the plan during 1983. As of March 31, 1983, 82,876 shares of common stock are available for grant to eligible employees pursuant to the terms of the plan. Charges to income under the plan were $1,209,000, $1,193,000 and $1,125,000 during fiscal 1983, 1982 and 1981, respectively.

International Preferred Stock - At March 31, 1983, 25,000,000 shares of preferred stock were authorized and International had issued 100,000 shares of Series A participating preferred stock (the "Participating Preferred Stock") and 100,000 shares of Series B non-voting preferred stock (the "Non-Voting Preferred Stock"), all of which are presently owned by the Delaware Company. The annual per share dividend rates for the Participating Preferred Stock and the Non-Voting Preferred Stock are $10 (but no more than ten times the amount of the per share dividend on International common shares) and $20, respectively, payable quarterly, and dividends on such shares are cumulative to the extent not paid. In addition, shares of Participating Preferred Stock are entitled to receive additional dividends ("Participating Dividends") whenever dividends in excess of $3.00 per International Share are declared (or deemed to have been declared) in any fiscal year. The Participating Preferred Stock, as a class, shall be entitled to an aggregate number of votes equal to 10% of the total number of votes entitled to be cast on any matter by the stockholders of International.

The issuance of additional International preferred stock in the future and the specific terms thereof, such as the dividend rights, conversion rights, voting rights, redemption prices and similar matters, may be authorized by the Board of Directors of International without stockholder approval, except to the extent such approval may be required by applicable rules of the NYSE or applicable law. If additional preferred stock is issued, such additional shares will rank senior to International common stock as to dividends and upon liquidation.

International Warrants - At March 31, 1983 International had outstanding warrants to purchase 6,000,000 shares of its common stock exercisable by the payment per share of $25 cash or $25 principal amount of the Delaware Company's 10% Subordinated Debentures due 2003. The International warrants expire on April 1, 1990 or as early as April 1, 1988 if the International common stock trades at not less than 125% of the warrant exercise price for a specified period of time.

NOTE 9 - SEGMENT REPORTING

McDermott International operates primarily in three industry segments - marine construction services, power generation systems and equipment and engineered materials.

Marine construction services principally involve construction of specialized off-shore platforms and marine pipelines used for development drilling, production and transportation of oil and gas.

Power generation systems and equipment include individually engineered complete fossil fuel boilers, nuclear steam systems, nuclear fuel and nuclear fuel assemblies, replacement parts and customer services and associated equipment for electric utility and marine applications as well as fossil fuel boilers for industrial processes and power generation.

Engineered materials consist of tubular and insulating products designed and manufactured from basic and raw materials. Tubular products include stainless, alloy and carbon steel, seamless and welded tubes and pipe, tubular and solid shapes, extrusions, special metal tubes, and seamless rolled rings. Insulating products include kaolin clays, specially engineered and vacuum formed ceramic fibers, and other insulating and specialty products for use in high temperature furnaces for various heating and heat treating purposes and in other applications where the temperatures and rates of combustion or chemical reactions are unusually demanding.

Identifiable assets by industry segment are those assets that are used in operations in each segment. Corporate assets are principally cash, short-term investments and marketable securities.

Intersegment sales are accounted for at prices which are generally established by reference to similar transactions with unaffiliated customers.

Revenues attributable to transactions with unconsolidated joint venture companies were $25,960,000, $88,887,000 and $25,435,000 in fiscal 1983, 1982 and 1981, respectively.

Operating income (loss) does not reflect provisions of $42,300,000 and $51,000,000 made by McDermott International in fiscal 1983 and 1982 respectively to cover the closing of certain of its power generation systems and equipment facilities and the disposition of its automated machine and machine tools product lines. Such provisions are included in the other income (expense) section of the income statement as other expense.

Segment Information For the Fiscal Years Ended March 31, 1983.

