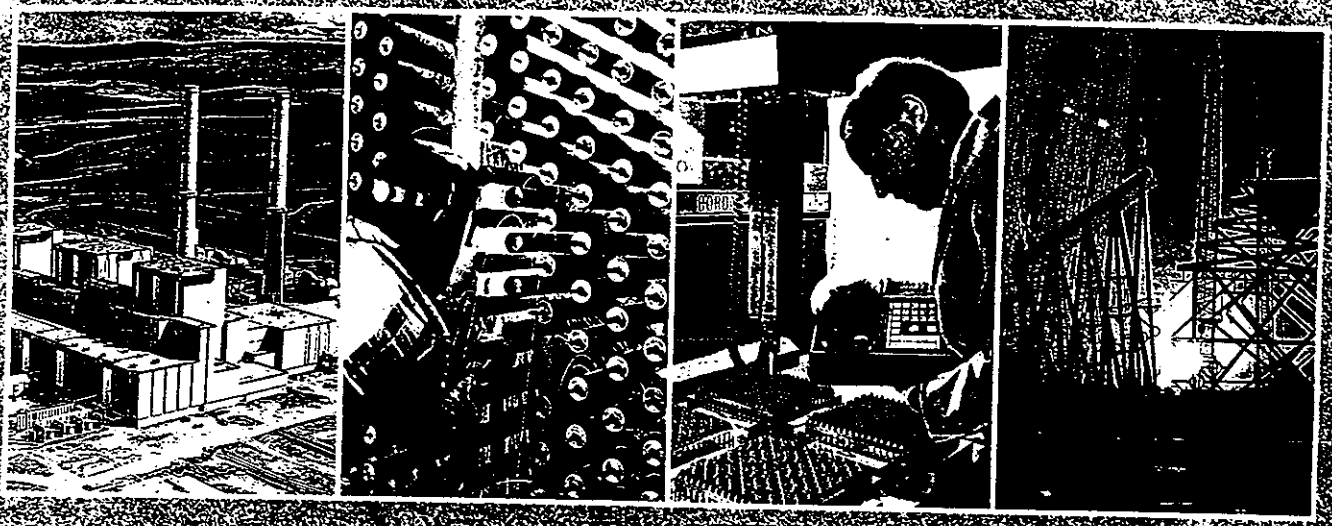
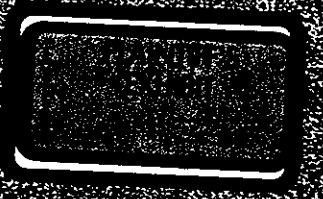


McDERMOTT INTERNATIONAL, INC.

ANNUAL REPORT



RESULTS AT A GLANCE

McDermott International, Inc. for the Fiscal Years ended March 31, 1989 and 1988
In thousands of dollars except per share amounts, shares outstanding, and number of employees

	1989	1988
Revenues	$ 2,422,656	$ 2,351,705
Operating Loss	$ (44,282)	$ (47,580)
Loss From Continuing Operations	$ (114,933)	$ (231,349)
Loss From Discontinued Operations	$ (29,322)	$ (34,698)
Extraordinary Item	—	$ 4,276
Cumulative Effect of Accounting Change	$ 52,580	—
Net Loss	$ (91,675)	$ (261,771)
Earnings (Loss) Per Common and Common Equivalent Share:		
Continuing Operations	$ (3.09)	$ (6.23)
Discontinued Operations	$ (0.79)	$ (0.93)
Extraordinary Item	—	$ 0.11
Accounting Change	$ 1.42	—
Net Loss	$ (2.46)	$ (7.05)
Stockholders' Equity Per Common Share	$ 16.04	$ 19.97
Cash Dividends Per Common Share	$ 1.40	$ 1.80
Weighted Average Number of Common and Common Equivalent Shares Outstanding During the Year	37,216,057	37,113,170
Capital Expenditures	$ 75,387	$ 48,965
Backlog	$ 3,826,768	$ 3,280,065
Number of Employees Including Subcontract Labor	28,000	26,000

McDermott International, Inc. provides energy services to industries worldwide. The Company has two business segments which are comprised of four operating groups.

Power Generation Systems and Equipment Segment



The **Power Generation Group** designs, manufactures, constructs, and services power generation and environmental control equipment and plants for the generation of steam by industries and utilities worldwide. It also provides research and development for the Company and its customers.



The **Industrial Products and Services Group** manufactures process management and control systems, and boiler cleaning and heat exchange equipment; it develops and markets artificial intelligence software and provides computer facility management and services.



The **Defense and Nuclear Power Group** is a major supplier to the U.S. Naval Reactors Program and to the U.S. Department of Energy; it manufactures ordnance and systems for conventional weapons and aerospace applications, and provides services to commercial nuclear power plants, including refueling, inspection, and repair.

Marine Construction Services Segment



McDermott Marine Construction designs, fabricates, transports, and installs offshore structures and pipelines for the oil and gas industry, builds and repairs seagoing and inland vessels, and provides energy-related engineering and construction services for projects onshore and offshore.

TO OUR STOCKHOLDERS

Fiscal 1989 was a very important year for our Company. Despite a continued operating loss, our financial performance was improved over the previous year, and I am confident it will continue to improve in the coming fiscal year.

Revenues in fiscal 1989 were $2.423 billion, up from $2.352 billion last year. The net loss for the year was $91.7 million, or $2.46 a share, down from a loss of $261.8 million, or $7.05 a share, last year. The fiscal 1989 loss reflects an operating loss of $44.3 million and an after-tax loss of $29.3 million from discontinued operations. The result of the cumulative effect of an accounting change reduced the year-end loss by $52.6 million.

Markets for the equipment and services of our Power Generation Systems and Equipment Segment improved, and the segment reported increased revenues; however, higher workers' compensation provisions for previous years' claims, higher product liability costs, and provisions for future environmental clean-up costs lowered operating income for the segment.

The oil and gas markets served by our Marine Construction Services Segment continued to be sluggish in fiscal 1989, and the segment had lower revenues than in the previous year. But the segment also reported a lower operating loss, the result of improvements in our Gulf of Mexico operations and certain foreign operations, and the transfer of two derrick barges to our HeereMac joint venture, which began operations in January 1989.

Improving Our Responsiveness

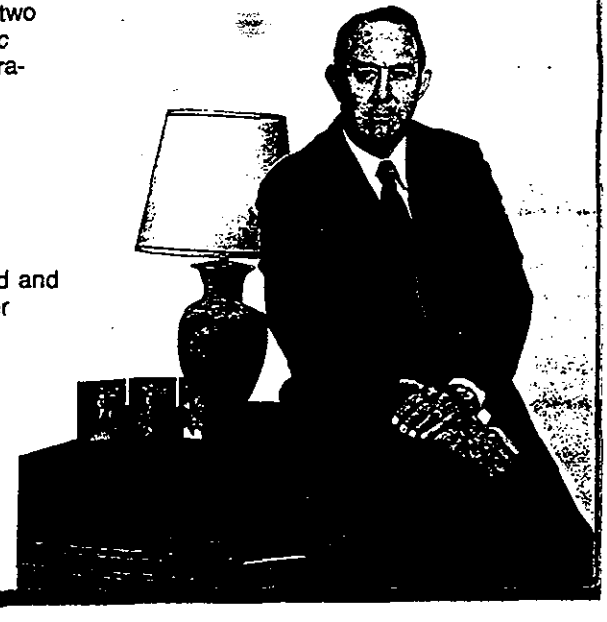
The past several years have been difficult ones for McDermott. But Jim Cunningham, my predecessor, had confidence during those years that our markets would again grow strong. The policies he implemented have positioned us to capitalize on our strengthening power generation markets and to be competitive in our oil and gas markets as they return.

In the months since I was named Chairman and Chief Executive Officer, my objective has been to improve our response to the demands of our markets and our customers, and ultimately to increase value for you, our stockholders.

To reach this objective, we did several things in fiscal 1989. Among them were:

- creating an Executive Operating Committee to integrate more of the Company's operations, to eliminate duplicate costs, and to foster teamwork within the Company.
- establishing strategic joint ventures with Heerema Offshore Construction Group, Inc. to provide offshore services, worldwide, and Thermax, an Indian boiler manufacturer who gives us access to new markets in developing nations.

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





Executive Operating Committee



John A. Lynott
Executive Vice President and Chief Financial Officer

- developing a partnership with Gotaverken Arendal, Inc. (GVA) of Norway, to plan floating production systems and tension-leg platforms; additionally, we continued our own development work on fixed structures for deepwater.
- realigning our Power Generation Group to sharpen our focus on improving the efficiency of our customers' steam generating systems in the face of a growing demand for electricity.
- continuing our research on emission controls for existing and new fossil-fuel power plants in anticipation of stricter environmental protection laws in industrialized countries.
- positioning ourselves to work in the Soviet Union.
- creating the McDermott Project Management Group, which will manage McDermott projects to maximize profits and will work to become a competitive project management company in markets worldwide.

Outlook

The demand for the products and services supplied by Babcock & Wilcox and its subsidiaries should continue to grow in the coming year. In 1988, demand for electricity grew nearly five percent in the United States, well above the average rate of recent years. At the same time, utility plants that provide base-load capacity are aging. About 25 percent of the nation's fossil-fuel capacity is over 30 years old, and the first generation of nuclear plants is nearing that age.

The aging generating capacity in the United States provides opportunities for us to continue to emphasize our plant life-extension and retrofit business.

We will expand our waste-to-energy business and seek to increase our share of industrial boiler markets. The pulp and paper industry is buying more services and equipment than at any time in the past decade, and demand for our environmental systems is growing as well.

We will provide a broader range of nuclear steam system and fuel services to respond to the needs of our commercial nuclear customers.



A. A. (Bud) Keyes
Senior Vice President and Group Executive, Industrial Products and Services Group



John P. Eckert
Senior Vice President and Group Executive, Defense and Nuclear Power Group



Joe J. Stewart
Senior Vice President and Group Executive, Power Generation Group



William L. Higgins, III
Senior Vice President and Group Executive, McDermott Marine Construction

While our defense markets will feel the effect of federal budget constraints, especially those on the Navy's nuclear construction programs, they will remain very important. We expect our capabilities to manufacture high-quality, precision parts will provide opportunities to supply subsystems to new defense customers.

In our oil and gas markets, the continued growth in free-world consumption and the limited supply of non-OPEC oil combine to make higher prices likely over the next several years. This will create new demand for the traditional services of McDermott Marine Construction.

To maintain the competitiveness of our marine operations as these markets improve, we will seek turnkey projects where we can control costs in ways our competitors cannot, and we will use strategic joint ventures to reduce costs and increase our flexibility. While we will continue our strategy of diversification, we intend to return our traditional marine operations to profitability by continuing to be the most cost-effective and most productive contractor and by capitalizing on our installed technological base.

Management Changes

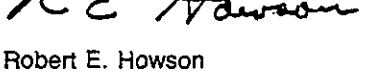
At our August 9, 1988, Board meeting, Jim Cunningham retired as Chairman of the Board after nine years in that job. He continues to serve on our Board. I was elected by the Board to assume his responsibilities as Chairman and Chief Executive Officer.

Also retiring at that meeting were Board members Russell Wagner and John Ritchie. These men served the Company well, and we will miss their good counsel.

John Bookout, former President and Chief Executive Officer of Shell Oil Company, joined our Board during the year. John retired from Shell in 1988 after 38 years, the last 12 as President and CEO.

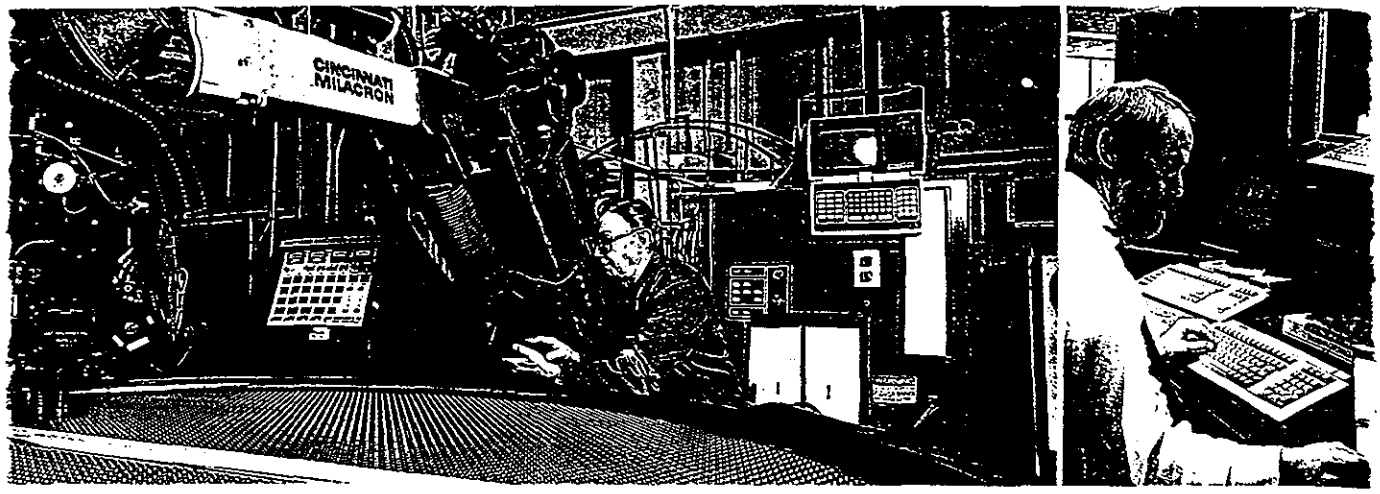
Additionally, we made several important changes in our administrative and operational management.

- Dick Woolbert was named Chief Administrative Officer, reporting to me.
- Jack Eckert, Bud Keyes, Joe Stewart, and Bill Higgins were named Senior Vice Presidents, and Mr. Higgins was given worldwide responsibility for marine construction operations.
- Bob Miller was named Vice President and Director, Worldwide Marketing.
- Frank Fugate was appointed Managing Director, McDermott Project Management, and will set up this new operation.



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

June, 1989



Power Generation Systems and Equipment

Results

For The Fiscal Year Ended March 31,		
	1989	1988
	In thousands	
Revenues	**$1,834,071**	$1,712,600
Operating Income	**61,559**	76,831
Backlog	**3,176,222**	2,869,112

The Power Generation and Industrial Products and Services groups had higher revenues and the Defense and Nuclear Power Group had lower revenues in fiscal 1989 compared with a year ago.

Higher operating income from the Power Generation and Industrial Products and Services groups was partially offset by lower operating income from the Defense and Nuclear Power Group. However, the principal reason for the decline in this segment's operating income was significantly higher workers' compensation and product liability costs in fiscal 1989 than in fiscal 1988, as well as a provision in fiscal 1989 for future environmental clean-up costs.

Above left: *Welding a tube sheet for a nuclear steam generator at B&W's Nuclear Equipment Division in Barberton, Ohio.*

Above right: *Power Computing Company's facility in Kansas City has specialized capabilities, including those provided by a CRAY X-MP computer system.*

Revenues from the Power Generation Systems and Equipment Segment have continued to improve despite the weak demand from our traditional utility customers for large steam generating systems.

Three of our four operating groups report in this segment: the Power Generation Group, the Defense and Nuclear Power Group, and the Industrial Products and Services Group. In fiscal 1989, these groups were active in U.S. government and defense programs; they supplied boilers, equipment, services, and construction to industries, especially the North American pulp and paper industry; they provided service, equipment, and construction to both fossil and nuclear utility power plants; and they expanded their operations in international markets.

B&W Leads DOE Contractors

In calendar 1988, Babcock & Wilcox received contracts worth over $370 million from the U.S. Department of Energy, more than any other private contractor. At the end of our fiscal year, B&W's backlog from defense-related work totaled $1.1 billion, a record level for the Company.

Right: *A component for a research reactor manufactured by B&W's Defense and Nuclear Power Group in Lynchburg, Virginia.*

Our Naval Nuclear Fuel Division remains the leading supplier to the Naval Reactors Program. It supplies components to the Navy's nuclear-powered fleet, and is the sole domestic supplier of reactors used in research and for medical isotopes.

Our Nuclear Equipment Division began fabrication of over $250 million of equipment for two new aircraft carriers and continued work on the Navy's Seawolf submarine program.

We continued to improve the operations of B&W's ERI Division. In addition to its traditional projectile products, ERI developed new programs for Honeywell, Morton Thiokol, Hercules, and NAVAIR. These programs, which manufacture



metal parts for ordnance and warhead casings for HARM (high-speed anti-radar missile) and Phoenix missiles, were possible because of our ability to provide high-quality machining to our customers.

To capitalize on our modern manufacturing technology, we established the Ordnance Systems Operation, which won qualification contracts to supply torpedo subsystems for the two types of torpedoes the Navy plans to use through the 1990s.

Our Nuclear Power Division continued to develop a design for a particle-bed reactor to power long-range space missions, and the Naval Nuclear Fuel Division produced the first demonstration fuel for this advanced reactor.

Supplying Service for Power Plants

The consumption of electricity in the United States grew 4.7 percent during 1988—over twice the rate expected by utilities. To meet this demand, our utility customers are maintaining and improving the operation of existing facilities and delaying building new plants in the face of uncertain regulatory requirements. This market brings us substantial short-term work as well as important long-term prospects.

Our Nuclear Power Division booked contracts for repair, inspection, and maintenance of reactors of our own design as well as those designed by our competitors. On several jobs, the division was awarded incentive bonuses for exceeding contract commitments.

