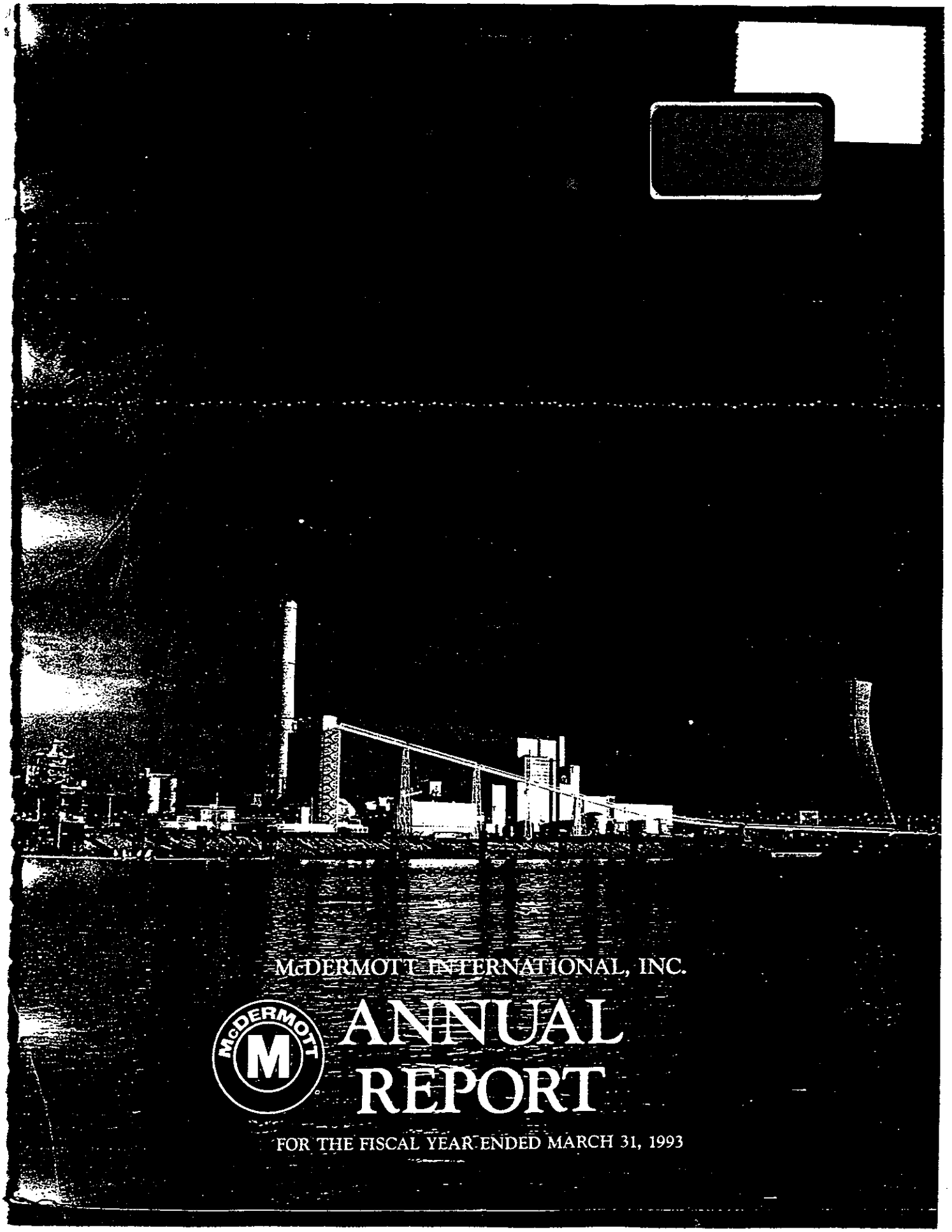


McDERMOTT INTERNATIONAL, INC.

ANNUAL REPORT

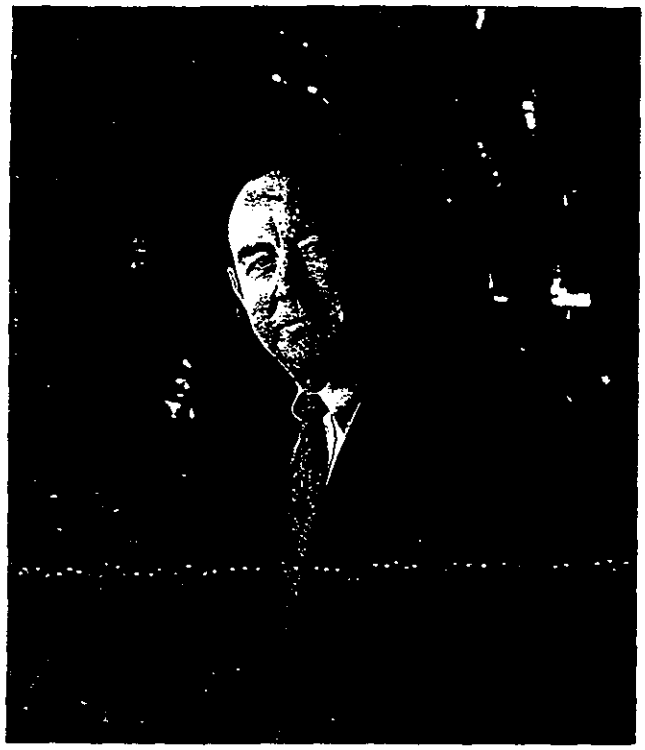
FOR THE FISCAL YEAR ENDED MARCH 31, 1993

RESULTS AT A GLANCE

McDermott International, Inc. for the Fiscal Years ended March 31, 1993 and 1992
In thousands of dollars except per share amounts, shares outstanding, and number of employees

	1993	1992
Revenues		
Operating Income		
Income From Continuing Operations		
Loss From Discontinued Operations		
Extraordinary Items		
Cumulative Effect of Accounting Changes		
Net Income (Loss)		
Primary and Fully Diluted Earnings (Loss) Per Common and Common Equivalent Share:		
Continuing Operations		
Discontinued Operations		
Extraordinary Items		
Accounting Changes		
Net Income (Loss)		
Stockholders' Equity Per Common Share		
Cash Dividends Per Common Share		
Common Stock Price Per Common Share:		
High		
Low		
Weighted Average Number of Common and Common Equivalent Shares Outstanding During the Year		
Capital Expenditures		
Backlog		
Number of Employees Including Subcontract Labor		

Cover: *In its first full year of operation, the Zimmer generating station in Ohio set both U.S. and world records for total power generation. This 1,300 MW Babcock & Wilcox installation, completed in 1991, is the largest supercritical coal-fired boiler and scrubber system in the world and the first nuclear-to-coal conversion project.*



Robert E. Howson
Chairman of the Board and
Chief Executive Officer

To Our Shareholders:

I am happy to report that in fiscal 1993 our operating income continued its profitable trend.

Income from continuing operations was $67.3 million, or $1.29 a share, for the fiscal year ended March 31, 1993, compared with $80.5 million, or $1.75 a share, in fiscal 1992. Operating income, which includes equity in income from investees, was $165.4 million, compared with $121.1 million in fiscal 1992.

Because we elected to adopt SFAS #106, "Employer's Accounting for Postretirement Benefits Other Than Pensions", in fiscal 1993, we reported a net loss for the year. SFAS #106 resulted in a one-time after-tax charge to earnings of $249.4 million, or $4.79 a share. We also elected to adopt SFAS #109, "Accounting for Income Taxes", which increased net income by $3.7 million, or $0.07 a share.

Therefore, the net loss for fiscal 1993 was $188.7 million, or $3.63 a share, compared with net income of $77.2 million, or $1.67 a share in fiscal 1992.

Four Years of Progress

Four years ago, in fiscal 1989, we initiated a focus on our core businesses and on improving our positions in the markets they serve.

We have sold assets and lines of business that did not sustain our core skills in engineering, fabrication, and construction or that did not offer us the opportunity to be a leading competitor in a given market.

We have added assets and established joint ventures to complement our core skills. We acquired a facility to fabricate small boilers; we added DB 50, one of our most versatile pieces of equipment, to our marine fleet; and we developed facilities to compete in new government markets.

Our major marine construction joint ventures, HeereMac and McDermott-ETPM, have consistently improved since they were established. While they lost money in fiscal 1991, in total they generated cash; in fiscal 1992 they generated both cash and net income. During fiscal 1993, they made a substantial contribution to our operating results.

Important Acquisitions

In fiscal 1993, we acquired Mentor Engineering Consultants Limited, a London-based design and management consultant for subsea technology. Mentor brings us new skills that will enable us to compete for a broader spectrum of work in our marine markets.

After the close of fiscal 1993, we acquired a controlling interest in Delta Catalytic Corporation of Calgary, Alberta, the first step in a two-step transaction which will be completed at the end of 1996, when we intend to acquire the balance of Delta Catalytic.

Delta Catalytic provides engineering, procurement, construction, industrial maintenance, tool rental and specialty services to industries worldwide, including oil and gas; power generation; industrial, civil, and marine construction; petrochemical; and pulp and paper. It is the only Canadian company that provides this scope of service.

The acquisition combines the international presence and technological expertise of Delta Catalytic, McDermott, and our Hudson Engineering subsidiary to create a base for competition in new and traditional energy related markets.

New Operating Strengths

These acquisitions are steps toward our objective of supplementing our traditional marine construction and power generation businesses with lines of business that open new markets to us while using our core skills.

The expansion of our engineering and industrial group in fiscal 1993 to include McDermott Shipyard and our projects in the former Soviet Union are also steps in this direction.

In fiscal 1994, we intend to establish new operations in this group under the name Delta Hudson, drawing on resources from Delta Catalytic and Hudson Engineering to pursue onshore, energy-related work in both domestic and international markets.

Major FSU Projects

McDermott is currently involved in two major projects under consideration in the former Soviet Union, one in Russia and the other in Azerbaijan.

The consortium formed for our Russian project was strengthened during the year with the addition of Shell Development Sakhalin B.V. and Mitsubishi Corporation. McDermott retains a 20% interest in the consortium.

The consortium submitted a feasibility study for development of two fields offshore Sakhalin Island in the Russian Far East. Two Russian expertise committees have reviewed the study and recommended development of the fields to the central government. Currently, we are awaiting the final decision on development, which we expect will be positive.

In Azerbaijan, we completed a feasibility study for construction in the Azeri, Chirag and Guneshli fields with representatives of the State Oil Company of the Azerbaijan Republic (SOCAR), Amoco, British Petroleum and Pennzoil. The government of Azerbaijan is reviewing an alternative plan to unitize these fields. We expect to hold an equity position under the unitization plan.

Separately, we also made preliminary agreements with SOCAR to form four joint ventures for engineering, fabrication and installation, onshore and offshore pipeline construction, and shipbuilding and repair. We provided assistance to SOCAR, under a contract with Pennzoil, for a pipeline installation in the Guneshli field, one of the three fields in the Caspian Sea that has been unitized.

Councils Improve Management

To improve the sharing of information across McDermott, we have established seven councils made up of employees representing all divisions of the company. Each council has a sponsor from McDermott's executive management charged with improving the way its function is handled across McDermott.

For example, since 1991, our health and safety council, working with our operating divisions, has addressed workplace safety issues to reduce our workers' compensation costs. As a result, we have seen a dramatic drop in lost time accidents across the company, and we have realized a substantial reduction in workers' compensation costs.

Other councils include engineering, manufacturing, quality, project management, purchasing, and marketing. Each council improves the way McDermott does business for the benefit of our shareholders and stakeholders by pursuing goals that will improve our quality while continuing to drive our costs down and strengthening our core skills.

Focus on Technology

The efficient use of our technologies has been, and will continue to be, the key to better products and services for our customers and better returns for our shareholders.

In fiscal 1993, we appointed the company's first chief technical officer, Dr. E. Allen Womack, to maintain our technological focus. Allen, who was previously senior vice president, research and development, is now responsible for maintaining the company's overall strategic engineering and technical leadership in all areas of operation.

Management Changes

Jack Eckert has announced his plan to retire as an employee of McDermott and as a director of the corporation on October 1, 1993, after 38 years with Babcock & Wilcox and McDermott.

Jack has proven that the most valuable asset McDermott acquired with B&W was its employees. As vice president and group executive of the defense and nuclear power group of B&W and as president and chief operating officer of McDermott, he has contributed greatly to our success, and he leaves us better prepared for the future. We will miss him and we wish him well.

With his announcement, we named Jack vice chairman and we closed the office of president and chief operating officer of McDermott International.

In its place, we have named a president and chief operating officer for each of our two major operating units—Joe Stewart at Babcock & Wilcox and Jim Wildasin at McDermott Marine Construction. Bill Higgins has been named executive vice president and group executive of our engineering and industrial group.

This new organization will improve our service to our customers by allowing Joe, Jim, and Bill to attend to the specific needs of our markets, while Allen Womack ensures the overall effectiveness of our technology.

Lawrence R. Purtell has joined our staff as senior vice president and general counsel and corporate secretary. He comes to us from United Technologies, where he was vice president, general counsel and secretary of Carrier Corporation, a United Technologies subsidiary. He replaces Frank Allen, who now oversees our environmental affairs, safety and health, and risk management, reporting to Dick Woolbert, our chief administrative officer.

Jim Cunningham will retire from our board of directors, effective at our annual shareholders meeting in August, 1993. Jim's retirement completes a 35 year association with McDermott including nine years as chairman and chief executive officer. The corporation is indebted to Jim for his leadership and his service.

In June, 1993, we welcomed three new directors. Joining our board are Theodore H. Black, chairman and chief executive officer of Ingersoll-Rand Co.; John N. Turner, a partner in the Toronto law firm of Miller Thomson; and Brock A. Hattox, our senior vice president and chief financial officer.

The McDermott Outlook

The outlook for our major operations varies. Our power generation business appears to be moving into a period of sustained growth, and our overall government markets remain stable. Our marine markets show remarkable strengths in some regions which, when combined with results from our marine joint ventures, should maintain the overall strength of this segment. Our engineering and industrial markets present a growing number of opportunities which we will pursue aggressively.

In fiscal 1994, we will stay on the course that has lead to the improvements of the past few years. We will continue to seek improvements in profitability and in our financial base, giving our operations the flexibility to perform at their best and providing our shareholders with growing returns.



Robert E. Howson
Chairman of the Board and
Chief Executive Officer
June 1993

A Year of Growing Financial Strength

Over the past several years, the company has made substantial financial progress culminating in two years of improving operating profits after several years of losses.

These improvements came as we implemented an overall strategy to strengthen our financial position and to focus on the profitability of our operations.

Last year, we reported on the financial restructuring we began in 1991. Our objectives were to reduce our debt and extend our average debt maturity. In fiscal 1993, we continued to work on these objectives, and we took additional measures to create long-term financial stability.

We completed the asset sales included in our restructuring plan with the sale of half of our interest in the Ebensburg cogeneration plant, the sale of the remaining interests in our commercial nuclear joint ventures, and the sale of 19 tugs and supply boats, which were no longer essential to our core marine business.

We also took several steps to reduce our interest expense and restructure our debt. Interest rate swap agreements, which effectively change the interest rates on long-term notes payable, reduced interest expense by approximately $7 million in fiscal 1993 with additional savings to be recognized in fiscal 1994.

We issued $75 million in medium term notes to fund an early settlement of taxes, saving about $2 million in annual interest expense.

Next, we began a plan to refinance part of our long-term debt to further reduce interest expense and arrange the maturities to avoid large amounts of debt coming due in consecutive years.

Under the plan, which was completed in June, 1993, we redeemed four debt issues: our 9.625% sinking fund debentures due March 15, 2004; our 10% subordinated debentures due April 1, 2003; our 10.2% sinking fund debentures due December 1, 1999; and our 12.25% senior subordinated notes, due June 1, 1998.

In total, we called about $240 million in debt. The average interest on the debt was 11.77%, with maturities extending from five to 11 years. Our refinancing interest rate was 5.32% and maturities were spread from five to 30 years. We expect this refinancing to increase net income by approximately $10.3 million.

The redemptions were funded by $100 million in new debt and $100 million from our investment portfolio with additional funds coming from working capital.

This program extends our average debt maturity to 7.2 years, meeting our goal, and avoids significant maturities in close succession. Thus, large amounts of debt will not come due in a period that coincides with a potential natural downturn in our business cycle, or a period of high interest rates.

Improved earnings and our restructuring programs enabled us to reduce our debt by about $350 million during the past two years, while our investments declined by only $75 million.

No additional significant amounts of long-term debt will come due in either fiscal 1994 or 1995. However, we are investigating the refinancing of the 10.25% notes due in June 1995 to take advantage of the lower interest rates currently available.

In addition to our strategies to manage debt, we have also implemented goals for our net income. Our short-term goal for fiscal 1993 was to achieve earnings of 3% on corporate capital, or $1 a share. When our income is adjusted to remove non-recurring items, it meets this goal.

Longer term, our goal is to earn 8.5% on overall corporate capital, which would result in significantly higher earnings. By setting these goals, we give both our management and our investors a clear understanding of the returns we would like to provide for our shareholders. The managers of our operations have endorsed the goals and have developed plans for their business units to reach them. We will continue to review our progress toward them and adjust our operations as necessary.

Reducing and restructuring our debt, strengthening our balance sheet, and improving our overall financial returns have made McDermott a stronger company than it has been at any time in the recent past. We will continue to manage our finances in a way that maintains our financial stability, complements our technical and operational strengths, and provides growing returns for our shareholders.

Power Generation Systems and Equipment

Results for the Fiscal Year Ended March 31,
(Thousands of dollars)

	1993	1992
Revenues	$ 1,523,476	$ 1,593,501
Segment Operating Income	56,467	109,774
Backlog	2,614,708	2,318,129

Revenues in this segment were lower primarily due to a decrease in revenues from nuclear fuel assemblies and reactor components for the U.S. government and from plant enhancements. Revenues were also affected by the deconsolidation of our commercial nuclear fuel joint venture after we sold our controlling interest in December 1991. (We have since sold our remaining interest in the venture.)

Higher revenues from fabrication and erection of fossil fuel steam and environmental control systems and extended scope of supply and fabrication of industrial boilers helped offset the decrease.

Non-recurring items in fiscal 1992 benefited that year's operating income. Lower volume and margins on plant enhancements and lower volume from nuclear fuel assemblies and reactor components for the U.S. government were also a factor in the decline.

However, higher volume and margins on fabrication and erection of fossil fuel steam and environmental control systems and higher margins on defense and space-related products somewhat offset the decline in income.

Backlog grew primarily because of contracts to supply replacement recirculating steam generators for U.S. nuclear power plants.

Marine Construction Services

Results for the Fiscal Year Ended March 31,
(Thousands of dollars)

	1993	1992
Revenues	$ 1,649,653	$ 1,936,618
Segment Operating Income	67,652	55,908
Backlog	1,129,577	1,239,776

This segment's revenues decreased primarily due to the deconsolidation of the McDermott-ETPM West joint venture in December 1991. Revenues from domestic fabrication and offshore operations and from fabrication operations in Scotland were lower, while revenues from foreign turnkey projects increased.

The segment's operating income increased primarily due to better margins on domestic offshore operations and foreign turnkey projects. However, the increase was offset in part by deconsolidation of the McDermott-ETPM joint venture. In addition, volume was lower in domestic offshore operations and volume and margins were lower in domestic fabrication operations.

Backlog in the segment declined slightly from year-to-year. However, backlogs from neither year include contracts related to our unconsolidated joint ventures, which totaled about $900 million at the end of fiscal 1993 compared to about $1.2 billion at the end of fiscal 1992.

Equity in Income of Investees

Results for the Fiscal Year Ended March 31,
(Thousands of dollars)

	1993	1992
Equity in Income of Investees	$ 94,058	$ 7,242

Equity in income of investees made a substantial contribution to the improvement in operating income from fiscal 1992 to fiscal 1993. The increase came principally from improved operating results in our HeereMac joint venture and both improved operating results and foreign currency transaction gains in the McDermott-ETPM West joint venture. While we expect these ventures to continue their strong performances in fiscal 1994, we do not expect them to reach the levels of fiscal 1993.

BABCOCK & WILCOX

Power and Environmental Business



Joe J. Stewart
President and
Chief Operating Officer
The Babcock & Wilcox Company

The power and environmental business of Babcock & Wilcox benefited in several important markets in fiscal 1993: boilers for international customers, replacement nuclear steam generators, environmental equipment, large engineer-procure-construct contracts, and equity investments in private energy facilities as well as operation and maintenance of those facilities.

International Markets

In the international market for boilers, currently our strongest original equipment market, B&W captured 21% of the orders worldwide in 1992 for large power boilers, more than any other competitor, as measured by McCoy Power Reports, an independent market survey.

This position grew from a small overseas market share during the early 1980s. We set out to improve that share by establishing strategic joint ventures in Asia and around the Pacific Rim, the area with the strongest potential for growth and the most competitive labor rates.

Today, more than 40% of our boiler manufacturing capacity is in joint ventures in China, India, and Indonesia. The awards that contributed to our number one market share range from a 5.5 MW oil-fired boiler to be installed in Peru to a combined 2,500 MW ordered at five power plants in China.

We intend to maintain our profitable leadership in the worldwide boiler market, even as the competition increases. Fiscal 1994 started off well with the award of three 600 MW boilers from Perusahaan Umum Listrik Negara, the state utility of Indonesia, worth about $400 million to B&W.

Replacement Steam Generators

The current demand to replace aging steam generators at nuclear power plants follows our replacement of two units at Northeast Utilities' Millstone Plant. B&W's selection at Millstone was based on the B&W design's reputation for quality and its superior record for reliability.

In fiscal 1993, the design was again rewarded as three U.S. utilities chose us to replace 16 steam generators, all originally built by competitors. These projects will extend over the next five years. In addition, we've signed options to replace several more steam generators in the U.S., and we seek to expand our success into international markets.

The quality of our design was confirmed by a consortium of major U.S. utilities formed to evaluate and recommend a replacement steam generator design. Of the alternatives, the B&W steam generator was rated the best available, on both its technical and commercial merits.

Environmental Equipment

Our success in the environmental market during fiscal 1992 gave us a substantial backlog of scrubber work which we are now executing. Engineering and procurement is complete on these scrubbers, and construction is beginning on a schedule that will bring the scrubbers on line by January 1, 1995.

Although the final scrubber awards have been made under phase one of the Clean Air Act of 1990, we continue to pursue environmental work, worldwide, including scrubbers and selective catalytic reduction (SCR) systems.

Taiwan Power has selected B&W to fabricate both the scrubbers and the SCR system for its Taichung power plant, which will generate 2,200 MW from four B&W boilers, now under construction. B&W won these projects in open competition against manufacturers from Europe, Asia, and North America, evidence of the success of our internal programs to improve quality and increase teamwork as we reduce costs and improve profitability.

The SCR installation at the Taichung power plant in Taiwan is one of the largest in the world. We are also completing the first major SCR retrofit in the United States at the Haynes station of the Los Angeles Department of Water and Power.

We expect strong demand for environmental equipment, worldwide. Scrubbers to be installed in phase two of the Clean Air Act will be ordered after phase one is complete in 1995, and orders for NOx reduction equipment will continue to grow.

Fossil Service

Our service business benefits from the demand for NOx reduction by installing low-NOx burners in existing power plants. We estimate that we won over 40% of the low-NOx combustion systems that we bid on in 1992, creating bookings of about $48 million.

This market could be worth as much as $700 million between 1993 and 2000, as U.S. power producers comply with requirements to reduce emissions. The products and services we offer these customers will be improved at our new combustion and emission development facility, an investment that will help our scientists and engineers understand emissions from fossil-fuel power plants and develop technologies to control them.



A growing service market for our construction business comes from repowering existing power plants. Babcock & Wilcox Construction Co., Inc. is currently under contract with Public Service Electric & Gas to rebuild a 300 MW boiler at a power station in Trenton, New Jersey. The approximately $60-million contract includes a team/partnering agreement between the customer and B&W Construction Co. which we expect to reduce overall cost, while assuring the customer completion on time and within budget and assuring BWCC a profitable performance.

