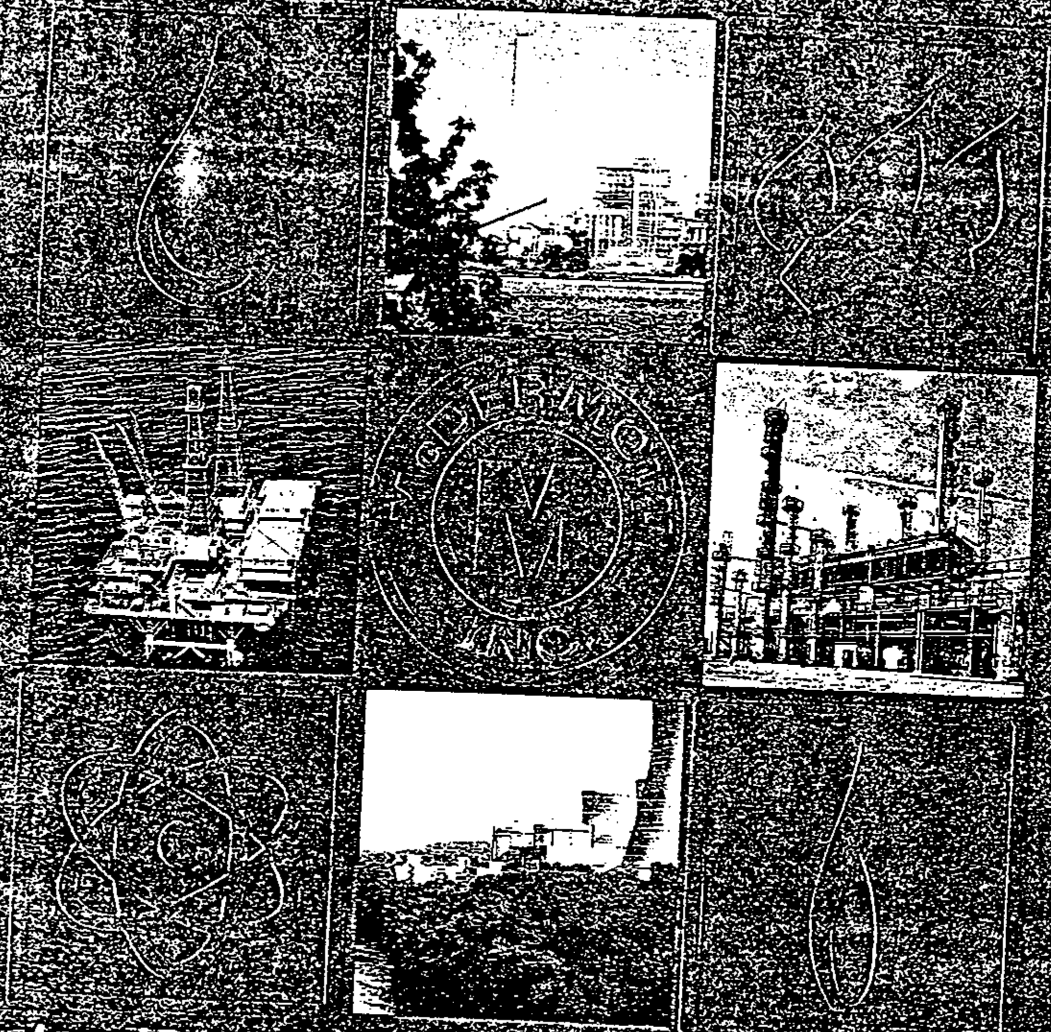
PLAINTIFF'S EXHIBIT

J. RAY McDERMOTT & CO., INC.



Annual Report For The Fiscal Year Ended March 31, 1979

J. RAY McDERMOTT & CO., INC. *An Energy Services Company*

Serving Offshore Oil and Gas Companies

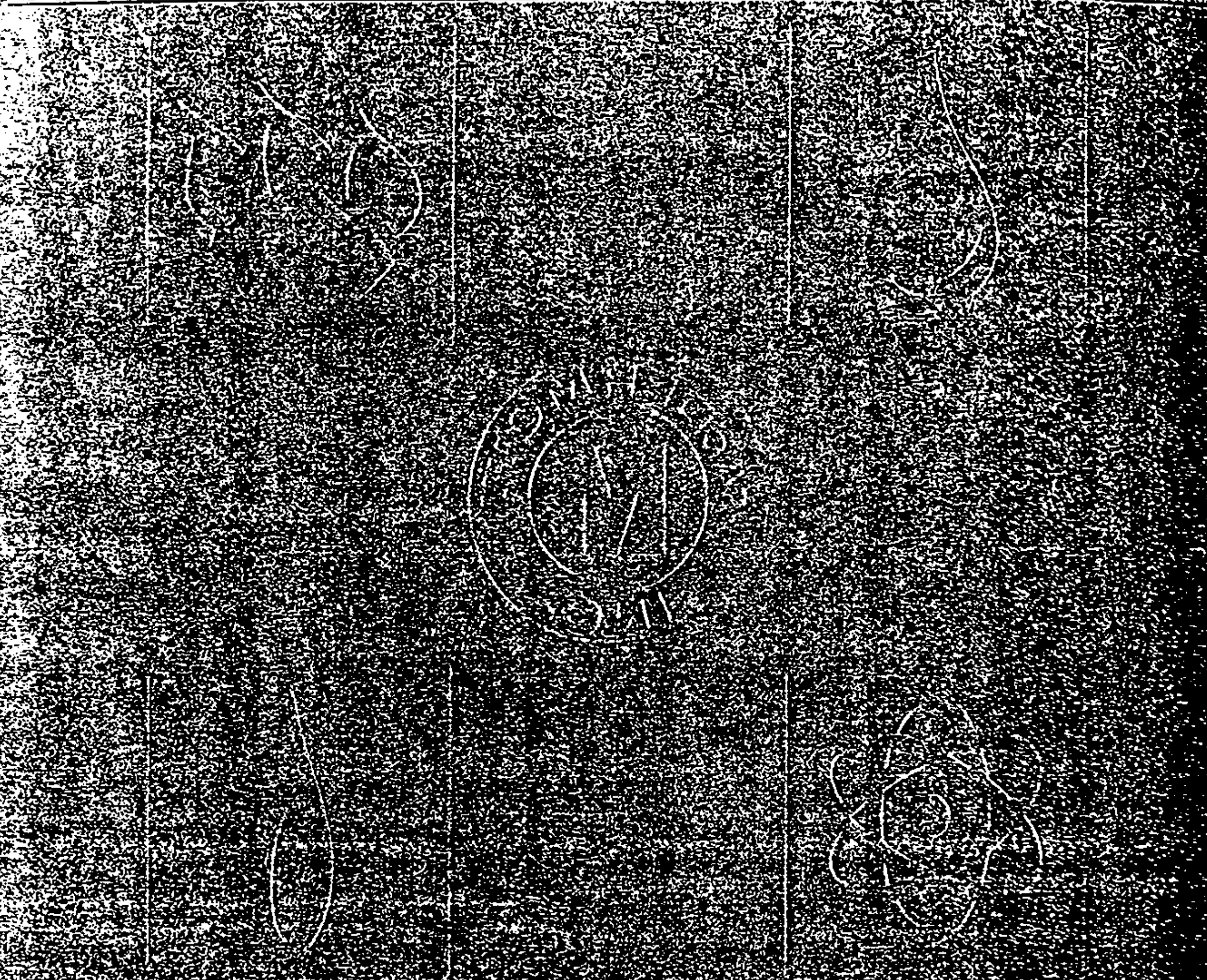
The McDermott Operating Unit provides a range of engineering and construction services to enable the discoverer of an offshore oil or gas field anywhere in the world to bring the field into production. Services include the designing and building of offshore drilling and production platforms, the laying of subsea pipelines, and a variety of ancillary services.

Serving Electrical Power Generating Companies

The Babcock & Wilcox Operating Unit provides a range of engineered and highly technical manufactured products and construction services to enable utilities to produce steam to generate electricity from nuclear- and fossil-fueled power plants. Principal products and services include building steam