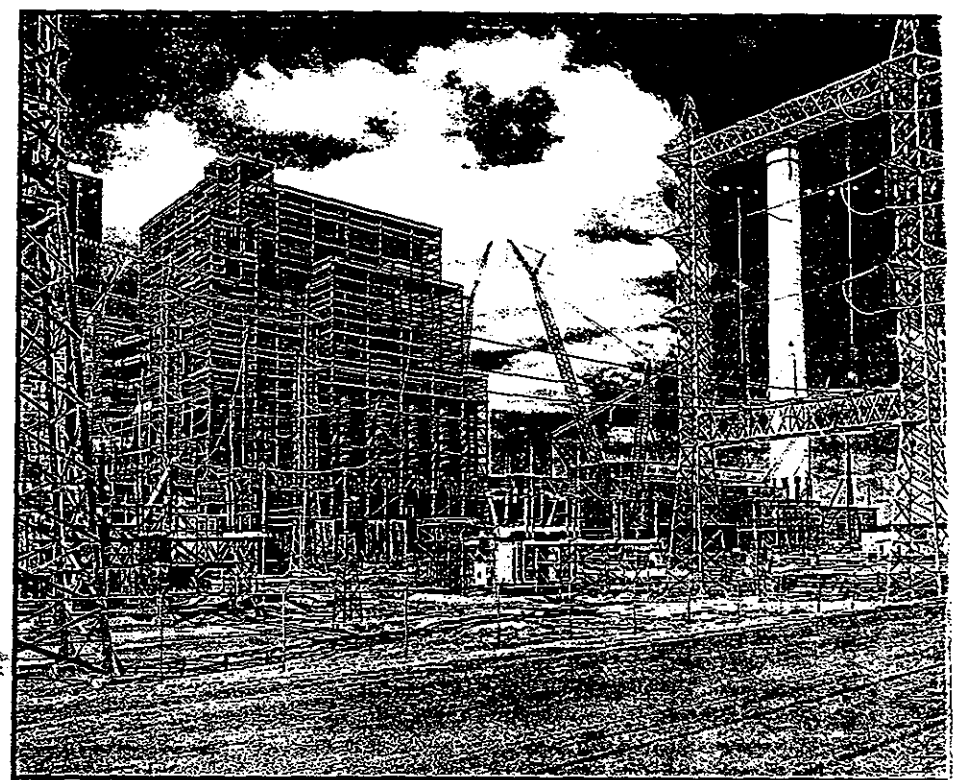
B&W Fuel Company, our joint venture with the U.S. subsidiaries of three French firms, booked over $100 million in refuel work.

A B&W nuclear fuel assembly set a world record in 1989, generating 195 million kilowatt-hours of electricity over five years for Duke Power's Oconee Unit 1; it would take about 96,000 tons of coal to produce the same amount of electricity.

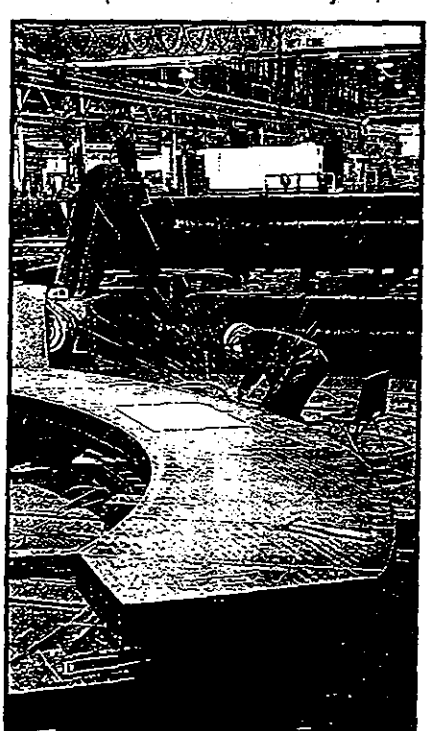
At our Canadian facility, we began work on recirculating nuclear steam generators for Northeast Utilities that will replace a competitor's equipment. We have built more than 200 recirculating nuclear steam generators for CANDU customers worldwide at the Canadian plant. Their operating experience is the best in the world, and we are well positioned for future replacement work, which should grow as nuclear plants age.

To meet our fossil customers' growing demand for service, we formed the Energy Services Division (ESD) to inspect, repair, and upgrade industrial facilities and fossil power plants. These activities, supported by our growing construction activities, provided over $400 million in revenues, a significant part of which came from the sale of replacement parts and equipment.

Among contracts booked by ESD in fiscal 1989 were a $23-million upgrade of a competitor's boiler at an Arkansas paper mill, a $16-million furnace replacement for a Missouri utility, and orders for over $30 million in pressure-part materials from an Eastern utility.



Above: *B&W is providing design, fabrication, and erection services for a 1,300-megawatt boiler and associated environmental systems at American Electric Power's Zimmer Station near Cincinnati, Ohio.*



Left: *Components for a replacement recirculating nuclear steam generator being fabricated at B&W's facility a Cambridge, Ontario.*

As a result of our work at their ld Town, Maine, and St. Francisville, ouisiana, paper mills, the James iver Corporation awarded B&W eir "Find a Better Way" Gold Key s their outstanding supplier of quipment and services in 1988, the st time such an award has been ven to any of their suppliers.

B&W won a pair of $10-million ontracts from the Department of nergy to test Clean Coal Technology. ne will develop retrofits for utility oilers to reduce nitrogen oxide missions; the other will demon- rate simultaneous control of sulfur ides, nitrogen oxides, and partic- ates from fossil-fired boilers.

ew Equipment for Industry, ıdependent Producers

The market for new power enerating equipment continued to me primarily from industry and dependent power producers during scal 1989.

The award of large, turnkey projects established B&W as a leading upplier to the expanding North merican pulp and paper industry.

We continued work on a 20-million turnkey project to supply chemical recovery facility for eyerhaeuser Paper Company at olumbus, Mississippi, and on a 38-million turnkey contract from aylord Container Corp. for a boiler and at its Bogalusa, Louisiana, aper mill. We were awarded a letter intent by Champion International r a $75-million turnkey project at eir Courtland, Alabama, paper mill.

In Canada, we worked on a con- act worth approximately $25 million build what will be the world's rgest chemical recovery boiler. ne boiler will be installed at Port ellon, British Columbia.

We signed a $30-million contract supply eight boilers to four trasystems plants which will sell megawatts of power to Virginia ectric Power Company.

ull Service Contracting

ne demand for build-own-operate ower generation facilities is strong nd will continue to provide portunities.

Our large refuse-to-energy project West Palm Beach, Florida, is ead of schedule and we expect mmercial acceptance in the mmer of 1989. We will operate e facility under a 21-year contract.

We broke ground in Pennsylvania for the $110-million Ebensburg Cogeneration Project which we will build, own, and operate. The plant will produce 49 megawatts of electricity for sale to PENELEC and steam for sale to other customers.

B&W signed a contract to design and construct a 990-ton-per-day resource recovery facility which we will operate and maintain for five years for the Township of North Hempstead, New York. The contract is valued at approximately $160 million.

We completed and are preparing to start up our first coal-fired CFB boiler for Lauhoff Grain Company in Illinois. B&W will operate and maintain the plant under a 20-year contract.

We also extended our agreement to supply waste-to-energy boilers to Wheelabrator Technologies, Inc., and as the year ended we were bidding waste-to-energy projects in Canada and Taiwan.

A Flat Market for New Utility Equipment

The market for large steam-generating equipment remains weak in comparison to historical levels. However, B&W has been competitive in the U.S. market for this equipment and has been very successful in international markets.

We expect to complete our $190-million conversion of American Electric Power's Zimmer Station near Cincinnati, Ohio, from a nuclear plant to a 1,300-megawatt coal-fired plant in the coming year.

We completed the boiler and pressure vessel for the pressurized fluidized bed combustion (PFBC) system project at American Electric Power's Tidd Station, which will be installed this year. PFBC reduces emissions and improves fuel efficiency. We market the system in North America through our ASEA-Babcock PFBC joint venture.

In Canada, we continued work on the $80-million Shand project for Saskatchewan Power. These 300-megawatt boilers are the first commercial units designed for our direct sorbent injection system, a technology which reduces sulfur dioxide emissions. B&W demonstrated this new technology in a project with Ohio Edison.

Babcock & Wilcox International signed a contract to supply a 600-megawatt coal-fired boiler, related equipment, and technical services for the Beilungang II power station project in China. The work is valued at about $40 million and will involve our joint venture, Babcock & Wilcox Beijing Company Ltd.

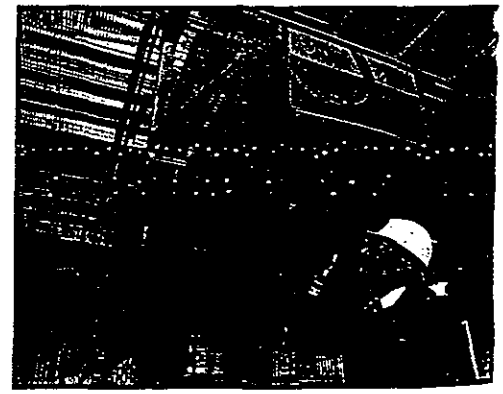
Our P.T. Babcock & Wilcox Indonesia joint venture shipped its first components to a U.S. customer as part of a job completed by our Energy Services Division.

To expand our international operations, we set up Thermax-Babcock & Wilcox Private Ltd., an Indian joint venture. We own 40 percent of the new company, which will design, manufacture, and market industrial boilers.

IP&SG Operations Respond to Markets

Our Industrial Products and Services Group, which includes Bailey Controls Company, Diamond Power Specialty Company, Hudson Products Corporation, and Power Computing Company, continued to perform well in fiscal 1989, responding to changing markets and introducing new products.

Bailey Controls introduced the new *INFI 90®* Strategic Process Management System. INFI 90 is the first system to allow total "seamless integration" of business and process control systems across an entire enterprise, and it is directly compatible with Bailey's Network 90® system, which has a larger installed base than any other automated process controller.



Diamond Power, the world's leading supplier of boiler-cleaning equipment, has centers across the United States that provide field inspection and service.

Bailey's strongest market during the year continued to be the utility industry, followed by the pulp and paper industry. Over half of Bailey's business during the year came from international markets, and to expand those markets, Bailey established joint ventures in China and Jordan and signed a licensing agreement in Norway.

During fiscal 1989, Diamond Power signed contracts to supply boiler cleaning equipment to every new recovery boiler for pulp and paper mills and to all major boiler-retrofit projects in the United States. Diamond also won a contract to supply the only new central utility station project awarded in the United States in 1988.

Diamond continued to emphasize responsiveness to customers by installing new manufacturing equipment, automating its order entry and configuration systems, and improving the operations of its regional service centers.

Hudson Products completed important projects that will improve its competitiveness in utility life-extension and cogeneration markets. For Baltimore Gas & Electric, Hudson installed the world's largest heat-pipe air preheater, a product which has no moving parts and will find good markets in life-extension programs. At Sweetwater, Texas, Hudson installed the largest steam condenser currently in service at a cogeneration plant. The unit at the 255-megawatt plant is based on Hudson's patented Stac-Flo® design.

Hudson also completed several international projects and continued to be the largest supplier of fans to cooling tower manufacturers.

In December, Power Computing doubled its revenues when it acquired Control Data Corporation's Scientific Information Services Division. Power Computing now provides its value-added IBM and Control Data technologies in new markets, including defense, automotive, aerospace, and telecommunications. The acquisition also gave Power Computing a CRAY X-MP computer system, increasing the range of products and services it provides.

Outlook

Revenues and operating income from the Power Generation Systems and Equipment Segment should continue to grow in fiscal 1990.

While our work in support of the Naval Reactors Program will decline with the rate at which the Navy builds new ships, we expect ordnance and missile markets and Department of Energy and NASA programs will offset these declines.

The pulp and paper and refuse markets should provide continued strength to our operations which manufacture industrial boilers and associated equipment. The market provided by independent power producers is somewhat less predictable, but it should become more active as demand for electricity grows. The waste-to-energy market will grow significantly in coming years as sites for landfills become more scarce.

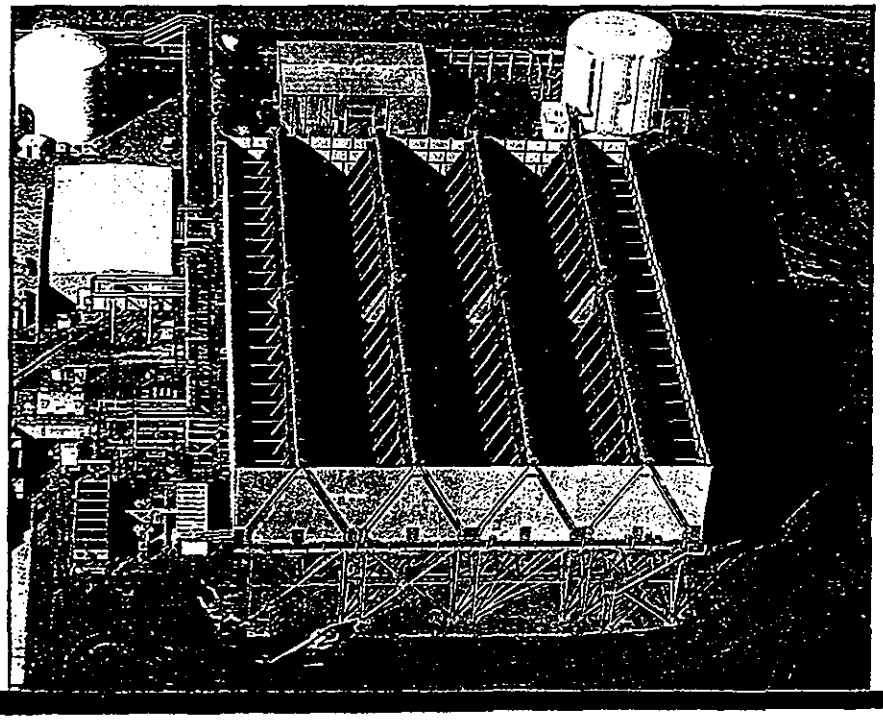
The demand for electricity has grown steadily since 1983, and in some parts of the United States, excess generating capacity is rapidly decreasing. In others, it is well balanced with demand. But in all parts of the country, our utility customers seek the best performance from their equipment. As a result, our nuclear and fossil products and services will be increasingly important, and our control, heat exchange, and boiler cleaning equipment will benefit from strong demand.

For the long term, we believe the growth in demand for electricity will lead to large orders for new generating capacity in the early 1990s, and these orders should grow substantially through the rest of the decade.

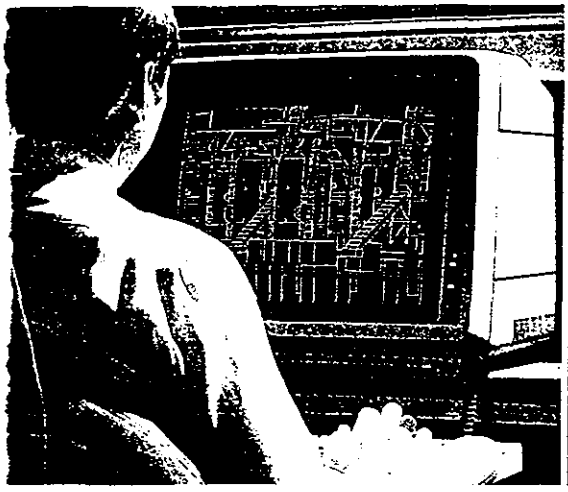
In the near term, the implementation of environmental rules—the most significant of which is the acid rain legislation before the U.S. Congress—that have been proposed on the state, national, and international levels would have a considerable effect on our service business. We have already booked environmental work in some areas of the United States and in Canada, and our experience and research in environmental technology positions us well for that growing market.

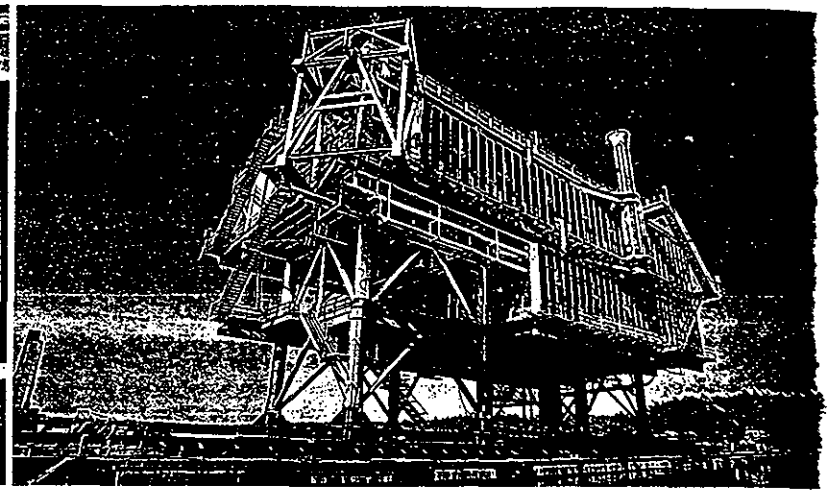
Under programs sponsored by the Environmental Protection Agency, the Department of Energy, and others, our Research and Development Division has developed and demonstrated a number of technologies to reduce emissions. Currently, both the R&D Division and ASEA-Babcock PFBC, our joint venture with ASEA PFBC AB, are working on Department of Energy projects to develop technologies to reduce emissions from existing power plants.

These technologies will allow utilities to design the combination of equipment which reduces emissions at the lowest possible cost. Whatever environmental rules are adopted, we will support industrial and utility boiler owners with flexible and economical equipment.



Under a contract to Ebasco Constructors, Inc., Hudson Products supplied these Stac-Flow® steam condensers to a cogeneration plant at Sweetwater, Texas.





Marine Construction Services

Results

For The Fiscal Year Ended March 31,		
	1989	1988
	In thousands	
Revenues	$ 593,166	$ 642,059
Operating Loss	(60,948)	(93,375)
Backlog	650,546	410,953

Improved revenues from most of this segment's fabrication facilities were not sufficient to offset a significant reduction in the utilization of and revenues from foreign marine construction equipment in fiscal 1989 compared with fiscal 1988.

The decreased operating loss in fiscal 1989 compared with last year reflects the greater fabrication activity, as well as the transfer of a significant part of the Company's North Sea marine operations to the newly-formed joint venture, HeereMac, and the classification of the losses associated with that joint venture as an equity loss.

Above left: *Hudson Engineering uses sophisticated computer programs to design facilities for gas processing and cogeneration.*

Above right: *This deck section was fabricated at McDermott Marine Construction's Morgan City, Louisiana, yard and installed off Trinidad.*

The Marine Construction Services Segment's traditional markets remained sluggish in fiscal 1989, despite an increase in the price of oil.

However, our backlog of oil-related work grew significantly during the fiscal year, and we believe it will continue to improve if the price of oil stays near the $18 level.