1. Information about McDermott International's Operations in Different Industry Segments. (In thousands)

	1983	1982	1981
Total Revenues[1]			
Marine Construction Services	$ 1,605,194	$ 1,907,820	$ 1,417,222
Power Generation Systems & Equipment	1,738,747	2,019,018	1,832,524
Engineered Materials	437,179	1,017,215	706,915
Intersegment Transfer Eliminations	(73,353)	(100,867)	(116,963)
Total Revenues	$ 3,707,767	$ 4,843,186	$ 3,839,698

	1983	1982	1981
Operating Income[2]			
Marine Construction Services	$ 124,995	$ 72,231	$ 5,207
Power Generation Systems & Equipment	126,152	115,660	126,783
Engineered Materials	2,009	294,706	97,445
Total Operating Income	$ 253,156	$ 482,597	$ 229,435

(1) Total revenues include intersegment transfers as follows: (In thousands)

	1983	1982	1981
Power Generation Systems & Equipment	$ 427	$ 2,811	$ 6,028
Engineered Materials	72,926	98,056	110,935
Total	$ 73,353	$ 100,867	$ 116,963

(2) Reconciling items between Operating Income and Income Before Provision for Income Taxes, Minority Interest and Extraordinary Item are general Corporate Expenses and Other Income (Expense).

	(In thousands) 1983	1982	1981
Capital Expenditures			
Marine Construction Services	$ 113,966	$ 85,820	$ 201,351
Power Generation Systems & Equipment	24,523	25,494	36,906
Engineered Materials	41,932	12,450	30,541
Corporate	9,756	43,254	3,579
Total Capital Expenditures	$ 190,177	$ 167,018	$ 272,377
Depreciation and Amortization			
Marine Construction Services	$ 82,356	$ 79,796	$ 68,789
Power Generation Systems & Equipment	33,465	35,951	35,729
Engineered Materials	17,953	18,237	16,734
Corporate	7,606	6,092	4,970
Total Depreciation and Amortization	$ 141,380	$ 140,076	$ 126,222
Total Identifiable Assets			
Marine Construction Services	$ 1,157,966	$ 1,311,332	$ 1,402,320
Power Generation Systems & Equipment	1,182,533	1,333,283	1,365,271
Engineered Materials	534,629	752,144	637,057
Corporate	945,561	666,725	501,613
Total Identifiable Assets	$ 3,820,689	$ 4,063,484	$ 3,906,261

2. Information about McDermott International's Operations in Different Geographic Areas. (In thousands)

		1983	1982	1981
Revenues (1)	- Domestic	$ 2,322,968	$ 3,434,086	$ 2,896,106
	- Europe & West Africa	524,111	622,309	342,915
	- Other Foreign	860,688	786,791	600,677
	- Total	$ 3,707,767	$ 4,843,186	$ 3,839,698
Operating Income by Geographic Area (2)	- Domestic	$ 148,232	$ 500,060	$ 277,272
	- Europe & West Africa	28,675	(40,840)	(39,689)
	- Other Foreign	76,249	23,377	(8,148)
	- Total	$ 253,156	$ 482,597	$ 229,435
Identifiable Assets	- Domestic	$ 2,170,259	$ 2,579,113	$ 2,565,633
	- Europe & West Africa	219,680	294,158	459,840
	- Other Foreign	485,189	523,488	379,175
	- Corporate	945,561	666,725	501,613
	- Total	$ 3,820,689	$ 4,063,484	$ 3,906,261

(1) Transfers between geographic areas are immaterial and not separately stated.

(2) Reconciling items between Operating Income by Geographic Areas and Income Before Provision for Income Taxes, Minority Interest and Extraordinary Item are General Corporate Expenses and Other Income (Expense).

NOTE 10 - QUARTERLY FINANCIAL DATA

The following tables set forth selected unaudited quarterly financial information for the years ended March 31, 1983 and 1982:

	1983 Quarter Ended			
	June 30, 1982	Sept. 30, 1982	Dec. 31, 1982	March 31, 1983
	(In thousands except for per share amounts)			
Revenues	$ 1,172,804	$ 943,422	$ 805,178	$ 786,363
Operating income	72,480	53,388	26,381	26,828
Net income (loss)	43,092	17,876	(239)	(5,065)
Earnings (loss) per common and common equivalent share:				
Primary	1.17	.48	(.01)	(.13)
Fully diluted	1.08	.48	(.01)	(.13)

During the quarter ended March 31, 1983, net income was reduced by $10,158,000 for costs provided for the closing and disposal of certain of McDermott International's facilities. The quarter ended March 31, 1983 also includes extraordinary income of $5,142,000 ($0.14 per share) for tax benefits arising from the utilization of operating loss carryforwards.