The long-term prospects for boiler rebuilds and repowering are strong as utilities add gas turbines to existing power plants. We will participate by modifying boilers to accept gas turbines as a source of heat and by erecting and installing turbines and heat recovery steam generators (HRSGs)

We won a contract worth about $5 million to manufacture and erect a B&W-designed HRSG at a chemical plant in Florida. The unit will be installed in a 200 MW combined-cycle plant, recovering heat from a gas turbine to make steam.



Fossil And Power Systems Projects

We completed the $183-million pulping mill and power house at Pennington, Alabama, for the Naheola Cogeneration Limited Partnership. The pulping mill for the engineer-procure-construct project was accepted for operation three months ahead of schedule and the entire project was completed under budget and in record time.

While we reduced our interest in the Ebensburg, Pennsylvania cogeneration plant by 50% as part of our financial restructuring, we continue to operate it. This plant has proved the effectiveness of our circulating fluidized bed combustion technology with an availability factor of over 95%.

We are working in the market for recycling facilities with the construction of a materials recovery facility in San Marcos, California, which is near completion. The $70-million project will recover recyclable material from commercial and household waste, reducing trash sent to landfills. The plant uses the waste separation technology of our subsidiary National Ecology Company, which will operate and maintain the entire plant. We expect more communities will build these facilities in the future.

We enlarged our power systems business to better serve our customers' demands for turnkey projects and projects that require assistance with financing. We are developing several private power projects, both in the United States and internationally, and our role in them could go beyond equipment manufacturing to include equity investor, engineer-procure-construct contractor, and operations and maintenance. The power systems business provides a significant contribution to the profitability of the corporation and our shareholders' equity through investment in and operation of power generation facilities.

Outlook

Our power generation and environmental equipment markets offer an opportunity for sustained growth over the next several years.

We will recognize growing revenues from international boiler projects booked in fiscal 1992 and 1993, and we expect our international boiler markets to be strong for the foreseeable future. Domestic boiler markets will not grow substantially until the latter part of this decade, depending on economic recovery in the United States. Our power systems business will help us capture opportunities accompanying changes in our boiler markets.

Our environmental business will continue to be important, both in the United States and worldwide, as we recognize revenues from scrubber orders booked over the past two years and from other environmental work driven by NOx reductions. Scrubber orders from international customers will be significant in the growth in our environmental business.

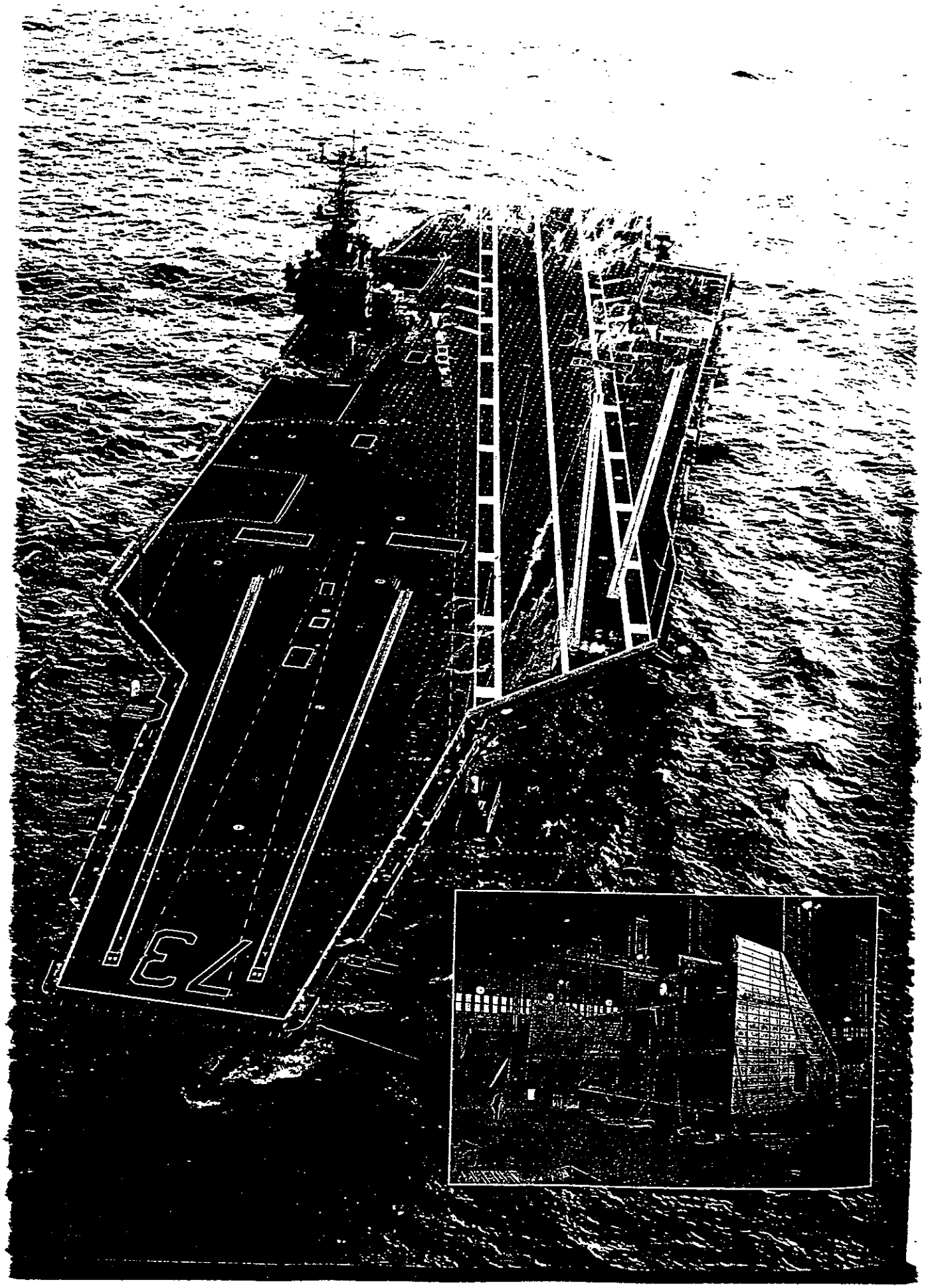
Replacement steam generator markets will also be strong with new orders complementing those we have already received.

Accomplishment In Print

Our power and environmental operations accomplished many objectives in fiscal 1993. But perhaps the most useful achievement for our customers was not an operational event, but the completion of the 40th edition of Steam: its generation and use, *B&W's authoritative handbook on steam generation, written and edited by B&W employees.*

The first edition of Steam was published in 1875 as a service to the industry in America. Today, the 40th edition is being prepared for translation from English into Chinese, Russian, and Spanish, and it continues as a principal source for our customers and other professionals, worldwide, who design, procure, construct, and maintain steam generating equipment.

Left and above: *At the Haynes station of the Los Angeles Department of Water and Power, B&W made the first major retrofit in the United States of selective catalytic reduction equipment for the control of NOx emissions.*



Government Group

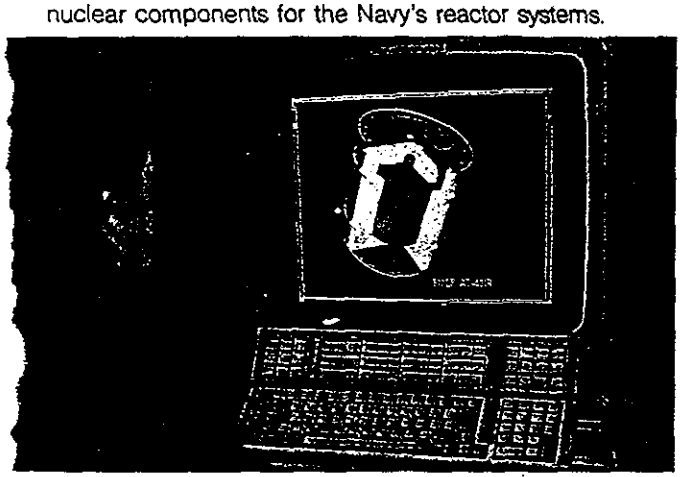
B&W's government group continued to emphasize diversification by adding new products and services to its traditional defense business. The group has targeted markets requiring the same high standards of quality and manufacturing B&W developed in 40 years as a supplier to the U.S. Navy's nuclear program, perhaps the most successful nuclear program in the world.

Traditional Programs

The Navy's nuclear program continues to be the cornerstone of our government operations, despite an overall reduction in demand.

In fiscal 1993, the naval nuclear fuel division received a $200 million contract and the nuclear equipment division booked $190 million in contracts to supply components for the next nuclear-powered aircraft carrier.

We continue to be the single source of nuclear fuel for the Navy, and in fiscal 1993, we became the single source of nuclear components for the Navy's reactor systems.



New Programs Grow

The nuclear equipment division signed a five-year partnering agreement with General Electric to manufacture casings for GE's steam turbines. Under the agreement, the division will convert facilities and equipment formerly used to make large components for the Navy into a focused factory for turbine casings.

NED will manufacture all of GE's steam turbine casings except in regions of the world where local content laws may require otherwise. GE is the leading manufacturer of steam turbines in the world, and it has been B&W's privilege to work closely with GE over the years building and installing boilers to provide steam for turbine generator sets.

Our superconducting/cryogenics business moved past an important milestone with the testing of the first quadrupole model magnets fabricated by private industry. The magnets tested substantially above design requirements. We were awarded additional contracts for corrector magnets, and we began construction of the magnet assembly facility for our work on the Department of Energy's superconducting super collider.

We completed renovation and expansion of the facility where we will manufacture NASA's advanced solid rocket motor casings. The first casing is scheduled for delivery in late 1994.

By the end of fiscal 1993, we had completed more than 90% of the decommissioning and decontamination of our former nuclear facility in Apollo, Pennsylvania, a $65-million project partially funded through the Department of Defense. This is among the largest and most complex commercial remediation projects ever undertaken in the United States.

The project established B&W as a significant competitor in the environmental restoration market and helped us win a contract for the cleanup of a Department of Energy site in Missouri, our first competitive contract in this market.

Technological Strengths

The specialized technology developed by B&W's government group has helped us achieve success in a number of markets in a relatively short time.

Within the manufactured systems and technology unit, the ERI facility, which we acquired in 1987, has become the leading producer of metal parts for tactical missiles used by the United States military. In fiscal 1993, the division won a joint Army-Navy competition to produce parts for the AMRAM program and is now the single source for several programs.

In the three years since we formed our ordnance systems operation, it has become the single source for the Navy's MK48 torpedo warheads, as well as primary supplier of MK50 warhead components. The operation is also manufacturing components for Army warheads and exploring the transfer of warhead technology to peaceful, commercial uses.

In the factory automation market, we're using the skills acquired for some of our Navy work to develop and market computer integrated manufacturing systems that will make our customers more efficient and productive.

Outlook

B&W's government group provides McDermott with highly technical skills that enable the company to compete in a variety of markets. Over the past several years, we have moved from making products for one customer to use in very specific applications to making various products for many different customers to use in a wide variety of applications.

In the coming year, we will continue to focus on our technical strengths in support of our base business with the Navy and on new products for new government customers. We will accelerate our diversification into new markets where we can compete efficiently and effectively, either expanding our base in the Naval reactors program or leading us to new government or commercial markets.

Left: B&W is the single source for nuclear fuel and components for U.S. Navy submarines and aircraft carriers like the U.S.S. George Washington. (Photo courtesy of the U.S. Navy.) (Inset) McDermott Marine Construction has fabricated modules for carriers.

Above: B&W designs and fabricates containers for the storage and safeguarding of nuclear material. Negotiations are currently underway to supply these containers to both inside and outside the United States.

McDermott Marine Construction



James J. Wildasin
President and
Chief Operating Officer
McDermott Marine Construction

Domestic

Our domestic marine construction operations continued work on important projects in fiscal 1993, including two deepwater projects for the Gulf of Mexico and an offshore installation off the coast of California.

At our fabrication yard in Morgan City, Louisiana, the deck of Shell Offshore Inc.'s Auger tension-leg platform neared completion at the end of the fiscal year. When finished in the summer of 1993, the deck, which will weigh 23,000 tons, will be towed into the Gulf of Mexico, where we will mate it to the hull.

We will outfit the entire structure at the Port of Freeport, Texas, and in the fall of 1993, install it and hook it up in 2,860 feet of water in the Gulf of Mexico. We are installing the pipelines to the platform using the J-lay method. We have modified Derrick Barge 50 to install these pipelines, which will reach record water depths up to the maximum depth of the platform. The J-lay method can be used in waters in excess of 5,000 feet. In its initial use on the Auger project, the J-lay technique has proved extremely successful.

Our second major deepwater project is the fabrication of a fixed platform and deck for BP Exploration Inc. The platform, which is scheduled to be complete in the first half of 1994, will be installed in 1,290 feet of water and will be the second tallest fixed platform in the Gulf of Mexico. Our HeereMac joint venture will install the platform.

On the West Coast of the United States, we completed the installation of Exxon's Heritage and Harmony platforms ahead of schedule. The project, which included 26 major offshore lifts, was installed by Derrick Barge 51 in an environmentally sensitive area off the coast of California.

Our domestic operations also completed fabrication associated with the OSO project. McDermott was part of a consortium with Bouygues Offshore and JGC Corporation which provided engineering, procurement, and construction for the project to the Nigerian National Petroleum Corporation and Mobil Producing Nigeria.

North Sea

By the end of the fiscal year, the major projects at our North Sea fabrication yard in Ardersier, Scotland had been completed. During the year, the yard finished work on the jacket and pilings for the Saltire A jacket for Elf Enterprise (Caledonia), which were installed by HeereMac.

The yard also completed work on Amerada Hess's Scott project, which included the fabrication of two jackets. The second jacket was completed near the end of the fiscal year, with installation scheduled to be completed in fiscal 1994 by HeereMac. The first of the two jackets was completed and installed in fiscal 1993.

Middle East

In the Middle East, we completed work on the Iranian Offshore Oil Company's Salman project. The project is one of the largest turnkey projects ever completed in the region, with 10 platforms, 12 bridges, and two pipelines. The Salman complex was rebuilt utilizing highly sophisticated, state-of-the-art systems and features to make it the most modern of its kind in the area. At peak, a total of 1,600 people worked on this project, both in the fabrication yard and offshore.

We also completed the first North Sea platform ever built in the Middle East. The project called for the design, procurement, construction, and transportation of a living quarters module, supporting jacket, and connecting bridge for the Hewett development of Phillips Petroleum Company UK Limited.

Design and procurement of the structures were completed by McDermott Engineering (Europe), Limited, and fabrication and transportation were provided by our joint venture McDermott-ETPM East, Inc. at our fabrication yard in Jebel Ail. The facilities were installed by HeereMac.

The Jebel Ali yard fabricated four wellhead platforms and a jacket for Amoco Netherlands under a contract awarded through McDermott-ETPM. The facilities were installed by HeereMac at a central process facility in the Dutch sector of the North Sea.

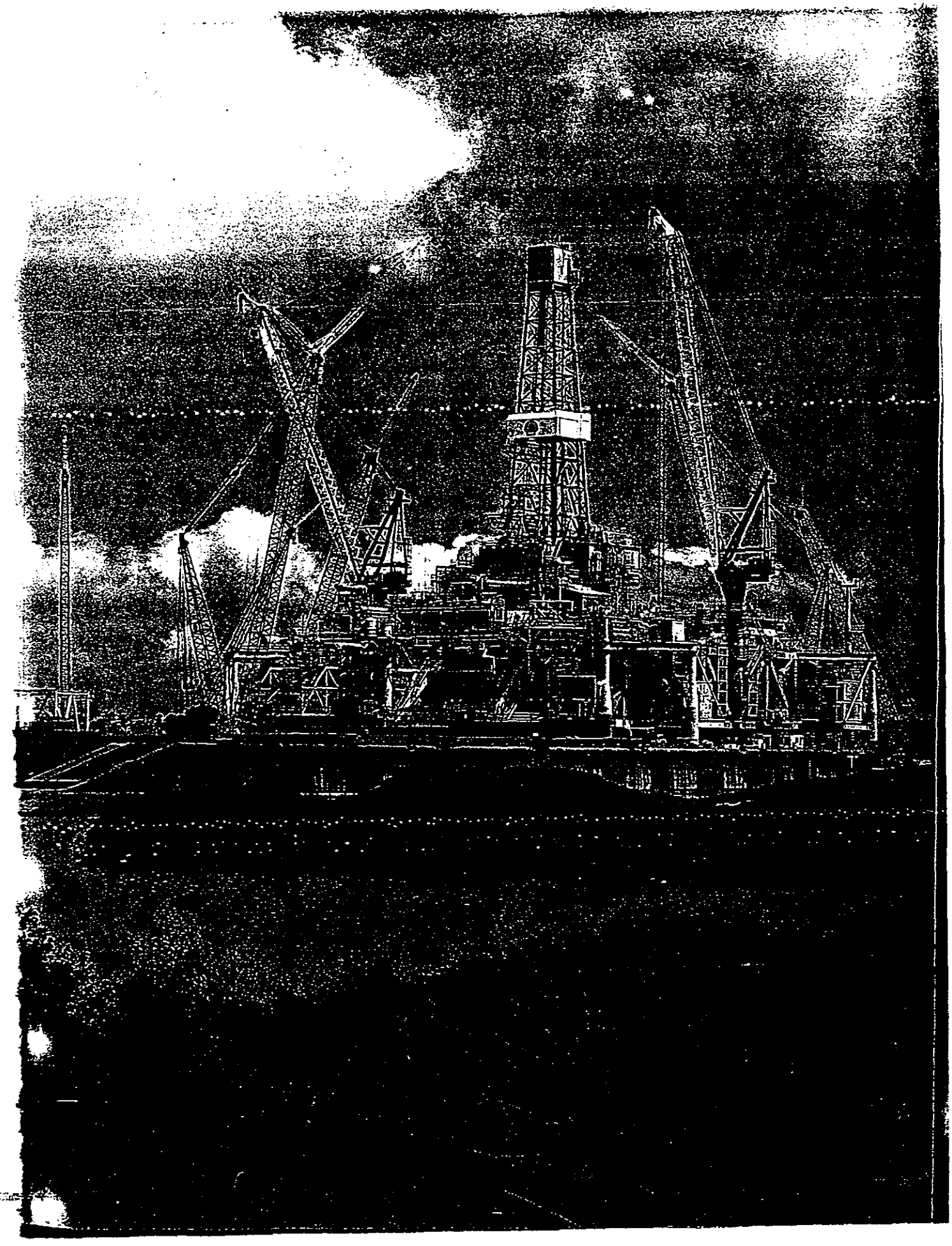
Southeast Asia

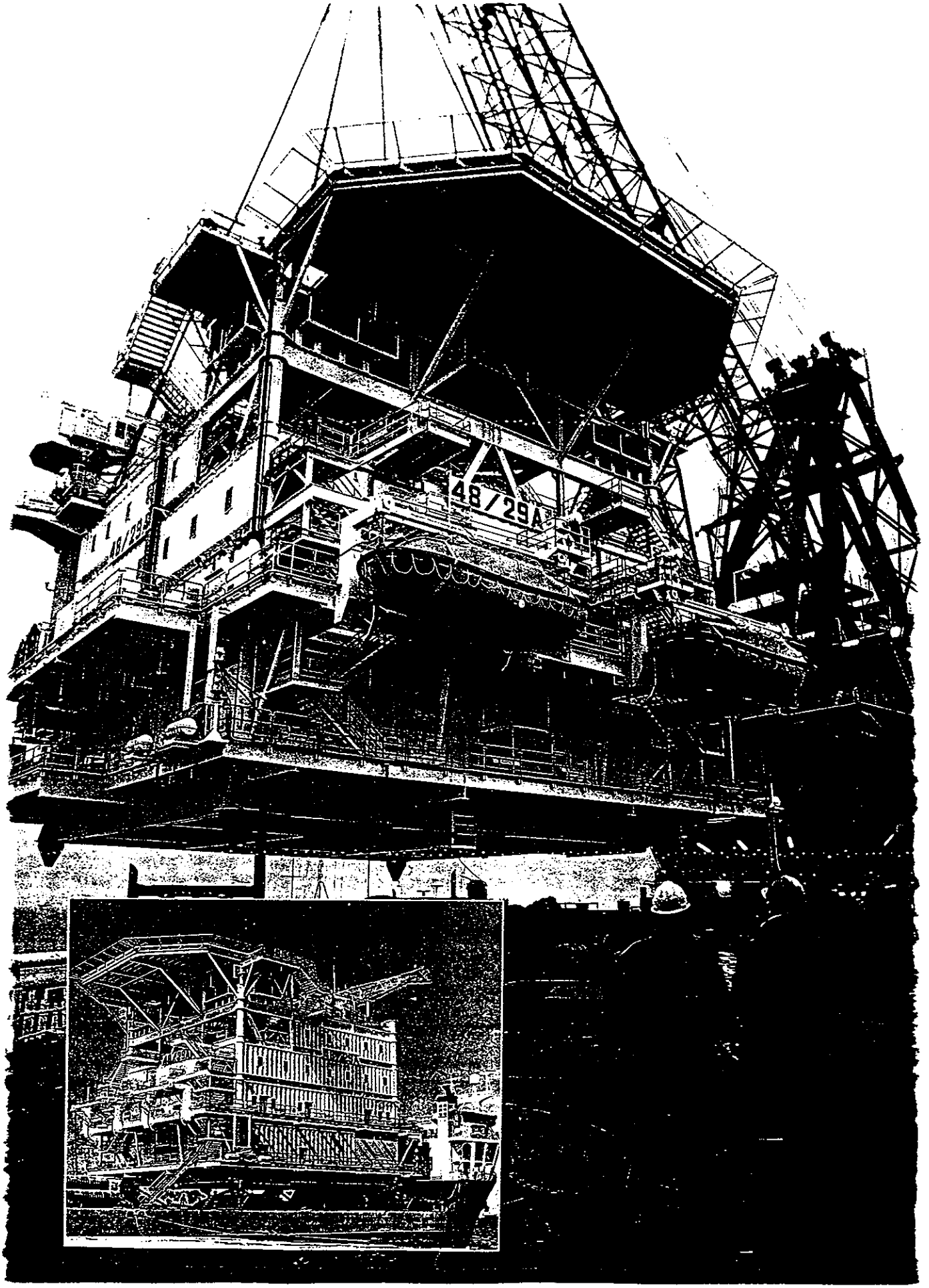
Our Southeast Asia operations are currently working on several large projects which typify the projects becoming common in our marine construction business.

Our fabrication yard on Batam Island, Indonesia completed fabrication on Woodside Offshore Petroleum Pty. Ltd.'s Goodwyn project for Australia's Northwest Shelf. McDermott has completed installation of the pipeline for the project and HeereMac will continue with the installation of the jacket and deck in fiscal 1994.

For Arco Indonesia, we continued work on a turnkey contract for their offshore northwest Java gas development. We are fabricating and installing five platforms and over 80 miles of pipelines for the development, which will deliver gas for domestic use. The project is scheduled to be complete in late 1993.

Right: *The 23,000 ton deck for Shell Offshore's Auger tension-leg platform near completion in McDermott Marine Construction's fabrication yard in Morgan City, Louisiana.*




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Our offshore service contract with Sarawak Shell Berhad continues. The program, which began in early 1991, includes the installation of over 30 jackets and decks and about 130 miles of pipelines. The work is scheduled to be finished in the summer of 1994.