To offset the uncertainty of our offshore markets, we have formed strategic joint ventures for some of our foreign operations, and in the United States, we have diversified into new areas, most notably building vessels for the U.S. Navy.

Defense Work Leads Diversification

Our Morgan City, Louisiana, shipyard's entry into shipbuilding for the U.S. Navy led the marine segment's diversification. Since the Navy's award in 1986 of the initial $25-million contract to build a prototype Small-Waterplane Area, Twin Hull (SWATH) ship, the shipyard has won several more contracts and subcontracts to perform work for the Navy.

At the end of the fiscal year, the first SWATH ship was within budget and on schedule for a summer delivery. During the year, we signed contracts worth $75 million to build three more of these vessels.

We also won a contract to build a fourth Navy torpedo test craft, which will increase our total revenues from these boats to nearly $43 million.

Under a $22-million contract, the shipyard is overhauling two Navy research vessels, and as a subcontractor, is fabricating modules for the *Washington*, a U.S. Navy aircraft carrier currently under construction.

Offshore Fabrication Markets

We completed several offshore structures during the fiscal year, and we won new contracts for a number of small, traditional structures.

In the United States, we completed a number of projects, including piling and deck frames for Shell's *Bullwinkle*, a 1,353-foot platform that is now the world's tallest offshore structure. Also among the domestic work was a 485-foot structure we built and installed in Ewing Bank off Louisiana for BP America as part of a $25-million contract. We continued work on a $20-million jacket which we will install this summer in 620 feet of water for Texaco, and we fabricated, transported, and installed a jacket and deck off Trinidad as part of a $50-million turnkey project started in fiscal 1988.

In Asia, we made an important inroad into China with the award of the Huizhou 21-1 project. The customer is ACT China, a venture involving AGIP, Chevron, and Texaco. The project involves a 385-foot, 6,000-ton jacket which will be assembled by Offshore Platform Fabrication Company of China at Chiwan, China, under our supervision. The deck and quarters will be fabricated by P.T. McDermott Indonesia at our fabrication yard on Batam Island, Indonesia. Installation contracts had not been awarded at the end of the fiscal year.

In Europe, we completed fabrication and transportation of two jackets and associated piling for Hydrocarbons Great Britain as part of a joint venture with Press Offshore. The 2,500-ton jackets were built in our Ardersier, Scotland, fabrication yard and installed in the Morecambe Bay gas field.

Our Middle East operations were awarded a $25-million contract to fabricate and precommission facilities as part of a multi-billion dollar development by Qatar General Petroleum Corporation in Qatar's North Dome gas field. This will be the first major development in the Middle East to be built to North Sea construction and certification standards, and we believe participation in the initial phase of the project will greatly enhance our opportunity for work in its latter phases.

We completed a $10-million project to fabricate and install a platform for Dubai Petroleum Company, and we were awarded a contract by the Oil and Natural Gas Commission of India to fabricate and install a 246-foot, 3,800-ton jacket in the Bombay High field.

Marine Operations Complete Deepwater Pipelines

In fiscal 1989, we completed pipeline projects in water over 1,000 feet deep, we added vessels to our marine equipment fleet, and we formed an important joint venture.

In the Gulf of Mexico, our Offshore Division installed a 7.5-mile pipeline from *Bullwinkle* to Shell's *Boxer* platform. The pipeline's depth at *Bullwinkle* makes it the deepest ever installed in the Gulf of Mexico, and one of the deepest in the world. We also won contracts to install two fixed platforms and a pipeline that will be part of Conoco's tension-leg well platform (TLWP) project in the Joliet field.

In the North Sea, we won a contract from Norsk Hydro Production A/S to install a 30-mile pipeline from a template in the Troll field to a platform in the Oseberg field. *Lay Barge 200* will install the pipeline, which will cross the Norwegian Trench in about 1,000 feet of water. Three pipelines, all laid by McDermott, now cross the Norwegian Trench.

Hudson Engineering Moves into New Markets

Hudson Engineering Corporation continued to be active in the design of offshore structures during the past fiscal year, but it also moved into some important new areas which position it for diversified growth.

Hudson completed design of the fixed platforms in Conoco's TLWP project and finished two engineering projects in China, one a design for a gas processing plant and the other a design for an offshore production platform.

The engineering company also worked as a subcontractor to units of Babcock & Wilcox, providing engineering support and procurement for B&W's projects for Weyerhaeuser Paper Company and Champion International.

To further diversify its operations, Hudson entered the cogeneration market, receiving letters of intent on two projects, one a 22-megawatt gas turbine facility and the other a 49-megawatt combined cycle facility.

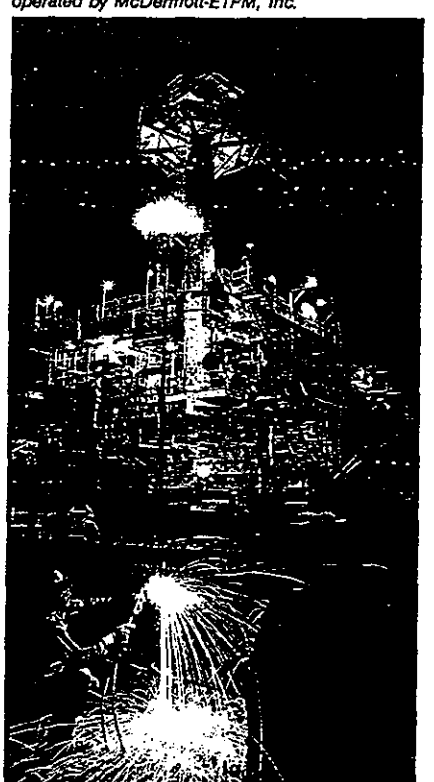
Joint Ventures Provide Marine Services

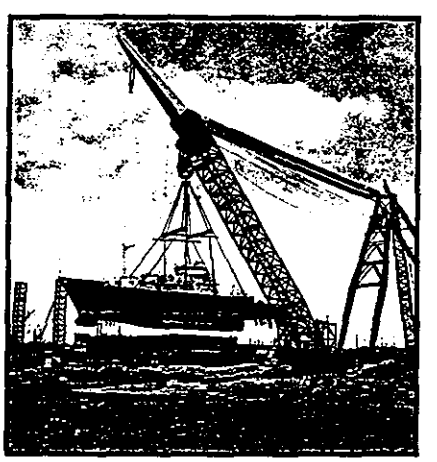
Effective January 1, 1989, we formed a joint venture with Heerema Offshore Construction Group, Inc. to provide offshore services worldwide, especially in harsh environments. The joint venture, called HeereMac, leases and operates four semi-submersible barges, two from McDermott—*Derrick Barge 102* and *Derrick Barge 101*—and two from Heerema—*Hermod* and *Balder*.

In a separate transaction, we acquired three of Heerema's smaller derrick barges and Heerema acquired a 25-percent interest in our fabrication yard at Ardersier, Scotland.

After the end of the fiscal year, we set up a joint venture with the French company ETPM. The venture, called McDermott-ETPM, Inc., will operate fabrication yards in the Middle East and West Africa and eight derrick and lay barges, including our *Lay Barge 200*. Each partner has supplied four barges.

A deck fabricated at McDermott Marine Construction's facility in Jebel Ali (Dubai), now operated by McDermott-ETPM, Inc.





McDermott's 5,000-ton shear-leg crane lifted the Knorr, a U.S. Navy research vessel, from the water onto a concrete pad at McDermott Shipyard, where the vessel will be overhauled.

Outlook

While the Marine Construction Segment's results for fiscal 1989 were disappointing, we are optimistic about the recovery of our marine markets. Demand appears to be growing, and we have reduced our costs to a point that makes offshore construction projects viable.

Based on recent offshore lease sales, we expect that deepwater will provide the next major market for our traditional offshore services, and we are improving our ability to compete in that market.

We are refining our designs for fixed structures in waters from 935 feet to 2,600 feet deep. Our composite-leg platform and our compliant composite-leg platform offer technical and economic advantages for the development of deepwater sites and are adaptive to our existing fabrication facilities and installation techniques.

Under an agreement with GVA of Norway, we have developed plans for floating production systems and tension-leg platforms which would be engineered by both companies and fabricated and installed by McDermott.

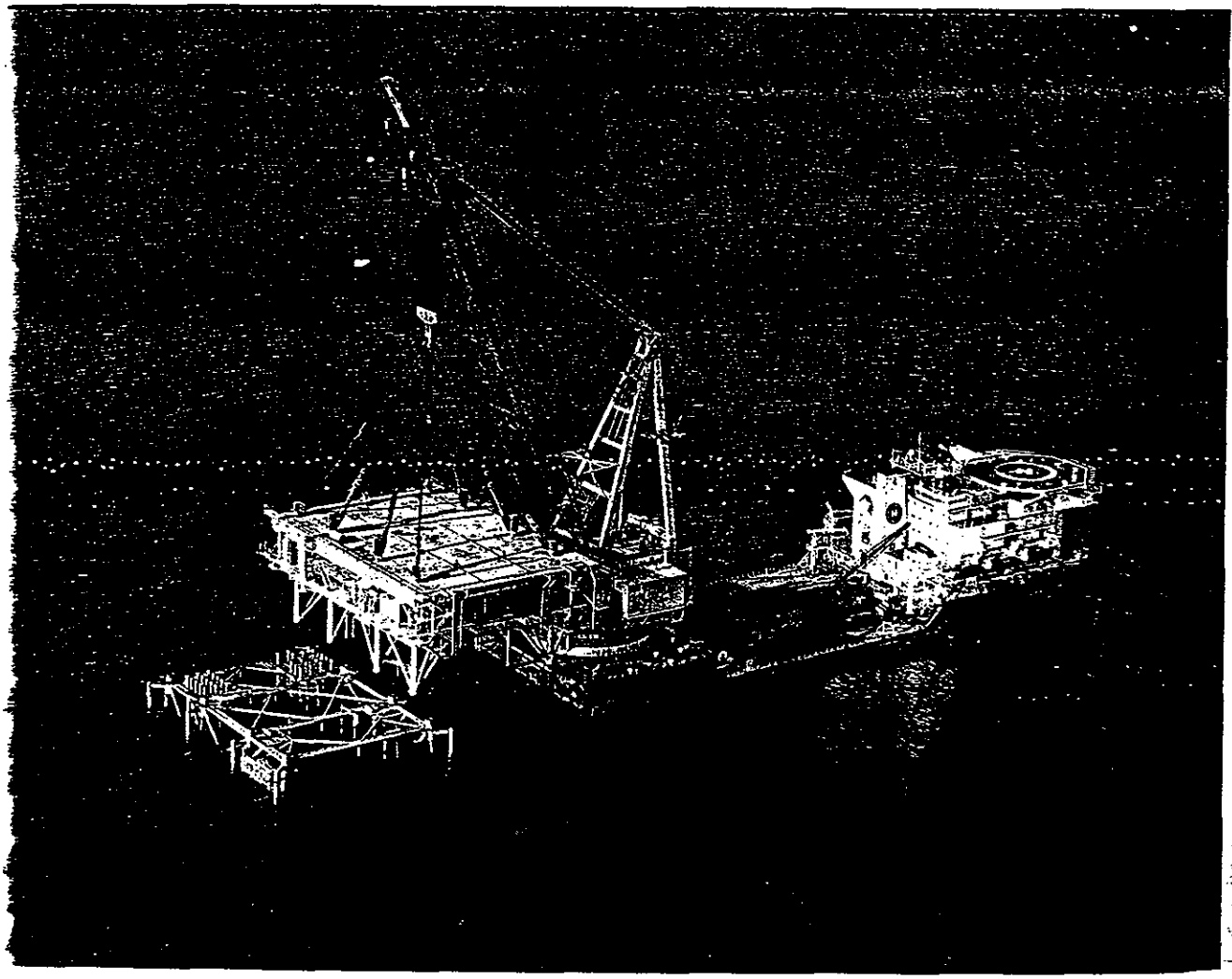
We have also developed and installed a tanker-based extended reservoir testing system that helps operators determine the economics of a deepwater field before committing large amounts of capital to development.

We plan to pursue the subsea completion market either by a joint venture with a strategic partner or by an acquisition.

We expect continued activity in shallow water, and to remain competitive in deep and shallow water markets, we acquired an existing fabrication yard near our Morgan City yard, and we re-opened our fabrication yard in New Iberia, Louisiana.

We will also continue to diversify the operations in our Marine Construction Segment, and we expect this segment's work for the U.S. Navy will remain an important source of revenue for the next several years.

Derrick Barge 50, *McDermott's self-propelled, 4,000-ton capacity crane ship, installs a deck in the Gulf of Mexico.* DB 50 *began work in the fall of 1988 and completed jobs in the Gulf of Mexico and West Africa.*



DIRECTORS AND MANAGEMENT

Officer-Directors



Robert E. Howson[2,5]
Chairman of the Board and Chief Executive Officer



John A. Lynott[5]
Executive Vice President and Chief Financial Officer

Directors



Thomas D. Barrow[1,2,3]
Retired Vice Chairman of the Board, The Standard Oil Company - integrated petroleum company



John F. Bookout[2,3,5]
Retired President and Chief Executive Officer, Shell Oil Company - integrated petroleum company



James E. Cunningham[1,2,4]
Retired Chairman of the Board and Chief Executive Officer, McDermott International, Inc.



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



James A. Hunt[1,2,3,5]
Partner, Kalb, Voorhis & Co. - securities brokers



J. Howard Macdonald[1,3,4]
Deputy Chairman of the Board and Chief Executive Officer, NatWest Investment Bank - investment banking



John A. Morgan[1,2,3,5]
Partner, Morgan Lewis Githens & Ahn - investment bankers



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



Walter B. Shaw[1,3,4]
Retired Chairman of the Board and Chief Executive Officer, Turner Corporation - general construction contractors



Walter O. Spencer[3,4,5]
Retired Business Executive and Former Dean, Graduate School of Business, The Tulane University of Louisiana



John B. Tweedy[1,2,4]
Attorney and Former Executive Vice President and Director, Tosco Corporation - oil refining and marketing

[1] *Audit Committee*
[2] *Directors Nominating Committee*
[3] *Compensation Committee*
[4] *Employee Benefits Committee*
[5] *Finance Committee*

Executive Operating Committee

Robert E. Howson, Chairman
John P. Eckert
William L. Higgins, III
M. A. (Bud) Keyes
John A. Lynott
Joe J. Stewart

Babcock & Wilcox

Joe J. Stewart
Senior Vice President and Group Executive, Power Generation Group

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

Robert E. Donovan
Vice President and General Manager, Fossil Power Division

E.O. (Neal) Hooker
Vice President and General Manager, Americon, Inc.

Paul P. Koenderman
Vice President and General Manager, Babcock & Wilcox International

John E. Pollock
Vice President, Power Generation Sales and Service

E. Allen Womack, Jr.
Vice President, Research & Development and Contract Research Divisions

John P. Eckert
Senior Vice President and Group Executive, Defense and Nuclear Power Group

William M. Farrell
Vice President and General Manager, Nuclear Equipment Division

Charles W. Pryor
Vice President and General Manager, Nuclear Power Division

Roger E. Tetrault
Vice President and General Manager, Naval Nuclear Fuel Division

M.A. (Bud) Keyes
Senior Vice President and Group Executive, Industrial Products and Services Group

Douglas Cannon
President, Bailey Controls Company

Stephen L. Seabury
Vice President and General Manager, McDermott Electronic Information Systems

Sidney P. Victory
Vice President and General Manager, McDermott Heat Transfer Division

Anton Salem
Vice President, B&W Corporate Marketing

McDermott Marine Construction

William L. Higgins, III
Senior Vice President and Group Executive, McDermott Marine Construction

Robert J. Machen
Vice President and Group Executive, Middle East and Southeast Asia Operations

Gary W. Drinkwater
Vice President and General Manager, North and Central America Operations

James J. Wildasin
President, McDermott-ETPM, Inc.

Marketing Services

Robert D. Miller
Vice President and Director, Worldwide Marketing

Project Management

Frank B. Fugate
Managing Director, McDermott Project Management Group

Staff Organization

Richard E. Woolbert
Vice President and Chief Administrative Officer

Frank C. Allen, Jr.
Vice President and General Counsel, Corporate Secretary

George A. Stoddart
Vice President, Financial Relations

Edmund A. Robidoux
Vice President and Controller

Robert A. Jolliff
Treasurer

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

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended March 31, 1989

Commission file number 1-8430

McDermott International, *inc.*

(Exact name of Registrant as specified in its Charter)

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

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

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

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

(Title of Class)

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

The aggregate market value of voting stock held by non-affiliates of the registrant was $675,932,014 as of May 10, 1989.

The number of shares outstanding of the Company's Common Stock at May 10, 1989 was 37,420,211.

The Proxy Statement for the 1989 Annual Meeting of Shareholders is incorporated by reference into Part III of this report.

McDERMOTT INTERNATIONAL, INC.

INDEX - FORM 10-K

	PAGE
PART I	
Items 1. & 2. BUSINESS AND PROPERTIES	
A. General	4
B. Power Generation Systems and Equipment	
General	6
Foreign Operations	7
Raw Materials	7
Customers and Competition	7
Backlog	8
Factors Affecting Demand	8
C. Marine Construction Services	
General	8
Foreign Operations	10
Raw Materials	10
Customers and Competition	10
Backlog	10
Factors Affecting Demand	10
D. Patents and Licenses	11
E. Research and Development Activities	11
F. Insurance	11
G. Employees	12
H. Government Regulations	12
I. Intercompany Agreement	13
J. Discontinued Operations	13
K. Unconsolidated Affiliates	13
Item 3. LEGAL PROCEEDINGS AND PROPOSED TAX DEFICIENCY	13
Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	14

PAGE

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS 14

Item 6. SELECTED FINANCIAL DATA 15

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS
Results of Operations
1989 VS 1988 16
1988 VS 1987 17
Effect of Inflation and Changing Prices 18
Liquidity and Capital Resources 18

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Company Report on Consolidated Financial Statements 20
Report of Independent Public Accountants 21
Consolidated Balance Sheet - March 31, 1989 and 1988 22
Consolidated Statement of Income (Loss) and Retained Earnings for the Three Fiscal Years ended March 31, 1989 24
Consolidated Statement of Cash Flows for the Three Fiscal Years ended March 31, 1989 25
Notes to Consolidated Financial Statements 26

Item 9. DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE 43

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT 43

Item 11. EXECUTIVE COMPENSATION 43

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT 43

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS 43

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K 43

Exhibit 11 - Statement Re Computation of Per Share Earnings (Loss) 45
Exhibit 22 - Significant Subsidiaries of the Registrant 46
Exhibit 24 - Consent of Independent Public Accountants 46
Exhibit 28 - Additional Exhibits 47

Signatures of the Registrant 49

Signatures of Directors 50

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 held.