	1982 Quarter Ended			
	June 30, 1981	Sept. 30, 1981	Dec. 31, 1981	March 31, 1982
	(In thousands except for per share amounts)			
Revenues	$ 1,148,819	$ 1,196,131	$ 1,199,708	$ 1,298,528
Operating income	84,753	83,490	116,491	125,533
Net income	41,974	48,001	48,509	45,105
Earnings per common and common equivalent share:				
Primary	1.14	1.30	1.32	1.22
Fully diluted	1.05	1.19	1.20	1.12

During the quarter ended March 31, 1982, net income was increased by $16,306,000 resulting from settlement of a cancellation claim on a nuclear steam system contract. During the same quarter, net income was reduced by $17,762,000 for costs provided for the closing and disposal of certain of McDermott International's facilities.

Preferred dividends of the Delaware Company previously reported in the Delaware Company's consolidated financial statements, through September 30, 1982, as a deduction from retained earnings have been reflected as minority interest.

NOTE 11 - EFFECTS OF GENERAL INFLATION (Unaudited)

In compliance with FASB Statement No. 33 "Financial Reporting and Changing Prices," certain supplementary information relating to the effects of general inflation and changes in specific prices is presented below. The information adjusted for general inflation is calculated by adjusting cost of sales and depreciation expense to a unit of common purchasing power determined by the Consumer Price Index for All Urban Consumers. The information adjusted for changes in specific prices is calculated by adjusting cost of sales and depreciation expense for changes in those prices that relate to property, plant and equipment, and inventory being used in the activities of the business. No other items of revenue or expense in the Condensed Consolidated Statement of Income are adjusted.

Depreciation expense included in income adjusted for changes in general inflation and adjusted for changes in specific prices is computed using the same depreciation methods and depreciable lives as are used for conventional financial statements.

Any comparison between the conventional financial statements and the required supplemental disclosures must be viewed with caution. The amounts shown adjusted for general inflation only correct for distortions caused by recording transactions in dollars of varying purchasing power. The amounts shown adjusted for changes in specific prices include the use of estimates and assumptions. Changes in individual prices are caused in part by changes in the general purchasing power of the dollar and in part by other supply and demand factors including technological change.

The provision for income taxes remains unchanged because tax laws do not allow McDermott International to claim tax deductions related to these adjustments. These disclosures highlight an important view of McDermott International's annual effective tax rate: 52% as presented in the conventional financial statements, 80% as adjusted for the effects of general inflation, and 84% as adjusted for the effects of specific inflation.

The gain from the decline in purchasing power of net amounts owed reflects the fact that total liabilities having a future fixed cash settlement exceeded total assets with similar characteristics. This unrealized gain theoretically represents the fact that net liabilities can be repaid with dollars having a lesser value than at the beginning of the year due to inflation.

The increase (decrease) in specific prices of inventories and property, plant and equipment represents the difference between the current cost amounts at the beginning of the year and the end of the year. Part of the difference is attributable to inflation in general and part is attributable to economic factors affecting the individual prices of the particular assets owned. To the extent that the difference has been realized by a sale during the year, it is included in income from operations on a current cost basis. The unrealized portion does not represent receipt (disbursement) of cash and should not be considered as providing (reducing) funds for reinvestment or dividend distribution in the current period.

The net assets shown under changes in general inflation and under changes in specific prices are adjusted only for changes in inventory and property, plant and equipment.

CONDENSED CONSOLIDATED STATEMENT OF INCOME
ADJUSTED FOR INFLATION
FISCAL YEAR ENDED MARCH 31, 1983

(In thousands except for per share amounts)