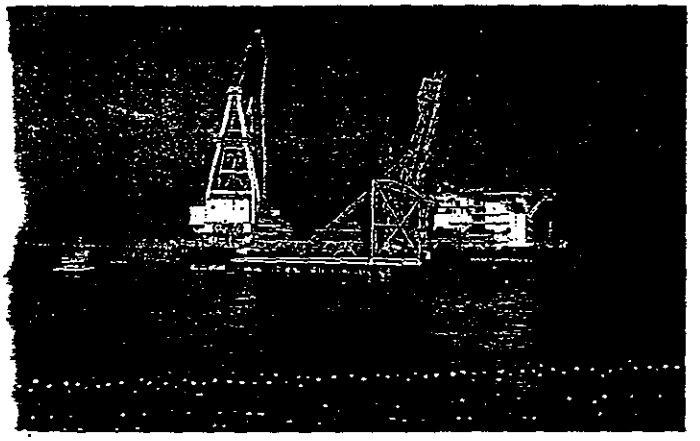
A fourth major project worked on in fiscal 1993 in Southeast Asia is the development of Total Exploration & Production Thailand Bongkot field. This contract called for the fabrication and installation of five platforms and associated pipelines.

Joint Ventures

The success of our two marine joint ventures was a major factor in the overall improvements of McDermott International's financial results in fiscal 1993. HeereMac, our marine construction joint venture with the Heerema Offshore Construction Group, completed major projects in the North Sea, including two of the heaviest lifts in the world. DB 102, one of two McDermott vessels in the joint venture, made both lifts. The barge lifted over 12,000 tons to install the production and utilities deck for Elf Enterprise's Piper B project and over 10,000 tons to install the deck for Shell's Gannet platform.

In all, HeereMac made nine lifts over 4,000 tons, five of which were 9,000 tons or greater.

HeereMac also installed the template for Shell's Auger TLP in the Gulf of Mexico and worked on the installation of the Goodwyn jacket on Australia's Northwest Shelf.



Fiscal 1993 was the first full year that our McDermott-ETPM joint venture operated under its reorganized structure. We manage the eastern division of the joint venture and our partners manage the western division.

During the fiscal year, the western division of the joint venture completed the installation of the CATS pipeline project in the North Sea. The installation of the line, which is nearly 250 miles long, was performed by our LB 200, which is operated by the joint venture.

Above: DB 50 has been modified to install pipelines for the Auger project using the Hay method. In the first successful use of Hay, MMC installed pipe in record depths.

Left and inset: The Phillips Hewett platform, the first North Sea platform ever fabricated in the Middle East, was designed by McDermott Engineering (Europe) Limited, fabricated by McDermott-ETPM East, and installed by HeereMac.

Outlook

The outlook for our marine construction business continues to vary by region, with major activity in the future shifting away from the Gulf of Mexico and the North Sea and into other regions.

In the Gulf of Mexico, fabrication work will remain at about its current level in the coming year. Although deepwater projects could slightly increase the volume of fabrication work this year, they will promote slow growth over the next several years. Offshore work could increase, however, as the result of platform removal projects.

In the North Sea, the outlook is for large gas developments that could boost the market over the next several years. Prospects for large offshore development remain, but most offshore work in the region will come from the development of smaller reserves using subsea technology, which will keep the North Sea offshore market active.

The outlook for West Africa is good as international oil companies target a number of developments, most of which are in water depths of 250 to 500 feet. McDermott-ETPM West is well positioned to benefit from this market.

In the Middle East, we expect several large projects could proceed in the near future. These projects will develop both oil and natural gas reserves, causing our markets to grow significantly over the next several years.

Southeast Asia provides the most promising outlook of any of our marine markets as the expanding demand for LNG and domestic gas creates new projects. Almost every country in Southeast Asia has a development program planned. The fabrication market in the region will grow through 1994 and will remain above current levels for the foreseeable future. The offshore market will parallel the fabrication market during this same period.



Technology: The Common Thread



E. Allen Womack
Senior Vice President
and Chief Technical Officer

Throughout the operations that make up McDermott International, state-of-the-art technology is the common thread. In all regions of the world and in all markets, we are known for the ingenuity of our solutions to our customers' problems: combustion and post-combustion systems to reduce emissions from fossil fuels; precision manufacturing of components from turbine casings to superconducting magnets; fabrication of large structures for offshore installation; and more.

Our dedicated research and development facilities help us maintain our technological leadership.

Our corporate research and development provides innovation needed by McDermott and our customers. Our contract research undertakes customer-sponsored projects leading to new and more competitive products and processes. Both allow us to develop and maintain technologies critical to the success of our operations.

In fiscal 1993, we began construction on a significant addition to our research and development capabilities as we broke ground for a new combustion and emissions development facility. The facility, to be built at our Alliance Research Center, will provide state-of-the art testing for new systems and equipment to reduce emissions from fossil fuels.

It will allow us to investigate and develop new methods to control emissions from coal, during and after combustion. On its completion, we will offer one of the most advanced facilities of this kind in the world.

During fiscal 1993, our research and development continued to advance the core technologies which serve McDermott's diverse businesses.

In manufacturing, the division developed and refined welding procedures to lower the costs of manufacturing boiler parts and equipment. It also supported our marine construction operations in the development of welding procedures for the fabrication of large offshore structures.

The first phase of a program to develop a programmable automated welding system for shipbuilding was completed and the system was demonstrated successfully. This work, supported by our overall capabilities and knowledge of welding, contributed to our selection, as a member of a team headed by the Edison Welding Institute, to establish a Center of Excellence in welding and joining for the U.S. Navy. This will be the fourth center the Navy has created to establish excellence in key technologies.

Under a program sponsored by the Department of Energy, we are developing ceramic materials that could replace metal parts in high-temperature, corrosive applications in boilers, refineries, and heat exchangers.

We began a development program which will allow us to maintain our leadership in flue gas desulfurization technologies. Through laboratory and field testing, we seek to decrease the size and cost of modules for wet scrubbers.

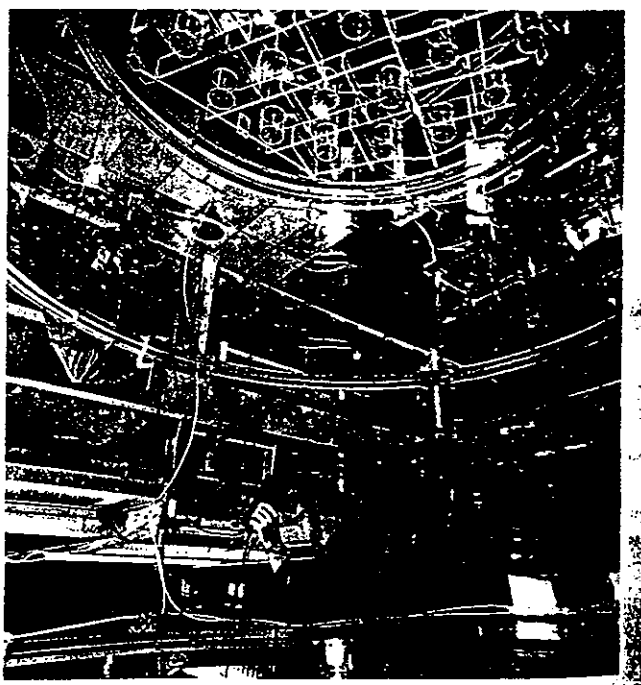
Demonstrations of our advanced systems to control air pollution from boilers showed promising results.

One process, developed and patented by Babcock & Wilcox, removes sulfur oxides, nitrogen oxides and particulates from fossil-fired boilers in a single, integrated unit. It reduces costs, saves space, and simplifies operations. In its demonstration under the Department of Energy Clean Coal Technology program, the system removed more than 90% of both SOx and NOx, and reduced particulate emission to less than the national standard of 0.03 pound per million Btu.

Another process developed under the Clean Coal program demonstrated NOx reduction of greater than 50% from a cyclone boiler. This process, which reburns coal to cut emissions, is cost effective and has negligible effect on boiler performance.

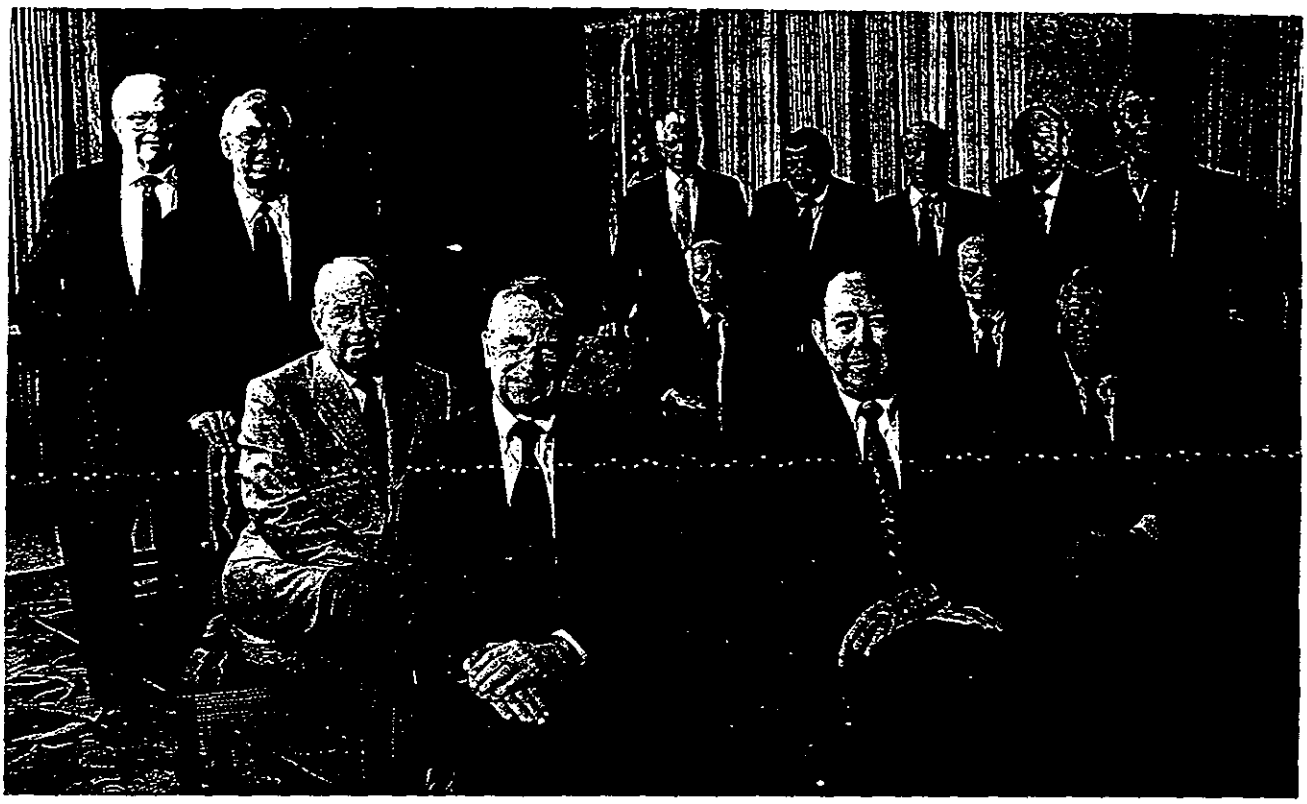
The low NOx Cell™ burners (LNCB™) we developed under the Clean Coal program have significantly reduced NOx emissions in demonstration. Babcock & Wilcox recently was awarded a contract to supply 20 of these burners to Allegheny Power System, the first time a technology developed under the Clean Coal program will be used in a commercial application.

The innovation and development of core technnonogies is a critical task at McDermott. Focused attention on research and development maintains and improves our technical capabilities to the benefit of our customers and our shareholders.



A reduced-scale flow model of a flue gas desulfurization wet scrubber at our Alliance Research Center. The model is part of a program to design a more efficient, compact, and less costly scrubber.

Directors and Management



Front row, left to right, J.P. (Jack) Eckert, Robert E. Howson. Second Row seated, left to right, William T. Seawell, James E. Cunningham, William McCollam, Jr., J. Howard Macdonald. Standing left to right, Thomas D. Barrow, James L. Dutt, E. L. (Ed) Shannon, James A. Hunt, John A. Morgan, John F. Bookout, Philip J. Burguieres.

Officer-Directors

Robert E. Howson[5]
Chairman of the Board and Chief Executive Officer

J. P. (Jack) Eckert[6]
Vice Chairman of the Board

Directors

Thomas D. Barrow[4,5,6]
Retired Vice Chairman of the Board, The Standard Oil Company (Ohio) - integrated petroleum company

James E. Cunningham[1,3,6]
Retired Chairman of the Board and Chief Executive Officer, McDermott International, Inc.

William McCollam, Jr.[1,3,6]
Energy Management Consultant, President Emeritus, Edison Electric Institute - association of investor-owned electric utilities

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

John F. Bookout[2,4,6]
Retired President and Chief Executive Officer, Shell Oil Company - integrated petroleum company

James L. Dutt[1,3,4]
Former Chairman of the Board and Chief Executive Officer, Beatrice Companies, Inc. - food, chemical, and manufactured products

J. Howard Macdonald[2,4,5]
Former Chairman of the Board and Chief Executive Officer, NatWest Investment Bank - commercial and investment banking

E. L. (Ed) Shannon, Jr.[1,6]
Chairman of the Board, Santa Fe International Corporation - contract drilling; and oil and natural gas exploration and production

Philip J. Burguieres[5,6]
Chairman of the Board, President, and Chief Executive Officer, Weatherford International Incorporated - energy service and manufacturing company

James A. Hunt[2,3,5]
President, James A. Hunt, Inc. - investment banking

John A. Morgan[1,2,5]
Partner, Morgan Lewis Githens & Ahn - investment banking

1. *Audit Committee*
2. *Compensation Committee*
3. *Directors Nominating Committee*
4. *Employee Benefits Committee*
5. *Finance Committee*
6. *Technical Oversight Committee*

Directors elected June 14, 1993

Theodore H. Black
Chairman of the Board and Chief Executive Officer, Ingersoll-Rand Co. - non-electrical machinery and equipment

Brock A. Hattox
Senior Vice President and Chief Financial Officer

John N. Turner
Partner, Miller Thomson - attorneys-at-law

OPERATING ORGANIZATION

Joe J. Stewart
President and Chief Operating Officer
The Babcock & Wilcox Company

E.O. (Neal) Hooker
Senior Vice President and Group Executive
Government Group

J.A. (Buddy) Conner
Vice President and General Manager
Naval Nuclear Fuel Division

William M. Farrell
Vice President and General Manager
Aerospace Components Division

J.R. (Rod) Woolsey
Vice President and General Manager
Nuclear Equipment Division

Paul P. Koenderman
Senior Vice President and Group Executive
Power Generation Group

George J. Clessuras
Vice President and General Manager
Energy Services Division

John E. Pollock
Vice President
Sales and Services

James S. Kulig
President
Diamond Power Specialty Co.

P.E. (Eric) Ralston
Vice President and General Manager
B&W International and
Environmental Equipment Divisions

R.J. (Reg) Thibeault
Vice President and General Manager
Americon, Inc.

James J. Wildasin
President and Chief Operating Officer
McDermott Marine Construction

James E. Franklin
Vice President
Fabrication Operations

Kurt S. Nelson
Vice President
Marine Operations

Frederick R. Oehrlein
Vice President and General Manager
Southeast Asia Operations

Alex H. Cortese
Vice President
Southeast Asia Fabrication

Robert H. Rawle
Vice President
Domestic Operations

Mervyn W. Raynor
Vice President and General Manager
Middle East Operations

William L. Higgins
Executive Vice President and Group Executive
Engineering and Industrial Group

J.M. (Mike) Pearson
Vice President
Projects
Former Soviet Union

Robert J. Machen
Vice President and General Manager
McDermott Marketing Services

Francisco J. San Miguel
Vice President
Marketing
Former Soviet Union and Eastern Europe

Sidney P. Victory
President
Hudson Companies

STAFF ORGANIZATION



Seated left to right: *Laurence R. Purtell, Brock A. Hattox.*
Standing left to right: *E. Allen Womack, Jr., Richard E. Woolbert.*

Brock A. Hattox
Senior Vice President and
Chief Financial Officer

Daniel R. Gaubert
Vice President and Controller

Thomas A. Henzler
Vice President
Tax Administration

Robert A. Jolliff
Treasurer

John D. Krueger
Vice President
Planning and Business Development

Richard T. Tyner
President
McDermott International
Investments Co., Inc.

Lawrence R. Purtell
Senior Vice President and
General Counsel, Corporate Secretary

E. Allen Womack Jr.
Senior Vice President and
Chief Technical Officer

John Ruckert
Vice President
Electronic Information Systems

Richard E. Woolbert
Senior Vice President and
Chief Administrative Officer

Frank C. Allen Jr.
Vice President
Environmental Affairs,
Safety and Health, and
Risk Management

Gary W. Drinkwater
Vice President and General Manager
Washington Operations

George A. Stoddart
Vice President
Corporate Communications

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended March 31, 1993

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from _____ to _____

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)	70112-2401 (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, $1.00 par value	New York Stock Exchange
Rights to Purchase Common Stock (Currently Traded with Common Stock)	New York Stock Exchange

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

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

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

[X]

The aggregate market value of voting stock held by non-affiliates of the registrant was $1,373,451,922 as of May 10, 1993.

The number of shares outstanding of the Company's Common Stock at May 10, 1993 was 52,329,947.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the 1993 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 under the laws of the Republic of Panama in 1959. International is the parent company of the McDermott group of companies, which includes McDermott Incorporated. International's Common Stock and McDermott Incorporated's Series A $2.20 Cumulative Convertible Preferred Stock and Series B $2.60 Cumulative Preferred Stock are publicly traded.

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 which is a subsidiary of International, and its consolidated subsidiaries; and "McDermott International" will be used to mean the consolidated enterprise.

McDermott International operates in two business segments:

- Power Generation Systems and Equipment, which principally serves the electric utility industry and the U. S. Government; and

- Marine Construction Services, which principally serves the oil and gas industry for offshore development drilling and for the production and transportation of oil and gas on a worldwide basis.

The business of the Power Generation Systems and Equipment segment is conducted primarily through a subsidiary of McDermott Incorporated, Babcock & Wilcox Investment Company, the principal subsidiary of which is The Babcock & Wilcox Company. Unless the context otherwise requires, hereinafter "B&W" will be used to mean Babcock & Wilcox Investment Company and its consolidated subsidiaries, including The Babcock & Wilcox Company.

McDermott International has a continuing program of reviewing joint venture, acquisition and disposition opportunities.

The following tables show revenues and operating income (loss) from the continuing operations of McDermott International for the three fiscal years ended March 31, 1993. See Note 12 to the consolidated financial statements for additional information with respect to McDermott International's business segments and operations in different geographic areas.

REVENUES
(Dollars in Millions)
FOR FISCAL YEARS ENDED MARCH 31,

	1993		1992		1991	
Power Generation Systems and Equipment	$1,523.5	48%	$ 1,593.5	45%	$1,690.3	55%
Marine Construction Services	1,649.7	52%	1,936.6	55%	1,397.7	46%
Intersegment Transfer Eliminations	(0.6)	-	(5.6)	-	(18.2)	(1)%
Total Revenues	$3,172.6	100%	$ 3,524.5	100%	$3,069.8	100%

OPERATING INCOME (LOSS)

(Dollars in Millions)

	FOR FISCAL YEARS ENDED MARCH 31,					
	1993		1992		1991	
Segment Operating Income:						
Power Generation Systems and Equipment[1]	$ 56.5	46%	$ 109.8	66%	$ 85.8	-
Marine Construction Services[2]	67.6	54%	55.9	34%	(52.1)	-
Total Segment Operating Income	124.1	100%	165.7	100%	33.7	-
Equity in Income (Loss) of Investees:						
Power Generation Systems and Equipment[1]	8.7	9%	13.9	-	2.8	-
Marine Construction Services[2]	85.4	91%	(6.6)	-	(32.5)	-
Total Equity in Income (Loss) of Investees	94.1	100%	7.3	-	(29.7)	-
General Corporate Expenses	(52.8)	-	(51.9)	-	(47.1)	-
Total Operating Income (Loss)	$ 165.4	-	$ 121.1	-	$ (43.1)	-

(1) See Note 14 to the consolidated financial statements regarding the deconsolidation of B&W Fuel Company to a cost method investment and the change in B&W Nuclear Service Company from an equity method to a cost method investment subsequent to the sale of a portion of McDermott International's interests in these two commercial nuclear joint ventures.

(2) See Note 14 to the consolidated financial statements regarding the deconsolidation of the McDermott-ETPM West, Inc. joint venture.

B. POWER GENERATION SYSTEMS AND EQUIPMENT

GENERAL

The Power Generation Systems and Equipment segment is a supplier of individually engineered complete fossil fuel steam generating systems for the electric power generation industry, as well as fossil fuel steam generating systems for industrial processes and power generation. This segment also provides replacement parts and engineered plant enhancements for existing fossil fuel steam generating systems and specially engineered accessories and components, such as air heaters and cleaning systems for heat transfer surfaces. It also supplies process recovery boilers and pollution control systems for the process and utility industries, and air-cooled heat exchangers. This segment also provides non-boiler related equipment and related services usually in connection with the construction of turnkey power generation projects. It is also engaged in the erection of utility plants and industrial facilities and the repair and alteration of such existing equipment.

This segment is actively involved in the market for providing power through cogeneration, refuse-fueled power units and other independent power producing plants. It is participating in this market as an equipment supplier, as an operations and maintenance contractor and through ownership interests.

The Power Generation Systems and Equipment segment also provides nuclear fuel assemblies and nuclear reactor components to the U. S. Navy for the Naval Reactors Program. Revenues from the U. S. Government related to this activity were approximately 8%, 9% and 14% of

McDermott International's total revenues for fiscal years 1993, 1992 and 1991, respectively. This activity has made significant contributions to the operating income of McDermott International in all three fiscal years. B&W, in addition to its Naval Reactors Program business, is a supplier of ordnance, missile and torpedo metal parts and other equipment and services to the U. S. Government and is proceeding with new, non-defense Government projects and exploring new programs which require the technological capabilities it has developed as a Government contractor for the Naval Reactors Program.

B&W is a major supplier of nuclear steam generating equipment, including critical heat exchangers and replacement recirculating steam generators, in the Canadian, domestic and international markets from its Cambridge, Ontario location. Although no new contracts for domestic nuclear steam generating systems have been awarded for a number of years, this facility was recently awarded three contracts valued at approximately $280,000,000 to supply replacement recirculating steam generators to three domestic utilities. B&W also supplies field repair and refurbishment services to the Canadian and international markets from this location.

The principal plants of this segment, which manufacture power generation systems and equipment, are situated at Little Rock, Arkansas; Indianapolis and Mount Vernon, Indiana; West Point, Mississippi; Barberton and Lancaster, Ohio; Beasley and Paris, Texas; Lynchburg, Virginia; and Cambridge, Ontario, Canada. These plants and properties are owned by B&W and are well maintained, have suitable equipment and are of adequate size.

FOREIGN OPERATIONS

The amounts of Power Generation Systems and Equipment's revenues and segment operating income derived from operations outside of the United States, and the approximate percentages of those revenues and segment operating income to McDermott International's total revenues and total segment operating income, respectively, follow:

	REVENUES		SEGMENT OPERATING INCOME	
FISCAL YEAR	AMOUNT	PERCENT	AMOUNT	PERCENT
	(Dollars in Thousands)			
1993	$ 246,181	8%	$ 11,107	9%
1992	195,274	6%	6,146	4%
1991	228,052	7%	5,780	17%

B&W primarily conducts its foreign business from its Cambridge, Ontario location, which also serves the United States and Canadian markets. Products for international installation are engineered and built in B&W's United States and Canadian facilities, as well as in the facilities of less than majority-owned joint venture companies in China, Indonesia and India.

RAW MATERIALS

The principal raw materials used by this segment to construct power generation systems and equipment consist of carbon and alloy steels in various forms, such as plate, forgings, structurals, bars, sheet, strip, heavy wall pipe and tubes. Significant amounts of components and accessories are also purchased for assembly for supplied systems and equipment. These raw materials and components generally are purchased as needed for individual contracts.