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, joint ventures and partnerships; 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.
- 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.

During fiscal 1988, McDermott International decided to discontinue its business previously reported in its Trading segment and most of its business previously reported in its Engineered Materials segment. See Note 2 to the consolidated financial statements for additional information with respect to discontinued operations.

The business of the Power Generation Systems and Equipment segment is conducted primarily through a subsidiary of McDermott Incorporated, The Babcock & Wilcox Company ("B&W"), which was acquired in 1978.

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, 1989. See Note 12 of notes to consolidated financial statements for additional information with respect to McDermott International's business segments and operations in different geographic areas.

REVENUES AND PERCENT OF REVENUES

(Dollars in Millions)

	For Fiscal Years Ended March 31,					
	1989		1988		1987	
Power Generation Systems and Equipment	$ 1,834.1	76%	$ 1,712.6	73%	$ 1,569.6	65%
Marine Construction Services	593.2	24%	642.1	27%	862.8	35%
Intersegment Transfer Eliminations	(4.6)	—	(3.0)	—	(1.6)	—
Total	$ 2,422.7	100%	$ 2,351.7	100%	$ 2,430.8	100%

OPERATING INCOME (LOSS)(1)

(Dollars in Millions)

	For Fiscal Years Ended March 31,		
	1989	1988	1987
Power Generation Systems and Equipment	$ 61.5	$ 76.8	$ 74.1
Marine Construction Services	(60.9)	(93.3)	(81.5)
Total	$ 0.6	$ (16.5)	$ (7.4)

(1) Reconciling items between Segment Operating Income (Loss) and Operating Loss in the Consolidated Statement of Income (Loss) and Retained Earnings are General Corporate Expenses.

B. POWER GENERATION SYSTEMS AND EQUIPMENT

GENERAL

The Power Generation Systems and Equipment segment, which business is primarily conducted through B&W, is a supplier of individually engineered complete fossil fuel and nuclear steam generating systems, and nuclear fuel assemblies for the electric utility industry, as well as fossil fuel steam generating systems for industrial processes and power generation. This segment also provides replacement parts and engineered modifications for existing fossil and nuclear 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. It is also engaged in the erection of utility plants and industrial facilities and the repair and alteration of such existing equipment. In addition, it provides welded tubing for various mechanical and pressure applications for the automotive, machinery, fabricated metal and power generation industries.

With regard to commercial nuclear power generation, no contracts for domestic nuclear steam generating systems have been awarded for a number of years. As a consequence, repair and refurbishments, fuel assemblies for refueling and engineering and computer services for existing nuclear reactors have become the major part of this segment's commercial nuclear activity. This segment conducts its fuel-assembly business through a 51%-owned partnership with a French consortium.

In addition, this segment is actively involved in the market for providing power through cogeneration, refuse-fueled power units, and other small power plants with primarily nontraditional fuel-burning capability. It is participating in this market as an equipment supplier, an equity holder and as an operations and maintenance contractor. Fluid bed combustors are often the preferred boiler design for these projects and B&W offers both circulating and bubbling fluid bed combustors to service this and the boiler retrofit market. B&W is also developing pressurized fluid bed combustors for commercial applications.

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. This business is an important part of this segment's results. Revenues from the U.S. Government related to this activity were approximately 13%, 16% and 16% of McDermott International's total revenues for fiscal years 1989, 1988 and 1987, respectively. This activity has made a significant though declining contribution 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 and other equipment and services to the U.S. Government.

The Power Generation Systems and Equipment segment also designs, installs and services individually engineered and configured microprocessor-based control systems. In addition, it also provides products for measurement, indication, control and actuation. These systems and products are utilized in the sensing, transducing, transmitting, recording, indicating, monitoring and controlling of industrial process variables such as temperature, pressure, flow, liquid level and chemical composition.

The principal plants of this segment, which manufacture power generation systems and equipment, are situated at Alliance, Barberton, Lancaster and Wickliffe, Ohio; Lynchburg, Virginia; Paris and Beasley, Texas; West Point, Mississippi; Williamsport, Pennsylvania; Indianapolis, Indiana; 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 operating income derived from operations outside of the United States, and the approximate percentages of those total revenues to McDermott International's total revenues, follow:

Fiscal Year	REVENUES Amount	REVENUES Percent	OPERATING INCOME
		(Dollars in Thousands)	
1989	$ 213,621	9	$ 6,011
1988	268,626	11	6,448
1987	215,435	9	6,735

B&W primarily conducts its foreign operations through its Canadian subsidiary which services the Canadian market as well as other foreign markets by exporting from Canada.

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, structurals, bars, sheet, strip, heavy wall pipe and tubes. Significant amounts of components are also purchased for assembly into B&W-supplied systems and equipment. These raw materials and components generally are purchased as needed for individual contracts.

The principal raw materials used by this segment in the manufacture of nuclear fuel components and assemblies consist of uranium (customer furnished), zircalloy and specialized stainless steel.

Although shortages of certain of these raw materials have existed from time to time, no serious shortage exists at the present time.

CUSTOMERS AND COMPETITION

The principal customers of this segment are the electric utility industry (including government-owned utilities), the U.S. Government (including its contractors), and the pulp and paper and other process industries. The electric utility industry (including government-owned utilities) accounted for approximately 34%, 36% and 29% of McDermott International's total revenues for fiscal years 1989, 1988 and 1987, respectively. U.S. Government business, excluding government-owned utilities, with this segment accounted for approximately 16%, 17% and 17% of McDermott International's total revenues for such periods.

Steam generating system and nuclear fuel assembly orders are customarily awarded in response to competitive bids submitted pursuant to proposals based on the estimated cost of each job. Domestically, a relatively small number of companies, specializing in large steam generating equipment, compete with B&W in the utility fossil fuel steam generating system business. In international markets, these companies plus several foreign-based companies compete with B&W. In the sale of nuclear steam generating systems, B&W competes with a small number of companies. In the sale of nuclear fuel assemblies, B&W competes with the other manufacturers of nuclear steam generating systems. A number of companies are in competition with B&W in industrial steam generating systems and the small power plant business. Other suppliers of fossil and nuclear fuel steam systems, as well as many other businesses in the case of fossil fuel steam generating systems, compete for repair and alteration and other services required to backfit and maintain existing systems. B&W competes with a small number of domestic suppliers of welded tubing, and also foreign suppliers depending on market conditions.

In the supply of nuclear fuel assemblies and nuclear components to the U.S. Navy, there are a small number of suppliers with B&W being the largest based upon revenues.

The principal users of microprocessor-based control systems and process control products are the electric utility, chemical, petroleum refining, pulp and paper, waste water, food and beverage and iron and steel industries. In microprocessor-based control systems and process control products, B&W competes with several broad-line and a great number of specialty suppliers.

BACKLOG

Backlog as of March 31, 1989 and March 31, 1988 for the Power Generation Systems and Equipment segment was $3,176,222,000 and $2,869,112,000 or approximately 93% and 87%, respectively, of McDermott International's backlog. Of the March 31, 1989 backlog, it is expected that approximately $1,230,720,000 will be recorded in revenues in fiscal year 1990, $1,312,972,000 in fiscal years 1991-1994, and $632,530,000 thereafter. Also, this segment's backlog with the U.S. Government was approximately 33% of McDermott International's total backlog at March 31, 1989. 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. The backlog from these orders constituted approximately 5% of McDermott International's backlog at March 31, 1989. No estimate of revenues from power sales agreements or thermal energy contracts associated with owned cogeneration or small power plants is included in backlog.

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

A moderate increase in electrical demand growth began in 1983, after an extended period of low or no growth which severely depressed orders of new equipment from electric utilities. However, electric utilities have deferred ordering large, new baseload units because of continuing uncertainties over rate regulation and environmental rules. Where electric utilities are in need of peaking capacity, many are purchasing alternate equipment with short lead times. Certain electric utilities are purchasing electricity from other utilities with excess capacity or from non-regulated sources such as cogenerators. As a consequence of deferring new baseload units, electric utilities have increased orders for repair and refurbishment of existing plants. Recently there has been increased demand for pulp and paper steam systems and refuse-to-energy systems.

With the maturing of the U.S. Navy's shipbuilding program, the demand for nuclear fuel assemblies and reactor components for the U.S. Navy has been reduced from levels experienced in 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. The backlog of orders for U.S. Navy nuclear fuel assemblies and nuclear reactor components comprised substantially all of this segment's backlog with the U.S. Government at March 31, 1989 and this activity is expected to continue to be a significant part of McDermott International's business.

The markets for microprocessor-based control systems and process control products span several industries. Demand for these systems and products is affected by the overall state of the economy as well as business conditions in specific industries. These systems and products have experienced steady revenue growth over the past several years.

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); operation of a shipyard for the construction, repair and maintenance of specialized ships for the U.S. Navy, as well as ferries, barges, tugboats and other small vessels; 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 affiliated companies.

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.

McDermott International, a world leader (based upon industry standards) in the fabrication of offshore structures, has a principal fabrication yard and domestic offshore base located on approximately 1,242 acres of land, under lease, near Morgan City, Louisiana. This segment also operates a shipyard on approximately 58 acres of leased land in Morgan City. It also owns approximately 134 acres of land at Gulfport, Mississippi and New Iberia, Louisiana for sub-assembly of components for the Morgan City fabrication yard and shipyard and for participation in the shallow water fabrication market. This segment has also acquired a fabrication yard located on approximately 367 acres of owned and leased land near Morgan City. This segment also operates fabrication yards on leased property in Indonesia at Batam Island; in the Middle East at Dubai and Ras Al Khaimah of the United Arab Emirates and at Ain Soukhna, Egypt, and has fabrication capabilities on leased property in West Africa at Warri, Nigeria. McDermott International also operates a fabrication yard on company-owned property in Scotland, near Inverness. Another marine construction company has a 25% interest in this yard. The equipment used at these yards, which are 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 1989-2032
Batam Island, Indonesia	Year 2008
Dubai, U.A.E.	Year 2005
Ras Al Khaimah, U.A.E.	Year 1989
Ain Soukhna, Egypt	Year 2001
Warri, Nigeria	Year 2065

This segment 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 7 derrick barges, 3 pipelaying barges, 11 combination derrick-pipelaying barges and 2 pipeburying barges, including 1 derrick barge and 1 combination derrick-pipelaying barge that were recently acquired from Heerema Offshore Construction Group Inc. The lifting capacities of these derrick and combination derrick-pipelaying barges range from 700 tons to 13,000 tons. They range in length from 300 feet to 660 feet and 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. In addition, this segment owns a shearleg crane capable of lifting up to 5,000 tons. The shearleg crane has the capability of being installed on a number of vessels within the marine fleet. In the North Sea, this segment has performed the world's heaviest commercial single crane lift offshore, in excess of 5,500 tons. McDermott International also 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 tugs, utility boats and cargo barges to support the major marine vessels.

Of the above equipment, McDermott International operates 5 derrick barges, 3 pipelaying barges, 11 combination derrick-pipelaying barges and 2 pipeburying barges. They include 2 semi-submersible vessels presently assigned to the North Sea and the U.S. West Coast, of which one is a derrick barge capable of lifting 2,000 tons. The other semi-submersible vessel is a lay barge capable of laying 72 inch diameter pipe (including concrete coating) and is operable in water depths up to 2,000 feet. This segment has installed several of the world's deepest marine pipelines including one from a platform in the Gulf of Mexico at depths greater than 1,000 feet and three which cross the Norwegian Trench in the North Sea at depths approaching 1,200 feet. Major spreads of equipment operated by McDermott International are in the Gulf of Mexico, the U.S. West Coast, the Middle East, Southeast Asia, the North Sea, and West Africa.

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.

In addition to the equipment operated by McDermott International, this segment charters 2 derrick barges on a long-term basis to HeereMac, a joint venture with Heerema Offshore Construction Group Inc. These derrick barges are capable of lifting from 3,600 to 13,000 tons.

McDermott International also owns a 49% interest in a Mexican joint venture that operates 3 self-propelled combination barges and one pipelaying barge. Of these, 2 barges are capable of lifting 2,000 tons.

This segment's shipyard facility supplies complete maintenance and construction facilities and is a builder of a variety of marine vessels, including large tugs, packaged rigs, dredges, barges, ferries, oceanographic research and other ocean-going work vessels. This facility is currently building prototype ocean-going surveillance vessels and torpedo test and recovery vessels for the U.S. Navy.

FOREIGN OPERATIONS

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

	REVENUES		OPERATING LOSS	
Fiscal Year	**Amount**	**Percent**	**Amount**	**Percent**
		(Dollars in Thousands)		
1989	$ 337,781	14	$ (30,114)	68
1988	435,497	19	(60,539)	127
1987	555,362	23	(47,506)	66

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 the larger oil and gas companies and the U.S. and other governments. Contracts are usually awarded on a competitive bid basis.

There are a number of companies which compete effectively with McDermott International 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. In addition, in order to compete effectively at the low levels of demand for marine construction services currently being experienced, McDermott International and Heerema Offshore Construction Group Inc., have entered into a joint venture operating under the name of HeereMac.

BACKLOG

As of March 31, 1989 and 1988, the Marine Construction Services' backlog amounted to $650,546,000 and $410,953,000 or approximately 17% and 13%, respectively, of McDermott International's total backlog. The significant increase in this segment's backlog, of approximately 58%, is the result of recent demands for this segment's activities by oil and gas producing companies. Of the March 31, 1989 backlog, $552,618,000 is expected to be recognized in fiscal 1990, and $97,928,000 thereafter. Also, this segment s backlog with the U.S. Government was approximately 4% of McDermott International's total backlog at March 31, 1989.

Work is performed on a fixed price, cost plus or day rate basis or combination thereof. Almost all contracts call for progress payments and the segment attempts to cover increased costs of anticipated changes in general labor rates and material costs on long-term contracts, either through an estimation of such changes, which is reflected in the original fixed price, or through price escalation clauses. This segment's contracts for work in foreign areas generally provide for payment in U.S. Dollars, with exceptions for payments in foreign currencies in amounts approximately equal to expenses to be incurred by this segment in those currencies.

FACTORS AFFECTING DEMAND

Marine Construction Services' activity has traditionally been cyclical, depending mainly on the capital expenditure outlay of major oil and gas companies and foreign governments for developmental construction. These expenditures, which continue to be at low levels, are influenced by the price of oil, the cost of exploring for, producing and delivering oil, the sale and expiration dates of offshore leases in the United States and abroad, the discovery rates of new oil and gas reserves in offshore areas, local and international political and economic conditions, and the ability of the oil and gas industry to generate capital.

The price of oil and its uncertainty in the future has a strong effect on exploration and production which ultimately affects the demand for Marine Construction Services' activity. The price of oil declined during most of 1988 and was at a low point when major companies set their 1989 budgets for capital spending. This has led to a cautious approach in spite of rising prices during the last quarter of 1988 and first quarter of 1989.

In the United States, Spot Wellhead gas prices rose on average about 20% during 1988 as compared with 1987. Gas demand increased and the surplus or "gas bubble" is expected to be significantly reduced by the end of 1989. Therefore, it is anticipated that demand and supply will be relatively in balance during 1990. New gas development projects are already being bid and Marine Construction Services expects this trend to continue.

As a result of cost reductions which have taken place throughout the industry during the past several years, projects are moving forward today at prices which only three years ago would have been wholly uneconomic. The fabrication sector of the marine construction market is beginning to improve, albeit gradually, and the marine market will necessarily follow. Marine Construction Services is experiencing an improved demand for its services.

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 research and development activities at Alliance, Ohio; Lynchburg, Virginia; and Houston, Texas; and also conducts development activities at its various manufacturing plants and engineering and design offices. During the fiscal years ended March 31, 1989, 1988 and 1987, approximately $82,700,000, $73,100,000 and $76,200,000, respectively, was spent by McDermott International on research and development activities, of which approximately $48,700,000, $44,400,000 and $42,100,000, 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. Approximately 365 employees were engaged full time in this activity at March 31, 1989.

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 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 cover liability and property damage losses resulting from nuclear accidents at reactor facilities of its utility customers. To protect against such losses McDermott International has obtained contractual indemnification from such customers and waivers of their insurers' rights of subrogation and generally has been named as an additional insured under its customers' nuclear property insurance policies. In addition, McDermott International's third-party nuclear liability is an insured risk under such customers' nuclear liability policies and it has the benefit of the indemnity and limitation of liability provisions of the Price-Anderson 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.

Although McDermott International does not own or operate any nuclear reactors, it has coverage under commercially available nuclear liability and property insurance for five of its six facilities which are licensed to maintain special nuclear materials. The sixth facility maintains a small amount of nuclear materials and an application for nuclear liability insurance coverage for it is pending. Due to the type or quantity of nuclear material present, two of the facilities have the benefit of the indemnity and limitations of liability provisions of the Price-Anderson 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 offshore facilities which are subject to damage by McDermott International and such damage could result in the escape of oil and gas into the sea.

The liability insurance coverage of McDermott International for product liability claims is subject to varying insurance limits which are dependent upon the year of coverage. Claims payments related to asbestos product liability have exceeded coverage in certain policy years. Having reached the policy limits in these years, future claims payments for those years are the responsibility of B&W. The claims payments in fiscal 1989 were not material to the consolidated financial statements. B&W is currently pursuing an agreement with certain insurers concerning the method of allocation of claims payments to the years of coverage; the conclusion of this agreement would reduce B&W's liability for such claims payments and based upon information currently available, management does not believe that future liability for claims payments will be material.

McDermott International has two wholly-owned insurance subsidiaries. To date, these subsidiaries have written policies concerning general and automobile liability, builders' risk within certain limits, marine hull, and workers' compensation for McDermott International. No significant amounts of insurance have been written for unrelated parties.