generating systems along with automated control systems and pollution control equipment such as [illegible] sulfur dioxide removal systems, [illegible] heaters and fans.

Serving Other Industries

Other McDermott [illegible] include the manufacture of special[illegible] tubing for the oil and gas [illegible] and other industries, the building of medium-sized and small boilers for a range of industries, and the [illegible] and construction of processing [illegible] largely for the oil and chemical ind[illegible]



Cover:

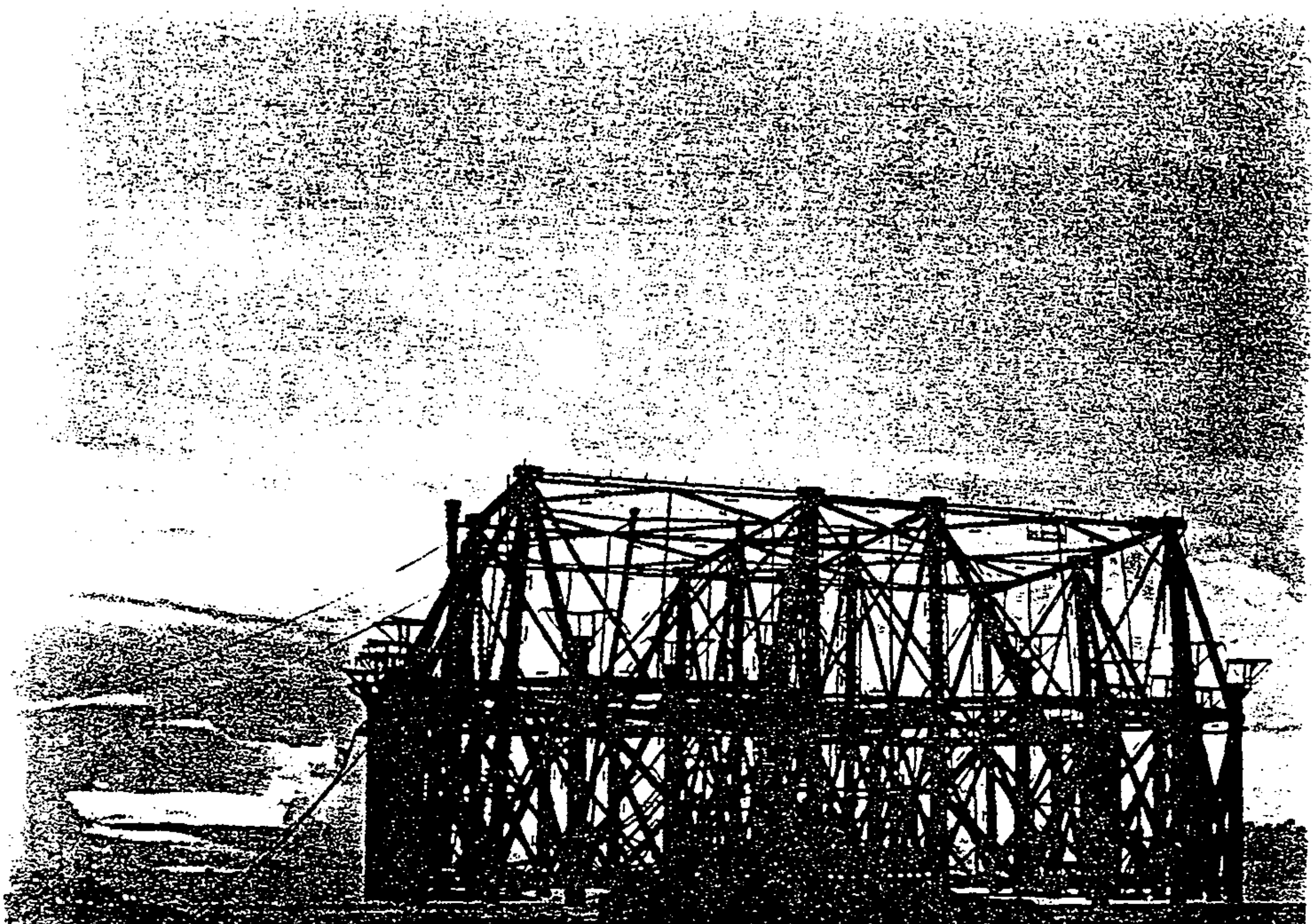
The interrelationship of symbols of energy (clockwise, upper right) Coal, Natural Gas, Nuclear and Oil [illegible] the four primary sources of energy used by man today. McDermott is totally committed to and actively involved in each of these sources. (clockwise, top center) a coal-fired utility plant, [illegible] processing plant, Three Mile Island nuclear power utility plant, and the [illegible] production platform, Cognac.