Although shortages of certain of these raw materials have existed from time to time, no serious shortage exists at the present time. In addition, this segment is not sole source dependent for any significant raw materials except for the uranium for the nuclear fuel assemblies supplied to the Naval Reactors Program which is furnished and owned by the U.S. Government.

CUSTOMERS AND COMPETITION

The principal customers of this segment are the electric power generation industry (including government-owned utilities and independent power producers), the U. S. Government (including its contractors), and the pulp and paper and other process industries such as oil refineries and steel mills. The electric utility industry (including government-owned utilities and independent power producers) accounted for approximately 18%, 14% and 19% of McDermott International's total revenues for fiscal years 1993, 1992 and 1991, respectively. U. S. Government business with this segment, excluding government-owned utilities, accounted for approximately 12%, 14% and 17% of McDermott International's total revenues for such periods.

Steam generating system orders are customarily awarded in response to competitive bids submitted pursuant to proposals based on the estimated cost of each job. Domestically, a number of domestic and foreign based companies, specializing in steam generating equipment, compete with B&W in the fossil fuel steam generating system business. In international markets, these companies plus additional foreign-based companies compete with B&W. B&W also manufactures and sells components such as replacement recirculating steam generators, which are incorporated into nuclear steam generating systems designed by other firms. In the sale of these nuclear steam generating systems, B&W competes with a small number of companies. A number of companies are in competition with B&W in pollution control equipment, related specialized industrial equipment and independent power producing business. Other suppliers of fossil fuel steam systems, as well as many other businesses, compete for repair and alteration and other services required to backfit and maintain existing systems.

In regard to the Naval Reactors Program, B&W is the sole source supplier of nuclear fuel assemblies to the U. S. Navy. In April 1993, B&W also became the sole source supplier of U.S. Navy propulsion heavy equipment components. As a result, B&W was awarded significant new orders for aircraft carrier components and will retain its prototype design and manufacturing capability for the new Centurion submarine program. B&W is now the sole source supplier of all major equipment to the U.S. Navy for the Naval Reactors Program. There are a small number of suppliers of small nuclear components with B&W being the largest based on revenues.

BACKLOG

Backlog as of March 31, 1993 and 1992 for the Power Generation Systems and Equipment segment was $2,614,708,000 and $2,318,129,000 or approximately 70% and 65%, respectively, of McDermott International's backlog. This increase is primarily due to contracts awarded to B&W's Cambridge, Ontario facility. Of the March 31, 1993 backlog, it is expected that approximately $1,028,376,000 will be recognized in revenues in fiscal year 1994, $1,415,483,000 in fiscal years 1995 through 1998, and $170,849,000 thereafter. At March 31, 1993, this segment's backlog with the U. S. Government was $1,069,388,000 (of which $143,948,000 had not yet been funded), or approximately 29% of McDermott International's total backlog.

On May 12, 1993, B&W was awarded a $400,000,000 contract from Perusahaan Umum Listrik Negara ("PLN"), the state utility of Indonesia, for work on the expansion of the Suralaya power station in West Java. The project is for three 600 megawatt coal-fired boilers for phase three of PLN's Suralaya development program to expand Indonesia's electrical system, which is expected to more than double by the early 2000's. This contract is the largest contract ever awarded to B&W's Cambridge, Ontario facility.

If in management's judgment it becomes doubtful whether contracts will proceed, the backlog is adjusted accordingly. If contracts are deferred or cancelled, B&W is usually entitled to a financial settlement related to the individual circumstances of the contract. Operations and maintenance contracts, which are performed over an extended period, are included in backlog based upon an estimate of the revenues from these contracts.

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 long-term contracts have provisions for progress payments.

FACTORS AFFECTING DEMAND

Electrical consumption has grown moderately since 1983 in the United States. As a result, certain electric utilities in several regions of the United States are investigating potential sources of new generating capacity. However, these electric utilities have deferred ordering large, new base load units because of continuing uncertainties over fuel prices, rate regulation and environmental rules. The Energy Act of 1992 which requires further deregulation of the U.S. electric utility industry has added to the uncertainties. Where electric utilities are in need of peaking capacity, many are purchasing combustion turbines with short lead-times. Certain electric utilities are purchasing electricity from other utilities with excess capacity or from non-regulated sources such as cogenerators and independent power producers. In calendar year 1992, independent power producers accounted for half of the new electrical generating capacity coming into service in the United States.

Electric utilities in Asia are active purchasers of large, new baseload generating units, due to the rapid growth of the Pacific Rim economies and to the small existing stock of electrical generating capacity in most developing countries.

The current economic environment and uncertainties created by passage of the Clean Air Act have caused U. S. utilities to defer repairs and refurbishments on existing plants. However, the Clean Air Act has created significant demand for pollution control equipment and related plant enhancements. In order to comply with Phase I of the Clean Air Act, many utilities are purchasing wet scrubbers to reduce emissions of sulphur oxides and replacement burners to reduce emissions of nitrous oxides. Conversely, the recent economic environment has negatively affected demand for other industrial related product lines.

With the maturing of the U. S. Navy's shipbuilding program and U. S. Government defense budget reductions, the demand for nuclear fuel assemblies and reactor components for the U. S. Navy has been declining since the mid-1980's. This decline in demand has less of an adverse impact on the supply of nuclear fuel assemblies due to reload business and because B&W became the sole source provider of these assemblies in 1990. The backlog of orders for U. S. Navy nuclear fuel assemblies and nuclear reactor components comprised a substantial portion of this segment's backlog with the U. S. Government at March 31, 1993 and this activity is expected to continue to be a significant, but declining, part of such backlog.

B&W has applied its technological capabilities by supplying new products for power generation applications and by diversifying into new markets and activities not related to power generation that require complex engineering and machining. Examples of these products are the quadrupole magnets for the superconducting super collider project, casings for the space shuttle's advanced solid rocket motor and sophisticated components for advanced weapons programs. Additionally, a majority-owned subsidiary of B&W manages and operates a government owned facility at the Department of Energy's Idaho National Engineering Laboratory. This segment also provides environmental remediation services.

C. 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); the engineering and construction of processing plants for the oil, gas and petrochemical and mineral industries, primarily for offshore installation; and vessel chartering operations, principally to McDermott International's joint ventures. This segment's shipyard facility supplies complete maintenance and construction facilities and is a builder of a variety of marine vessels, including ferries, barges, tugboats and other specialized vessels, such as oceanographic research vessels, sulphur barges, and paddlewheel riverboats.

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. In addition, this segment is capable of fabricating and installing tension-leg platforms, floating production systems and subsea templates.

In order to compete effectively in markets with overcapacity for offshore marine construction equipment, McDermott International participates in joint ventures with other marine contractors. McDermott International owns 50% of the HeereMac joint venture, formed with Heerema Offshore Construction Group, Inc., to provide heavy-lift marine installation services to the petroleum industry on a worldwide basis, especially in harsh environmental areas. Each party charters to the joint venture, on a long-term basis, 2 semi-submersible derrick barges, with the largest being McDermott International's Derrick Barge 102 ("DB-102") with a lift capacity of 13,200 tons.

McDermott International's joint venture with ETPM S.A. ("McDermott-ETPM") provides general marine construction services to the petroleum industry in the Middle East, India, West Africa and South America; it also provides offshore marine installation services in the North Sea. McDermott International owns 67.2% of McDermott-ETPM East, Inc. and 49.9% of McDermott-ETPM West, Inc. McDermott-ETPM East, Inc., operates in the Middle East and India; and McDermott-ETPM West, Inc. operates in the North Sea, West Africa and South America. McDermott-ETPM utilizes 3 combination derrick-pipelaying barges and 1 semi-submersible lay barge which are owned by McDermott International. The lay barge is capable of laying 60-inch diameter pipe (including concrete coating) and is operable in water depths up to 2,000 feet. McDermott International also provides fabrication facilities located at Jebel Ali and Ras-al-Khaimah in the U.A.E., and at Warri, Nigeria. ETPM S.A. charters to this joint venture 4 combination derrick-pipelaying barges and provides fabrication facilities at Sharjah, U.A.E. and Tchengue, Gabon.

McDermott International also owns a 49% interest in a Mexican joint venture that operates 2 self-propelled combination barges (1 capable of lifting 2,000 tons) and 1 pipelaying barge.

McDermott International, a world leader in the fabrication of offshore structures, has its principal domestic fabrication yard and offshore base located on approximately 1,114 acres of land, under lease, near Morgan City, Louisiana. This segment also operates a shipyard on approximately 58 acres of leased land near Morgan City and a fabrication yard on approximately 283 acres of leased land in Nueces County, Texas. McDermott International also operates fabrication yards on leased property in Indonesia at Batam Island and on company-owned property in Scotland, near Inverness.

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 robotic and other automated equipment, in addition to other fabrication equipment, most of which is movable.

Expiration dates, including renewal options, of leases covering land for the shipyard and fabrication yards, follow:

Morgan City, Louisiana	Years 1996-2032
Nueces County, Texas	Year 1996
Batam Island, Indonesia	Year 2008
Jebel Ali, U.A.E.	Year 2005
Ras-al-Khaimah, U.A.E.	Year 1993
Warri, Nigeria	Year 2065

McDermott International expects to renew the lease at Ras-al-Khaimah, U.A.E., which is negotiated on an annual basis.

McDermott International owns the largest fleet of marine equipment used in major 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. McDermott International owns 6 derrick barges, 3 pipelaying barges and 8 combination derrick-pipelaying barges. The lifting capacities of the derrick and combination derrick-pipelaying barges range from 700 tons to 13,200 tons. These barges, which range in length from 400 feet to 661 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 these vessels is the DB-102, which is one of the world's largest semi-submersible derrick barges in both size and lifting capacity, and provides quarters for approximately 750 workers and a semi-submersible lay barge capable of laying 60-inch diameter pipe (including concrete coating) and operating in water depths of up to 2,000 feet. The HeereMac joint venture has used the DB-102 for a lift of 10,700 tons, a record module lift in the North Sea. This segment has also installed one of the deepest pipelines in over 1,400-ft. waters in the Gulf of Mexico.

In addition, McDermott International owns and operates a shearleg crane capable of lifting up to 5,000 tons and has a long-term lease on a derrick barge with a lifting capacity of approximately 4,000 tons. It also owns or leases a substantial number of other vessels, such as tugboats, utility boats and cargo barges to support the major marine vessels.

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

On May 20, 1993, McDermott International and Delta Catalytic Corporation of Calgary, Alberta, Canada announced that they have recently agreed to terms under which McDermott International would acquire Delta Catalytic in two stages, subject to the approval by the shareholders of the parent company of Delta Catalytic. Delta Catalytic provides engineering, procurement, construction, industrial maintenance, environmental services, and tool sales, services, and rentals, and other related services. McDermott International plans to acquire approximately 50% of Delta Catalytic in June 1993 and the balance at the end of 1996.

FOREIGN OPERATIONS

The amounts of Marine Construction Services' revenues and segment operating income (loss) derived from operations outside of the United States, and the approximate percentages of those revenues and segment operating income to McDermott International's total revenues and total segment operating income, respectively, follows:

	REVENUES		SEGMENT OPERATING INCOME (LOSS)	
FISCAL YEAR	AMOUNT	PERCENT	AMOUNT	PERCENT
	(Dollars in thousands)			
1993	$ 1,269,290	40%	$ 58,746	47%
1992	1,372,082	39%	33,050	20%
1991	881,879	29%	(38,303)	-

RAW MATERIALS

The raw materials used by this segment, 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 of certain of these raw materials and fuels have existed from time to time, no serious shortage exists at the present time.

CUSTOMERS AND COMPETITION

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

There are a number of companies which compete effectively with McDermott International, HeereMac and McDermott-ETPM in each of the separate marine construction phases in various parts of the world, but none has the geographical distribution or the overall capabilities of McDermott International, HeereMac and McDermott-ETPM.

BACKLOG

As of March 31, 1993 and 1992, the Marine Construction Services' backlog amounted to $1,129,577,000 and $1,239,776,000, or approximately 30% and 35%, respectively, of McDermott International's total backlog. Backlog at March 31, 1993 was down slightly from the level of backlog at March 31, 1992, but remains above the levels experienced during most of the 1980's. Of the March 31, 1993 backlog, it is expected that approximately $931,877,000 will be recognized in revenues in fiscal year 1994, and $197,700,000 thereafter.

Not included in Marine Construction Services' backlog at March 31, 1993 and 1992, was backlog relating to contracts to be performed by unconsolidated foreign joint ventures of approximately $900,000,000 and $1,200,000,000, respectively.

Work is performed on a fixed price, cost plus or day rate basis or combination thereof. This segment 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 long-term contracts have provisions for progress payments.

FACTORS AFFECTING DEMAND

The activity of the Marine Construction Services' segment depends mainly on the capital expenditures of oil and gas companies and foreign governments for developmental construction and has traditionally been volatile. These expenditures are influenced by the selling price of oil and gas along with the cost of production and delivery, the terms and conditions of offshore leases, the discovery rates of new reserves offshore, the ability of the oil and gas industry to raise capital, and local and international political and economic conditions.

World oil prices were lower in calendar year 1992 than in 1991. Prices in calendar year 1993 are generally expected to be flat or below those of 1992. The composite spot price for natural gas in the United States was higher in calendar year 1992 than in 1991 and is anticipated to be higher in 1993. Oil company capital expenditure budgets in calendar year 1993 are virtually flat as compared to 1992. Expenditures in North America are expected to increase slightly, with international expenditures anticipated to decline slightly.

This segment's markets are expected to be at a low level in the U. S. during fiscal year 1994. International markets are varied, with South East Asia and the Middle East remaining strong. In all areas, the overcapacity of marine equipment will continue to result in a competitive environment.

In February 1991, McDermott International, Mitsui & Co., Ltd. and Marathon Oil Company formed a consortium for the purpose of pursuing and acquiring hydrocarbon rights and the right to explore, develop and produce hydrocarbons in certain oil and gas fields lying offshore Sakhalin Island, Russian Federation. In September 1992, Shell Development Sakhalin B.V., and in December 1992, Mitsubishi Corporation joined the consortium specifically to pursue the development of the Piltun Astohskoye and Lunskoye fields. In conjunction with P/O Sakhalinmorneftgas, a Russian state enterprise, a feasibility study, which detailed various development scenarios for these fields, was completed and submitted to the State Ecological Expertise Committee and the State Economic Expertise Committee. These Committees, who have responsibility for evaluating such proposals, approved the study and recommended proceeding with the development to the central government. In addition, McDermott International, Amoco Eurasia Petroleum Company, BP Exploration Operating Company, Limited, UNOCAL and Ramco Oil Services, PLC are negotiating for the rights to develop the Azeri offshore oil field in the Azerbaijan sector of the Caspian Sea.

D. 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.

E. RESEARCH AND DEVELOPMENT ACTIVITIES

McDermott International conducts its principal research and development activities at its research centers in Alliance, Ohio and Lynchburg, Virginia; and also conducts development activities at its various manufacturing plants and engineering and design offices. During the fiscal years ended March 31, 1993, 1992 and 1991, approximately $61,541,000, $88,400,000 and $63,300,000, respectively, was spent by McDermott International on research and development activities, of which approximately $42,082,000, $67,100,000 and $40,200,000, respectively, was paid for by customers of McDermott International. Research

and development activities were related to development and improvement of new and existing products and equipment and conceptual and engineering evaluation for translation into practical applications. McDermott International expects to make capital expenditures of $20,700,000 for a new combustion and emission test facility at its Alliance, Ohio, location in response to present and future emission pollution standards in the U. S. and worldwide. Approximately 247 employees were engaged full time in research and development activities at March 31, 1993.

F. INSURANCE

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

McDermott International's insurance policies do not insure against liability and property damage losses resulting from nuclear accidents at reactor facilities of its utility customers. To protect against liability for damage to customer's property, McDermott International has obtained waivers of subrogation from the customer and its insurer and is generally named as an additional insured under the utility customer's nuclear property policy. To protect against liability from claims brought by third parties, McDermott International is insured under the utility customer's nuclear liability policies and has the benefit of the indemnity and limitation of any applicable liability provision of the Price-Anderson Act, as amended ("the Act"). The Act limits the public liability of manufacturers and operators of licensed nuclear facilities and other parties who may be liable in respect of, and indemnifies them against, all claims in excess of an amount which is determined by the sum of commercially available liability insurance plus certain retrospective premium assessments payable by operators of commercial nuclear reactors. For those sites where McDermott International provides environmental remediation services, it seeks the same protection from its customers as it does for its other nuclear activities.

Although McDermott International does not own or operate any nuclear reactors, it has coverage under commercially available nuclear liability and property insurance for four of its five facilities which are licensed to maintain special nuclear materials. The fifth facility operates primarily as a conventional research center. However, this facility is licensed to possess special nuclear material and has a small and limited amount of special nuclear material on the premises. Two of the four owned facilities are located at McDermott International's Lynchburg, Virginia site. These facilities are insured under a nuclear liability policy which also insures the facility of B&W Fuel Company ("BWFC") that was sold during fiscal 1993. All three facilities share the same nuclear liability insurance limit as the commercial insurer would not allow BWFC to obtain a separate nuclear liability insurance policy. Due to the type or quantity of nuclear material present, two of the five facilities have the benefit of the indemnity and limitation of liability provisions of the Act, pursuant to agreements entered into with the U. S. Government. In addition, contracts to manufacture and supply nuclear fuel or nuclear components to the U. S. Government generally contain contractual indemnity clauses, which become effective at the time of shipment, whereby the U. S. Government has assumed the risks of public liability claims.

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 construction equipment, sometimes under extreme weather conditions, often in remote areas of the world. In addition, McDermott International operates in many cases on or in proximity to existing

service lives. The amount of financial assurance initially required was a nominal fixed amount. That amount of financial assurance is to be adjusted at various times to reflect the estimated cost of eventual decommissioning. The actual cost of eventual decommissioning will be affected by changing regulations relating to methods of, and standards for, decommissioning, and disposal of contaminated material. There are alternative mechanisms by which a licensee can provide financial assurance. B&W has chosen to provide a parent company guarantee for all licensed facilities except for one such facility. This facility, which represents the largest portion of B&W's eventual decommissioning costs, has provisions in its government contracts pursuant to which all of its decommissioning costs and financial assurance obligations are covered by the U. S. Government.

Compliance with existing government regulations controlling the discharge of materials into the environment, or otherwise relating to the protection of the environment (including decommissioning), does not have, nor is it expected to have, a material effect upon the consolidated financial position of McDermott International.

I. INTERCOMPANY AGREEMENT

Pursuant to a stock purchase and sale agreement (the "Intercompany Agreement"), the Delaware Company has the right to sell to International and International has the right to buy from the Delaware Company, 100,000 units, each unit consisting of one share of International Common Stock and one share of International Series A Participating Preferred Stock, at a price based primarily upon the stockholders' equity of McDermott International at the close of the fiscal year preceding the date at which the right to sell or buy, as the case may be, is exercised, and, to a limited extent, upon the price-to-book value of the Dow Jones Industrial Average. If a unit is sold to 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 (the "current unit value"). If a unit is sold to International pursuant to an exercise by International of its right to purchase under the Intercompany Agreement, the purchase price of such unit will be 110% of the current unit value. At April 1, 1993, the current unit value was $1,907 and the aggregate current unit value for the Delaware Company's 100,000 units was $190,741,000. The net proceeds to the Delaware Company from the exercise of any rights under the Intercompany Agreement would be subject to U. S. federal, state and other applicable taxes. No tax provisions have been established, since there is no present intention by either party to exercise such rights.

J. DIVESTITURES AND DISCONTINUED OPERATIONS

During fiscal 1988, McDermott International sold a 49% interest in its commercial nuclear fuel business by forming the B&W Fuel Company ("BWFC") with a consortium of U. S. subsidiaries of three French companies; and in November 1989, reduced its interest to 50% in its commercial nuclear service business by forming B&W Nuclear Service Company ("BWNSC") with a U. S. subsidiary of Framatome S.A., which is also one of the French companies participating in BWFC. During December 1991, McDermott International further reduced its participation in the nuclear fuel assembly business and commercial nuclear services business by selling a portion of its interests in BWFC and BWNSC. This occurred on December 4, 1991 when the consortium of U. S. subsidiaries of the three French companies increased their combined interest in BWFC to 75% and the U. S. subsidiary of Framatome S. A. increased its interest in BWNSC to 75%. On March 30, 1993, McDermott International sold its remaining 25% interests in BWFC and BWNSC to these parties. These businesses consisted of fuel assemblies for refueling and engineering, field repair and refurbishment services, and computer services for existing nuclear reactors.

During fiscal 1992, McDermott International sold its Welded Tubular Products Division in Alliance, Ohio, to Alliance Tubular Products, Co., a wholly-owned subsidiary of J. H. Roberts

Industries, Inc., of Des Plaines, Illinois. The facility had previously produced specialty tubing for mechanical and pressure applications.

During fiscal 1991, McDermott International sold substantially all the assets of its seamless tubular line of business in Ambridge, Koppel and Beaver Falls, Pennsylvania, and Bryan, Texas to PMAC Limited, a Texas limited partnership, and Koppel Steel Corporation, a Pennsylvania corporation. The seamless product line was discontinued in fiscal 1987. The facilities had previously produced seamless mechanical and pressure tubings, and steel solids.

Item 3. LEGAL PROCEEDINGS

Due to the nature of its business, McDermott International is, from time to time, involved in litigation. It is management's opinion that none of this litigation will have a material adverse effect on the consolidated financial position of McDermott International.

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

No matter was submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders, through the solicitation of proxies or otherwise.

PART II

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

International's Common Stock is traded on the New York Stock Exchange. High and low stock prices and dividends declared for the years ended March 31, 1992 and 1993 follow:

	FISCAL 1992 SALES PRICE		CASH DIVIDENDS
QUARTER ENDED	HIGH	LOW	DECLARED
June 30, 1991	27 - 1/2	18 - 3/8	$0.25
September 30, 1991	20 - 3/8	16 - 3/4	$0.25
December 31, 1991	18 - 3/8	15 - 3/8	$0.25
March 31, 1992	22 - 1/2	16	$0.25

	FISCAL 1993 SALES PRICE		CASH DIVIDENDS
QUARTER ENDED	HIGH	LOW	DECLARED
June 30, 1992	25 - 3/4	18 - 1/2	$0.25
September 30, 1992	23 - 1/8	17 - 1/2	$0.25
December 31, 1992	23 - 5/8	20 - 1/8	$0.25
March 31, 1993	29 - 1/2	22 - 1/4	$0.25

As of March 31, 1993, the approximate number of record holders of Common Stock was 7,353.

Item 6. SELECTED FINANCIAL DATA

	FOR THE FISCAL YEARS ENDED MARCH 31,				
	1993	1992	1991	1990	1989
	(In thousands except for per share amounts)				
Revenues	$3,172,555	$3,524,482	$3,069,849	$ 2,584,184	$2,094,337
Income (Loss) From Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes	$ 67,323	$ 80,537	$ (87,697)	$ (103,298)	$ (123,871)
Net Income (Loss)	$ (188,732)	$ 77,169	$ (69,525)	$ (10,201)	$ (91,675)
Primary and Fully Diluted Earnings (Loss) Per Common Share: Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes	$ 1.29	$ 1.75	$ (2.00)	$ (2.76)	$ (3.33)
Net Income (Loss)	$ (3.63)	$ 1.67	$ (1.58)	$ (0.27)	$ (2.46)
Total Assets	$3,092,963	$3,126,195	$3,341,138	$ 3,248,578	$3,285,022
Long-Term Obligations	$ 583,211	$ 765,053	$ 639,645	$ 873,321	$932,759
Subsidiary's Redeemable Preferred Stock	204,482	204,482	204,482	204,487	204,487
Total	$ 787,693	$ 969,535	$ 844,127	$ 1,077,808	$1,137,246
Cash Dividends Per Common Share	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.40

In fiscal years 1993 and 1992, Income (Loss) from Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes includes after tax gains from the sale of McDermott International's interests in its two commercial nuclear joint ventures of $15,667,000 and $35,436,000, respectively (see Note 14 to the consolidated financial statements). In fiscal year 1993, Net Income (Loss) includes a cumulative effect of an accounting change of $249,351,000 due to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 106 (see Note 1 to the consolidated financial statements). See Note 1 to the consolidated financial statements regarding the adoption of SFAS No. 109 in fiscal 1993 and SFAS No. 96 in fiscal 1989, and Note 2 regarding discontinued operations.