G. EMPLOYEES

At March 31, 1989, McDermott International employed, under its direct supervision in continuing operations, approximately 28,000 persons compared with 26,000 at March 31, 1988. Approximately 7,400 employees were members of labor unions at March 31, 1989 as compared with 7,200 at March 31, 1988. The majority of B&W's primary facilities operate under union contracts which customarily are renewed every two to three years. A contract between B&W and the International Brotherhood of Boilermakers (the "Union"), which covered approximately 1,350 employees, constituting all of the hourly production and maintenance workers at B&W's Barberton, Ohio facility expired on July 17, 1988. The Union workers at the Barberton facility are continuing to work on a day-to-day basis and management anticipates that an agreement will be reached with the Union in the near future. McDermott International considers its relations with its employees to be generally satisfactory.

H. GOVERNMENT REGULATIONS

McDermott International's compliance with U.S. federal, state and local environmental protection regulations necessitated capital expenditures of $1,148,000 in fiscal 1989, and it expects to spend another $3,813,000 on capital expenditures over the next five years. However, McDermott International cannot predict all the environmental requirements or circumstances which will exist in the future. The cost of complying with environmental regulations was a charge against income before taxes of approximately $18,883,000 in fiscal 1989.

McDermott International performs significant amounts of work for the U.S. Government under both prime contracts and subcontracts and operates certain nuclear facilities and thus is subject to continuing reviews by governmental agencies, including the Environmental Protection Agency and the Nuclear Regulatory Commission.

During fiscal 1989, federal regulations were promulgated which require licensees of nuclear facilities to provide certain financial assurances relating to environmental clean-up costs. The most significant of these regulations will require B&W, at the time of the next renewal of each of its licenses in 1992 through 1996, to fund the then estimated future environmental clean-up costs for the facility being licensed. The amount of such estimated costs at each license renewal date will depend largely upon characterization of the facility being licensed and upon the current regulations relating to methods of, and standards for, disposal of contaminated material.

Compliance with government regulations controlling the discharge of materials into the environment, or otherwise relating to the protection of the environment, does not have, nor is it expected to have a material effect upon the competitive 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, 1989, the current unit value was $3,458 and the aggregate current unit value of the Delaware Company's 100,000 units was $345,817,000. At April 1, 1989, the price at which the units could be sold to International upon the exercise by the Delaware Company of its right to sell, calculated in accordance with the terms of the Intercompany Agreement, was approximately $311,235,000. The net proceeds of such sales would be subject to U.S. federal, state and other applicable taxes for which no provisions have been made.

J. DISCONTINUED OPERATIONS

During fiscal 1988, McDermott International completed the sale of its Insulating Products Group and during fiscal 1989, substantially completed the disposal of its Trading segment.

In January 1988, McDermott International signed a letter of intent with Lone Star Technologies, Inc. for the sale of substantially all of the assets and liabilities of the discontinued seamless tubular line of business. In January 1989, an agreement was signed for the sale, which was subsequently terminated. McDermott International is, therefore, continuing to seek a buyer for its seamless tubular line of business which includes the equipment, technology, and plants located in Beaver Falls, Ambridge and Koppel, Pennsylvania; West Milwaukee, Wisconsin; and Bryan, Texas.

K. UNCONSOLIDATED AFFILIATES

Due to the diversity and magnitude of projects currently contemplated by present and potential customers worldwide, the need to share the associated risks and the necessity to reduce costs in certain depressed markets, McDermott International is continuing to pursue joint-venture arrangements in both the Power Generation and Marine Construction segments.

During fiscal 1989, McDermott International and the Davy Corporation formed Davy McDermott Ltd., to provide engineering, project and construction management services principally in the United Kingdom sector of the North Sea. McDermott International owns 49% of Davy McDermott Ltd., an English corporation.

During the fourth quarter of fiscal 1989, McDermott International formed a joint venture with Heerema Offshore Construction Group Inc., to provide offshore marine construction services to the petroleum industry on a worldwide basis, especially in harsh environmental areas. The joint venture, which is owned equally by both parties, leases 2 semi-submersible derrick barges from each company and operates the 4 barges under the name HeereMac. The HeereMac joint venture is headquartered in the Netherlands with its principal offices in Leiden.

Item 3. LEGAL PROCEEDINGS AND PROPOSED TAX DEFICIENCY

In the quarter ended December 31, 1987, decisions were entered in the United States Tax Court which complete a group of settlements concerning the Delaware Company's U.S. federal income tax liability for the fiscal years ended March 31, 1972 through March 31, 1980 and International's U.S. federal income tax liability for the years ended November 30, 1976 through March 31, 1983. The Internal Revenue Service (the "IRS") has issued statutory notices which assert additions to the U.S. federal income tax liability of the Delaware Company in respect of its fiscal years ended March 31, 1981 through March 31, 1983.

For the fiscal year ended March 31, 1983, the IRS has treated the reorganization in that fiscal year as a taxable event and has asserted a deficiency of approximately $300,000,000 in U.S. federal income taxes against the Delaware Company relating to the exchange of Delaware Company stock for stock of International and cash on December 10, 1982 and March 15, 1983. The IRS contends that those exchanges should be taxed as if the Delaware Company and not International had dealt with the former shareholders of the Delaware Company. In test cases involving the Delaware Company's former shareholders, *Bhada v. Commissioner*, 89 Tax Court No. 67 (November 5, 1987), this contention of the IRS was rejected. These decisions have been appealed to the United States Court of Appeals for the Fifth Circuit and the Sixth Circuit, but the Delaware Company believes that it will be upheld in both cases.

The notices also assert substantial additional U.S. federal income taxes on other grounds, including taxes under the Subpart F provisions of the Internal Revenue Code approximating $38,000,000 with respect to income items of International.

The Delaware Company is contesting in court the deficiencies asserted in the notices. It believes that it will succeed with respect to the reorganization and Subpart F deficiencies and that any U.S. federal income taxes ultimately assessed on the basis of such notices will not exceed reserves established with respect thereto.

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

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, 1988 and 1989 follow:

	FISCAL 1988		
	SALES PRICE		CASH DIVIDENDS
QUARTER ENDED	HIGH	LOW	DECLARED
June 30, 1987	31 1/8	26 1/2	$0.45
September 30, 1987	33 1/8	25 3/4	$0.45
December 31, 1987	27 3/4	13	$0.45
March 31, 1988	20 1/2	14 5/8	$0.45

	FISCAL 1989		
	SALES PRICE		CASH DIVIDENDS
QUARTER ENDED	HIGH	LOW	DECLARED
June 30, 1988	21 1/2	18	$0.45
September 30, 1988	20 5/8	17 3/8	$0.45
December 31, 1988	18 7/8	14 1/8	$0.25
March 31, 1989	18 1/4	14 5/8	$0.25

As of March 31, 1989, the approximate number of record holders of Common Stock was 9,174.

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

Results of Operations

1989 VS 1988

Power Generation Systems and Equipment's revenues of $1,834,071,000 were $121,471,000 higher than in fiscal 1988. This was principally due to higher revenues from the fabrication of and extended scope of supply for refuse and small power plants, and fabrication and erection of new fossil steam systems. In addition, there were higher revenues from microprocessor-based control systems and process control products, plant enhancements, welded tubular products, and air-cooled heat exchangers. These higher revenues were partially offset by lower revenues from fossil steam generating system exports from North America, and nuclear fuel and reactor components for the U.S. Government.

The Power Generation Systems and Equipment segment reported operating income of $61,559,000 which was $15,272,000 lower than fiscal 1988's operating income of $76,831,000. The lower operating results were primarily due to significantly higher workers' compensation and product liability costs and provisions for future environmental clean-up costs. Also contributing to decreased operating results were lower revenues and gross margins from nuclear fuel and reactor components for the U.S. Government and nuclear fuel assemblies, together with lower margins on revenues from refuse and small power plants and repair and alteration of existing fossil steam systems. In addition, administrative and research and development expenses were higher. These were partially offset by the higher revenues and gross margins from fabrication and erection of new fossil steam systems, replacement parts, microprocessor-based control systems and process control products, air-cooled heat exchangers and welded tubular products and reduced warranty reserve requirements.

Results of the Power Generation Systems and Equipment segment for fiscal 1989 included a provision of approximately $15,750,000 for future environmental clean-up costs (referred to above) at certain facilities where nuclear activities are or were conducted. Results for future years will include provisions for this purpose, the amount of which will depend upon the then current information and regulatory requirements.

Marine Construction Services' revenues decreased $48,893,000 to $593,166,000. The decreased revenues resulted from a significant reduction in utilization of this segment's foreign marine construction equipment, in marine work on the West Coast of the United States, and in domestic onshore construction work. There was also reduced activity in a certain foreign fabrication facility and in foreign engineering. These decreases were offset in part by increased activity in domestic fabrication facilities and certain other foreign fabrication facilities, increased domestic engineering activity, increased marine work in the Gulf of Mexico and recognition of favorable claims on certain foreign contracts.

Marine Construction Services' operating loss decreased $32,427,000 to a loss of $60,948,000 due to improved operating results in domestic fabrication and the majority of foreign fabrication operations. The operating loss was also decreased due to improved operating results and cost savings in a foreign marine operation, the transfer in the fourth quarter of fiscal year 1989 of a significant part of that operation to the newly-formed HeereMac joint venture, and classifying losses associated therewith as an equity loss. Operating results were further improved by recognition of favorable claims related to certain foreign contracts, and a reduction in workers' compensation cost. Foreign engineering operating income also increased due to reduced operating costs and provisions for redundancy made in the prior fiscal year. These decreased losses were offset in part by less favorable operating results in a foreign fabrication operation and marine work on the West Coast of the United States.

While backlog for this segment has increased significantly over the last twelve months, backlog continues at levels below that of earlier years. Overcapacity continues in the majority of this segment's major activities. Consequently, McDermott International anticipates that this segment will continue to experience operating losses in the next twelve months.

Interest income for fiscal year 1989 decreased $12,155,000 compared with fiscal 1988. The decrease in interest income was generally consistent with changes in McDermott International's investment portfolio and interest rates prevailing thereon.

As a result of a settlement of certain income tax liabilities during fiscal 1988, accrued interest on estimated income taxes was reduced by $78,411,000, including approximately $8,000,000 accrued during fiscal 1988.

Equity in loss of investees in fiscal year 1989 increased $13,317,000 over fiscal 1988 due primarily to losses in the newly-formed HeereMac joint venture.

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 reflect the financial position and results of operations of McDermott International. The financial statements were prepared in accordance with generally accepted accounting principles appropriate in the circumstances, and necessarily reflect estimates and judgments by appropriate officers of McDermott International with appropriate consideration given to materiality.

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

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

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

June 2, 1989

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
MARCH 31, 1989 AND 1988

ASSETS

	1989	1988
	(In thousands)	
Current Assets:		
Cash and cash equivalents	$ 76,124	$ 143,653
Short-term investments	27,486	1,151
Accounts and notes receivable	525,605	605,595
Contracts in progress	285,114	278,875
Inventories	161,328	180,802
Deferred income taxes	—	48,540
Prepaid expenses	12,175	9,583
Current assets of discontinued operations	—	228,173
Total Current Assets	1,087,832	1,496,372
Property, Plant and Equipment, at Cost:		
Land	21,257	20,059
Buildings	225,900	229,774
Machinery and equipment	1,952,688	1,916,880
Property under construction	33,787	39,757
	2,233,632	2,206,470
Less accumulated depreciation and amortization	1,270,665	1,201,775
Net Property, Plant and Equipment	962,967	1,004,695
Investments in Government Obligations, at Amortized Cost	750,677	795,819
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Accumulated Amortization of $61,805,000 at March 31, 1989 and $56,133,000 at March 31, 1988	167,560	173,232
Prepaid Pension Costs	164,556	152,850
Other Assets	153,492	153,956
Non-Current Assets of Discontinued Operations	6,538	47,893
TOTAL	$ 3,293,622	$ 3,824,817

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1989	1988
	(In thousands)	
Current Liabilities:		
Notes payable and current maturities of long-term debt	$ 241,824	$ 265,727
Accounts payable	208,576	222,338
Accrued employee benefits	95,609	88,375
Accrued interest payable	83,888	64,464
Accrued self-insurance costs	67,210	71,986
Accrued liabilities - other	242,040	297,644
Advance billings on contracts	160,876	165,422
U. S. and foreign income taxes	100,975	64,499
Current liabilities of discontinued operations	23,829	282,261
Total Current Liabilities	1,224,827	1,522,716
Deferred and Non-Current Income Taxes	131,460	309,244
Long-Term Debt	932,759	840,225
Other Liabilities	178,381	147,737
Non-Current Liabilities of Discontinued Operations	—	45,186
Contingencies		
Minority Interest:		
Subsidiary's Redeemable Preferred Stocks:		
Series A $2.20 cumulative convertible, $1.00 par value; at redemption value	88,094	88,244
Series B $2.60 cumulative, $1.00 par value; at redemption value	116,393	116,393
Other minority interest	24,597	13,902
Total Minority Interest	229,084	218,539
Preferred Stock	—	—
Common Stock and Other Stockholders' Equity:		
Common stock, par value $1.00 per share, authorized 150,000,000 shares; outstanding 37,320,211 at March 31, 1989 and 37,144,203 at March 31, 1988	37,320	37,144
Capital in excess of par value	318,152	317,389
Retained earnings	244,031	387,825
Cumulative foreign exchange translation adjustments	(2,392)	(1,188)
Total Common Stock and Other Stockholders' Equity	597,111	741,170
TOTAL	$ 3,293,622	$ 3,824,817

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1989

	1989	1988	1987
		(In thousands)	
Revenues	$ 2,422,656	$ 2,351,705	$ 2,430,792
Costs and Expenses:			
Cost of operations	2,122,904	2,036,611	2,077,013
Depreciation and amortization	114,083	137,117	160,607
Selling, general and administrative expenses	229,951	225,557	265,535
	2,466,938	2,399,285	2,503,155
Operating Loss	(44,282)	(47,580)	(72,363)
Other Income (Expense):			
Interest income	73,172	85,327	94,870
Interest expense	(129,558)	(129,265)	(109,546)
Interest expense adjustment	—	78,411	—
Equity in loss of investees	(16,600)	(3,283)	(8,597)
Minority interest	(14,528)	(15,954)	(15,888)
Other - net	10,690	(275,054)	234,628
	(76,824)	(259,818)	195,467
Income (Loss) From Continuing Operations Before Provision for Income Taxes, Extraordinary Items and Cumulative Effects of Accounting Changes	(121,106)	(307,398)	123,104
Provision for (Benefit from) Income Taxes	(6,173)	(76,049)	1,520
Income (Loss) From Continuing Operations Before Extraordinary Items and Cumulative Effects of Accounting Changes	(114,933)	(231,349)	121,584
Loss from Discontinued Operations	(29,322)	(34,698)	(254,707)
Loss Before Extraordinary Items and Cumulative Effects of Accounting Changes	(144,255)	(266,047)	(133,123)
Extraordinary Items	—	4,276	4,991
Cumulative Effects of Accounting Changes	52,580	—	25,711
Net Loss	(91,675)	(261,771)	(102,421)
Retained Earnings — Beginning of Year	387,825	716,429	855,436
Deduct Cash Dividends — Common (per share, $1.40 in 1989; $1.80 in 1988 and 1987)	52,119	66,833	86,586
Retained Earnings — End of Year	$ 244,031	$ 387,825	$ 716,429
Earnings (Loss) Per Common and Common Equivalent Share:			
Continuing operations	$ (3.09)	$ (6.23)	$ 3.29
Discontinued operations	(0.79)	(0.93)	(6.59)
Extraordinary items	—	0.11	0.13
Accounting changes	1.42	—	0.70
Net loss	$ (2.46)	$ (7.05)	$ (2.77)
Cash Dividends Per Common Share	$ 1.40	$ 1.80	$ 1.50

Earnings per share on a fully diluted basis for Income From Continuing Operations would be $3.15 in fiscal 1987.

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1989

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1989	1988	1987
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (91,675)	$ (261,771)	$ (102,421)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	114,083	137,117	160,607
Write-off of goodwill and property, plant and equipment	—	21,668	319,714
Gain on retiree pension settlement	—	—	(191,394)
Interest adjustment and tax settlement	—	(128,610)	—
Cumulative effects of accounting changes	(52,580)	—	(25,711)
(Gain) loss on sale of government obligations	(164)	283,725	(237,340)
Net (increase) decrease in contracts in progress and advance billings on contracts	(11,776)	10,823	(5,907)
Decrease in accounts and notes receivable	74,202	17,636	60,813
Increase (decrease) in accounts payable	(12,285)	22,646	(41,581)
(Increase) decrease in inventories	19,660	(28,358)	51,959
Net decrease in current, non-current and deferred income taxes payable	(38,629)	(30,682)	(148,345)
Net increase (decrease) in other net liabilities	(76,185)	(37,304)	149,697
Other	17,295	(5,384)	16,301
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (58,054)	$ 1,506	$ 6,392
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the disposal of assets	$ 25,698	$ 87,692	$ 11,075
Purchases of property, plant and equipment	(59,864)	(48,965)	(122,625)
Sale of minority interest	—	23,000	—
Net sales of government obligations and purchase of short-term investments	19,737	188,974	92,616
Other	(6,286)	(9,727)	(26,012)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	$ (20,715)	$ 240,974	$ (44,946)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of long-term debt	$ (337,662)	$ (216,529)	$ (222,741)
Issuance of long-term debt	372,871	248,500	260,130
Increase (decrease) in short-term borrowing	35,295	(142,924)	71,056
Dividends paid	(59,507)	(66,833)	(66,586)
Other	(1,596)	(2,470)	(1,434)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ 9,401	$ (180,256)	$ 40,425
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	1,839	746	10,617
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(67,529)	62,970	12,488
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	143,653	80,683	68,195
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 76,124	$ 143,653	$ 80,683
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amount capitalized)	$ 110,134	$ 134,717	$ 97,797
Income taxes	$ 25,565	$ 14,436	$ 22,630

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 and include the accounts of McDermott International, Inc. and all subsidiaries and controlled joint ventures and partnerships. Investments in joint venture and other entities in which McDermott International has a 20% to 50% interest are accounted for on the equity method. All significant intercompany transactions and accounts have been eliminated.