	As Reported in the Conventional Financial Statements	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
Revenues	$ 3,707,767	$ 3,707,767	$ 3,707,767
Cost and Expenses			
Cost of operations	3,096,375	3,102,193	3,092,445
Depreciation and amortization	141,380	195,344	209,483
Selling, general and administrative expenses	290,935	290,935	290,935
Other Income (Expense)	(6,763)	(6,763)	(6,763)
Income Before Provision for Income Taxes, Minority Interest and Extraordinary Item	172,314	112,532	108,141
Provision for Income Taxes	90,452	90,452	90,452
Minority Interest	31,340	31,340	31,340
Extraordinary Item - Tax Benefit	5,142	5,142	5,142
Net Income (Loss)	$ 55,664	$ (4,118)	$ (8,509)
Income (loss) per common and common equivalent share (Primary)	$ 1.51	$ (0.11)	$ (0.23)
Gain from decline in purchasing power of net amounts owed		$ 23,501	$ 23,501
Increase in current cost of inventory and property, plant and equipment held during the year (based on specific price changes)*			$ 43,334
Effects of increase in general price level			(70,334)
Decrease in current cost of inventory and property, plant and equipment held during the year (based on specific price changes) net of changes in the general price level			$ (27,000)
Net assets at year end	$ 1,221,312	$ 1,614,953	$ 1,666,082

* At March 31, 1983, current cost of inventory was $276,077 and current cost of property, plant and equipment, net of accumulated depreciation, was $1,659,297.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR INFLATION

(In thousands except for indices and per share amounts)

(In average for the year dollars)

	For Fiscal Year Ended March 31,				
	1983	1982	1981	1980	1979
	Adjusted for General Inflation (Constant Dollar)				
Revenues	$ 3,707,767	$ 5,092,853	$ 4,420,047	$ 4,109,569	$ 4,977,672
Net income (loss)	(4,118)	127,229	13,163	(7,010)	
Net income (loss) per common and common equivalent share	(0.11)	3.45	0.36	(0.21)	
Net assets at year end	1,614,953	1,704,213	1,600,245	1,603,918	
Cash dividends per common share	1.80	1.72	1.65	1.60	1.44
Market price per common share at year end	18-5/8	23-1/4	41-3/4	30-1/8	26-7/8
	Adjusted for Changes in Specific Prices (Current Costs)				
Net income (loss)	(8,509)	90,843	(20,026)	(16,835)	
Net income (loss) per common and common equivalent share	(0.23)	2.46	(0.54)	(0.52)	
Net assets at year end	1,666,082	1,793,376	1,748,798	1,814,768	
Increase (Decrease) in current cost inventory and property, plant and equipment held during the year, (based on specific price changes) net of changes in the general price level	(27,000)	28,275	16,453	114,832	
Other information: Gain from decline in purchasing power of net amounts owed	23,501	48,613	78,038	129,697	
Average consumer price index	291.7	277.4	253.4	224.8	200.1

Item 9. DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

There are no family relationships between any of the executive officers, directors or persons nominated to be such, and no executive officer was elected to his position pursuant to any arrangement or understanding between himself and any other person.

Information required by this item with respect to directors and executive offices is incorporated by reference to the material appearing under the headings "Election of Directors and Officers" and "Litigation Involving Directors and Officers" in the Proxy Statement for the 1983 Annual Meeting of Shareholders.

Information required by this item with respect to the involvement of certain of the Company's executive officers in certain legal proceedings is incorporated by reference to the material appearing under the heading "Litigation Involving Directors and Officers" in the Proxy Statement for the 1983 Annual Meeting of Shareholders.

Item 11. MANAGEMENT REMUNERATION AND TRANSACTIONS

Information required by this item is incorporated by reference to the material appearing under the heading "Remuneration of Directors and Officers and Certain Relationships and Related Transactions" in the Proxy Statement for the 1983 Annual Meeting of Shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is incorporated by reference to the material appearing under the heading "Election of Directors" in the Proxy Statement for the 1983 Annual Meeting of Shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is incorporated by reference to the material appearing under the heading "Remuneration of Directors and Officers and Certain Relationships and Related Transactions" in the Proxy Statement for the 1983 Annual Meeting of Shareholders.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORT ON FORM 8-K

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Consolidated Financial Schedules

All required schedules will be filed by amendment to this Form 10-K on Form 8.

Exhibit Index

3 Articles of Incorporation and By-Laws
(a) The Company's Restated Certificate of Incorporation
(b) The Company's By-Laws
4 Warrant Agreement
10 Material Contracts
(a) Supplemental Executive Retirement Plan
(b) 1983 Long-Term Performance Incentive Compensation Program
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FORM 8-K REPORTS

No reports on Form 8-K have been filed for the quarter ended March 31, 1983.