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

Results of Operations
FISCAL YEAR 1993 VS FISCAL YEAR 1992

Power Generation Systems and Equipment's revenues decreased $70,025,000 to $1,523,476,000. This was primarily due to lower revenues from nuclear fuel assemblies and reactor components for the U. S. Government and plant enhancements. Additionally,

the segment's controlling interest in its commercial nuclear fuel joint venture was sold during December 1991, and revenue from this activity is no longer included in this segment's revenues. These decreases were partially offset by higher revenues from fabrication and erection of fossil fuel steam and environmental control systems and extended scope of supply and fabrication of industrial boilers.

Power Generation Systems and Equipment's segment operating income decreased $53,307,000 to $56,467,000. This was primarily due to non-recurring items which benefitted 1992's results. These items included a Department of Energy grant for decommissioning and restoration of an inactive nuclear facility, a favorable adjustment to workers' compensation costs related to prior years, the inclusion of the commercial nuclear fuel joint venture's results through December 1991, and the reduction of a provision to relocate a manufacturing plant. The decrease was also due to lower volume and margins on plant enhancements and lower volume from nuclear fuel assemblies and reactor components for the U. S. Government. This decrease was partially offset by higher volume and margins on fabrication and erection of fossil fuel steam and environmental control systems and higher margins on defense and space-related products other than nuclear fuel assemblies and reactor components.

Backlog for this segment at March 31, 1993 was $2,614,708,000 compared to $2,318,129,000 at March 31, 1992. This increase is primarily due to contracts awarded to B&W's Cambridge, Ontario facility. At March 31, 1993, this segment's backlog with the U.S. Government was $1,069,388,000 (of which $143,948,000 had not been funded). Demand for new base load electric power plants is not expected to increase before the mid-1990's in the U.S. The current economic environment and uncertainties created by passage of the Clean Air Act have caused U. S. utilities to defer repair and refurbishments on existing plants. However, the Clean Air Act has created significant demand for pollution control equipment and related plant enhancements. In order to comply with Phase I of the Clean Air Act, many utilities are purchasing wet scrubbers to reduce emissions of sulphur oxides and replacement burners to reduce emissions of nitrous oxides. Conversely, the recent economic environment has negatively affected demand for other industrial related product lines.

Marine Construction Services' revenues decreased $286,965,000 to $1,649,653,000 primarily due to the December 1991 deconsolidation of the McDermott-ETPM West joint venture. There was lower volume in domestic fabrication and offshore operations and in fabrication operations in Scotland. There was higher volume on foreign turnkey projects.

Marine Construction Services' segment operating income increased $11,744,000 to $67,652,000 primarily due to improved margins on domestic offshore operations and on foreign turnkey projects, and contract loss provisions in 1992. These were partially offset by the deconsolidation of the McDermott-ETPM West joint venture. There was also lower volume in domestic fabrication and offshore operations and lower margins on domestic fabrication operations.

Backlog for this segment at March 31, 1993 was $1,129,577,000. This is down slightly from backlog of $1,239,776,000 at March 31, 1992, but remains above the levels experienced during most of the 1980's. Not included in backlog at March 31, 1993 and 1992, was backlog relating to contracts to be performed by unconsolidated foreign joint ventures of approximately $900,000,000 and $1,200,000,000, respectively. This segment's markets are expected to be at a low level in the U. S. during 1994. International markets are varied, with South East Asia and the Middle East remaining strong. In all areas, the overcapacity of marine equipment will continue to result in a competitive environment.

Equity in Income of Investees increased $86,816,000 to $94,058,000. This increase was principally due to improved operating results of the HeereMac joint venture and both improved operating results and foreign currency transaction gains in the McDermott-ETPM West joint venture. In 1994, McDermott International anticipates these joint ventures will continue their strong performance, although not at the levels of 1993.

Interest income decreased $13,377,000 to $40,391,000. This decrease was principally due to lower interest rates on short-term investments and investments in government securities and other long-term investments.

Interest expense decreased $11,981,000 to $90,340,000, resulting from a reduction in the provision for interest on proposed tax deficiencies, lower interest expense resulting from interest rate swap agreements, and changes in debt obligations and interest rates prevailing thereon.

Minority interest decreased $862,000 to $18,203,000 due to the deconsolidation of the McDermott-ETPM West, Inc. joint venture and the reacquisition of McDermott Scotland's minority shareholder's interest, both in 1991, mostly offset by minority shareholder participation in the improved results of McDermott-ETPM East, Inc.

Other-net decreased $60,172,000 to income of $10,197,000. This decrease was principally due to lower gains on the sale of its interests in two commercial nuclear joint ventures (see Note 14 to the consolidated financial statements), lower marine casualty gains, and gains from the sale of certain marine assets to the HeereMac joint venture in 1992. This was partially offset by a gain of $4,762,000 from the sale of nineteen tugboats in 1993.

The Provision for Income Taxes decreased $3,170,000 to $40,099,000, while income from continuing operations before provision for income taxes, extraordinary items, and cumulative effect of accounting changes decreased $16,384,000 to $107,422,000. The decrease in the provision for income taxes is due primarily to the decrease in income.

Net Income (Loss) decreased $265,901,000 to a loss of $188,732,000 from income of $77,169,000 reflecting the cumulative effect of the adoption of SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," of $249,351,000, in addition to other items described above.

FISCAL YEAR 1992 VS FISCAL YEAR 1991

Power Generation Systems and Equipment's revenues decreased $96,762,000 to $1,593,501,000. This was primarily due to lower revenues from nuclear fuel assemblies and reactor components for the U.S. Government, fabrication and erection of fossil fuel steam systems, and replacement parts. These were partially offset by higher revenues from defense and space-related products other than nuclear fuel assemblies and reactor components.

Power Generation Systems and Equipment's segment operating income increased $23,975,000 to $109,774,000. This was primarily due to reduced workers' compensation costs resulting from a change in actuarial estimate which includes the effects of safety programs, and reductions of provisions for decommissioning and restoration of an inactive nuclear fuel facility as a result of a Department of Energy grant and a plant relocation. The increase was also due to higher margins on plant enhancements, extended scope of supply and fabrication of industrial boilers, repair and alteration of existing fossil fuel steam systems, and higher volume on defense and space-related products other than nuclear fuel assemblies and reactor components. This increase

was partially offset by lower volume on nuclear fuel assemblies and reactor components for the U.S. Government and replacement parts, higher employee benefit costs and an unfavorable contract settlement in 1992. Also, during 1991, there was a reduction of a provision related to a heat pipe heat exchanger and the recovery of certain insurance claims related to previously expensed product liability costs.

Results of the Power Generation Systems and Equipment segment include a net reduction of approximately $15,567,000, including $14,900,000 resulting from the Department of Energy grant mentioned above, in the provision for future environmental clean-up costs at its nuclear facilities, compared to a provision of $1,587,000 in 1991.

Marine Construction Services' revenues increased $538,859,000 to $1,936,618,000. This was primarily due to increased activity in its McDermott ETPM joint venture (including the results of McDermott-ETPM West, Inc. prior to deconsolidation) and in this segment's fabrication, offshore and engineering operations, both foreign and domestic. These increases were partially offset by reduced activity on engineering, procurement and construction contracts.

Marine Construction Services' segment operating income increased $107,970,000 to income of $55,908,000 from a loss of $52,062,000. This was primarily due to increased margins and activity in its McDermott ETPM joint venture (including the results of McDermott-ETPM West, Inc. prior to deconsolidation) and in domestic offshore operations. This was also due to reduced workers' compensation costs and improved fabrication operations, both domestic and foreign. These increases were partially offset by accelerated depreciation on certain fabrication facilities and construction equipment and the write-off of certain fixed assets due to diminished cost-effectiveness and technical obsolescence.

Equity in Income (Loss) of Investees increased $36,927,000 to income of $7,242,000 from a loss of $29,685,000. This increase was principally due to reduced losses of the HeereMac joint venture, partially offset by losses of McDermott-ETPM West, Inc. after deconsolidation.

Interest income decreased $19,326,000 to $53,768,000. This decrease was principally due to lower interest rates on investments in government securities and Eurodollar time deposits and lower short-term investments.

Interest expense decreased $9,274,000 to $102,321,000 resulting from changes in debt obligations and interest rates prevailing thereon in the respective periods.

Minority interest expense increased $17,845,000 to $19,065,000. The increase was principally due to minority interest participation in the improved results of the McDermott-ETPM joint venture (including the results of McDermott-ETPM West, Inc., through December 1991).

Other-net income increased $60,779,000 to $70,369,000. This increase principally resulted from the gain on the sale of additional interest in two commercial nuclear joint ventures, a marine assets casualty gain and gains from the sale of marine assets to the HeereMac joint venture. These gains were partially offset by foreign currency transaction losses in 1992 compared to gains in 1991.

The Provision for Income Taxes increased $28,772,000 to $43,269,000, while income from continuing operations before provision for income taxes increased $197,006,000 to income of $123,806,000, from a loss of $73,200,000. The increase in the provision for income taxes is due primarily to the increase in income from continuing operations.

Effect of Inflation and Changing Prices

McDermott International's financial statements are prepared in accordance with generally accepted accounting principles, using historical dollar accounting (historical cost). Statements based on historical cost, however, do not adequately reflect the cumulative effect of increasing costs and changes in the purchasing power of the dollar, especially during times of significant and continued inflation.

The management of McDermott International is cognizant of the effects of inflation and, in order to minimize the negative impact of inflation on its operations, attempts to cover the increased cost of anticipated changes in labor, material and service costs, either through an estimation of such changes, which is reflected in the original fixed price, or through price escalation clauses in its contracts.

Liquidity and Capital Resources

During 1993, McDermott International's cash and cash equivalents increased $67,937,000 to $139,522,000 and total debt decreased $40,808,000 to $793,399,000. During this period, McDermott International provided cash of $242,322,000 from operating activities (excluding $87,376,000 paid to the IRS for taxes and interest related to settled issues for fiscal years 1981 through 1986), and used cash of $51,528,000 for dividends on International's common stock, $82,034,000 for additions to property, plant and equipment and $119,684,000 for repayment of long-term debt. Lower accounts receivable reflect the sale by The Babcock & Wilcox Company of an additional $20,000,000 of qualified accounts receivable to a certain U. S. bank. Decreases in net contracts in progress and advance billings and other decreases in accounts receivable are primarily due to lower volume.

McDermott International has outstanding receivables of $40,748,000 at March 31, 1993 from its products liability asbestos insurers for reimbursement of claims paid to non-employee asbestos claimants. Pursuant to an agreement with its principal insurers, McDermott International negotiates and settles these claims and bills these amounts to the appropriate insurers. Such amounts, which have increased in recent years, have averaged approximately $23,000,000 per quarter since the beginning of 1991. As a result of collection delays inherent in this process, reimbursement is usually delayed for six months or more. This has not had a material adverse effect upon McDermott International's liquidity, and management believes that it will not have a material adverse effect in the future.

McDermott International's expenditures for property, plant and equipment increased $5,713,000 to $82,034,000 in 1993. These expenditures were incurred to maintain and replace existing facilities and equipment. McDermott International has committed to make capital expenditures of approximately $35,241,000 during 1994 to maintain McDermott International's existing facilities and for a new combustion and emission test facility at its Alliance, Ohio research center.

During March 1993, McDermott International completed the sale of its remaining interests in two commercial nuclear joint ventures (see Note 14 to the consolidated financial statements). Net proceeds received were $8,770,000, after repayment of loans related to the sale of a portion of its interests in 1992. During 1993, the sale of half of the investment in a previously wholly-owned cogeneration facility was completed and proceeds of $9,000,000 were collected. In March 1993, McDermott International's asset disposal program was completed with the sale of nineteen tugboats and the collection of $13,000,000 in cash proceeds.

During June and July 1992, the Delaware Company issued $75,000,000 of Series A Medium Term Notes at maturities and interest rates ranging from five to eleven years, and 7.92% to 9.00%, respectively. These notes have an average maturity of approximately six and one-half years and an average interest rate of approximately 8.20%. Proceeds from the sales were used to retire short-term debt incurred to meet seasonal working capital needs.

During March 1993, the Delaware Company issued $14,000,000 of Series B Medium Term Notes at maturities and interest rates ranging from five to fifteen years, and 6.65% to 7.77%, respectively. These notes have an average maturity of approximately eight years and an average interest rate of approximately 7.00%. During April 1993, the Delaware Company issued $37,000,000 of Series B Medium Term Notes at maturities and interest rates ranging from five to twelve years, and 6.50% to 7.84%, respectively. These notes have an average maturity of approximately seven years and an average interest rate of approximately 6.90%. Proceeds from the sale of the $14,000,000 and $37,000,000 Series B Medium Term Notes in March and April 1993 were used for cash deposits into trusts for the purpose of redeeming the Delaware Company's 9.625% Sinking Fund Debentures, 10% Subordinated Debentures and 10.20% Sinking Fund Debentures mentioned below, and for working capital purposes.

On May 19, 1993, the Delaware Company issued $50,000,000 of Series B Medium Term Notes at maturities and interest rates of thirty years and 8.75%, respectively to take advantage of current interest rates. Cash proceeds were invested in the Delaware Company's short-term portfolio and are available to fund operating activities.

During October 1992, the Delaware Company repurchased $10,600,000 aggregate principal amount of its 12.25% Senior Subordinated Notes due 1998 resulting in an extraordinary loss of $610,000 (net of income tax benefit of $314,000), and exercised an optional sinking fund right to redeem $2,500,000 aggregate principal amount of its 10.20% sinking fund debentures due 1999 on December 1, 1992.

Pursuant to its right of redemption, on March 31, 1993, the Delaware Company deposited cash of $52,712,000 into trusts for the purpose of redeeming its 9.625% Sinking Fund Debentures, 10% Subordinated Debentures, and 10.20% Sinking Fund Debentures. All of the debentures were redeemed on April 19, 1993. Accordingly, neither the cash nor the debt evidenced by the debentures appear on the balance sheet at March 31, 1993. These redemptions resulted in an extraordinary loss of $2,429,000 (net of income tax benefit of $1,252,000).

Pursuant to its redemption option, on March 31, 1993, McDermott International provided for the loss associated with the redemption and subsequent extinguishment of its 12.25% Senior Subordinated Notes due in 1998 which are to be redeemed on June 1, 1993. The total redemption price including accrued interest totals $209,694,000. The entire amount of the 12.25% notes has been reclassified to current maturities of long term debt at March 31, 1993. This redemption resulted in an extraordinary loss of $7,392,000 (net of income tax benefit of $3,808,000).

At March 31, 1993 and 1992, The Babcock & Wilcox Company had sold, with limited recourse, an undivided interest in a designated pool of qualified accounts receivable of approximately $170,000,000 and $150,000,000, respectively, under the terms of its agreement with a certain U.S. bank. Effective January 1, 1993, The Babcock & Wilcox Company and the bank renewed the agreement for an additional period of three years and increased the maximum sales limit to $225,000,000.

At March 31, 1993 and 1992, International and the Delaware Company had available to them jointly various uncommitted short-term lines of credit totaling $64,000,000 and $74,000,000, respectively. In addition, McDermott Incorporated had available to it an uncommitted short-term line of credit of $10,000,000 at March 31, 1993 and The Babcock & Wilcox Company had available to it a $128,000,000 unsecured and committed revolving line of credit facility. There were no borrowings against these facilities at March 31, 1993 and 1992.

McDermott International maintains an investment portfolio of government obligations and other investments which is held for long-term investment purposes. The amortized cost of the long-term portfolio at March 31, 1993 was $487,216,000 (market value of $492,753,000). At March 31, 1993, approximately $176,822,000 amortized cost (market value of $179,171,000) of this portfolio was pledged to secure a letter of credit in connection with a long-term loan and reinsurance agreements.

The Delaware Company is restricted, as a result of covenants in credit agreements, in its ability to transfer funds to International through cash dividends or through unsecured loans or investments. At March 31, 1993, substantially all of the net assets of the Delaware Company were subject to such restrictions. It is not expected that these restrictions will have any significant effect on International's liquidity.

Working capital increased to $116,064,000 at March 31, 1993 from $39,497,000 at March 31, 1992. During 1994, McDermott International expects to obtain funds to meet capital expenditure, working capital and debt extinguishment requirements from operating activities, liquidation of short-term investments, additional borrowings and equity issues. Leasing agreements for equipment, which are short-term in nature, are not expected to impact McDermott International's liquidity or capital resources.

International's quarterly dividends of $0.25 per share on its Common Stock and the Delaware Company's quarterly dividends of $0.55 per share on the Series A $2.20 Cumulative Convertible Preferred Stock and $0.65 per share on the Series B $2.60 Cumulative Preferred Stock were at the same rates in 1993 and 1992.

At March 31, 1993, the ratio of long-term debt to total common stock and other stockholders' equity was 1.27 (0.82, excluding from total common stock and other stockholders' equity the cumulative effect adjustment of $249,351,000 resulting from the early adoption of SFAS No. 106) as compared with 1.09 at March 31, 1992. The ratio at March 31, 1993 does not include the 9.625% Sinking Fund Debentures, the 10% Subordinated Debentures, and the 10.20% Sinking Fund Debentures which were redeemed April 19, 1993, nor the 12.25% Senior Subordinated Notes due in 1998 to be redeemed on June 1, 1993, which are now included in current maturities of long-term debt.

McDermott International adopted SFAS No. 106 effective April 1, 1992 for all domestic plans. McDermott International plans to adopt SFAS No. 106 for foreign plans during 1996, and the adoption is not expected to have a material effect on the consolidated financial statements of McDermott International. The new standard does not have any impact on the cash requirement of any domestic or foreign postretirement health and welfare plan.

McDermott International accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". This standard requires, among other things, recognition of future tax benefits, attributable to deductible temporary differences between the financial statement and income tax basis of assets and liabilities and to tax net operating loss carryforwards, measured by enacted tax rates, to the extent that realization of such benefits is more likely than not.

McDermott International has provided a valuation allowance for deferred tax assets of $29,524,000 related primarily to net operating loss carryforwards which may not be realized through carrybacks and future reversals of existing taxable temporary differences. Management believes that remaining deferred tax assets of $299,739,000 are realizable through carrybacks and future reversals of existing taxable temporary differences and, if necessary, the implementation of tax planning strategies involving sales and sale/leaseback of appreciated assets. Major uncertainties that affect the ultimate realization of deferred tax assets include the risk of incurring significant operating losses in the future and the possibility of declines in value of appreciated assets involved in identified tax planning strategies. These factors have been considered in determining the need for a valuation allowance. Management will continue to assess the adequacy of the valuation allowance on a quarterly basis.

In November 1992, the Financial Accounting Standards Board issued SFAS No. 112, "Employers' Accounting for Postemployment Benefits," effective for fiscal years beginning after December 15, 1993. SFAS No. 112 requires accrual accounting, under certain conditions, for the estimated cost of benefits provided by an employer to former or inactive employees after employment but before retirement. McDermott International has not yet finalized its review of the impact of this statement, but the new standard will have no impact on the cash requirements for any postemployment benefits, and is not expected to have a material effect on the consolidated financial statements of McDermott International.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

COMPANY REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

McDermott International believes that it maintains an internal control structure 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 an internal control structure must not exceed the related benefits. Although internal 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 internal control structure provides 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 audited by its independent auditors, 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 responsibility for the fairness of financial reporting. They regularly evaluate the internal control structure 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 independent auditors 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 independent auditors, management and in the internal auditors to review matters relating to the quality of financial reporting and internal control structure and the nature, extent and results of the audit effort. In addition, the Audit Committee is responsible for recommending the engagement of independent auditors for McDermott International to the Board of Directors, who in turn submit the engagement to the stockholders for their approval. The independent auditors, as well as the internal auditors, have free access to the Audit Committee.

May 21, 1993

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
McDermott International, Inc.

We have audited the accompanying consolidated balance sheet of McDermott International, Inc. as of March 31, 1993 and 1992, and the related consolidated statements of income (loss) and retained earnings (deficit) and cash flows for each of the three years in the period ended March 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDermott International, Inc. at March 31, 1993 and 1992, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its methods of accounting for income taxes and postretirement benefits other than pensions in 1993.