Unless the context otherwise requires, hereinafter "International" will be used to mean McDermott International, Inc., a Panama corporation; the "Delaware Company" will be used to mean McDermott Incorporated, a Delaware corporation which is a subsidiary of International, and its consolidated subsidiaries, joint ventures and partnerships; and, "McDermott International" will be used to mean the consolidated enterprise.

Certain amounts previously reported have been reclassified to conform with the presentation at March 31, 1989. The notes to consolidated financial statements are presented on the basis of continuing operations, unless otherwise stated.

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 the ratio of costs incurred to total estimated costs, as applicable to the product or activity involved. Revenues and related costs so recorded, plus accumulated contract cost that exceeds amounts invoiced to customers under the terms of the contract are included in contracts in progress. Billings that exceed accumulated contract costs and revenues and costs recognized under percentage of completion are included in advance billings. Most long-term contracts have provisions for progress payments. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in income in the period when such estimates are revised. 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. International and certain of its subsidiaries keep books and file tax returns on the completed contract method of accounting.

	1989	1988
	(In thousands)	
Included in Contracts in Progress are:		
Costs incurred less cost of revenue recognized	$ 163,387	$ 114,757
Revenues recognized less billings to customers	121,727	164,118
Contracts in Progress	$ 285,114	$ 278,875
Included in Advance Billings on Contracts are:		
Billings to customers less revenues recognized	$ 183,459	$ 178,685
Cost of revenues recognized less costs incurred	(22,583)	(13,263)
Advance Billings on Contracts	$ 160,876	$ 165,422

McDermott International is usually entitled to financial settlements relative to the individual circumstances of deferrals or cancellations of Power Generation Systems and Equipment contracts. McDermott International does not recognize such settlements or claims for additional compensation until final settlement is reached.

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

	1989	1988
	(In thousands)	
Retainages	$ 132,058	$ 145,661
Retainages expected to be collected after one year	$ 62,848	$ 66,470

Depreciation, Maintenance and Repairs and Drydocking Expenses

Except for major marine vessels (See Note 3), McDermott International's 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.

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.

Cash Equivalents

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

McDermott International adopted Financial Accounting Standards (FAS) No. 95, "Statement of Cash Flows," for the fiscal year ended March 31, 1989 and previously reported consolidated statements of changes in financial position for the fiscal years ended March 31, 1988 and 1987 have been restated.

Investments in Government Obligations

At March 31, 1989, McDermott International held $750,677,000 (amortized cost) of primarily government securities as a long-term investment, compared with $795,819,000 (amortized cost) at March 31, 1988. These securities are carried at amortized cost, as in management's opinion there is no permanent loss in value of the portfolio, and there is no present intention to liquidate the securities at less than cost. The market value of these securities was $740,149,000 and the face amount was $753,070,000 at March 31, 1989.

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 McDermott International's investment in The Babcock & Wilcox Company ("B&W") which is being amortized on a straight-line basis over forty years. During fiscal 1988 and 1987, $19,674,000 and $124,885,000, respectively, of excess cost was written off primarily in connection with discontinued operations.

Warranty Expense

McDermott International provides for estimated future warranty expense which may be required to satisfy contractual requirements, primarily of the Power Generation Systems and Equipment segment. Such provisions are 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 provides for future environmental clean-up for its nuclear facilities that will permit the release of these facilities to unrestricted use at the end of each facility's life; a condition of its licenses from the Nuclear Regulatory Commission. McDermott International is accruing the current estimated cost of those clean-up activities over the economic useful life of each of these facilities which is estimated at 7 to 40 years, depending on the 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 $34,000,000, $28,700,000 and $34,100,000 in fiscal years 1989, 1988 and 1987, respectively. In addition, expenditures on research and development activities of approximately $48,700,000, $44,400,000 and $42,100,000 in fiscal years 1989, 1988 and 1987, respectively, were paid for by customers of McDermott International.

Capitalization of Interest Cost

In fiscal years 1989, 1988 and 1987, total interest cost incurred including discontinued operations was $129,582,000, $137,736,000 and $124,824,000, respectively, of which $24,000, $1,510,000 and $8,865,000 was capitalized.

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, 1986	$ (32,027)
Translation adjustments for fiscal 1987	(2,344)
Balance March 31, 1987	(34,371)
Divestiture of foreign investments	7,278
Translation adjustments for fiscal 1988	25,905
Balance March 31, 1988	(1,188)
Divestiture of foreign investments	(57)
Translation adjustments for fiscal 1989	(1,147)
Balance March 31, 1989	$ (2,392)

Foreign currency transaction adjustments are reported in income. Included in Other Income (Expense) are transaction gains (losses) of $77,000, $(2,026,000) and $2,874,000 for fiscal years 1989, 1988 and 1987, respectively.

Earnings Per Share

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

NOTE 2 - DISCONTINUED OPERATIONS

Trading

In fiscal 1988, International decided to dispose of its Trading segment and accounted for it as a discontinued operation.

During fiscal 1989, International entered into an agreement with a Swiss corporation for the sale of its wholly-owned German subsidiaries, McDermott International Trading GmbH (MIT GmbH) and Coutinho Caro AG. Under the terms of this agreement, wherein the sales price is subject to the determination of the final net asset value of the subsidiaries, International assumed and prepaid approximately $29,300,000 of MIT GmbH's notes payable and accrued interest and gave certain guarantees regarding specific contracts.

Condensed financial information for the Trading segment follows:

	1989	1988	1987
		(In thousands)	
Revenues	$ —	$1,171,854	$ 786,844
Loss from operations, net of applicable income taxes (benefit) of $1,193,000 and $(79,000), respectively, in fiscal 1988 and 1987	—	(10,282)	(39,549)
Loss on discontinuance, including income taxes of $1,676,000 and $3,102,000, respectively, in fiscal 1989 and 1988	(27,506)	(27,382)	—

The loss of $27,506,000 in fiscal 1989 resulted from additional operating losses during the phase-out period and losses on the sale of certain assets.

Assets and liabilities of subsidiaries of the Trading segment, which management intended to sell, were segregated in the consolidated balance sheet at March 31, 1988.

The sale and liquidation of the Trading segment was substantially completed during fiscal 1989. Final sales price adjustments and guarantees are not expected to have a material effect on the consolidated financial statements.

Insulating Products Group

In fiscal 1988, McDermott International sold its Insulating Products Group for approximately $76,000,000 and accounted for it as a discontinued operation.

Condensed financial information for the Insulating Products Group follows:

	1989	1988	1987
		(In thousands)	
Revenues	$ —	$ 61,380	$ 71,686
Income from operations, net of applicable income taxes of $659,000 and $4,548,000, respectively, in fiscal 1988 and 1987	—	1,025	5,410
Gain (loss) on disposal, net of applicable income taxes (benefits) of $(137,000) and $9,060,000, respectively, in fiscal 1989 and 1988	(1,816)	1,941	—

Final sales price adjustments are not expected to have a material effect on the consolidated financial statements.

Seamless Tubular Line of Business

In June 1987, McDermott International announced its intention to permanently close its seamless tubular line of business and accordingly accounted for it as a discontinued operation at March 31, 1987.

In January 1988, McDermott International signed a letter of intent with Lone Star Technologies Inc. for the sale of substantially all of the assets and liabilities of the discontinued seamless tubular line of business. In January 1989, an agreement was signed for the sale, which was subsequently terminated. McDermott International is, therefore, continuing to seek a buyer for its seamless tubular line of business which includes the equipment, technology and plants located in Beaver Falls, Ambridge and Koppel, Pennsylvania; West Milwaukee, Wisconsin; and Bryan, Texas.

Condensed financial information for the seamless tubular line of business follows:

	1987
	(In thousands)
Revenues	$ 70,320
Income from operations, net of applicable income taxes of $4,514,000	3,131
Loss on discontinuance, net of applicable income tax benefit of $121,508,000	(223,699)

The 1987 provision for loss on discontinuance reduced the carrying amount of assets to their estimated net realizable values, provided for other costs and expenses related to the discontinuance of operations and included $11,000,000 for anticipated losses during the phase-out period. No gain or loss attributable to the discontinued operations was recognized in fiscal year 1989 or 1988 and at March 31, 1989, management believes remaining provisions are adequate.

Income from operations for fiscal year 1987 included a pension settlement gain of $38,921,000, net of income taxes of $31,134,000.

Assets and liabilities of the seamless tubular line of business have been segregated in the consolidated balance sheet at March 31, 1989 and March 31, 1988.

NOTE 3 - CHANGE IN DEPRECIATION METHOD

Effective April 1, 1986, McDermott International changed the method of depreciation for major marine vessels from the straight-line method to a 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 25% of annual straight-line depreciation, nor less than 50% of cumulative straight-line depreciation. Depreciation after adjustment for this activity factor was $28,209,000, $16,051,000 and $15,592,000 less than straight-line in fiscal 1989, 1988 and 1987. Through March 31, 1989, $102,925,000 less accumulated depreciation has been recorded under this method than would have been recorded under straight-line depreciation. McDermott International employs utilization factors as a key element in the management of marine construction operations and believes the units-of-production method, which recognizes both time and utilization factors, accomplishes a better matching of costs and revenues than the straight-line method. The cumulative effect of the change on prior years at March 31, 1986 of $25,711,000, net of income taxes of $17,362,000 ($0.70 per share), is included in the accompanying Consolidated Statement of Income (Loss) and Retained Earnings for the fiscal year ended March 31, 1987. The effect of the change on the fiscal year ended March 31, 1987 was to increase Income From Continuing Operations Before Extraordinary Items and Cumulative Effect of Accounting Change and decrease Net Loss $6,556,000 ($0.18 per share).

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 21% and 19% of total inventories was determined using the LIFO method at March 31, 1989 and March 31, 1988, respectively. Consolidated inventories at March 31, 1989 and 1988 are summarized below:

	1989	1988
	(In thousands)	
Raw Materials and Supplies	$ 64,608	$ 59,628
Work in Progress	36,363	44,930
Finished Goods	60,357	76,244
	$ 161,328	$ 180,802

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 Common Market 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.

Effective April 1, 1986, McDermott International adopted FAS No. 87, "Employers' Accounting for Pensions," for its domestic pension plans and certain of its foreign pension plans. The Statement requires a standardized method for measuring net periodic pension cost (pension expense), immediate recognition of a pension liability under certain conditions, and expanded pension plan disclosures. The effect of the above change, including discontinued operations, was to reduce net periodic pension cost by $27,128,000 and increase income from continuing operations by $9,006,000 ($0.24 per share primary and $0.22 per share fully diluted) and decrease net loss by $15,859,000 ($0.43 per share primary and fully diluted) for the fiscal year ended March 31, 1987.

Net periodic pension cost for fiscal years 1989, 1988 and 1987 included the following components:

	1989	1988	1987
		(In thousands)	
Service cost—benefits earned during the period	$ 19,510	$ 21,027	$ 23,498
Interest cost on projected benefit obligation	45,412	39,681	59,849
Actual return on plan assets	(80,019)	(570)	(190,638)
Net amortization and deferral	4,305	(80,117)	98,581
Net periodic pension cost	$ (10,792)	$ (20,029)	$ (8,710)

At January 1, 1989 and 1988, the weighted-average discount rate for active and retired employees, 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 4-1/2%, respectively. The expected long-term rate of return on assets was 8-1/2%.

During fiscal 1987, McDermott International accepted a life insurance company's bid to issue a non-participating single premium annuity contract covering substantially all pre-January 1, 1987 retirees under McDermott International's ERISA pension plans. This agreement constitutes a settlement in accordance with FAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Consequently, McDermott International recognized a pre-tax gain in fiscal 1987 of $191,394,000 including $73,427,000 related to discontinued operations.

As a consequence of the discontinuance of the seamless tubular line of business (See Note 2), the curtailment and intended termination of a related pension plan has been accounted for as a settlement. Consequently, the fiscal 1987 loss on discontinuance includes a net after-tax loss on curtailment and termination of $598,000.

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	
	1989	1988	1989	1988
	(In thousands)			
Actuarial present value of benefit obligations:				
Vested benefit obligation	$ 367,146	$ 302,076	$ 62,427	$ 61,288
Accumulated benefit obligation	$ 416,814	$ 353,858	$ 76,800	$ 75,687
Projected benefit obligation	$ 516,164	$ 469,884	$ 77,391	$ 76,404
Plan assets at fair value	808,952	746,283	53,002	45,328
Projected benefit obligation (in excess of) or less than plan assets	292,788	276,399	(24,389)	(31,076)
Unrecognized net (gain) or loss	726	16,574	(1,259)	781
Prior service cost not yet recognized in net periodic pension cost	6,036	6,102	491	258
Unrecognized transition asset	(134,994)	(146,225)	304	(292)
Prepaid pension cost (pension liability) recognized in the consolidated financial statements	$ 164,556	$ 152,850	$ (24,853)	$ (30,329)

In December 1985, the two principal ERISA pension plans were amended to 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 $8,691,000, $8,121,000 and $7,499,000 in fiscal years 1989, 1988 and 1987, 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 Common Market 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. McDermott International's cost of providing such benefits is recognized by expensing the insurance programs' premiums and the self-insured program's claims as paid. The aggregate amount so expensed, including discontinued operations, totaled $21,689,000, $16,831,000 and $12,181,000 in fiscal years 1989, 1988 and 1987, respectively. McDermott International has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

NOTE 6 - INCOME TAXES

Effective April 1, 1988, McDermott International adopted FAS No. 96, "Accounting for Income Taxes." The Statement provides for a liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. For periods prior to April 1, 1988, deferred income taxes were provided based upon tax laws and rates applicable to the current year without adjustment for subsequent changes. The cumulative effect of the accounting change at April 1, 1988 was $52,580,000 ($1.42 per share). The effect of the change was to decrease the loss from continuing operations and the loss before extraordinary items and cumulative effect of accounting change by $4,142,000 ($0.11 per share) and to decrease the net loss by $1,146,000 ($0.03 per share) for the fiscal year ended March 31, 1989.

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. In addition, in fiscal 1988 McDermott International recognized a benefit from reappraisal of its liabilities for worldwide income taxes.

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

	1989		1988		1987	
	Current	Deferred	Current	Deferred	Current	Deferred
			(In thousands)			
U.S. - Federal	$ 7,620	$ (31,035)	$ (24,556)	$ (23,602)	$ (23,090)	$ 10,103
U.S. - State & Local	11,075	(10,083)	4,155	(2,191)	4,005	1,656
Other than U.S.	19,556	(3,306)	(21,024)	(8,831)	13,332	(4,486)
	$ 38,251	$ (44,424)	$ (41,425)	$ (34,624)	$ (5,753)	$ 7,273

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

	1989	1988	1987
		(In thousands)	
U.S.	$ (69,197)	$ (30,004)	$ (42,555)
Other than U.S.	(51,909)	(277,394)	165,959
	$ (121,106)	$ (307,398)	$ 123,404

Extraordinary items in fiscal 1988 and 1987 of $4,276,000 and $4,991,000, respectively, resulted from the utilization of operating loss carryforwards.

U.S. federal tax credits, principally investment tax credits, are accounted for on the flow-through method. Amounts utilized were $(102,000) and $8,614,000 for fiscal 1988 and 1987, respectively. For U.S. federal income tax purposes, net operating loss carryovers of $13,597,000 at March 31, 1989 are available to offset taxable income in future years through 2004, and tax credits, principally investment tax credits, of $44,392,000 at March 31, 1989 are available to reduce taxes payable through 2004. These credits, which have been reduced under the provisions of the Tax Reform Act of 1986, are available on an unreduced basis to offset taxes payable in earlier years which may result from settlement of ongoing tax examinations.

In fiscal 1989, deferred income taxes result from the tax effect of temporary differences in the financial and tax bases of assets and liabilities. In fiscal 1988 and 1987, deferred income taxes resulted from the tax effect of transactions which were recognized in different periods for financial and tax reporting purposes. Significant components of deferred income taxes and their related impact on the provision for (benefit from) deferred income taxes were:

	1989	1988	1987
		(In thousands)	
Excess tax over financial depreciation	$ (1,324)	$ (7,302)	$ (5,599)
Long-term contracts, primarily on the completed contract method for tax purposes	(41,283)	(66,465)	(28,123)
Warranty expense	6,349	1,695	10,746
Provision for cost of certain facility closings, relocations and dispositions and environmental clean-up	(6,289)	2,240	(6,409)
Interest on proposed tax deficiencies	(2,764)	27,894	(7,054)
Pension expense	1,706	6,660	4,114
Purchased tax benefits	(2,899)	(2,586)	(19,731)
Gain on settlement of retiree pension obligations	—	—	56,075
Deferred financial gain	471	(5,526)	—
Tax loss carryforwards	3,480	(12,435)	9,793
Tax credits	(518)	12,248	5,982
Supplemental compensation	1,660	2,814	(3,046)
Bad debt expense	(2,308)	(351)	—
Vacation pay expense	(2,068)	(633)	724
Inventory valuation	(1,873)	(607)	(3,019)
Other	3,236	7,730	(7,180)
	$ (44,424)	$ (34,624)	$ 7,273

During the fiscal year ended March 31, 1988, decisions were entered in the United States Tax Court which complete a group of settlements concerning International's liability for United States federal income taxes for its fiscal years ended November 30, 1976 through March 31, 1983 and the Delaware Company's liability for the fiscal years ended March 31, 1972 through March 31, 1980. In these settlements, International and the Delaware Company agreed to pay a total of approximately $20,000,000 in United States federal income taxes and penalties, plus interest on that amount. As a result of these settlements, during the third quarter of fiscal year 1988, McDermott International reappraised its liabilities for worldwide income taxes and related interest and recognized a net income benefit from income taxes and reduced interest expense of $128,610,000. The Delaware Company is continuing to contest claims for its fiscal years ended March 31, 1981 through March 31, 1983 in the United States Tax Court. The Internal Revenue Service has issued notices to the Delaware Company for fiscal 1984 and 1985 which propose substantial additional taxes. McDermott International believes that the outcome of any income taxes ultimately assessed will not have a material adverse effect on its consolidated financial statements.