Form 10-K

A copy of the Annual Report to the Securities and Exchange Commission (Form 10-K) may be obtained without charge by writing Vice President, Public Affairs, J. Ray McDermott & Co., Inc., Post Office Box 60035, New Orleans, Louisiana 70160.

Annual Meeting

The Annual Meeting of the Stock[illegible] of J. Ray McDermott [illegible] fiscal year ended [illegible] held at the [illegible] Fairmont Hotel, [illegible] Orleans, Louisiana [illegible]



J. Ray McDermott & Co., Inc. and Subsidiaries for the Fiscal Years Ended March 31, 1979 and 1978

Results at a Glance

In thousands of dollars except per share amounts and number of employees	1979	1978
Revenues	$3,144,564	$1,293,711
Operating income	182,050	197,768
Net income	92,957	159,092
Earnings per common and common-equivalent share:		
Primary	1.94	5.02
Fully diluted	1.92	4.92
Stockholders' equity per common share	27.09	26.15
Cash dividends	62,427	28,571
Cash dividends per common share	1.00	0.90
Working capital	871,829	819,718
Capital expenditures	131,026	84,975
Backlog	4,900,000	5,300,000
Number of employees including subcontract labor	61,000	59,000

The results of operations of B & W have been fully consolidated with those of the Company for fiscal 1979. The Company's share of B & W's earnings for 1978, in the amount of $20,364,000, is reflected on an equity basis in net income.

To Our Shareholders:

JAMES E. CUNNINGHAM
Vice Chairman of the Board and Chief Executive Officer

JOHN D. RITCHIE
Chairman of the Board

The past year tested the character and strength of J. Ray McDermott & Co., Inc., against forces of adversity and change. The Three Mile Island nuclear incident highlighted a year of uncommon problems and depressed markets. Earnings were down. Financial provisions were made, however, to offset the effects of several major problems on future results. At the same time, we made progressive changes, developed new opportunities, and realized significant achievements. In total, we remain a strong, versatile organization, well positioned to move forward in the service of energy-related industries.

Fiscal 1979 was the first year that McDermott and Babcock & Wilcox operated as one company. The McDermott and B & W staff functions have been consolidated at our New Orleans headquarters to improve organizational clarity and efficiency. Our combined skills enable us to serve diverse energy markets. Consistent with our strategy to broaden the Company's operating base, B & W's contribution to earnings helped compensate for the decline in McDermott's traditional marine construction business.

Three Mile Island — The unprecedented publicity of the Three Mile Island nuclear incident on March 28 has implied that Babcock & Wilcox designed and built the entire nuclear power plant. B & W supplied the nuclear steam system and fuel, which represent approximately 10 percent of the total cost of the Three Mile Island power plant. B & W's basic responsibilities were: to design and supply the components of the nuclear steam system and the reactor safety systems; to provide interface information to the engineering firm for the balance of the plant; and to provide support to the utility in obtaining a license from the Nuclear Regulatory Commission and in starting up the plant.

B & W personnel demonstrated technical excellence and dedication in helping our customer bring the Three Mile Island reactor to a stable condition. We, our customers, and the government are making an exhaustive investigation of the incident. We believe that others will conclude, as we have, that the B & W-supplied equipment operated as designed, except for a purchased pressure relief valve which did not re-seat. The system was designed to enable the operator to take corrective action for this condition.

It is probable that no significant core damage would have occurred if the automatically initiated emergency coolant flow had not been prematurely stopped by an operator. In fact, the nuclear system performed exceptionally well under the severe conditions imposed upon it.

Human reactions changed a minor equipment failure into a major incident. We believe the Three Mile Island incident has taught us all — equipment suppliers, utilities and regulatory authorities — a great deal about the importance of the human factor in plant operation. The immediate lessons learned will enable improvements in the man-machine interface, operator effectiveness and licensing requirements to make nuclear energy even safer.

We have also concluded that our liability from the Three Mile Island incident, if any, is not significant.

Antitrust — In December 1978, the Company and certain officers were charged with violating the Sherman Antitrust Act. Primary consideration was given to bringing these legal matters to a conclusion so that we can concentrate on the future. The Company subsequently pleaded nolo contendere to the charges and was fined $1 million. The officers, who were charged with additional offenses, entered pleas of nolo contendere and were sentenced accordingly.

We regret that events leading to these charges occurred and are taking every practicable action to prevent a recurrence. As previously indicated there is a possibility of civil suits claiming treble damages being instituted against the Company. The Company intends to attempt to resolve any such claims without litigation.