ERNST & YOUNG

New Orleans, Louisiana
May 10, 1993

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
MARCH 31, 1993 and 1992

ASSETS

	1993	1992
	(In thousands)	
Current Assets:		
Cash and cash equivalents	$ 139,522	$ 71,585
Short-term investments, at amortized cost, which approximates market	179,444	15
Accounts receivable - trade	467,381	483,779
Accounts receivable - other	141,182	161,091
Contracts in progress	250,569	287,785
Inventories	65,376	84,694
Deferred income taxes	101,969	76,183
Other current assets	10,545	9,942
Total Current Assets	1,355,988	1,175,074
Property, Plant and Equipment, at Cost:		
Land	18,547	18,461
Buildings	256,042	237,128
Machinery and equipment	1,745,623	1,839,216
Property under construction	36,934	38,211
	2,057,146	2,133,016
Less accumulated depreciation	1,334,853	1,366,462
Net Property, Plant and Equipment	722,293	766,554
Investments:		
Government obligations	362,042	559,741
Other investments	125,174	121,348
Total Investments	487,216	681,089
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Accumulated Amortization of $77,828,000 at March 31, 1993 and $72,224,000 at March 31, 1992	132,236	137,840
Prepaid Pension Costs	231,778	227,263
Other Assets	163,452	138,375
TOTAL	$3,092,963	$3,126,195

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1993	1992
	(In thousands)	
Current Liabilities:		
Notes payable and current maturities of long-term debt	$ 210,188	$ 69,154
Accounts payable	264,552	261,467
Accrued employee benefits	109,994	96,660
Accrued interest	55,471	108,868
Accrued liabilities - other	311,160	271,057
Advance billings on contracts	173,709	174,842
U.S. and foreign income taxes	114,850	153,529
Total Current Liabilities	1,239,924	1,135,577
Deferred Income Taxes	19,704	118,140
Long-Term Debt	583,211	765,053
Accumulated Postretirement Benefit Obligation	369,502	-
Other Liabilities	211,176	194,203
Contingencies		
Minority Interest:		
Subsidiary's Redeemable Preferred Stocks:		
Series A $2.20 cumulative convertible, $1.00 par value; at redemption value	88,089	88,089
Series B $2.60 cumulative, $1.00 par value; at redemption value	116,393	116,393
Other minority interest	4,546	4,859
Total Minority Interest	209,028	209,341
Preferred Stock	-	-
Common Stock and Other Stockholders' Equity:		
Common stock, par value $1.00 per share, authorized 150,000,000 shares; outstanding 52,211,961 at March 31, 1993 and 51,355,353 at March 31, 1992	52,212	51,355
Capital in excess of par value	568,329	551,790
Retained earnings (deficit)	(126,264)	114,204
Minimum pension liability	(74)	(1,264)
Cumulative foreign exchange translation adjustments	(33,785)	(12,204)
Total Common Stock and Other Stockholders' Equity	460,418	703,881
TOTAL	$3,092,963	$3,126,195

CONSOLIDATED STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1993

	1993	1992 (In thousands)	1991
Revenues	$3,172,555	$3,524,482	$ 3,069,849
Costs and Expenses:			
Cost of operations	2,742,260	3,025,998	2,756,950
Depreciation and amortization	121,508	125,812	99,857
Selling, general and administrative expenses	237,468	258,859	226,426
	3,101,236	3,410,669	3,083,233
	71,319	113,813	(13,384)
Equity in Income (Loss) of Investees	94,058	7,242	(29,685)
Operating Income (Loss)	165,377	121,055	(43,069)
Other Income (Expense):			
Interest income	40,391	53,768	73,094
Interest expense	(90,340)	(102,321)	(111,595)
Minority interest	(18,203)	(19,065)	(1,220)
Other-net	10,197	70,369	9,590
	(57,955)	2,751	(30,131)
Income (Loss) from Continuing Operations before Provision for Income Taxes, Extraordinary Items, and Cumulative Effect of Accounting Changes	107,422	123,806	(73,200)
Provision for Income Taxes	40,099	43,269	14,497
Income (Loss) from Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes	67,323	80,537	(87,697)
Income (Loss) from Discontinued Operations	-	(3,368)	18,172
Income (Loss) before Extraordinary Items and Cumulative Effect of Accounting Changes	67,323	77,169	(69,525)
Extraordinary Items	(10,431)	-	-
Cumulative Effect of Accounting Changes	(245,624)	-	-
Net Income (Loss)	(188,732)	77,169	(69,525)
Retained Earnings - Beginning of Year	114,204	82,919	196,415
Deduct Cash Dividends - Common	51,736	45,884	43,971
Retained Earnings (Deficit) - End of Year	$ (126,264)	$ 114,204	$ 82,919

PRIMARY AND FULLY DILUTED:	1993	1992	1991
Earnings (Loss) Per Common and Common Equivalent Share:			
Continuing operations before extraordinary items and cumulative effect of accounting changes	$ 1.29	$ 1.75	$ (2.00)
Discontinued operations	-	(0.08)	0.42
Extraordinary items	(0.20)	-	-
Accounting changes	(4.72)	-	-
Net income (loss)	$ (3.63)	$ 1.67	$ (1.58)
CASH DIVIDENDS PER COMMON SHARE	$ 1.00	$ 1.00	$ 1.00

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1993

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1993	1992	1991
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	$ (188,732)	$ 77,169	$ (69,525)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	121,508	125,812	99,857
Equity in income or loss of investees less dividends	(88,258)	5,104	39,570
Gain on sale and disposal of assets	(34,459)	(77,950)	(2,713)
(Gain) loss on disposal of discontinued operations	-	3,550	(16,824)
Provision for (Benefit from) deferred taxes	10,466	(71,973)	5,965
Cumulative effect of accounting changes	245,624	-	-
Extraordinary items	10,431	-	-
Other	3,614	(14,064)	2,490
Changes in assets and liabilities, net of effects from divestitures:			
Net contracts in progress and advance billings	42,746	(22,073)	(51,152)
Accounts receivable	37,099	(169,142)	(65,028)
Accounts payable	25,876	22,580	53,341
Inventories	18,858	5,230	(5,250)
Income taxes	(50,256)	52,494	(20,082)
Accrued interest	(53,399)	9,506	5,379
Other, net	53,828	(18,374)	29,552
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	154,946	(72,131)	5,580
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and disposal of assets	74,635	112,785	5,564
Purchases of property, plant and equipment	(82,034)	(76,321)	(139,335)
Acquisition of minority interest	-	(10,267)	-
Proceeds from sale of discontinued operations	-	20,368	51,337
Purchases of short-term investments, government obligations and other investments	(1,488,843)	(3,632,562)	(1,866,886)
Sales of short-term investments, government obligations and other investments	1,505,653	3,701,142	1,870,322
Investments in equity investees	(3,201)	(45)	(3,213)
Other	2,096	-	2,916
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	8,306	115,100	(79,295)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1993	1992	1991
		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of long-term debt	$ (119,684)	$ (239,621)	$ (33,200)
Issuance of long-term debt	89,000	263,818	26,530
Increase (decrease) in short-term borrowing	(9,781)	(190,109)	106,619
Issuance of common stock	8,034	102,963	24,069
Dividends paid	(51,528)	(44,075)	(42,358)
Other	(2,287)	(2,604)	(2,304)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(86,246)	(109,628)	79,356
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	(9,069)	(1,395)	1,461
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	67,937	(68,054)	7,102
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	71,585	139,639	132,537
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 139,522	$ 71,585	$ 139,639
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amount capitalized)	$ 143,739	$ 93,145	$ 106,304
Income taxes	$ 82,581	$ 67,300	$ 27,568
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Exchange of 10% subordinated debentures	$ -	$ -	$ 16,222

See accompanying notes to consolidated financial statements.

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. The consolidated financial statements include the accounts of McDermott International, Inc. and all subsidiaries and controlled joint ventures. Investments in joint venture and other entities in which McDermott International, Inc. has a 20% to 50% interest are accounted for on the equity method. Differences between the cost of equity method investments and the amount of underlying equity in net assets of the investees are amortized systematically to income. All significant intercompany transactions and accounts have been eliminated. Certain amounts previously reported have been reclassified to conform with the presentation at March 31, 1993. The notes to the consolidated financial statements are presented on the basis of continuing operations, unless otherwise stated.

Unless the context otherwise requires, hereinafter "International" will be used to mean McDermott International, Inc., a Panamanian corporation; the "Delaware Company" will be used to mean McDermott Incorporated, a Delaware corporation which is a subsidiary of International, and its consolidated subsidiaries (including Babcock & Wilcox Investment Company and its principal subsidiary, The Babcock & Wilcox Company); and "McDermott International" will be used to mean the consolidated enterprise.

Contracts and Revenue Recognition

Contract revenues and related costs are principally recognized on a percentage of completion method for individual contracts or components thereof based upon work performed or a cost to cost method, as applicable to the product or activity involved. Revenues and related costs so recorded, plus accumulated contract costs that exceed amounts invoiced to customers under the terms of the contracts, 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 on Contracts. 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. There are no unbilled revenues which will not be billed. 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. Included in Accounts Receivable and Contracts in Progress are approximately $54,668,000 and $62,244,000 relating to commercial and U.S. Government contracts claims whose final settlement is subject to future determination through negotiations or other procedures which had not been completed at March 31, 1993 and 1992, respectively. International and certain of its subsidiaries keep books and file tax returns on the completed contract method of accounting.

	1993	1992
	(In thousands)	
Included in Contracts in Progress are:		
Costs incurred less costs of revenue recognized	$ 100,144	$ 74,290
Revenues recognized less billings to customers	150,425	213,495
Contracts in Progress	$ 250,569	$ 287,785
Included in Advance Billings on Contracts are:		
Billings to customers less revenues recognized	$ 218,640	$ 327,411
Costs incurred less costs of revenue recognized	(44,931)	(152,569)
Advance Billings on Contracts	$ 173,709	$ 174,842

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 receivable - trade are amounts representing retainages on contracts as follows:

	1993	1992
	(In thousands)	
Retainages	$ 148,124	$ 169,949
Retainages expected to be collected after one year	$ 56,250	$ 85,449

Of its long-term retainages at March 31, 1993, McDermott International anticipates collection as follows: $26,673,000 in fiscal 1995, $9,349,000 in fiscal 1996, $12,620,000 in fiscal 1997 and $7,608,000 thereafter.

Depreciation, Maintenance and Repairs and Drydocking Expenses

Except for major marine vessels, property, plant and equipment is depreciated on the straight-line method, using estimated economic useful lives of 8 to 40 years for buildings and 2 to 28 years for machinery and equipment.

Major marine vessels are depreciated on the units-of-production method based on the utilization of each vessel. Depreciation expense calculated under the units-of-production method may be less than, equal to, or greater than depreciation expense calculated under the straight-line method in any period. The annual depreciation based on utilization of each vessel will not be less than the greater of 25% of annual straight-line depreciation, or 50% of cumulative straight-line depreciation.

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 over the period of time between drydockings, and such accruals are charged to operations currently.

Investments

Investments in government obligations and other investments (principally debt investments) held as a long-term investment are carried at amortized cost. At March 31, 1993 the market and face values of the government obligations were $366,671,000 and $363,765,000, and other investments were and $126,082,000 and $126,261,000, respectively.

Cash Equivalents

Cash equivalents are highly liquid investments, with maturities of three months or less when purchased, which are not held as part of the long-term investment portfolio.

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

Excess of the cost over fair value of net assets of purchased businesses primarily pertains to The Babcock & Wilcox Company, which is being amortized on a straight-line basis over forty years.

Warranty Expense

Estimated warranty expense which may be required to satisfy contractual requirements, primarily of the Power Generation Systems and Equipment segment, is accrued relative to revenue recognition on the respective contracts. In addition, specific provisions are made where the costs of warranty are expected to significantly exceed such accruals.

Environmental Clean-up Costs

McDermott International accrues for future decommissioning and decontamination of its nuclear facilities that will permit the release of these facilities to unrestricted use at the end of each facility's life, which is a condition of its licenses from the Nuclear Regulatory Commission. Such accruals are based on the current estimated cost of those activities over the economic useful life of each facility, which is estimated at 40 years. During fiscal 1992, the provision was reduced $14,900,000 as a result of a Department of Energy grant for one facility.

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 approximately $19,459,000, $21,300,000 and $23,100,000 in fiscal years 1993, 1992 and 1991, respectively. In addition, expenditures on research and development activities of approximately $42,082,000, $67,100,000 and $40,200,000 in fiscal years 1993, 1992 and 1991, respectively, were paid for by customers of McDermott International.

Capitalization of Interest Cost

In fiscal years 1993, 1992 and 1991, total interest cost incurred was $92,111,000, $104,946,000 and $119,390,000, respectively, of which $1,771,000, $2,625,000 and $7,795,000, respectively, was capitalized.

Income Taxes

Effective April 1, 1992, McDermott International adopted SFAS No. 109, "Accounting for Income Taxes". This statement establishes new accounting and reporting standards for the effects of income taxes. It continues the liability approach provided by its predecessor standard, SFAS No. 96, which was adopted by McDermott International in fiscal 1989, but contains new requirements for asset recognition. It also contains new requirements regarding balance sheet classification and prior business combinations. The cumulative effect of the accounting change reflects the impact of the net reduction in enacted tax rates on temporary differences resulting from adjustments of remaining assets and liabilities acquired in the acquisition of The Babcock & Wilcox Company in 1978 from net of tax to pre-tax amounts. The cumulative effect of the accounting change on prior years at April 1, 1992 was

$3,727,000, or $0.07 a share. Other than the cumulative effect, the accounting change had no material effect on fiscal year 1993.

Postretirement Health Care Benefits

During the fourth quarter of 1993 and effective April 1, 1992, McDermott International adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions". The Statement requires the accrual method of accounting for the costs of providing postretirement health and welfare benefits and expanded postretirement health and welfare plan disclosures. In accordance with the Statement, McDermott International elected immediate recognition of its transition obligation and recorded $249,351,000 (net of income tax benefit of $136,228,000), or $4.79 per share, as the cumulative effect of an accounting change. In fiscal year 1993, other than the cumulative effect of the accounting change, the adoption of SFAS No. 106 resulted in a decrease in Income from Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes and an increase in Net Loss of $4,688,000, or $0.09 per share. Postretirement benefit cost for prior years has not been restated and was recognized by expensing the insurance programs' premiums, the self-insured program's claims paid, and the estimated unpaid liability for claims incurred by plan participants. The aggregate cost, including discontinued operations, was $25,458,000 and $22,750,000 in fiscal years 1992 and 1991, respectively.

Foreign Currency Translation

Assets and liabilities of foreign operations, other than operations in highly inflationary economies, are translated into U.S. Dollars at current exchange rates and income statement items are translated at average exchange rates for the year. Adjustments resulting from the translation of foreign currency financial statements are recorded in a separate component of equity; an analysis of these adjustments follows:

	(In thousands)
Balance March 31, 1990	$ (7,854)
Translation adjustments for fiscal 1991	(1,015)
Balance March 31, 1991	(8,869)
Translation adjustments for fiscal 1992	(3,335)
Balance March 31, 1992	(12,204)
Translation adjustments for fiscal 1993	(21,581)
Balance March 31, 1993	$ (33,785)

Foreign currency transaction adjustments are reported in income. Included in Other Income (Expense) are transaction gains (losses) of $(3,747,000), $(6,744,000), and $9,847,000 for fiscal years 1993, 1992 and 1991, respectively.

Forward Exchange Contracts

McDermott International enters into forward exchange contracts primarily as hedges relating to identifiable currency positions. These financial instruments are designed to minimize exposure and reduce risk from exchange rate fluctuations in the regular course of business. Gains and losses on forward exchange contracts which hedge exposures on firm foreign currency commitments are deferred and recognized as adjustments to the bases of those assets. Gains and losses on forward exchange contracts which hedge foreign currency assets or liabilities are recognized in income as incurred. Such amounts effectively offset gains and losses on the foreign currency assets or liabilities that are hedged.

At March 31, 1993, McDermott International had forward exchange contracts to purchase $335,009,000 in foreign currencies (primarily Canadian Dollars and British Pounds), and to sell $140,884,000 in foreign currencies (primarily Dutch Guilders, British Pounds, Canadian Dollars, and Malay Ringgits), at varying maturities from 1994 through 1998.

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 stock options and appreciation rights.

NOTE 2 - DISCONTINUED OPERATIONS

Welded Tubular Line of Business

In February 1992, McDermott International sold its welded tubular line of business ("Welded") for $30,217,000, consisting of $20,368,000 in cash and receivables of $9,849,000. These proceeds are subject to purchase price adjustments that have not yet been determined, but are not expected to have a material affect on the consolidated financial statements. Condensed financial information for Welded follows:

	1992	1991
	(In thousands)	
Revenues	$57,428	$66,105
Income from operations, net of income taxes of $114,000 and $825,000, in fiscal years 1992 and 1991, respectively	182	1,348
Loss on disposal, including $1,159,000 operating loss during the phase out period, net of income tax benefit of $2,936,000	(4,790)	-

Bailey Controls Group

In fiscal 1990, McDermott International sold its Bailey Controls operations. During fiscal 1991, purchase price and other income adjustments of $1,718,000, net of income taxes of $550,000, were recognized in income from discontinued operations. Proceeds collected in fiscal 1991 were $3,931,000.

Seamless Tubular Line of Business

During fiscal 1991, McDermott international sold its previously discontinued seamless tubular line of business and received proceeds from the sale totaling $52,406,000, including $5,000,000 which was collected during fiscal 1990. Gain on disposal of $15,106,000 (net of income taxes of $17,081,000) in fiscal 1991 and $1,240,000 (net of income taxes of $760,000) resulting from adjustments in fiscal 1992, are included in Income (Loss) from Discontinued Operations.

NOTE 3 - SALE OF ACCOUNTS RECEIVABLE

In December 1988, The Babcock & Wilcox Company entered into an agreement with a certain U.S. bank, whereby it can sell, up to a maximum limit, with limited recourse, an undivided interest in a designated pool of qualified accounts receivable. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously sold accounts receivable. During fiscal 1993, The Babcock & Wilcox Company and the bank

renewed the agreement for an additional period of three years and increased the maximum sales limit to $225,000,000 from $175,000,000. At March 31, 1993, approximately $170,000,000 of receivables had been sold for cash under this agreement. Included in Other-net income were expenses recorded on the sale of receivables which represent bank fees and discounts of $7,851,000, $12,564,000 and $17,498,000 for the fiscal years ended March 31, 1993, 1992 and 1991, respectively.

NOTE 4 - INVENTORIES

Inventories are carried at the lower of cost or market. Cost is determined on an average cost basis except for certain materials inventories, for which the last-in first-out (LIFO) method is used. The cost of approximately 18% and 31% of total inventories was determined using the LIFO method at March 31, 1993 and 1992, respectively. Consolidated inventories at March 31, 1993 and 1992 are summarized below:

	1993	1992
	(In thousands)	
Raw Materials and Supplies	$ 36,320	$ 51,410
Work in Progress	17,678	17,757
Finished Goods	11,378	15,527
	$ 65,376	$ 84,694

NOTE 5 - PENSION PLANS AND POSTRETIREMENT BENEFITS

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 Community country or who do not earn income in the United States, Canada, or the United Kingdom. Salaried plan benefits are based on final average compensation and years of service, while hourly plan benefits are based on a flat benefit rate and years of service. McDermott International's funding policy is to fund applicable pension plans to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, generally, to fund other pension plans as recommended by the respective plan actuary and in accordance with applicable law. At January 1, 1993 and 1992, approximately one-half of total plan assets were invested in listed stocks and bonds. The remaining assets were held in U. S. Government securities and investments of a short-term nature.

The net periodic pension benefit for fiscal years 1993, 1992 and 1991 included the following components:

	1993	1992	1991
		(In thousands)	
Service cost - benefits earned during the period	$ 26,885	$23,915	$ 20,759
Interest cost on projected benefit obligation	67,969	63,150	55,823
Actual return on plan assets	(88,377)	(177,882)	(5,783)
Net amortization and deferral	(17,597)	89,550	(91,724)
Net periodic pension benefit	$(11,120)	$ (1,267)	$(20,925)

Due to the sale of Welded, McDermott International recognized a curtailment and settlement of a certain related hourly pension plan in the United States. Consequently, the loss from discontinued operations in fiscal year 1992 includes a net after-tax gain of $1,659,000 resulting from the curtailment and settlement.

Due to the sale of interests in its two commercial nuclear joint ventures, McDermott International recognized a curtailment and settlement of a certain related salaried pension plan in the United States. Consequently, income from continuing operations in fiscal year 1992 includes a net after-tax gain of $1,615,000 resulting from the curtailment and settlement. Accordingly, net periodic cost relating to this pension plan was remeasured at December 4, 1991. The impact on net periodic pension cost for fiscal year 1992 was to increase pre-tax income from continuing operations by $2,074,000.

The following table sets forth the plans' funded status and amounts recognized in McDermott International's consolidated financial statements:

	Plans for Which Assets Exceed Accumulated Benefits		Plans for Which Accumulated Benefits Exceed Assets	
	1993	1992	1993	1992
	(In thousands)			
Actuarial present value of benefit obligations:				
Vested benefit obligation	$ 538,320	$ 506,394	$ 98,545	$ 82,279
Accumulated benefit obligation	$ 593,550	$ 555,324	$ 119,838	$ 100,556
Projected benefit obligation	$ 728,392	$ 671,278	$ 125,187	$ 102,406
Plan assets at fair value	1,056,106	1,038,668	81,829	67,572
Projected benefit obligation (in excess of) or less than plan assets	327,714	367,390	(43,358)	(34,834)
Unrecognized net gain	(18,673)	(49,578)	(25)	(4,432)
Prior service cost not yet recognized in net periodic pension cost	10,084	11,301	15,847	4,590
Unrecognized transition (asset) obligation	(87,347)	(101,850)	(180)	268
Adjustment required to recognize minimum liability	-	-	(11,220)	(2,797)
Prepaid pension cost (pension liability) recognized in the consolidated financial statements	$ 231,778	$ 227,263	$ (38,936)	$ (37,205)

At January 1, 1993, 1992 and 1991, the weighted average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations were 8-1/2 % and 5%, respectively. The expected long-term rate of return on plan assets was 8-1/2%.

In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions," McDermott International recorded during 1993 and 1992, an additional minimum liability for certain of its plans of $11,220,000 and $2,797,000, respectively. These liabilities resulted in recognition of intangible assets of $11,144,000 and $936,000 and reductions in stockholders' equity of $74,000 and $1,264,000, respectively, in fiscal years 1993 and 1992.

The two principal ERISA pension plans provide that, subject to certain limitations, any excess assets in such plans would be used to increase pension benefits if certain events occurred within a 60-month period following a change in control of International.

Multiemployer Plans - One of McDermott International's subsidiaries contributes to various multiemployer plans. The plans generally provide defined benefits to substantially all unionized workers in this subsidiary. Amounts charged to pension cost and contributed to the plans were $4,687,000, $4,886,000 and $6,407,000 in fiscal years 1993, 1992 and 1991, respectively.

Postretirement Health Care and Life Insurance Benefits - McDermott International offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees, including those associated with discontinued operations, except certain non-resident alien retired employees who are not citizens of a European Community country or who, while employed, did not earn income in the United States, Canada or the United Kingdom. McDermott International shares the cost of providing these benefits with all affected retirees, except for certain life insurance plans. Postretirement health care and life insurance benefits are offered under separate defined benefit postretirement plans to union and non-union employees. The health care plans are contributory and contain cost-sharing provisions such as deductibles and coinsurance; the life insurance plans are contributory and non-contributory. McDermott International does not fund any of its plans.

The following table sets forth the plans' funded status and amounts recognized in McDermott International's consolidated financial statements at March 31, 1993:

	(In thousands)
Accumulated Postretirement Benefit Obligation:	
Retirees	$ 327,612
Fully eligible active participants	17,907
Other active plan participants	52,355
	397,874
Unrecognized net loss	(274)
Accrued postretirement benefit cost	$ 397,600

The accumulated postretirement benefit obligation in the above table includes $362,403,000 for McDermott International's health care plans and $35,471,000 for McDermott International's life insurance plans.

Net periodic postretirement benefit cost for fiscal year 1993 included the following components:

	(In thousands)
Service cost	$ 3,292
Interest cost	32,000
Net periodic postretirement benefit cost	$ 35,292

For measurement purposes, a 13-1/2% weighted-average annual assumed rate of increase in the per capita cost of covered health care claims was assumed for 1993. The rate was assumed to decrease gradually to 5% in 2005 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of March 31, 1993 by $22,512,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for fiscal 1993 by $2,170,000. At January 1, 1993, the weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 8-1/2%.

Employees of McDermott International who are not U.S. citizens and located in certain foreign countries are covered by various foreign postretirement benefit arrangements. McDermott International has not yet adopted SFAS No. 106 for these foreign plans. The effect of initial adoption will be reported as the cumulative effect of an accounting change and is not expected to have a material effect on the consolidated financial statements of McDermott International.

Postemployment Benefits - See Management's Discussion and Analysis of Financial Condition and Results of Operations regarding future adoption of FASB Statement No. 112, "Employers' Accounting for Postemployment Benefits."

NOTE 6 - 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 Panama. Therefore, there is no expected relationship between the provision for, or benefit from, income taxes and income, or loss, before income taxes. The major reason for the variations in such relationships 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.

Deferred income taxes reflect the net tax effects of temporary differences between the financial and tax bases of assets and liabilities. Significant components of deferred tax assets and liabilities as of March 31, 1993 under SFAS No. 109 and March 31, 1992 under SFAS No. 96 were as follows:

	1993	1992
	(In thousands)	
Deferred tax assets:		
Accrued warranty expense	$ 13,968	$ 11,643
Accrued provisions for facility closings and dispositions and environmental cleanup	10,748	15,313
Accrued vacation pay	9,680	9,645
Accrued liabilities for self-insurance (including postretirement health care benefits)	181,892	45,123
Accrued liabilities for executive and employee incentive compensation	13,620	8,583
Accrued pension liability	5,260	12,143
Accrued interest on proposed tax deficiencies	12,710	31,423
Allowance for doubtful accounts	6,566	4,705
Long-term contracts	7,611	-
Investments in joint ventures	6,799	6,152
Net operating loss carryforwards (various non U.S. taxing jurisdictions)	34,277	-
Other	26,132	11,994
Total deferred tax assets	329,263	156,724
Valuation allowance for deferred tax assets	(29,524)	-
Net deferred tax assets	299,739	156,724

	1993	1992
	(In thousands)	
Deferred tax liabilities:		
Property, plant and equipment	$ 90,906	$ 91,714
Long-term contracts	9,751	5,635
Prepaid pension costs	85,597	75,473
Investments in joint ventures	27,463	24,632
Other	1,781	1,817
Total deferred tax liabilities	215,498	199,271
Net deferred tax assets (liabilities)	$ 84,241	$ (42,547)

Income (loss) from continuing operations before provision for or (benefit from) income taxes was as follows:

	1993	1992	1991
		(In thousands)	
U. S.	$ (40,505)	$ 55,795	$ (24,288)
Other than U. S.	147,927	68,011	(48,912)
	$ 107,422	$ 123,806	$ (73,200)

The provision for (benefit from) income taxes from continuing operations consists of:

	1993	1992	1991
		(In thousands)	
Current:			
U. S. - Federal	$ (9,823)	$ 85,899	$ (6,571)
U.S. - State and local	630	15,939	1,964
Other than U. S.	38,826	13,404	13,139
Total current	29,633	115,242	8,532
Deferred:			
U. S. - Federal	4,909	(67,386)	6,440
U. S. - State and local	1,115	(7,374)	(10)
Other than U. S.	4,442	2,787	(465)
Total deferred	10,466	(71,973)	5,965
Provision for Income Taxes	$ 40,099	$ 43,269	$ 14,497

The current provision for other than U. S. income taxes in 1993 includes a reduction of $26,606,000 for the benefit of net operating loss carryforwards.