NOTE 7 - LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt consists of:

	1989	1988
	(In thousands)	
Unsecured Debt:		
10.25% Notes due 1995	$ 150,000	$ —
Floating rate notes ($150,000,000 face value) interest at LIBOR plus 0.125% (10.375% inclusive at March 31, 1989) due 1992	149,763	149,683
6.50% DM 100,000,000 Bearer-bonds due 1991	52,795	60,168
8.27% Note due 1991 with annual sinking fund installments of $15,000,000	30,000	45,000
10.20% Sinking fund debentures due 1999 with annual sinking fund installments of $2,500,000	30,000	32,500
Floating rate notes, interest at LIBOR plus 0.50% and 0.75% (10.06% and 9.75% inclusive at March 31, 1989) due 1989	51,750	51,750
Bank term-loan and revolving credit agreement	—	248,500
8-½% and 9% Notes payable due 1991 to 1997	—	65,040
Other notes payable through 2009	46,276	30,534
12.25% Senior subordinated notes due 1998	200,000	—
10.00% Subordinated debentures ($149,921,000 face value) due 2003 with annual sinking fund installments of $15,000,000 beginning 1994	129,439	128,238
Secured Debt:		
10.375% Note payable	152,400	157,000
Project financing notes	10,577	—
Other notes payable through 2011 and capitalized lease obligations	17,363	18,614
	1,020,363	987,027
Less: Amounts due within one year	87,604	146,802
	$ 932,759	$ 840,225

The 12.25% Senior Subordinated Notes due 1998 (the "Subordinated Notes") are redeemable at par plus a premium (as defined in the Indenture) at the option of the Delaware Company, in whole or in part, on or after June 1, 1993. Mandatory annual sinking fund payments in the amount of $50,000,000, commencing June 1, 1996, are required to retire 50% of the Subordinated Notes prior to maturity on June 1, 1998. As defined in the Indentures, both the 10.25% Notes due 1995 and the Subordinated Notes may be redeemed at the option of the holders upon a change of control of International. The Indentures 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.

Project financing notes of $10,577,000 result from withdrawals of funds available from the issuance, by a governmental authority, of approximately $82,000,000 of tax-exempt energy development revenue bonds and a $28,000,000 project financing line of credit. The revenue bonds bear interest at variable interest rates (7.8% at March 31, 1989) and the project financing line of credit bears interest at 30 day LIBOR plus 1-1/4% (11.817% at March 31, 1989). The project financing notes are secured solely by the assets of the project.

McDermott International's $152,400,000 long-term loan at an interest rate of 10.375% is secured by a letter of credit issued by a U.S. bank. The letter of credit was secured by approximately $172,921,000 amortized cost ($170,064,000 market value) of McDermott International's portfolio of government obligations at March 31, 1989. The principal is repayable in twenty ascending payments commencing in fiscal 1989 and the final installment is due June 25, 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, 1989 are as follows: 1990 - $87,604,000; 1991 - $40,128,000; 1992 - $224,088,000; 1993 - $21,273,000; 1994 - $20,764,000.

Certain consolidated subsidiaries are restricted, as a result of credit agreement covenants, in their ability to transfer funds to International through cash dividends or through unsecured loans or investments. At March 31, 1989, approximately $676,820,000 of the net assets of these subsidiaries were subject to such restrictions. It is not expected that these restrictions will have any significant effect on International's liquidity.

International and certain of its subsidiaries at March 31, 1989 had available unused short-term lines of credit from various banks totaling approximately $166,500,000.

Current notes payable to banks at March 31, 1989 and 1988 were $14,791,000 and $118,925,000, respectively. At March 31, 1989, other current notes payable of $139,429,000 were secured by $140,275,000 par value of government obligations.

NOTE 8 - SALE OF ACCOUNTS RECEIVABLE

In December 1988, a subsidiary of McDermott Incorporated entered into a three-year agreement with a certain U.S. bank, whereby the subsidiary can sell, up to a maximum of $100,000,000, with limited recourse, an undivided interest in a designated pool of qualified accounts receivable. At March 31, 1989, approximately $100,000,000 of receivables had been sold for cash under this agreement.

NOTE 9 - CONTINGENCIES AND COMMITMENTS

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

Operating Leases - Future minimum payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 1989 are as follows: 1990 - $19,543,000; 1991 - $16,166,000; 1992 - $9,477,000; 1993 - $7,599,000; 1994 - $6,083,000; and thereafter - $30,177,000. Future minimum lease payments and leased property under capital leases are not material. Total rental expense for fiscal 1989, 1988 and 1987 was $73,841,000, $88,634,000 and $77,151,000, 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.

Commitments for capital expenditures, including specially-financed projects, amounted to approximately $100,000,000 at March 31, 1989, of which approximately $68,000,000 relates to fiscal 1990.

McDermott International is contingently liable under standby letters of credit totaling $264,523,000 at March 31, 1989, issued in the normal course of business.

During fiscal 1989, McDermott International pledged approximately $54,256,000 amortized cost (market value $52,087,000) of government obligations to secure payments under and in connection with certain reinsurance agreements.

NOTE 10 - SUBSIDIARY'S REDEEMABLE PREFERRED STOCKS

At March 31, 1989 and 1988, 13,000,000 shares of Delaware Company Preferred Stock, with a par value of $1 per share, were authorized. Of the authorized shares, 2,818,941 and 2,823,749 shares of Series A Preferred Stock, respectively, and 3,724,629 shares of Series B Preferred Stock were outstanding at March 31, 1989 and 1988. 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 1989, 1988 and 1987.

The outstanding shares were issued in connection with the acquisition of B&W and are stated at the mandatory redemption value which approximated market value at the time the shares were issued. Both series of Preferred Stock are entitled to general voting rights of one-half vote for each share. The Board of Directors of the Delaware Company may authorize additional series of Preferred Stock, and may set terms of each new series except that the Delaware Company cannot create any series of stock senior to the existing Series A and Series B Preferred Stock without the consent of the holders of at least 50% of the shares of such Preferred Stock.

Each share of the outstanding Series A Preferred Stock is convertible into one share of Common Stock of International plus $0.10 cash. The shares are redeemable at the option of the Delaware Company through March 31, 2008 at $31.25 per share, plus accrued dividends. On March 31, 1990 and each subsequent year through March 31, 2008, the Delaware Company is obligated to redeem, at a redemption price of $31.25 plus accrued dividends, 313,878 shares of Series A Preferred Stock. The obligation to redeem Series A Preferred Stock is $9,809,000 for each of the fiscal years 1990 through 1994. The Delaware Company applied 313,878 shares of Series A Preferred Stock that it owned to satisfy the March 31, 1989 mandatory sinking fund obligation.

Series B Preferred Stock is redeemable at the option of the Delaware Company at $31.25 per share plus accrued dividends. On March 31 of each of the fiscal years 1990 through 1995, March 31 of each of the fiscal years 1996 through 2006, and March 31 of each of the fiscal years 2007 and 2008, the Delaware Company is obligated to redeem 315,877, 252,702 and 189,526 shares of Series B Preferred Stock, respectively. The obligation to redeem Series B Preferred Stock is $9,871,000 for each of the fiscal years 1990 through 1994. The Delaware Company applied 315,877 shares of Series B Preferred Stock that it owned to satisfy the March 31, 1989 mandatory sinking fund obligation.

Additional shares of Series A or Series B Preferred Stock, equal to the number of shares the Delaware Company is obligated to redeem, may be redeemed on each mandatory redemption date by the Delaware Company, on a non-cumulative basis. The Delaware Company may apply to the mandatory sinking fund obligations any Series A or B Preferred Stock owned, previously redeemed or surrendered for conversion which have not been previously credited against the mandatory sinking fund obligations. At March 31, 1989, 49,476 shares of Series A Preferred Stock have been converted to date and the Delaware Company owned 3,144,734 and 1,329,408 shares of Series A and Series B Preferred Stock, respectively.

NOTE 11 - CAPITAL STOCK

Common Stock - Changes in Common Stock during the three years ended March 31, 1989 are summarized below:

	Shares	Par Value	Capital in Excess of Par Value
		(In thousands except for share data)	
Balance, March 31, 1986	36,973,724	$ 36,974	$ 313,990
Shares issued upon exercise of stock options	79,693	79	2,011
Deferred career executive stock plan expense	—	—	163
Balance, March 31, 1987	37,053,417	37,053	316,164
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	1,805	2	55
Shares issued upon exercise of stock options	29,476	30	837
Stock plan restricted stock purchases (net of forfeitures)	59,210	59	—
Shares issued upon exercise of warrants	295	—	7
Deferred career executive stock plan expense	—	—	326
Balance, March 31, 1988	37,144,203	37,144	317,389
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	4,808	5	145
Shares issued upon exercise of stock options	750	1	14
Stock plan restricted stock purchases (net of forfeitures)	170,450	170	—
Deferred career executive stock plan expense	—	—	604
Balance, March 31, 1989	37,320,211	$ 37,320	$ 318,152

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 offerer, 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, 1989 and 1988, 62,933,449 and 63,113,117 shares of Common Stock, respectively, were reserved for issuance in connection with exercise of warrants, exercise of rights, the 1974 Career Executive Stock Plan, exercise of stock options, the 1983 and 1987 Long-Term Performance Incentive Compensation Programs and conversion of Series A Preferred Stock.

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, 1989 and 1988, International had outstanding Rights to purchase 37,420,211 and 37,244,203 shares, 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, 1989 and 1988, respectively, International had outstanding warrants to purchase 5,995,695 shares of its Common Stock exercisable by the payment per share of $25 cash or $25 principal amount of the Delaware Company's 10% Subordinated debentures due 2003. The International warrants expire on April 1, 1990 or sooner if the International Common Stock trades at not less than 125% of the warrant exercise price for a specified period of time.

1983 Long-Term Performance Incentive Compensation Program - Under the program which was adopted February 8, 1983, the Compensation Committee, formerly the Career Executive Stock Plan Committee (the "Committee"), may grant to the officers and key employees options to purchase in the aggregate up to 2,000,000 shares of Common Stock at 100% of the fair market value on the date of grant. 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, 1989, 1988 and 1987, stock option and stock appreciation rights awards of 1,544,283, 956,515 and 733,185, respectively, were awarded and outstanding at an average price of $20.6122 per share. At March 31, 1989, 1988 and 1987, 6,747, 595,265 and 889,665 shares were available for award under the program and 750, 71,070 and 285,325 options were exercised or surrendered for stock appreciation rights during the year ended on each such date. During fiscal 1989 and 1988, respectively, 627,330 and 322,470 stock options, without stock appreciation rights were awarded. During fiscal 1987, no stock options or stock appreciation rights were awarded. Awards relating to 38,812, 28,070 and 13,050 shares were forfeited during fiscal 1989, 1988 and 1987, respectively. Charges (credits) to income with respect to stock appreciation rights, performance units and dividend equivalency expense were $1,390,000, $1,857,000 and $(9,484,000) during fiscal 1989, 1988 and 1987, respectively.

1987 Long-Term Performance Compensation Program - Under the program, which was approved by the shareholders on August 11, 1987, the Compensation Committee, formerly the Career Executive Stock Plan Committee, (the "Committee") may grant to the officers and key employees options to purchase in the aggregate up to 2,500,000 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 anniversaries of the date of 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. During fiscal 1989, 1,034,120 stock options were awarded and outstanding at an average price of $16.3961 per share. During fiscal 1988, no stock options were awarded. Rights to purchase 174,110 and 63,970 shares were granted during fiscal 1989 and 1988, respectively; however, 3,660 and 4,760 of such shares were subsequently forfeited to McDermott International during fiscal 1989 and 1988, respectively. Charges to income were $594,000 and $166,000 during fiscal 1989 and 1988, respectively. At March 31, 1989 and 1988, 1,236,220 and 2,440,790 shares, respectively, were available for awards or grant under the program.

Career Executive Stock Plan - This plan, which was adopted as a plan of International effective March 15, 1983, originally authorized 600,000 shares of Common Stock to be issued to eligible employees in consideration of their services. Employees granted stock under the plan pay $1.00 per share as the option purchase price. Restrictions with respect to issued shares lapse in approximately equal amounts on the second through tenth anniversary dates of the date of issuance. The cost of the plan, based on fair market value on the date of issuance of Common Stock, is amortized over a ten year period following the date of issuance. Upon forfeiture of stock to employees, previous expense attributable to unvested stock is credited to income. During fiscal 1989, 1988 and 1987, no shares were forfeited under the plan. As of June 30, 1984, no further awards could be made under the plan. Charges to income under the plan were $152,000, $160,000 and $163,000 during fiscal 1989, 1988 and 1987, respectively.

International Preferred Stock - At March 31, 1989 and 1988, 25,000,000 shares of Preferred Stock were authorized and International has issued 100,000 shares of Series A Participating Preferred Stock (the "Participating Preferred Stock") and 100,000 shares of Series B Non-Voting Preferred Stock (the "Non-Voting Preferred Stock"), all of which are owned by the Delaware Company. The annual per share dividend rates for the Participating Preferred Stock and the Non-Voting Preferred Stock are $10 (but no more than ten times the amount of the per share dividend on International Common Shares) and $20, respectively, payable quarterly, and dividends on such shares are cumulative to the extent not paid. In addition, shares of Participating Preferred Stock are entitled to receive additional dividends 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.

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 and nuclear steam generating systems, specially engineered accessories and components, microprocessor-based control systems, and welded mechanical and pressure tubing.

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.

Revenues attributable to transactions with entities for which investments are accounted for by the equity method were $75,079,000, $67,984,000 and $31,788,000 in fiscal years 1989, 1988 and 1987, respectively, including approximately $11,200,000 attributable to leasing activities in fiscal 1989. At March 31, 1989, property, plant and equipment and accumulated depreciation and amortization include $247,288,000 and $53,056,000, respectively, of marine equipment that is leased to unconsolidated affiliates.

In the fiscal years 1989, 1988 and 1987, the U.S. Government accounted for approximately 18%, 19% and 18%, respectively, of McDermott International's total revenues. These revenues are principally included in the Power Generation Systems and Equipment segment.

Operating Income (Loss) in fiscal 1987 includes $91,587,000 in Power Generation Systems and Equipment and $24,710,000 in Marine Construction Services related to the pension settlement, and $19,626,000 in Marine Construction Services and $6,902,000 in Power Generation Systems and Equipment for accelerated depreciation on equipment and facilities which were considered to be obsolete and have diminished cost effectiveness. Operating Income (Loss) in fiscal 1987 also includes $18,755,000 in Power Generation Systems and Equipment for the write-off of goodwill.

Segment Information For the Three Fiscal Years Ended March 31, 1989.

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

	1989	1988	1987
		(In thousands)	
Revenues(1)			
Power Generation Systems & Equipment	$ 1,834,071	$ 1,712,600	$ 1,569,651
Marine Construction Services	593,166	642,059	862,785
Intersegment Transfer Eliminations	(4,581)	(2,954)	(1,644)
Total Revenues	$ 2,422,656	$ 2,351,705	$ 2,430,792
Operating Income (Loss)(2)			
Power Generation Systems & Equipment	$ 61,559	$ 76,831	$ 74,144
Marine Construction Services	(60,948)	(93,375)	(81,497)
Total Operating Income (Loss)	$ 611	$ (16,544)	$ (7,353)
Equity in Earnings (Loss) of Investees			
Power Generation Systems & Equipment	$ (1,147)	$ 768	$ (2,012)
Marine Construction Services	(15,453)	(4,051)	(6,585)
Total Equity in Loss of Investees	$ (16,600)	$ (3,283)	$ (8,597)

(1) Segment revenues include intersegment transfers as follows:

Power Generation Systems & Equipment	$ 1,311	$ 2,278	$ 682
Marine Construction Services	3,270	676	962
Total	$ 4,581	$ 2,954	$ 1,644

(2) Reconciling items between Segment Operating Income (Loss) and Operating Loss on the Consolidated Statement of Income (Loss) and Retained Earnings are General Corporate Expenses.

	1989	1988	1987
		(In thousands)	
Capital Expenditures			
Power Generation Systems & Equipment	$ 39,969	$ 29,849	$ 54,346
Marine Construction Services	34,894	16,021	68,737
Corporate	524	325	608
Discontinued Operations	—	2,770	8,308
Total Capital Expenditures	$ 75,387	$ 48,965	$ 131,999
Depreciation and Amortization (1)			
Power Generation Systems & Equipment	$ 50,992	$ 54,103	$ 51,427
Marine Construction Services	61,506	81,601	104,925
Corporate	1,585	1,413	4,255
	114,083	137,117	160,607
Discontinued Operations	—	7,426	28,729
Total Depreciation and Amortization	$ 114,083	$ 144,543	$ 189,336
Identifiable Assets			
Power Generation Systems & Equipment	$ 1,294,699	$ 1,379,886	$ 1,389,582
Marine Construction Services	985,125	986,361	1,131,277
Corporate	1,007,260	1,101,978	1,468,478
Discontinued Operations	6,538	356,592	393,927
Total Identifiable Assets	$ 3,293,622	$ 3,824,817	$ 4,383,259

(1) Depreciation and amortization excludes the write-down of property, plant and equipment in connection with discontinued operations and the write-off of goodwill.

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

		1989	1988	1987
			(In thousands)	
Revenues (1)	- United States	$ 1,872,402	$ 1,647,699	$ 1,668,961
	- Europe and West Africa	127,737	231,915	249,825
	- Other Foreign	422,517	472,091	512,006
	- Total	$ 2,422,656	$ 2,351,705	$ 2,430,792
Operating Income (Loss) by Geographic Area (2)	- United States	$ 24,714	$ 37,547	$ 33,418
	- Europe and West Africa	(22,260)	(31,074)	(21,565)
	- Other Foreign	(1,843)	(23,017)	(19,206)
	- Total	$ 611	$ (16,544)	$ (7,353)
Identifiable Assets	- United States	$ 1,409,977	$ 1,442,414	$ 1,541,375
	- Europe and West Africa	539,837	553,545	645,866
	- Other Foreign	330,010	370,288	333,618
	- Corporate	1,007,260	1,101,978	1,468,473
	- Discontinued Operations	6,538	356,592	393,927
	- Total	$ 3,293,622	$ 3,824,817	$ 4,383,259

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

(2) Reconciling items between Segment Operating Income (Loss) by Geographic Area and Operating Loss in the Consolidated Statement of Income (Loss) and Retained Earnings are General Corporate Expenses.