McDermott Operating Unit — Revenues and profits are down from recent years in marine and onshore construction. As we forecast last year, the market for offshore construction has remained spotty — generally strong in the Gulf of Mexico, but weak throughout most of the rest of the world. We have been passing through a low phase of a business cycle. The temporary surplus of worldwide oil producibility over demand in 1977 and 1978 tended to restrain oil prices and to discourage both oil companies and producing-country governments from pushing the development of promising discoveries. The construction capacity built by our industry during the peak demand years of 1975 and 1976 continues to exceed the demand for services. Consequently, we expect pressure on profit margins to continue through fiscal 1980.

The revolution in Iran and the cutback in Iranian production have altered the world situation. Supplies of oil are once again tight, as Americans are all too aware this summer. All the OPEC governments have been posting individual price increases and surcharges (above the April 1 OPEC price of $14.55 per barrel for "marker crude") with no consistent pattern. Because there is a sense of insecurity about the situation in the Middle East, we have seen no increase in the market for offshore construction.

Beyond the immediate future, we are confident of an upturn in the demand for platforms and subsea pipelines. There are strong indications that Saudi Arabia will take steps aimed at stabilizing world prices for crude oil — albeit at a level higher than the current official price. It also appears that President Carter is serious about permitting U. S. crude prices, as well as gas prices, to reach parity with world prices. Stability in these prices will improve the economics of developing new fields, both in the exporting countries and in those countries, such as the United States, which seek greater self-sufficiency in oil and gas supply, and by its effect on consumption, help bring worldwide supply and demand back into balance.

Offshore exploration drilling around the world has continued to increase to record levels. A large number of new rigs are under construction, and most are already under contract for use when they are completed. Historically, a high level of searching results in discoveries and leads to future offshore construction opportunities.

Activity remains strong in the Gulf of Mexico. Although exploration results off the Louisiana and Texas coasts have been poor recently, we anticipate increased interest in the licenses for untested deeper water areas due for bids during the next few years. With these areas becoming more attractive, McDermott will benefit from proven capability to fabricate and install deep water platforms.

Exploration in the British North Sea has turned up a number of fair-sized prospects. The discovering companies, however, have withheld development because of high taxes and the late Labor government's policy of giving a share of each field to the government-owned oil company. The economics of development have been no better than marginal, but prospects for these fields should improve with a Conservative government and higher world prices for oil.

In the rest of the world, the future appears particularly bright in South East Asia and West Africa. Longer-term, two of the most promising areas are China and Mexico. By invitation, McDermott representatives recently visited the People's Republic of China to discuss offshore construction opportunities, and we have formed a joint-venture company in Mexico. We look forward to major participation in both of these areas.

In summary, the overall market for marine construction has been at a relatively low level, but a recovery appears imminent in some areas. To improve our competitive position worldwide, we are reducing personnel and equipment where there is low market activity and consolidating these resources in areas of greater opportunity. A provision has been made in the accounts for restructuring and relocating the operations involved.

Babcock & Wilcox Operating Unit — The revenues of the B & W Operating Unit reached record levels, and, despite certain significant charges against income, B & W was the major contributor to the Company's operating results.

New orders by the U. S. electric utility industry have been at a low level for the past several years, primarily due to cost-induced conservation and a resultant decline in electricity demand growth and uncertainties caused by excessive government regulation and the lack of a national energy policy.

Despite the depressed market conditions, the fossil fuel operations of B & W's business had another record year in fiscal 1979, and work loads in B & W manufacturing facilities for utility boilers will remain at optimum levels through fiscal 1980. Last year, B & W captured more than 50 percent of the U. S. utility boiler market for the second successive year. In addition, B & W has been highly successful in other markets related to the base boiler business, such as environmental equipment and customer services.

The nuclear industry has suffered a lack of orders, as well as delays and cancellations for the past few years. Because of the low level of work at our facility in Mt. Vernon, Indiana, the manufacture of commercial nuclear equipment in the United States is being consolidated at the Barberton, Ohio, facility as part of an overall plan to ensure staying power in the nuclear business. Barberton provides a stable operating base with the flexibility to manufacture fossil, commercial nuclear and Navy nuclear products. Financial provisions have been made for the phasedown of the Mt. Vernon facility, which will be maintained in a standby condition.

Financial provisions have also been made for extensive steam generator repairs by B & W Canada. To date, B & W Canada has supplied all the steam generators for nuclear power plants that are in service in that country, and the performance record has been excellent. A change in the manufacturing process was made on some steam generators that are not yet in service, but had been delivered to customers. Recent shop and field inspections indicate that a distortion of tubes and tube support plates occurred during the final heat treatment of this group of steam generators. Repairs will be made either in the shops or in the field.

Management Changes — A number of important management changes were effected during the past year. The Board of Directors reluctantly accepted the resignation of C. L. Graves, Chairman of the Board and Chief Executive Officer of the Company, due to his medical problems. The Board extended its gratitude to him for his thirty-three years of unselfish dedication, leadership and wisdom. He will continue to serve as a Director of the Company.

John D. Ritchie, an outside Director, was elected Chairman of the Board. Mr. Ritchie is an energy consultant and a former President and Chief Executive Officer of Asiatic Petroleum Corporation (now Scallop Corporation).

J. E. Cunningham was elected Vice Chairman and Chief Executive Officer. Mr. Cunningham most recently was Vice Chairman, Finance and Administration.

Robert K. Richie continues as President and Chief Operating Officer of the McDermott Operating Unit, and George G. Zipf continues as President and Chief Operating Officer of the Babcock & Wilcox Operating Unit and Vice Chairman of the Board.

John A. Lynott was elected Executive Vice President and Chief Financial Officer. Walter M. Vannoy was elected Executive Vice President and Chief Administrative Officer. Louis M. Favret was elected Executive Vice President, Power Generation Group, Babcock & Wilcox, to replace Mr. Vannoy.