EXHIBIT 11

McDERMOTT INTERNATIONAL, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1983

(In thousands, except shares and per share amounts)

Primary

	1983	1982	1981
Net income	$ 55,664	$ 183,589	$ 69,271
Weighted average number of common shares outstanding during the year	36,824,045	36,732,334	36,538,377
Common stock equivalents of stock options, stock appreciation rights and performance units based on "treasury stock" method	42,198	155,998	137,902
Weighted average number of common and common equivalent shares outstanding during the year	36,866,243	36,888,332	36,676,279
Earnings per common and common equivalent share	$ 1.51	$ 4.98	$ 1.89

EXHIBIT 11
CONTINUED

Fully Diluted

	1983	1982	1981
Net income applicable to common stock	$ 55,664	$ 183,589	$ 69,271
Dividends on Subsidiary's Series A $2.20 Cumulative Convertible Preferred Stock assuming conversion to Common Stock (1)		13,830	
Interest and amortization of debt issuance expense on 4-3/4% Convertible Subordinated Debentures (net of taxes)	14	45	78
Net income for fully diluted computation	$ 55,678	$ 197,464	$ 69,349
Weighted average number of common and common equivalent shares outstanding during the year	36,866,243	36,888,332	36,676,279
Shares applicable to Subsidiary's Series A $2.20 Cumulative Convertible Preferred Stock (1)		6,286,919	
Shares applicable to 4-3/4% Convertible Subordinated Debentures	28,717	107,606	187,746
Weighted average number of common and common equivalent shares outstanding during the year, assuming full dilution	36,894,960	43,282,857	36,864,025
Earnings per common and common equivalent shares assuming full dilution (1)	$ 1.51	$ 4.56	$ 1.88

(1) Includes only computations which cause dilution.

EXHIBIT 22

McDERMOTT INTERNATIONAL, INC.
SUBSIDIARIES OF THE REGISTRANT
FISCAL YEAR ENDED MARCH 31, 1983

Name of Company	Organized Under the Laws of	Percentage of Voting Shares owned
McDermott International Investments Co., Inc.	Panama	100
McDermott Incorporated	Delaware	92
The Babcock & Wilcox Company	Delaware	100

The subsidiaries omitted from the foregoing list do not, considered in the aggregate, constitute a significant subsidiary.

CONSENT OF CERTIFIED PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 2-83692) of McDermott International, Inc. of our report dated May 27, 1983 with respect to the financial statements of McDermott International, Inc. included in this Form 10-K.

ARTHUR YOUNG & COMPANY

New Orleans, Louisiana
May 27, 1983

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDERMOTT INTERNATIONAL, INC.
(Registrant)

May 27, 1983

By: s/J. E. Cunningham
J. E. Cunningham
Chairman of the Board and
Chief Executive Officer

May 27, 1983

By: s/John A. Lynott
John A. Lynott
Executive Vice President and
Chief Financial Officer
and as Principal Accounting
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report is signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

s/J. E. Cunningham

J. E. Cunningham
Chairman of the Board,
Chief Executive Officer
and Director

May 27, 1983

s/John A. Lynott

John A. Lynott
Executive Vice President,
Chief Financial Officer
and Director

May 27, 1983

s/R. E. Howson

R. E. Howson
President and Chief Operating
Officer, McDermott Marine
Construction and Director

May 27, 1983

s/Walter M. Vannoy

Walter M. Vannoy
President and
Chief Operating Officer,
The Babcock & Wilcox Co.
Operating Unit and Director

May 27, 1983

s/John A. Morgan

John A. Morgan
Director

May 27, 1983

s/Walter O. Spencer

Walter O. Spencer
Director

May 27, 1983

s/John D. Ritchie

John D. Ritchie
Director

May 27, 1983

s/John B. Tweedy

John B. Tweedy
Director

May 27, 1983

s/William T. Seawell

William T. Seawell
Director

May 27, 1983

s/Russell L. Wagner

Russell L. Wagner
Director

May 27, 1983

s/Walter B. Shaw

Walter B. Shaw
Director

May 27, 1983

s/James A. Hunt

James A. Hunt
Director

May 27, 1983

s/C. L. Graves

C. L. Graves
Former Chairman of the Board
and Chief Executive Officer
and Director

May 27, 1983

s/J. L. Dutt

J. L. Dutt
Director

May 27, 1983

Transfer Agents and Registrars

First City National Bank of Houston
Post Office Box 809
Houston, Texas 77002

Morgan Guaranty Trust Company
30 West Broadway
New York, New York 10015

- Common Stock of McDermott International, Inc.
- Series A $2.20 Cumulative Convertible Preferred Stock of McDermott Incorporated
- Series B $2.60 Cumulative Preferred Stock of McDermott Incorporated