NOTE 13 - QUARTERLY FINANCIAL DATA

The following tables set forth selected unaudited quarterly financial information for the fiscal years ended March 31, 1989 and 1988:

	1989 Quarter Ended			
	June 30, 1988	Sept. 30, 1988	Dec. 31, 1988	March 31, 1989
	(In thousands except for per share amounts)			
Revenues	$ 511,556	$ 546,470	$ 613,977	$ 750,653
Operating income (loss)	(24,078)	(11,075)	(10,234)	1,105
Loss from continuing operations	(33,916)	(29,497)	(31,829)	(19,691)
Net income (loss)	18,664	(54,637)	(31,829)	(23,873)
Earnings (loss) per share:				
Primary				
From continuing operations	(0.91)	(0.79)	(0.86)	(0.53)
Net earnings (loss)	0.50	(1.47)	(0.86)	(0.64)
Fully Diluted				
From continuing operations	(0.91)	(0.79)	(0.86)	(0.53)
Net earnings (loss)	0.50	(1.47)	(0.86)	(0.64)

Results for the quarter ended June 30, 1988 include the cumulative effect of accounting change for the adoption of FAS No. 96, "Accounting for Income Taxes" (See Note 6). Results for the quarters ended September 30, 1988 and March 31, 1989 reflect losses from discontinued operations of $25,140,000 and $4,182,000, respectively (See Note 2). Results for the quarter ended March 31, 1989 also include reduced warranty reserve provisions of approximately $14,700,000 and provisions for environmental clean-up costs of approximately $14,100,000.

	1988 Quarter Ended			
	June 30, 1987	Sept. 30, 1987	Dec. 31, 1987	March 31, 1988
	(In thousands except for per share amounts)			
Revenues	$ 580,897	$ 526,827	$ 608,260	$ 635,721
Operating loss	(18,405)	(15,652)	(3,293)	(10,230)
Income (loss) from continuing operations	(20,918)	(303,131)	117,075	(24,375)
Net income (loss)	(17,835)	(307,770)	83,673	(19,839)
Earnings (loss) per share:				
Primary				
From continuing operations	(0.56)	(8.17)	3.15	(0.66)
Net earnings (loss)	(0.48)	(8.30)	2.25	(0.53)
Fully Diluted				
From continuing operations	(0.56)	(8.17)	2.97	(0.66)
Net earnings (loss)	(0.48)	(8.30)	2.13	(0.53)

Results for the quarter ended December 31, 1987 include the reversal of accrued interest expense and accrued income taxes (See Note 6). Results for the quarter ended September 30, 1987 reflect the recognition of a loss of $284,680,000 on the sale of government obligations.

Item 9. DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Information required by this item with respect to directors and executive officers is incorporated by reference to the material appearing under the headings "Election of Directors" in the Proxy Statement for the 1989 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 1989 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 1989 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 1989 Annual Meeting of Shareholders.

PART IV

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

CONSOLIDATED FINANCIAL STATEMENTS	PAGE
Report of Independent Public Accountants	21
Consolidated Balance Sheet March 31, 1989 and 1988	22
Consolidated Statement of Income (Loss) and Retained Earnings For The Three Fiscal Years Ended March 31, 1989	24
Consolidated Statement of Cash Flows For The Three Fiscal Years Ended March 31, 1989	25
Notes to Consolidated Financial Statements	26

CONSOLIDATED FINANCIAL SCHEDULES

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

PAGE

EXHIBIT INDEX

3 Articles of Incorporation and By-Laws (Items 3(a) and 3(b) are incorporated by reference to Exhibit 3 to the Company's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983).
(a) The Company's Restated Articles of Incorporation
(b) The Company's By-Laws

4(a) Warrant Agreement (incorporated by reference to Exhibit 4 to the Company's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983).

4(b) Rights Agreement (incorporated by reference to Exhibit 1 to the Company's registration statement on Forms 8-A, dated December 27, 1985).

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

10 Material Contracts (Exhibits 10(a) through 10(e) are incorporated by reference to Exhibit 10 to the Company's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983; Exhibit 10(f) is incorporated by reference to Exhibit 10 to the Company's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1986; Exhibit 10(g) is incorporated by reference to Exhibit 10 to the Company's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1987 and Exhibits 10(h) and 10(i) are incorporated by reference to Exhibit 10 to the Company'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) Career Executive Stock Plan—1974
(e) Intercompany Agreement
(f) Trust for Supplemental Executive Retirement Plan (including employment agreement with J.E. Cunningham)
(g) Variable Supplemental Compensation Plan
(h) 1987 Long-Term Performance Incentive Compensation Program
(i) Retirement Plan for Non-Management Directors of McDermott International, Inc.

11 Statement Re Computation of Per Share Earnings (Loss) 45
22 Significant Subsidiaries of the Registrant 46
24 Consent of Independent Public Accountants 46
28 Additional Exhibits 47

FORM 8-K REPORTS

No reports on Form 8-K have been filed for the quarter ended March 31, 1988.

EXHIBIT 11

McDERMOTT INTERNATIONAL, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS (LOSS)
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1989
(In thousands, except shares and per share amounts)

Primary

	1989	1988	1987
Income (loss) from continuing operations	$ (114,933)	$ (231,349)	$ 121,584
Loss on discontinued operations	(29,322)	(34,698)	(254,707)
Extraordinary items	—	4,276	4,991
Cumulative effects of accounting changes	52,580	—	25,711
Net income (loss) for primary computation	$ (91,675)	$ (261,771)	$ (102,421)
Weighted average number of common shares outstanding during the year	37,216,057	37,113,170	36,984,044
Common stock equivalents of stock options, stock appreciation rights and performance units based on "treasury stock" method	—	—	379
Weighted average number of common and common equivalent shares outstanding during the year	37,216,057	37,113,170	36,984,423
Earnings (loss) per common and common equivalent share:			
Continuing operations	$ (3.09)	$ (6.23)	$ 3.29
Discontinued operations	(0.79)	(0.93)	(6.89)
Extraordinary items	—	0.11	0.13
Accounting changes	1.42	—	0.70
Net income (loss)	$ (2.46)	$ (7.05)	$ (2.77)

Fully Diluted

Earnings (loss) per common and common equivalent share assuming full dilution are the same except for fiscal 1987 Income From Continuing Operations which is calculated as follows:

	1987
Income from continuing operations	$ 121,584
Dividends on Subsidiary's Series A $2.20 Cumulative Convertible Preferred Stock assuming conversion to Common Stock	6,216
Income for fully diluted computation	$ 127,800
Weighted average number of common shares outstanding during the year	36,984,044
Common stock equivalents of stock options, stock appreciation rights and performance units based on "treasury stock" method	35,153
Shares applicable to warrants based on "treasury stock" method	714,110
Shares applicable to Subsidiary's Series A $2.20 Cumulative Convertible Preferred Stock	2,825,554
Weighted average number of common and common equivalent shares outstanding during the year, assuming full dilution	40,558,861
Earnings (loss) per common and common equivalent share assuming full dilution:	
Continuing operations	$ 3.15

Fully diluted earnings (loss) per share includes only computations which cause dilution.

EXHIBIT 22

McDERMOTT INTERNATIONAL, INC.
SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT
FISCAL YEAR ENDED MARCH 31, 1989

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

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

EXHIBIT 24

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 2-83692) of McDermott International, Inc. and in the related Prospectus of our report dated June 2, 1989 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, 1989.

ARTHUR YOUNG & COMPANY

New Orleans, Louisiana
June 2, 1989

EXHIBIT 28

McDERMOTT INTERNATIONAL, INC.
ADDITIONAL EXHIBITS
SUPPLEMENTARY FINANCIAL INFORMATION
PREPARED IN ACCORDANCE WITH AND SOLELY FOR THE PURPOSE OF COMPLYING WITH CERTAIN PANAMANIAN SECURITIES REGULATIONS

	F.Y.E. 3/31/89 (Unaudited) (In thousands)
ARTICLE 29	
RULE #9 - INVESTMENTS IN SUBSIDIARIES AT EQUITY	
Head Office (Parent Company)	$ 885,406
Subsidiaries and Affiliates	—
Eliminations/Other	(843,273)
McDERMOTT INTERNATIONAL, INC.	$ 42,133
RULE #25C - PARENT COMPANY ACCOUNTS PAYABLE TO SUBSIDIARIES AND AFFILIATES	
Head Office (Parent Company)	$ 620,119
Eliminations/Other	(620,119)
McDERMOTT INTERNATIONAL, INC.	$ —
ARTICLE 30	
(c) - OPERATING EXPENSES BY SEGMENT	
Power Generation Systems & Equipment	$ 1,772,512
Marine Construction Services	$ 654,114
Eliminations	(4,581)
McDERMOTT INTERNATIONAL, INC.	$ 2,422,045
RULE #40 - OPERATING REVENUES	
Head Office (Parent Company)	$ 220,626
Subsidiaries and Affiliates	2,187,981
Eliminations/Other	14,049
McDERMOTT INTERNATIONAL, INC.	$ 2,422,656
RULE #41 - OPERATING EXPENSES	
Head Office (Parent Company)	$ 255,503
Subsidiaries and Affiliates	2,197,386
Eliminations/Other	14,049
McDERMOTT INTERNATIONAL, INC.	$ 2,466,938

ARTICLE 30 - CONTINUED

RULE #43 - DIVIDENDS RECEIVED

Head Office (Parent Company)	
from Subsidiaries and Affiliates	$ 7,150
Subsidiaries and Affiliates	
from Other Corporations	644
Eliminations/Other	(7,150)
McDERMOTT INTERNATIONAL, INC.	$ 644

RULE #44 - INTEREST INCOME

Head Office (Parent Company)	
from subsidiaries and Affiliates	$ 26,610
from Other Corporations	1,245
Subsidiaries and Affiliates	
from Other Corporations	71,927
Eliminations/Other	(26,610)
McDERMOTT INTERNATIONAL, INC.	$ 73,172

RULE #46 - Other Miscellaneous Revenues

Net Gain on Asset Disposal	$ 7,210
Other Items - Net	3,480
McDERMOTT INTERNATIONAL, INC.	$ 10,690

RULE #51 - INVESTMENTS IN UNCONSOLIDATED AFFILIATES AT EQUITY

	(Unaudited) (In thousands)
Balance at 3/31/88	$ 36,285
Additional Investments	6,286
Equity Income	(16,600)
Dividends Received	(644)
Discontinued Operations	(342)
Other Changes	17,148
Balance at 3/31/89	$ 42,133

SIGNATURES OF THE REGISTRANT

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on June 2, 1989.

McDERMOTT INTERNATIONAL, INC.
(Registrant)

By: s/Robert E. Howson
Robert E. Howson
Chairman of the Board and
Chief Executive Officer

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

By: s/Edmund A. Robidoux
Edmund A. Robidoux
Vice President and Controller

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 June 2, 1989.

s/Thomas D. Barrow
Thomas D. Barrow
Director

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

s/James A. Hunt
James A. Hunt
Director

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

s/J. Howard Macdonald
J. Howard Macdonald
Director

s/John A. Morgan
John A. Morgan
Director

s/William T. Seawell
William T. Seawell
Director

s/Walter B. Shaw
Walter B. Shaw
Director

s/Walter O. Spencer
Walter O. Spencer
Director

s/John B. Tweedy
John B. Tweedy
Director

Common Stock Transfer Agents and Registrars

First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007-2192

and

Banco General, S.A.
Apartado Postal 4592
Panama 5, Panama
(Appointment Pending)

- Common Stock of McDermott International, Inc.

Preferred Stock Transfer Agent and Registrar

First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007-2192

- Series A $2.20 Cumulative Convertible Preferred Stock of McDermott Incorporated
- Series B $2.60 Cumulative Preferred Stock of McDermott Incorporated

Trustees and Agents

United States Trust Company
of New York
Attention: Corporate Trust Department
45 Wall Street
New York, New York 10005

- 10.25% Notes Due June 1, 1995
- 9.625% Debentures Due March 15, 2004
- 10.20% Sinking Fund Debentures Due December 1, 1999
- Floating Rate Notes Due March 1992

The Bank of New York
Attention: Corporate Trust
Trustee Administration
21 West Street
New York, New York 10286

- 12.25% Senior Subordinated Notes Due June 1, 1998

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

- 10.00% Subordinated Debentures Due April 1, 2003
- Warrants to purchase Common Stock of McDermott International, Inc.

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

- Rights to purchase Common Stock of McDermott International, Inc.

Pittsburgh National Bank
Post Office Box 340747
Pittsburgh, Pennsylvania 15230

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

Deutsche Bank Aktiengesellschaft
Taunusanlage 12
D-6000 Frankfurt am Main 1
Federal Republic of Germany

- 6.50% Deutsche Mark Bearer Bonds Due July 1, 1991

Independent Public Accountants

Arthur Young & Company
1340 Poydras Street
New Orleans, Louisiana 70112
(504) 581-3131

Annual Meeting

The Annual Meeting of the Stockholders of McDermott International, Inc. for the fiscal year ended March 31, 1989, will be held at the Omni Royal Orleans Hotel, New Orleans, Louisiana on Tuesday, August 8, 1989, at 9:30 a.m. local time.

Information

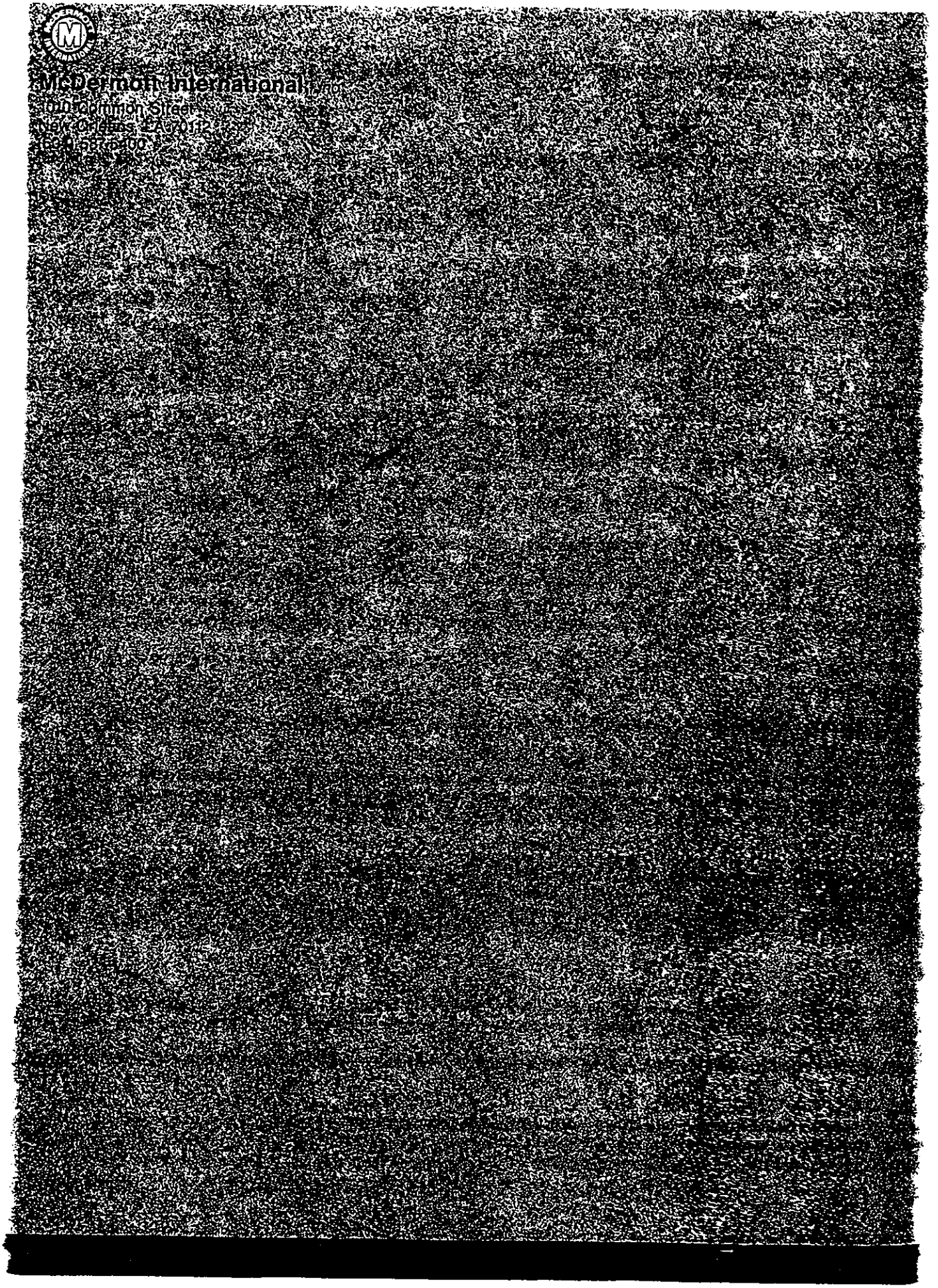
Additional information about the Company, including financial statement schedules and exhibits to the Annual Report to shareholders on Form 10-K for the fiscal year ended March 31, 1989, may be obtained, without charge, by writing:
Corporate Secretary
McDermott International, Inc.
1010 Common Street
New Orleans, Louisiana 70112
(504) 587-5400

Inquiries regarding stockholder account matters should be addressed to:
First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007-2192
(212) 587-6515

The use in this Report of the term International refers solely to McDermott International, Inc., a Panama corporation. Unless the context otherwise requires, the use of the term Delaware Company refers to McDermott Incorporated, a Delaware corporation, and its consolidated subsidiaries. The use of such terms as McDermott International, company, division, organization, joint venture, we, us, our and its, when referring either to McDermott International, Inc. and its consolidated subsidiaries or to subsidiaries and non-subsidiaries either individually or collectively, is only for convenience and is not intended to describe legal relationships. Significant subsidiaries of McDermott International, Inc. are listed as an exhibit to the Annual Report on Form 10-K of McDermott International, Inc. for the fiscal year ended March 31, 1989, as filed with the United States Securities and Exchange Commission.

The segments, units, divisions, and groups of McDermott International described in this Report are not corporate entities.

CRAY X-MP is a trademark of Cray Research, Inc.


McDermott International, Inc.
1000 Common Street
New Orleans, LA 70112
(504) 587-5400