During fiscal 1992, a decision was entered in the United States Tax Court concerning the Delaware Company's U.S. income tax liability for the fiscal year ended March 31, 1983 disposing of all significant U.S. federal income tax issues for that year. The IRS has issued notices for fiscal 1984 through 1988 asserting deficiencies in the amounts of net operating losses and taxes reported. The deficiencies are based on issues substantially similar to those of earlier years. The Delaware Company believes that any income taxes ultimately assessed will not exceed amounts provided.

NOTE 7 - LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt consists of:	1993	1992
	(In thousands)	
Unsecured Debt:		
Series A Medium Term Notes (interest at various rates ranging from 7.92% to 9.00%)	$ 75,000	$ -
Series B Medium Term Notes (interest at various rates ranging from 6.65% to 7.77%)	14,000	-
9.375% Notes due 2002 ($225,000,000 face value)	224,386	224,344
10.25% Notes due 1995	150,000	150,000
12.25% Senior subordinated notes due 1998 (To be redeemed June 1, 1993)	189,400	200,000
10.20% Sinking fund debentures due 1999	-	22,500
10% Subordinated debentures ($27,255,000 face value)	-	24,051
9.625% Sinking fund debentures due 2004	-	6,718
Other notes payable through 2009 (interest at various rates ranging from 4.25% to 6.80%)	26,187	28,275
Secured Debt:		
7.50% Notes due 1993	-	33,820
10.375% Note payable due 1998	105,400	119,000
Project financing notes	4,564	4,597
Other notes payable through 1994 and capitalized lease obligations	3,687	10,346
	792,624	823,651
Less: Amounts due within one year	209,413	58,598
	$ 583,211	$ 765,053

During June and July 1992, the Delaware Company issued $75,000,000 of Series A Medium Term Notes at maturities and interest rates ranging from five to eleven years, and 7.92% to 9.00%, respectively. These notes have an average maturity of approximately six and one-half years and an average interest rate of approximately 8.20%. Also, during March 1993, the Delaware Company issued $14,000,000 of Series B Medium Term Notes at maturities and interest rates ranging from five to fifteen years, and 6.65% to 7.77%, respectively. These notes have an average maturity of approximately eight years and an average interest rate of approximately 7.00%.

As defined in the Indentures, both the 10.25% Notes due 1995 and the 12.25% Senior Subordinated Notes due 1998, may be redeemed at the option of the holders upon a change of control of International. The Indentures, and the Indenture for the 9.375% Notes due 2002, contain certain covenants which restrict the amount of funded indebtedness that the Delaware Company may incur, and place limitations on certain restricted payments, certain transactions between affiliates, the creation of certain liens and the amendment of a certain intercompany agreement.

During October 1992, the Delaware Company repurchased $10,600,000 aggregate principal amount of its 12.25% Senior Subordinated Notes due 1998 resulting in an extraordinary loss of $610,000 (net of income tax benefit of $314,000), or $0.01 per share.

Pursuant to its right of redemption, on March 31, 1993, the Delaware Company deposited cash of $52,712,000 into trusts for the purpose of redeeming its 9.625% Sinking Fund Debentures, 10% Subordinated Debentures, and 10.20% Sinking Fund Debentures. All of the debentures were redeemed on April 19, 1993. Accordingly, neither the cash nor the debt evidenced by the debentures appear on the balance sheet at March 31, 1993. These redemptions resulted in an extraordinary loss of $2,429,000 (net of income tax benefit of $1,252,000), or $0.05 per share.

Pursuant to its redemption option, on March 31, 1993, McDermott International provided for the loss associated with the redemption and subsequent extinguishment of its 12.25% Senior Subordinated Notes due in 1998 which are to be redeemed on June 1, 1993. The total redemption price including accrued interest totals $209,694,000. The entire amount of the 12.25% notes has been reclassified to current maturities of long term debt at March 31, 1993. This redemption resulted in an extraordinary loss of $7,392,000 (net of income tax benefit of $3,808,000), or $0.14 per share.

In management of its net interest costs (expense on debt and income on investments), McDermott International entered into interest rate swap agreements with certain banks which effectively change the fixed interest rates on certain long-term notes payable. Net amounts to be paid or received as of the result of these agreements are accrued as adjustments to interest expense over the terms of these contracts. Gains realized as a result of terminating these agreements were deferred ($4,435,000 at March 31, 1993) and are recognized as reductions of interest expense over the original terms of the agreements. Interest rate swaps resulted in a reduction of interest expense of $6,961,000 in fiscal 1993.

McDermott International's 10.375% Note payable due 1998 is secured by a letter of credit issued by a U. S. bank. The letter of credit was secured by $116,192,000 amortized cost (market value of $117,239,000) of McDermott International's long term portfolio at March 31, 1993. The outstanding principal is repayable in semi-annual payments with the final installment due June 20, 1998. The letter of credit and collateral amounts decline as the loan principal is repaid.

Maturities of long-term debt during the five fiscal years subsequent to March 31, 1993 are as follows: 1994 - $209,413,000, including the 12.25% Senior Subordinated Notes due 1998

to be redeemed June 1, 1993; 1995 - $19,897,000; 1996 - $170,821,000; 1997 - $22,423,000; 1998 - $67,765,000.

The Delaware Company is restricted, as a result of covenants in certain credit agreements, in its ability to transfer funds to International and its subsidiaries through cash dividends or through unsecured loans or investments. At March 31, 1993, substantially all of the net assets of the Delaware Company were subject to such restrictions. It is not expected that these restrictions will have any significant effect on International's liquidity.

At March 31, 1993 and 1992, International and the Delaware Company had available to them jointly various uncommitted short-term lines of credit of $64,000,000 and $74,000,000, respectively. In addition, McDermott Incorporated had available to it an uncommitted short-term line of credit of $10,000,000 at March 31, 1993 and The Babcock & Wilcox Company had available to it a $128,000,000 unsecured and committed revolving line of credit facility. There were no borrowings against these facilities at March 31, 1993 and 1992.

Current notes payable to banks at March 31, 1993 and 1992 were $775,000 and $10,556,000 respectively.

NOTE 8 - CONTINGENCIES AND COMMITMENTS

Litigation - International and certain of its officers, directors and subsidiaries are defendants in numerous legal proceedings. Management believes that the outcome of these proceedings will not have a material adverse effect upon the consolidated financial position of McDermott International.

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, 1993 are as follows: 1394 -$20,964,000; 1995 - $18,104,000; 1996 - $11,537,000; 1997 - $10,044,000; 1998 - $9,229,000; and thereafter - $49,827,000. Future minimum lease payments and leased property under capital leases are not material. Total rental expense for fiscal 1993, 1992 and 1991 was $131,014,000, $149,140,000, and $108,683,000, 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 governmental agencies.

McDermott International maintains liability and property insurance that it considers normal in the industry. However, certain risks are either not insurable or insurance is available only at rates which McDermott International considers uneconomical. The insurance coverage of McDermott International for products liability and employers' liability claims is subject to varying insurance limits which are dependent upon the year involved. The Babock & Wilcox Company has an agreement with a majority of its principal insurers concerning the method of allocation of products liability asbestos claim payments to the years of coverage, which operates to reduce The Babcock & Wilcox Company's liability for such claim payments. Pursuant to the agreement, The Babcock & Wilcox Company negotiates and settles these claims and bills these amounts to the appropriate insurers. Litigation is proceeding against certain of those products liability excess insurers who are not signatories to this agreement. Litigation is also proceeding to determine the relative exposure of products liability excess insurers and The Babcock & Wilcox Company for a single year. Amounts not otherwise recoverable from insurers for any reason are borne by The Babcock & Wilcox Company. Based upon information currently available, management believes that it is adequately insured against future asbestos related claims and that its future liability for claim payments will not

have a material adverse effect upon the consolidated financial position of McDermott International.

Commitments for capital expenditures amounted to approximately $51,191,000 (including $20,700,000 for a new combustion and emission facility at McDermott International's research center in Alliance, Ohio) at March 31, 1993, of which approximately $35,241,000 relates to fiscal 1994.

McDermott International is contingently liable under standby letters of credit totaling $407,062,000 (including $62,250,000 issued on behalf of unconsolidated foreign joint ventures) at March 31, 1993, issued in the normal course of business. McDermott International also guarantees $6,440,000 of loans to and $16,950,000 of standby letters of credit issued by certain unconsolidated foreign joint ventures at March 31, 1993. In addition, McDermott International also guarantees debt of $4,600,000 of an unconsolidated affiliate. At March 31, 1993, McDermott International had pledged approximately $60,630,000 amortized cost (market value of $61,932,000) of government obligations to secure payments under and in connection with certain reinsurance agreements.

NOTE 9 - FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

McDermott International's Power Generation Systems and Equipment customers are principally the electric utility industry (including government-owned utilities and independent power producers), the U.S. Government (including its contractors), and the pulp and paper and other process industries. The principal customers of the Marine Construction Services segment are the large oil and gas companies and the U.S. and other governments. These concentrations of customers may impact McDermott International's overall exposure to credit risk, either positively or negatively, in that the customers may be similarly affected by changes in economic or other conditions. However, McDermott International's management believes that the portfolio of receivables is well diversified and that such diversification minimizes any potential credit risk. Receivables are generally not collateralized.

McDermott International believes that its provision for possible losses on uncollectible accounts receivable is adequate for its credit loss exposure. At March 31, 1993 and 1992, the allowance for possible losses deducted from Accounts receivable-trade on the balance sheet was $4,879,000 and $3,610,000, respectively.

NOTE 10 - SUBSIDIARY'S REDEEMABLE PREFERRED STOCKS

At March 31, 1993 and 1992, 13,000,000 shares of Delaware Company Preferred Stock, with a par value of $1 per share, were authorized. Of the authorized shares, 2,818,780 shares of Series A Preferred Stock and 3,724,629 shares of Series B Preferred Stock were outstanding (in each case, exclusive of shares owned by the Delaware Company) at March 31, 1993 and 1992. The outstanding shares are entitled to $31.25 per share in liquidation. Preferred dividends of approximately $15,900,000 are classified as minority interest in Other Income (Expense) in each of the fiscal years 1993, 1992 and 1991. 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. Series A and Series B Preferred Stock are redeemable at the option of the Delaware Company at $31.25 per share plus accrued dividends. On March 31, 1994 and each subsequent year through March 31, 2008, the

NOTE 11 - CAPITAL STOCK

Common Stock - Changes in Common Stock during the three years ended March 31, 1993 are summarized below:

	SHARES	PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE
	(In thousands except for share data)		
Balance, March 31, 1990	42,164,394	$ 42,164	$412,051
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	161	-	5
Shares issued upon exercise of stock options and stock appreciation rights	159,934	160	3,589
Stock plan restricted stock purchases (net of forfeitures)	81,770	82	-
Shares issued upon exercise of warrants	1,663,090	1,663	34,642
Deferred career executive stock plan expense	-	-	1,648
Balance, March 31, 1991	44,069,349	44,069	451,935
Shares issued upon exercise of stock options	145,357	145	1,992
Stock plan restricted stock purchases (net of forfeitures)	124,860	125	-
Shares issued in public offering	6,900,000	6,900	93,801
Contributions to Company Thrift Plan	115,787	116	2,231
Deferred career executive stock plan expense	-	-	1,831
Balance, March 31, 1992	51,355,353	51,355	551,790
Shares issued upon exercise of stock options	367,309	368	7,524
Stock plan restricted stock purchases (net of forfeitures)	142,245	142	-
Contributions to Company Thrift Plan	347,054	347	7,642
Deferred career executive stock plan expense	-	-	1,373
Balance, March 31, 1993	52,211,961	$ 52,212	$ 568,329

The Panamanian regulations relating to acquisitions of securities of companies, such as International, registered with the National Securities Commission require, among other matters, that detailed disclosure concerning the offeror, which is subject to review by either the Panamanian National Securities Commission or the Board of Directors of the subject company, be finalized prior to the beneficial acquisition of more than 5 percent of the outstanding shares of any class of stock. Transfers of securities in violation of these regulations are invalid and cannot be registered for transfer.

At March 31, 1993 and 1992, 77,823,347 and 72,973,745 shares of Common Stock, respectively, were reserved for issuance in connection with exercise of rights, exercise of

stock options, and awards of restricted stock pursuant to the 1983 and 1987 Long-Term Performance Incentive Compensation Programs, and the 1992 Stock Programs, conversion of Series A Preferred Stock and contributions to the Thrift Plan.

International Rights - On December 30, 1985, each holder of Common Stock received a dividend distribution of one Right for each outstanding share of Common Stock. The Rights currently trade with the Common Stock and at March 31, 1993 and 1992, International had outstanding Rights to purchase 52,311,961 and 51,455,353 shares (including Rights to purchase 100,000 shares held by the Delaware Company at March 31, 1993 and 1992), respectively, of its Common Stock at a price of $50 per share subject to anti-dilution adjustments. The Rights will become exercisable and will detach from the Common Stock 10 days after a person or a group either becomes the beneficial owner of 20 percent or more of the outstanding Common Stock, or commences or announces an intention to commence a tender or exchange offer for 30 percent or more of the outstanding Common Stock. If thereafter the acquiring person or group engages in certain self-dealing transactions, holders of Rights may purchase at the exercise price that number of shares of Common Stock having a market value equal to twice the exercise price. In the event International merges with or transfers 50 percent or more of its assets or earnings to any person after the Rights become exercisable, holders of Rights may purchase at the exercise price that number of shares of Common Stock of the acquiring entity having a market value equal to twice the exercise price. The Rights are redeemable by International and expire on December 30, 1995.

International Warrants - At March 31, 1990, International had 1,635,364 outstanding warrants to purchase 1,774,370 shares of its Common Stock. In April 1990 cash of $20,084,000 and debentures with a book value of $16,222,000 (face value of $18,593,000) were received from the exercise of 1,547,084 warrants in exchange for 1,663,090 shares of Common Stock, which resulted in an increase in Common Stock of $1,663,000 and Capital in Excess of Par of $34,642,000. All unexercised International warrants expired on April 2, 1990.

1983 Long-Term Performance Incentive Compensation Program - Under the program which was adopted February 8, 1983, the Compensation 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. Options become exercisable on or before the third anniversary of the date of grant, and remain exercisable not more than ten years after the date of grant.

The Committee, until August 1987, was permitted to grant stock appreciation rights in connection with the granting of options under the program. Such stock appreciation rights 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 (up to, but not greater than, the fair market value of the underlying shares on the date of grant) 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. 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, 1993, 1992 and 1991, stock option appreciation rights awards of 965,458, 1,207,309 and 1,283,005, respectively, were outstanding at an average price of $21.9861, $21.3727 and $21.2481 per share, respectively. At March 31, 1993, 1992, and 1991, 59,604, 37,679, and 2,713 shares were not yet awarded under the program and 219,926, 40,730 and 159,667 options were exercised or surrendered for stock appreciation rights

during the year ended on each such date. During fiscal 1993 and 1992, there were no stock options awarded; in fiscal 1991, 86,770 stock options were awarded. Awards relating to 21,925, 34,966 and 46,566 shares were forfeited during fiscal 1993, 1992 and 1991, respectively. No further awards can be made under the program. Shares approved pursuant to the program which have not as yet been awarded and shares subject to any award which cancels, terminates, expires or lapses for any reason shall become available for grant under the 1992 Officer Stock Incentive Program to the extent permitted by the rules promulgated under Section 16 of The Securities Exchange Act of 1934. Charges to income with respect to performance units and dividend equivalency expense were $672,000, $459,000, and $1,061,000 during fiscal 1993, 1992 and 1991, respectively.

1987 Long-Term Performance Compensation Program - Under the program, which was approved by the shareholders on August 11, 1987, the Compensation Committee may grant to the officers and key employees options to purchase in the aggregate up to 2,500,000 shares of Common Stock at no less than 80% nor more than 100% of the fair market value on the date of grant. Options become exercisable on or before the third anniversary of the date of the grant, and remain exercisable not more than ten years and one day after the date of grant. Pursuant to the program, the Committee may grant eligible employees the right to purchase up to 700,000 shares of the 2,500,000 shares of Common Stock issuable under the program at a purchase price of par value ($1.00 per share) subject to restrictions on transfer. The restrictions lapse as to 50% of the shares purchased pursuant to any one grant of such rights on the fifth anniversary date of such grant, and as to the other 50% of such shares, on the third through the tenth anniversary dates of such grant, depending upon the comparison of McDermott International's three-year average Return on Capital to that of a comparative group of companies. In the event of a change in control of McDermott International, the Committee may cause such restrictions to lapse and accelerate the exercisability of any options outstanding.

At March 31, 1993, 1992 and 1991 1,553,362, 1,735,646 and 1,627,192 stock options were outstanding at an average price of $20.7031, $20.3949, and $20.1247 per share, respectively. During fiscal 1993, 1992 and 1991, 26,136, 86,819 and 21,160 options were forfeited, respectively. During fiscal 1993, 1992, and 1991, 156,148, 104,627 and 36,887 options were exercised, respectively. There were no stock options awarded in fiscal 1993, while in fiscal 1992 and 1991, 299,900 and 345,430 options were awarded, respectively. There were no rights to purchase shares granted during fiscal 1993, while in fiscal 1992 and 1991, 141,870 and 81,770 rights, respectively, were granted. In fiscal 1992, 17,010 shares purchased pursuant to rights were forfeited. At March 31, 1993, 1992, and 1991, 115,825, 89,689 and 427,630 shares, respectively, were not yet awarded under the program. No further awards can be made under the program. Shares approved pursuant to the program which have not as yet been awarded and shares subject to any award which cancels, terminates, expires or lapses for any reason shall become available for grant under the 1992 Officer Stock Incentive Program to the extent permitted by the rules promulgated under Section 16 of The Securities Exchange Act of 1934. Charges to income for this program, including dividend equivalency expense, were $1,658,000, $2,222,000 and $2,109,000 during fiscal 1993, 1992 and 1991, respectively.

1992 Officer Stock Program - Under the program, which was approved by the shareholders on August 11, 1992, the Compensation committee may grant to the officers options to purchase in the aggregate up to 2,500,000 shares of Common Stock at no less than 100% of the fair market value on the date of grant. Options will become exercisable at such time or times as the Committee shall determine at the time of the grant, and remain exercisable not more than ten years after the date of the grant. Pursuant to the program, the Committee may grant eligible officers the right to purchase up to 1,500,000 shares of the 2,500,000 shares of Common Stock issuable under the program at the purchase price of par value ($1.00 per share) subject to restrictions on transfer. The restrictions lapse at such times and under such

circumstances as specified by the Committee at the time of the grant. Additionally, shares approved pursuant to the 1983 and 1987 Long-Term Incentive Compensations Programs which have not as yet been awarded and shares subject to any award of rights to purchase shares which cancel, terminate, expire or lapse for any reason shall become available for grant under the 1992 Officer Stock Incentive Program to the extent permitted by the rules promulgated under Section 16 of the Securities Exchange Act of 1934. In the event of a change in control of McDermott International, the Committee may cause such restrictions to lapse and accelerate the exercisability of any options outstanding.

At March 31, 1993 and 1992, 680,090 and 334,060 stock options were outstanding at an average price of $22.0297 and $20.3125 per share, respectively. During fiscal 1993 and 1992, 346,030 and 334,060 options were awarded. During fiscal 1993 and 1992, no options were exercised of forfeited. The fiscal 1992 options were awarded contingent upon shareholder approval of the program, which was so approved August 11, 1992. Rights to purchase 137,330 shares were granted during fiscal 1993. No such shares were subsequently forfeited during fiscal 1993. No rights to purchase were granted during fiscal 1992. At March 31, 1993 and 1992, 1,682,690 and 2,165,940 shares were available for awards or grants under the program. Charges to income for this program were $39,000 in fiscal 1993.

1992 Director Stock Program - Under the program, which was approved by the shareholders on August 11, 1992, Directors who are not employees may be granted stock options and rights to purchase stocks in the aggregate up to 50,000 shares of Common Stock. The stock options shall be granted at not less than 100% of the fair market value on the date of grant, while the rights to purchase stock issuable under the program shall be acquired, subject to transfer restrictions, at par value ($1.00 per share). Pursuant to the program, options to purchase 900, 300 and 300 shares will be granted on the first day of the first, second and third years, respectively, of a Director's term. Options will become exercisable in full six months after the date of grant, and remain exercisable not more than ten years and one day after the date of the grant. Pursuant to the program, rights to purchase 450, 150 and 150 shares will be granted on the first day of the first, second and third years, respectively, of a Director's term at the purchase price of par value ($1.00 per share) subject to restrictions on transfer. The restrictions lapse on all stock purchased under grants made during a Director's term at the end of such term. Provisions are included for restrictions to lapse and accelerated exercisability of options outstanding in the event of a change in control of McDermott International.

At March 31, 1993 and 1992, 10,050 and 4,950 stock options were outstanding at an average price of $20.8993 and $21.375 per share, respectively. During fiscal 1993 and 1992, 5,100 and 4,950 options were awarded. During fiscal 1993 and 1992, no options were exercised or forfeited. The fiscal 1992 options were awarded contingent upon shareholder approval of the program, which was so approved August 11, 1992. Rights to purchase 2,550 and 2,475 shares were granted during fiscal 1993 and 1992, respectively. The fiscal 1992 grant of rights to purchase was awarded contingent upon shareholder approval of the program, which was so approved August 11, 1992. No such shares were subsequently forfeited during fiscal 1993 and 1992. At March 31, 1993 and 1992, 34,925 and 42,575 shares were available for awards or grants under the program. Charges to income for this program were $14,000 during fiscal 1993.

1992 Senior Management Stock Option Plan - Under the plan, the Plan Administration Committee may grant senior management employees options to purchase shares of Common Stock at no less than 100% of the fair market value on the date of grant. The total number of shares available for grant under the plan shall be determined by the Board of Directors from time to time. Options will become exercisable at such time or times as the Committee shall determine at the time of the grant, and remain exercisable not more than ten years after the

date of the grant. In the event of a change in control of McDermott International, all outstanding options granted under the plan shall immediately become exercisable.

At March 31, 1993, 297,750 stock options were awarded and outstanding at an average price of $23.6875 per share. During fiscal 1993, 297,750 options were awarded. During fiscal 1993, no options were exercised or forfeited.

International Preferred Stock - At March 31, 1993 and 1992, 25,000,000 shares of Preferred Stock were authorized. Of the authorized shares, 100,000 shares of Series A Participating Preferred Stock (the "Participating Preferred Stock") and 90,000 and 100,000 shares of Series B Non-Voting Preferred Stock (the "Non-Voting Preferred Stock"), respectively, were issued and owned by the Delaware Company at March 31, 1993 and 1992. The Non-Voting Preferred Stock is currently callable by International at $275 per share and 10,000 shares are to be redeemed each year by International at $250 per share. 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 whenever dividends in excess of $3.00 per International Share are declared (or deemed to have been declared) in any fiscal year. In 1987, the voting rights of the Participating Preferred Stock were eliminated. 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 New York Stock Exchange 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.