Kennedy J. Gilly was elected Corporate Secretary and will continue as Vice President and General Counsel of the Company.

We regret to report the death in April of Louis V. Sierra. In his thirty-one years of service to the Company, most recently as Corporate Secretary, he contributed greatly to the growth and working spirit of McDermott.

Raymond J. Cantwell, Senior Executive Vice President of Babcock & Wilcox, retired and resigned from the McDermott Board of Directors in March.

The Outlook — We emerge from a tough year well prepared for the future. Many of our problems are behind us; others are still ahead. An experienced management team is in place to meet this challenge. McDermott is strategically positioned throughout the world and ready to capitalize on opportunities that develop in diverse energy-related markets.

Lines forming at gasoline pumps bring our business close to home. Today, we are facing the realities of America's energy deficiencies. The United States uses more than 30 percent of the world's total energy production, and our energy resources are finite. To utilize these resources effectively, we need a diversity of energy supplies and balance in their application.

We do not have much oil and natural gas — only about 5 percent of the world's reserves. We must find and produce more oil and gas and use it judiciously.

We have abundant coal and nuclear energy. We must mine our coal and overcome environmental and transportation problems to use it effectively. We must continue to develop nuclear energy, including the breeder reactor, to use our uranium resources efficiently.

Lessons learned at Three Mile Island will provide further assurance of the safety of nuclear power plants. We believe the ultimate conclusion of this incident will be public support of nuclear power, and we remain committed to this form of energy.

Our country has an energy problem, and whichever way we turn to solve this problem — whether it involves oil, gas, coal or nuclear — J. Ray McDermott will participate in the solution. This is the inherent strength of your Company. We build platforms and pipelines for oil and gas production; we build steam generating plants that use all types of fuel, for electric power production and industrial application.

We plan to build on the inherent strength of the Company and become even more versatile. The acquisition of Babcock & Wilcox has proved to be a strategically sound diversification. As stated last year, we continue to explore new opportunities for further growth through diversification.

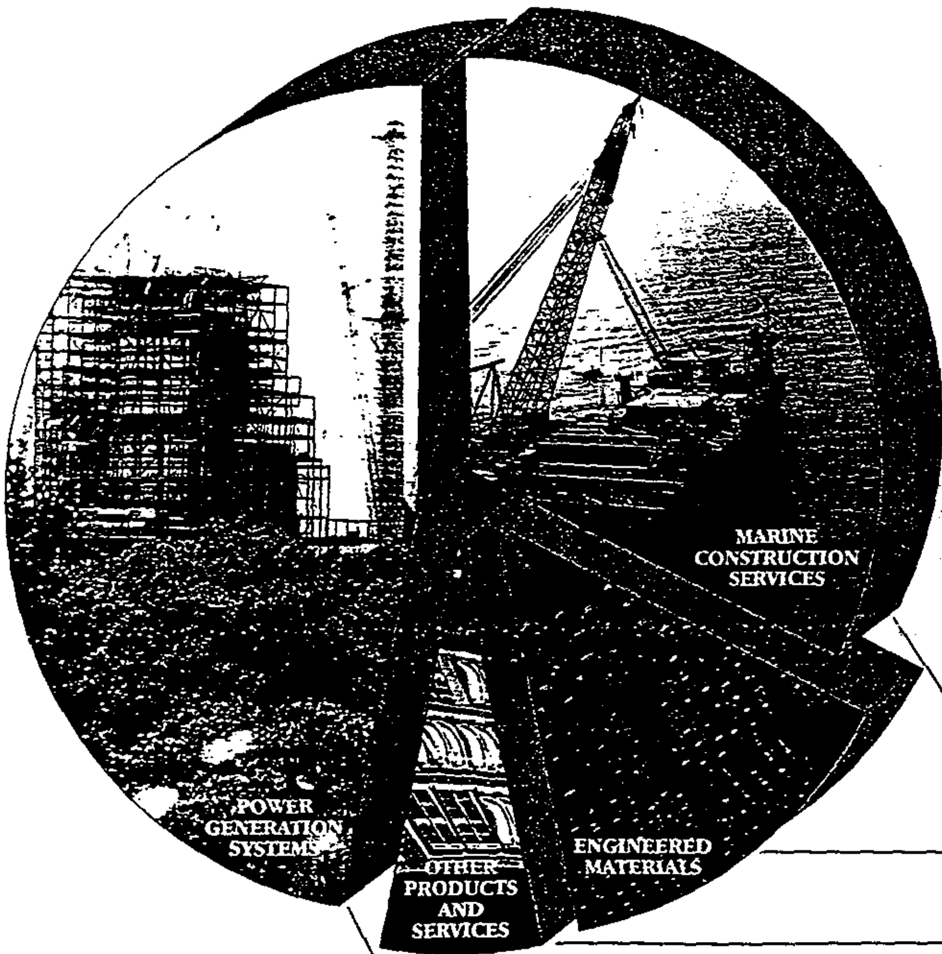
We appreciate the loyalty of our shareholders who have supported us through an unusually trying period. We also want to express our appreciation and commendation to all employees of J. Ray McDermott for a job well done in a year of exceptional demands. Our sixty thousand employees — their knowledge, skill and dedication — are our most important asset and the foundation of future success.

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

John D. Ritchie
Chairman of the Board

The Year In Review

During the past fiscal year our operating units had many significant accomplishments that demonstrate the Company's ability to serve diverse energy-related markets. Although most major markets remained depressed, we received a number of important new orders that will provide a base workload for future years. In addition, there are signals of an upturn in some of our markets. We also continued to participate in research and development projects that will ensure our maintaining a position of technological leadership.