Trustees and Paying Agents

Morgan Guaranty Trust Company
30 West Broadway
New York, New York 10015

- 9⅝% Sinking Fund Debentures Due March 15, 2004
- 10.20% Sinking Fund Debentures Due December 1, 1999
- 9.40% Notes Due December 1, 1984

Pittsburgh National Bank
Post Office Box 340747
Pittsburgh, Pennsylvania 15230

- 6.80% Pollution Control Revenue Bonds, Series A Due February 1, 2009

Trustee, Paying Agent, Warrant Agent and Exchange Agent

Bankers Trust Company
Post Office Box 318
Church Street Station
New York, N.Y. 10015

- 10% Subordinated Debentures Due April 1, 2003
- Warrants to purchase McDermott International, Inc. Common Stock

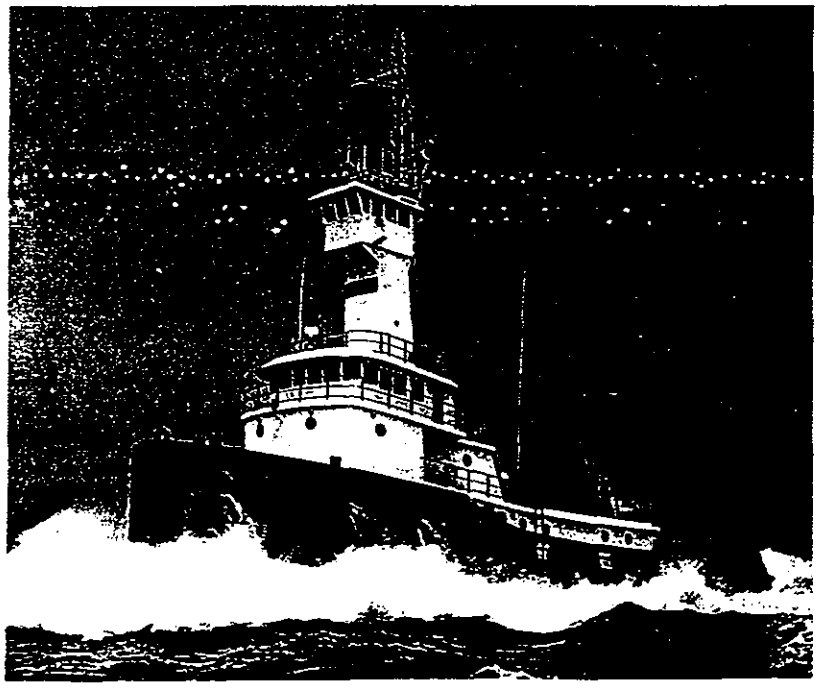
Annual Meeting

The Annual Meeting of the Stockholders of McDermott International, Inc. for the fiscal year ended March 31, 1983 will be held at the Royal Orleans Hotel, New Orleans, Louisiana on Tuesday, August 9, 1983 at 9:30 a.m. local time.

Information

Additional information about the company, including financial statement schedules and exhibits to the Annual Report to shareholders on Form 10-K for the fiscal year ended March 31, 1983, may be obtained, without charge, by writing:
Vice President, Employee and Public Relations
McDermott Incorporated
Post Office Box 60035
New Orleans, Louisiana 70160
(504) 587-4411

Inquiries regarding stockholder account matters should be addressed to:
Morgan Guaranty Trust Company
30 West Broadway
New York, New York 10015
(212) 587-6405



McDermott Shipyards applies hand craftmanship, advanced tooling, underroof construction, and computerized drafting to building high-quality tugboats, supply vessels, and drill barges.

:Dermott International, *inc.*
0 Common Street
/ Orleans, LA 70112
1) 587-5400