Thrift Plan

On November 12, 1991, a maximum of 5,000,000 of the authorized and unissued shares of International's Common Stock was reserved for possible issuance to be used as the employer match for employee contributions to the Thrift Plan for Employees of McDermott Incorporated and Participating Subsidiary and Affiliated Companies. Such employer contributions equal 50% of the first 6% of compensation, as defined in the Plan, contributed by participants, and fully vest and are non-forfeitable after five years of service or upon retirement, death, lay-off or approved disability. During fiscal 1993 and 1992, 347,054 and 115,787 shares, respectively, were issued as employer contributions pursuant to the Plan.

NOTE 12 - SEGMENT REPORTING

McDermott International operates in two industry segments - Power Generation Systems and Equipment, and Marine Construction Services.

Power Generation Systems and Equipment includes individually engineered complete fossil fuel and nuclear steam generating systems and nuclear fuel assemblies, fossil fuel steam generating systems for industrial processes and power generation, replacement parts and engineered modifications for existing fossil fuel and nuclear fuel steam generating systems, and specially engineered accessories and components.

Marine Construction Services principally involves the design, construction and installation of specialized offshore fixed platforms and marine pipelines for use in development drilling and for the production and transportation of oil and gas.

Identifiable assets by industry segment are those assets that are used in McDermott International's operations in each segment. Corporate assets are principally cash and cash equivalents, short-term investments, marketable securities and prepaid pension costs.

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

In the fiscal years 1993, 1992 and 1991, the U. S. Government accounted for approximately 13%, 15% and 20%, respectively, of McDermott International's total revenues. These revenues are principally included in the Power Generation Systems and Equipment segment.

At March 31, 1993 and 1992 receivables of $10,524,000 and $19,928,000, respectively, were due from minority owners, primarily ETPM S.A., in McDermott International's majority-owned joint ventures. Sales to ETPM S.A. were $31,234,000, $11,216,000 and $4,460,000, respectively, for the fiscal years ended March 31, 1993, 1992 and 1991. In fiscal 1993, 1992 and 1991, equipment charters and overhead expenses of $6,046,000, $44,578,000 and $25,728,000, respectively, were charged by ETPM S.A. to the McDermott-ETPM joint venture. Also, during fiscal 1992, McDermott International acquired HeereMac's minority interest in a subsidiary of International.

The adoption of SFAS No. 106 in fiscal year 1993 resulted in a net decrease in segment operating income of $6,784,000. This included a decrease of $3,760,000 in the Power Generation Systems and Equipment segment and a decrease of $3,024,000 in the Marine Construction Services segment.

Segment Information For the Three Fiscal Years Ended March 31, 1993.

1. Information about McDermott International's Operations in Different Industry Segments.

REVENUES [1] [2]	1993	1992	1991
Power Generation Systems and Equipment	$1,523,476	$1,593,501	$ 1,690,263
Marine Construction Services	1,649,653	1,936,618	1,397,759
Intersegment Transfer Eliminations	(574)	(5,637)	(18,173)
Total Revenues	$3,172,555	$3,524,482	$ 3,069,849

OPERATING INCOME (LOSS) [2]			
Segment Operating Income (Loss):			
Power Generation Systems and Equipment	$ 56,467	$ 109,774	$ 85,799
Marine Construction Services	67,652	55,908	(52,062)
Total Segment Operating Income	124,119	165,682	33,737
Equity in Income (Loss) of Investees:			
Power Generation Systems and Equipment	8,691	13,864	2,840
Marine Construction Services	85,367	(6,622)	(32,525)
Total Equity in Income (Loss) of Investees	94,058	7,242	(29,685)
General Corporate Expenses	(52,800)	(51,869)	(47,121)
Total Operating Income (Loss)	$ 165,377	$ 121,055	$ (43,069)

(1) Segment revenues include intersegment transfers as follows:

Power Generation Systems and Equipment	$ 414	$ 4,790	$ 10,771
Marine Construction Services	160	847	7,402
Total	$ 574	$ 5,637	$ 18,173

(2) See Note 14 regarding the sales of portions of two commercial nuclear joint venture interests (of the Power Generation Systems and Equipment segment) and the internal reorganization of the McDermott-ETPM joint venture (of the Marine Construction Services segment).

	1993	1992	1991
		(In thousands)	
CAPITAL EXPENDITURES			
Power Generation Systems and Equipment	$ 45,102	$ 52,582	$ 81,559
Marine Construction Services	36,038	22,345	56,511
Corporate [1]	2,757	834	540
Discontinued Operations	-	560	725
Total Capital Expenditures	$ 83,897	$ 76,321	$ 139,335
DEPRECIATION AND AMORTIZATION			
Power Generation Systems and Equipment	$ 36,798	$ 32,034	$ 33,355
Marine Construction Services	82,336	90,798	63,995
Corporate	2,374	2,980	2,507
	121,508	125,812	99,857
Discontinued Operations	-	3,248	3,541
Total Depreciation and Amortization	$ 121,508	$ 129,060	$ 103,398
IDENTIFIABLE ASSETS			
Power Generation Systems and Equipment	$1,146,702	$1,179,921	$ 1,197,058
Marine Construction Services	1,053,473	1,066,732	1,129,322
Corporate	892,788	879,542	960,630
Discontinued Operations	-	-	54,128
Total Identifiable Assets	$3,092,963	$3,126,195	$ 3,341,138

[1] Includes net consideration paid of $1,863,000 on a non-monetary exchange of equipment in fiscal 1993.

2. Information about McDermott International's Operations in Different Geographic Areas.

		1993	1992	1991
			(In thousands)	
Revenues (1)	- United States	$1,657,084	$1,957,139	$1,961,602
	- Europe and West Africa	532,989	721,334	488,556
	- Middle and Far East	752,316	644,067	364,742
	- Other Foreign	230,166	201,942	254,949
	Total	$3,172,555	$3,524,482	$3,069,849
Segment Operating Income (Loss) by Geographic Area	- United States	$ 54,266	$ 126,486	$ 66,260
	- Europe and West Africa	22,564	48,254	(944)
	- Middle and Far East	47,046	(6,149)	(34,394)
	- Other Foreign	243	(2,909)	2,815
	Total	$ 124,119	$ 165,682	$ 33,737
Identifiable Assets	- United States	$1,286,433	$1,264,795	$1,346,625
	- Europe and West Africa	265,020	383,089	409,479
	- Middle and Far East	353,972	289,567	262,415
	- Other Foreign	294,750	309,202	307,861
	- Corporate	892,788	879,542	960,630
	- Discontinued Operations	-	-	54,128
	Total	$3,092,963	$3,126,195	$3,341,138

(1) Transfers between geographic areas and export sales are immaterial and not separately presented.

NOTE 13 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth selected unaudited quarterly financial information for the fiscal years ended March 31,1993 and 1992:

	1993 QUARTER ENDED			
	JUNE 30, 1992	SEPT. 30, 1992	DEC. 31, 1992	MARCH 31, 1993
Revenues	$826,563	$734,610	$848,720	$762,662
Operating income	26,744	40,048	57,184	41,401
Income from continuing operations before extraordinary items and cumulative effect of accounting changes	2,740	18,553	19,426	26,604
Net income (loss)	(242,884)	18,553	18,816	16,783
Primary and Fully Diluted Earnings (loss) per share:				
Continuing operations before extraordinary items and cumulative effect of accounting changes	0.05	0.36	0.37	0.51
Net income (loss)	(4.69)	0.36	0.36	0.32

Operating income includes equity in income of investees to conform with the presentation of the Consolidated Statement of Income (Loss) and Retained Earnings (Deficit). Quarterly results have been restated to reflect the adoption of SFAS No. 106. This restatement reduced operating income by $1,115,000, $1,372,000 and $2,017,000; income from continuing operations before extraordinary items and cumulative effect of accounting changes by $543,000, $911,000 and $1,350,000 (or $0.01, $0.02, and $0.03 per share), and net income by $249,894,000, $911,000, and $1,350,000 (or $4.81, $0.02, and $0.03 per share), for the quarters ending June 30, September 30, and December 31, 1992, respectively.

Results for the quarter ended September 30, 1992 include marine asset casualty gains of $6,782,000. Results for the quarter ended December 31, 1992 include charges for accelerated depreciation and the write-off of certain fabrication facilities and marine construction equipment due to diminished cost-effectiveness and technical obsolescence of $11,708,000 and a reduction in the provision for worker's compensation and general liability costs resulting from a change in actuarial estimate of $17,342,000. Results for the quarter ended March 31, 1993 include the gain on the sale of nineteen tugboats of $4,762,000 and a gain on the sale of the remaining interests in two commercial nuclear joint ventures of $23,968,000.

Continued

	1992 QUARTER ENDED			
	JUNE 30, 1991	SEPT. 30, 1991	DEC. 31, 1991	MARCH 31, 1992
Revenues	$977,094	$923,164	$834,059	$790,165
Operating income	12,356	48,594	36,539	23,566
Income (loss) from continuing operations	(3,241)	11,192	71,230	1,356
Net income (loss)	(2,927)	8,307	67,631	4,158
Earnings (loss) per share: (1)				
Continuing operations	(0.07)	0.25	1.59	0.03
Net income (loss)	(0.07)	0.19	1.51	0.08

(1) Primary and fully diluted earnings (loss) per common and common equivalent share were the same for all periods presented except for the quarter ended December 31,1991. Fully diluted earnings per common and common equivalent share were $1.53 from continuing operations and $1.45 on net income for that quarter.

Operating income includes equity in income (loss) of investees to conform with the presentation of the Consolidated Statement of Income (Loss) and Retained Earnings (Deficit). Results for the June 30, September 30, and December 31, 1991 quarters and for the March 31, 1992 quarter include income (loss) from discontinued operations of $314,000, $(2,885,000), $(3,599,000) and $2,802,000, respectively.

Results for the June 30, 1991 quarter include a $14,900,000 reduction in the provision for decommissioning and restoration of an inactive nuclear facility. Results for the quarter ended September 30, 1991 include a marine asset casualty gain of $12,788,000. Results for the December 31,1991 quarter includes a gain on the sale of joint venture interests of $57,397,000, a reduction in the provision for worker's compensation and general liability costs resulting from a change in actuarial estimate of $30,779,000 and charges for accelerated depreciation on certain fabrication facilities and construction equipment and the write-off of certain fixed assets due to diminished cost-effectiveness and technical obsolescence of $16,105,000.

NOTE 14 - INVESTMENTS IN JOINT VENTURES AND OTHER ENTITIES

During December 1991, McDermott International reduced its participation in the nuclear fuel assembly and commercial nuclear services business by selling a portion of its interests in B&W Fuel Company ("BWFC") and B&W Nuclear Service Company ("BWNSC") to a consortium of U. S. subsidiaries of three French companies and the U. S. subsidiary of Framatome S.A. ("Framatome"), respectively. McDermott International retained a 25% interest in BWFC and BWNSC. Both joint ventures were accounted for on a cost basis after the sale as McDermott International no longer exercised significant influence over these joint ventures. Prior to the sale, BWFC was part of McDermott International's consolidated financial statements and BWNSC was accounted for as an equity investment. During fiscal 1990, McDermott International had previously reduced its interests to 50% in its commercial nuclear service business by forming BWNSC with the U. S. subsidiary of Framatome, which is also one of the French companies participating in BWFC, and in fiscal 1988 sold a 49% interest in BWFC to

the consortium referred to above.

Under the terms of the December 1991 sales agreements, Framatome purchased a 25% interest in BWNSC for $45,000,000 and the three French companies, which include Framatome, purchased a 26% interest in BWFC for $13,800,000. In addition, McDermott International was paid $17,000,000 relating to fees earned from, and the termination of, a management services agreement and received $33,820,000 in loan proceeds. On March 30, 1993, McDermott International sold its remaining interests in BWFC and BWNSC to the same parties for $10,150,000 and $32,440,000, respectively, and loans of $33,820,000 were repaid.

Included in the Consolidated Statement of Income (Loss) and Retained Earnings (Deficit) are revenues of $44,639,000 and $48,159,000 and losses of $419,000 and $102,000, applicable to BWFC operations, for the fiscal years ended March 31, 1992 and 1991, respectively. Included in Equity in Income (Loss) of Investees was income applicable to BWNSC of $5,179,000 and $1,137,000 for the fiscal years ended March 31, 1992 and 1991, respectively. Included in Other-net were gains on the sales of $23,968,000 and $57,397,000 for the fiscal years ended March 31, 1993 and 1992, respectively, and income from management fees and services applicable to these operations of $8,446,000 and $10,049,000 for the fiscal years ended March 31, 1992 and 1991, respectively.

During December 1991, McDermott International and ETPM S.A. negotiated the internal reorganization of their ETPM joint venture. As a result of these negotiations, McDermott International's ownership of McDermott-ETPM East, Inc. increased from 56.8% to 67.2% and ownership of McDermott-ETPM West, Inc. decreased from 56.8% to 49.9%. McDermott-ETPM East, Inc. operates in the Middle East and India; McDermott-ETPM West, Inc. operates in the North Sea, West Africa and South America. Since December 17, 1991, McDermott International's investment in McDermott-ETPM West, Inc., has been accounted for on the equity method.

Included in the Consolidated Statement of Income (Loss) and Retained Earnings (Deficit) are revenues of $302,766,000 and $148,787,000 and income (losses) of $4,104,000 and $(23,038,000), applicable to McDermott-ETPM West, Inc. operations, for the fiscal years ended March 31, 1992 and 1991, respectively. Included in Equity in Income (Loss) of Investees was income (loss) of $40,066,000 and $(6,058,000) applicable to McDermott-ETPM West, Inc. after deconsolidation in December 1991, for fiscal years 1993 and 1992, respectively.

McDermott International's non-current receivables and investments in joint ventures and other entities, which are accounted for on the equity method, were $76,996,000 and $76,298,000 at March 31, 1993 and 1992, respectively. Revenues attributable to transactions with entities for which investments are accounted for by the equity method were $91,448,000, $79,061,000 and $84,051,000 in fiscal years 1993, 1992 and 1991, respectively, including approximately $47,535,000, $33,681,000 and $38,890,000 attributable to leasing activities in fiscal years 1993, 1992 and 1991, respectively. Included in Accounts receivable-trade at March 31, 1993 and 1992 are $45,954,000 and $58,120,000 of receivables with unconsolidated investees. During the quarter ended December 31, 1991, McDermott International sold certain ancillary marine equipment (cost of $14,918,000 and accumulated depreciation of $14,851,000) to HeereMac for $10,267,000. A pre-tax gain of $5,100,000 on this transaction was recognized in the December 1991 quarter. During fiscal 1992 and 1991, additional investments of $18,498,000 and $55,988,000, respectively, were made in the HeereMac joint venture. HeereMac subsequently used these funds to settle amounts owed to McDermott International for equipment charters.

At March 31, 1993 and 1992, property, plant and equipment included $464,101,000 and $460,115,000, and accumulated depreciation included $247,920,000 and $220,878,000, respectively, of marine equipment that is leased to unconsolidated investees. Dividends received from unconsolidated investees were $33,202,000 (including a return of capital of $27,402,000), $12,346,000 and $9,885,000, in fiscal years 1993, 1992 and 1991, respectively.

Summarized combined balance sheet and income statement information based on the most recent financial information for McDermott International's equity investments in joint ventures and other entities are presented below:

	1993	1992
	(In thousands)	
Current Assets	$486,029	$416,683
Non-Current Assets	338,392	269,631
Total Assets	$824,421	$686,314
Current Liabilities	$366,834	$454,412
Non-Current Liabilities	317,244	202,868
Owner's Equity	140,343	29,034
Total Liabilities and Owner's Equity	$824,421	$686,314

	1993	1992	1991
		(In thousands)	
Revenues	$1,299,364	$619,259	$505,535
Gross Profit	$ 393,241	$146,350	$120,607
Income (Loss) before Provision for Income Taxes	$ 203,592	$ (6,700)	$ (60,631)
Provision for Income Taxes	4,754	1,973	132
Net Income (Loss)	$ 198,838	$ (8,673)	$ (60,763)

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by McDermott International in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investment securities: The fair values of investments are estimated based on quoted market prices. For investments for which there are no quoted market prices, fair values are derived from available yield curves for investments of similar quality and terms.

Long and short-term debt: The fair value of McDermott International's debt instruments are based on quoted market prices or where quoted prices are not available, on the present value of cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt issues of similar quality and terms.

Redeemable preferred stocks: The fair values of the redeemable preferred stocks of the Delaware Company are based on quoted market prices.

Item 9. DISAGREEMENTS WITH AUDITORS 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 arrangements or understanding between himself and any other person.

Information required by this item with respect to directors and executive officers is incorporated by reference to the material appearing under the headings "Election of Directors" in the Proxy Statement for the 1993 Annual Meeting of Shareholders.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to the material appearing under the heading "Cash Compensation of Executive Officers and Certain Relationships and Related Transactions" in the Proxy Statement for the 1993 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 1993 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 "Cash Compensation of Executive Officers and Certain Relationships and Related Transactions" in the Proxy Statement for the 1993 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 10-K/A.

EXHIBIT INDEX

3 Articles of Incorporation and By-Laws (Item 3(a) is incorporated by reference to Exhibit 3 to McDermott International's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983 and Item 3(b) is incorporated by reference to Exhibit 3 to McDermott International's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1991).

(a) McDermott International's Restated Articles of Incorporation
(b) McDermott International's By-Laws

4(a) Rights Agreement (incorporated by reference to Exhibit 1 to the McDermott International's registration statement on Form 8-A, dated December 27, 1985).

4(b) Indentures with respect to certain of McDermott International's long-term debt are not filed as exhibits hereto inasmuch as the securities authorized under any such Indenture do not exceed 10% of McDermott International's total assets. McDermott International agrees to furnish a copy of each such Indenture to the Securities and Exchange Commission upon request.

10 Material Contracts (Exhibits 10(a) and 10(h) are incorporated by reference to Exhibit II to McDermott International's current report on Form 8-K filed December 10, 1991; Exhibits 10(b) through 10(d) are incorporated by reference to Exhibit 10 to McDermott International's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983; Exhibit 10(e) is incorporated by reference to Exhibit 10 to McDermott International's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1990; Exhibit 10(f) is incorporated by reference to Exhibit 10 to McDermott International's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1987 and Exhibit 10(g) is incorporated by reference to Exhibit 10 to McDermott International's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1988.)

(a) Supplemental Executive Retirement Plan
(b) 1983 Long-Term Performance Incentive Compensation Program
(c) Restoration of Retirement Income Plan for Certain Participants in the Retirement Plan for Employees of McDermott Incorporated
(d) Intercompany Agreement
(e) Trust for Supplemental Executive Retirement Plan
(f) Variable Supplemental Compensation Plan
(g) 1987 Long-Term Performance Incentive Compensation Program
(h) Retirement Plan for Non-Management Directors of McDermott International, Inc.
(i) 1992 Senior Management Stock Option Plan
(j) 1992 Officer Stock Incentive Plan
(k) 1992 Director Stock Plan

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FORM 8-K REPORTS

There were no current reports on Form 8-K filed during the three months ended March 31, 1993.

EXHIBIT II

McDERMOTT INTERNATIONAL, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS (LOSS)
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1993

(In thousands, except shares and per share amounts)

PRIMARY AND FULLY DILUTED

	1993	1992	1991
Income (loss) from continuing operations before extraordinary items and cumulative effect of accounting changes	$ 67,323	$ 80,537	$ (87,697)
Income (loss) from discontinued operations	-	(3,368)	18,172
Extraordinary items	(10,431)	-	-
Cumulative effect of accounting changes	(245,624)	-	-
Net income (loss) for primary computation	$ (188,732)	$ 77,169	$ (69,525)
Weighted average number of common shares outstanding during the year	51,665,331	46,010,431	43,939,768
Common stock equivalents of stock options and stock appreciation rights based on "treasury stock" method	339,017	91,766	-
Weighted average number of common shares outstanding during the year	52,004,348	46,102,197	43,939,768
Earnings (loss) per common and common equivalent share: (1)			
Continuing operations	$ 1.29	$ 1.75	$ (2.00)
Discontinued operations	-	(0.08)	0.42
Extraordinary items	(0.20)	-	-
Accounting changes	(4.72)	-	-
Net income (loss)	$ (3.63)	$ 1.67	$ (1.58)

(1) Earnings (loss) per common and common equivalent share assuming full dilution are the same for the fiscal years presented.

EXHIBIT 21

McDERMOTT INTERNATIONAL, INC.
SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT
FISCAL YEAR ENDED MARCH 31, 1993

NAME OF COMPANY	ORGANIZED UNDER THE LAWS OF	PERCENTAGE OF VOTING SHARES OWNED
McDermott International Investments Co., Inc.	Panama	100
Hydro Marine Services, Inc.	Panama	100
Varsy International N.V.	Netherlands Antilles	100
McDermott (Holland) B.V.	Netherlands Antilles	100
McDermott Incorporated	Delaware	92
Babcock & Wilcox Investment Company	Delaware	100
The Babcock & Wilcox Company	Delaware	100
B&W Energy Investments, Inc.	Delaware	100

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

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 2-83692, No. 33-16680, No. 33-51892 and No. 33-51894) of McDermott International, Inc. and the Registration Statement (Form S-3 No. 33-54940) of McDermott Incorporated and in the related Prospectuses of our report dated May 10, 1993 with respect to the consolidated financial statements of McDermott International, Inc. included in this Annual Report (Form 10-K) for the year ended March 31, 1993.

ERNST & YOUNG

New Orleans, Louisiana
May 20, 1993

EXHIBIT 28
CONTINUED

F.Y.E.
3/31/93
(Unaudited)
(In thousands)

ARTICLE 30 - Continued

RULE #43 - DIVIDENDS RECEIVED

Head Office (Parent Company)		
from Subsidiaries and Affiliates	$	25,703
Subsidiaries and Affiliates		
from Other Corporations		5,800
Eliminations/Other		(25,703)
McDERMOTT INTERNATIONAL, INC.	$	5,800

RULE #44 - INTEREST INCOME

Head Office (Parent Company):		
from Subsidiaries and Affiliates	$	21,562
from Other Corporations		131
Subsidiaries and Affiliates		
from Other Corporations		40,260
Eliminations		(21,562)
McDERMOTT INTERNATIONAL, INC.	$	40,391

RULE #46 - OTHER MISCELLANEOUS REVENUES

Gain on Asset Disposals during 1993 - Net	$	34,459
Foreign Currency Transaction Losses - Net		(3,747)
Bank Fees and Discounts on Sale		
of Receivables		(7,851)
Other Items - Net		(12,664)
McDERMOTT INTERNATIONAL, INC.	$	10,197

RULE #51 - INVESTMENTS IN UNCONSOLIDATED AFFILIATES AT EQUITY

	(Unaudited) (In thousands)
Balance at 3/31/92	$ 76,298
Reduction in Investments - Net	(24,886)
Equity Income	94,058
Dividends Received	(5,800)
Other Changes	(62,674)
Balance at 3/31/93	$ 76,996

SIGNATURES OF DIRECTORS

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on May 21, 1993.

s/Thomas D. Barrow
Thomas D. Barrow
Director

s/John F. Bookout
John F. Bookout
Director

s/Philip J. Burguieres
Philip J. Burguieres
Director

s/James E. Cunningham
James E. Cunningham
Retired Chairman of the Board
and Chief Executive Officer,
and Director

s/James L. Dutt
James L. Dutt
Director

s/John P. Eckert
John P. Eckert
Vice Chairman of the Board,
and Director

s/Robert E. Howson
Chairman of the Board and
Chief Executive Officer,
and Director

s/James A. Hunt
James A. Hunt
Director

s/J. Howard Macdonald
J. Howard Macdonald
Director

s/William McCollam, Jr.
William McCollam, Jr.
Director

s/John A. Morgan
John A. Morgan
Director

s/William T. Seawell
William T. Seawell
Director

s/Edfred L. Shannon, Jr.
Edfred L. Shannon, Jr.
Director

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