Revenues

For Fiscal Year Ended March 31, 1979

1.011 Billion (32%)

509 Million (16%)

161 Million (5%)

1.463 Billion (47%)

TOTAL 3.144 Billion (100%)

United States — Activity in the Gulf of Mexico has continued at a high rate, and our Morgan City and Harvey yards have been working at or near capacity. Slowdowns in other parts of the world, however, have led to an influx of foreign offshore construction equipment. Despite the increased competition, several developments indicate that McDermott's position remains strong.

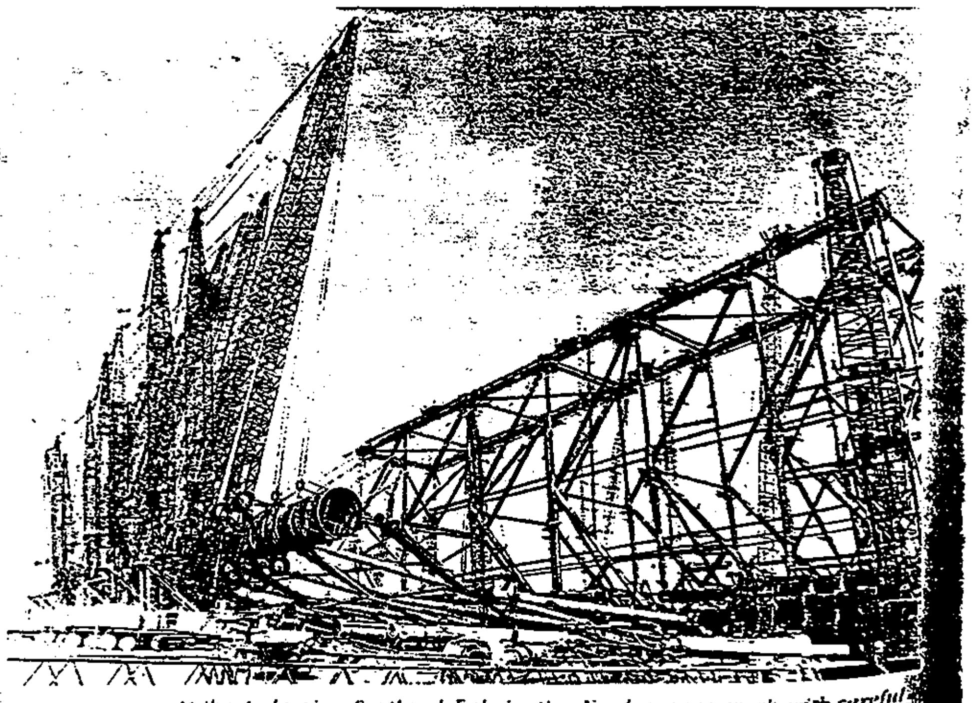
Last summer, after four years of planning and hard work, we completed and installed the Cognac platform in 1,025 feet of water in the Gulf of Mexico. This is the world's tallest and heaviest steel platform. Both the fabrication and installation were among the most challenging projects that we have ever undertaken.

Because the platform was built in three sections, sophisticated measuring devices were needed to meet the close tolerances necessary for fitting the sections together. Extensive coordination was required of the huge cranes that lifted the sections, and at times welders worked at heights of more than thirty stories. For installation, underwater cameras and pile drivers, sonar beacons, and an elaborate mooring system were all utilized.

The job was completed ahead of schedule, and drilling of its 62 wells has already begun. In May 1979 McDermott's Marine Pipeline Division laid Cognac's 23 1/2-mile-long line. Although this line was laid in 1,000 feet of water — the deepest water ever for a pipeline that originates from a producing structure — we were able to lay almost 2 miles of pipe each day.

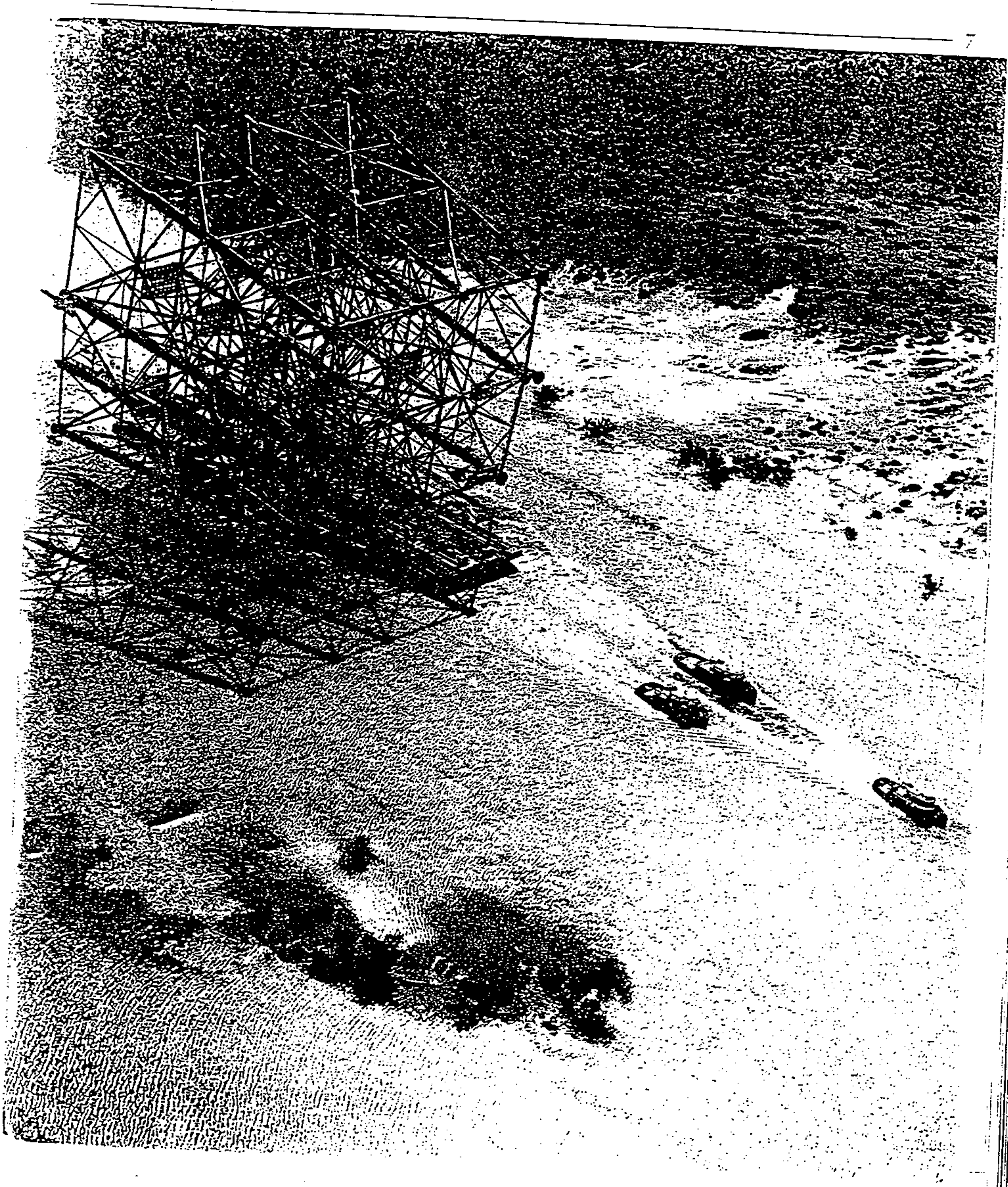
Since the installation of the Cognac platform, McDermott has received a contract for design, fabrication, and installation of a 968-foot jacket to be placed in the East Breaks field of the Gulf of Mexico in 1981. The jacket will be second only to Cognac in height and will be the tallest ever to be built and launched in one piece. It will have 40 well slots and weigh 20,000 tons. To tow the structure to location and launch it on site, McDermott will build a massive 650-foot-long launch barge. Expansion of the yard at Morgan City to accommodate fabrication has already begun. The new project, coming as it does close behind the Cognac job, affirms McDermott's leadership in the design and fabrication of the giant platforms that will be necessary for development of deep-water oil fields in the future.

ROBERT K. RICHIE
President and Chief Operating Officer, McDermott Operating Unit



At the Ardersier, Scotland, Fabrication Yard, cranes work with careful precision to lift a bent into position for the Murchison field jacket.

[illegible] middle section of the Cognac platform
[illegible] in 1,025 feet of water was towed to location
[illegible] installed in July.



Activity at the Morgan City and Harvey fabrication yards should continue at high levels as we have many substantial fabrication jobs of more conventional sized structures. To keep up with the demand for larger, more complex platforms, a new pipemill that can roll 4-1/2-inch steel was installed at Morgan City.

A high level of installation work has kept our derrick barges active. To meet the equipment competition in the Gulf, we are increasing the lifting capacity of two of our derrick barges from 600 to 800 tons and purchasing larger pile driving hammers. These improvements are relatively inexpensive, and will make the barges even more competitive with those that other companies have moved into the Gulf.

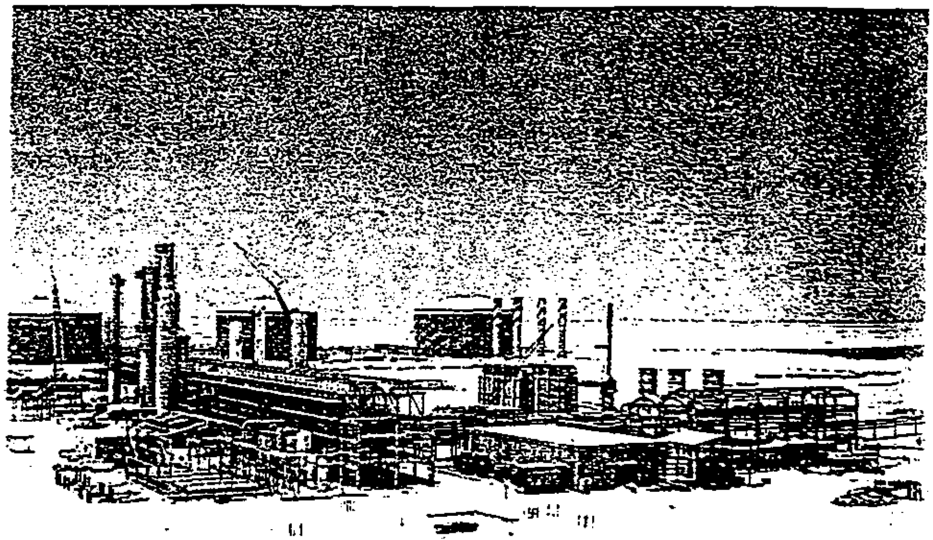
Despite keen competition in the Gulf, the Marine Pipeline Division was awarded a high percentage of the projects it bid last year. Less pipeline will be laid in the Gulf this year, but we expect to maintain our share of the market. At present the division has several projects under contract, including 40 miles of pipelaying for the High Island complex.

The Dredging and Inland Service divisions completed access canals for the Louisiana Offshore Oil Port, pipe ditches, bulkheads, and other work, mostly in the marshlands of Louisiana.

The Morgan City and New Iberia shipyards delivered eleven supply vessels and five tugboats, a self-contained drilling rig, and living quarters. Both yards expanded their facilities, and prospects are good for this fiscal year.

Onshore, several major projects were completed recently. These include a processing plant for treatment of sour natural gas and engineering and construction of a liquefied petroleum gas (LPG) onshore import terminal. The Company also is designing packaged power plants that use geothermal energy as fuel, is engineering solar heating units suitable for large buildings, and is studying the use of geothermal energy as a means of heating.

A separate Research and Development Unit was established to ensure that we will maintain our leadership in technological expertise in marine construction. The task of this organization is to assess and devise new technology (1) to keep McDermott first in serving the offshore oil industry and (2) to prepare the Company for developing resources from the sea other than oil.



The onshore portion of the "Dugas" production and storage facility is part of the largest turnkey project ever undertaken by the Company.

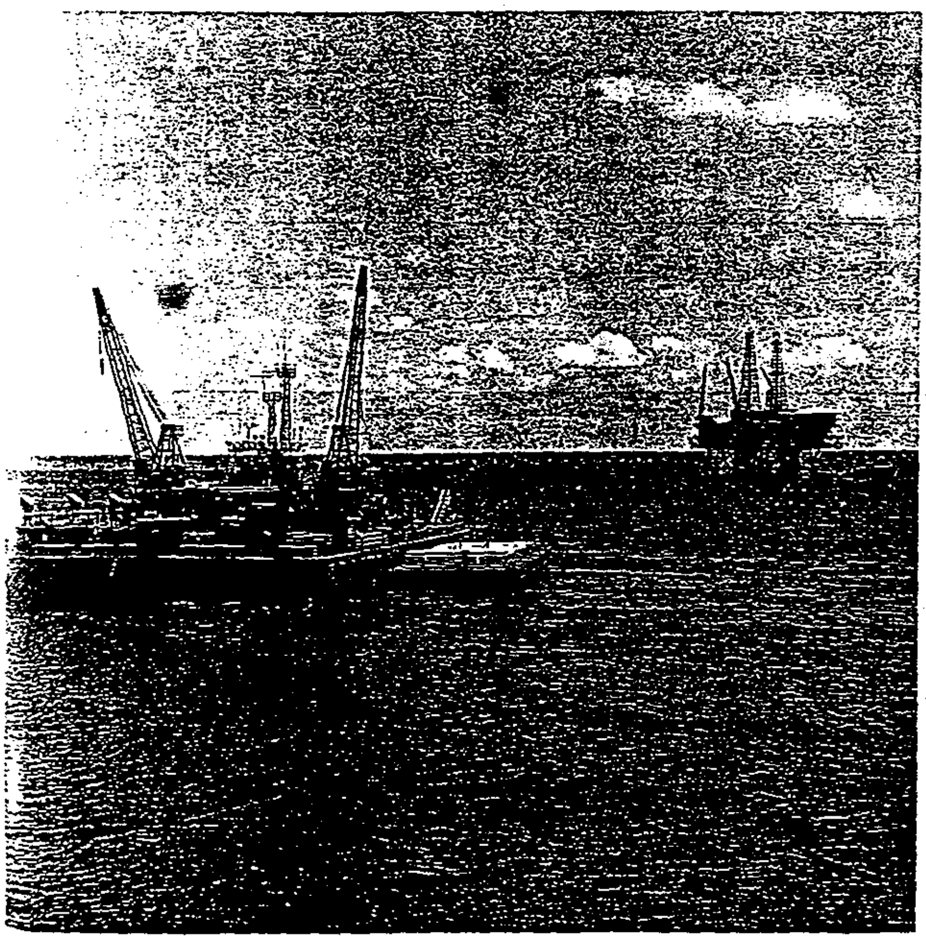
Among the resources that McDermott's engineers are studying are wave energy, undersea mining, geothermal energy from beneath the sea floor, and ocean thermal energy conversion (OTEC). All would require engineering, fabrication, and installation capabilities similar to ones McDermott now has. Geothermal energy, for example, which is heat from beneath the earth's surface, might involve only slight modification to existing platform designs. An OTEC plant, on the other hand, would be even larger than the platforms for 1,000 feet of water that we have already built. McDermott is working on conceptual studies for such a plant, but as yet OTEC remains an undeveloped technology. We believe that McDermott's expertise, equipment, and facilities will give us a natural advantage in helping to develop new energy resources in a marine environment.

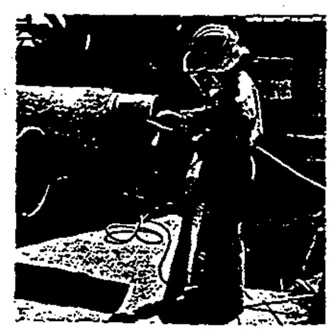
Mexico — A recent study indicates that proven reserves off the east coast of Mexico are more than 20 billion barrels. Thus, earlier in the year, McDermott formed a joint-venture company, Lan-Dermott, with a major supplier of diverse equipment to the Mexican oil industry. Lan-Dermott will design, manufacture, fabricate, assemble, repair, and market offshore oil and gas platforms, packaged offshore drilling rigs, production modules, and related products. The government of Mexico plans to develop its discoveries at a deliberate pace.

North Sea — Activity has been slowing for several years, in part because policies by governments of North Sea countries have created uncertainty about the economics of production. We are hopeful that the new Conservative government in the United Kingdom will provide a better climate for oil and gas development. Also, at the sixth round of bidding on North Sea tracts, more than 100 companies submitted 55 applications covering all 46 blocks, indicating that interest in the area is high. This should mean more work for the Company.

At present, the yard at Ardersier, Scotland, has three projects in progress. The largest is the fabrication and loadout of the 25,000-ton jacket for the Murchison field — so far the largest jacket ever assembled in one piece. The yard also has the

The Marine Pipeline Division set a new record when Lay Barge 29 installed a 12-inch pipeline in more than 1,000 feet of water in the Gulf of Mexico.





Murchison and the Fulmar platform pilings. Platform hook-up and maintenance work was a profitable activity this year and will provide future business opportunities.

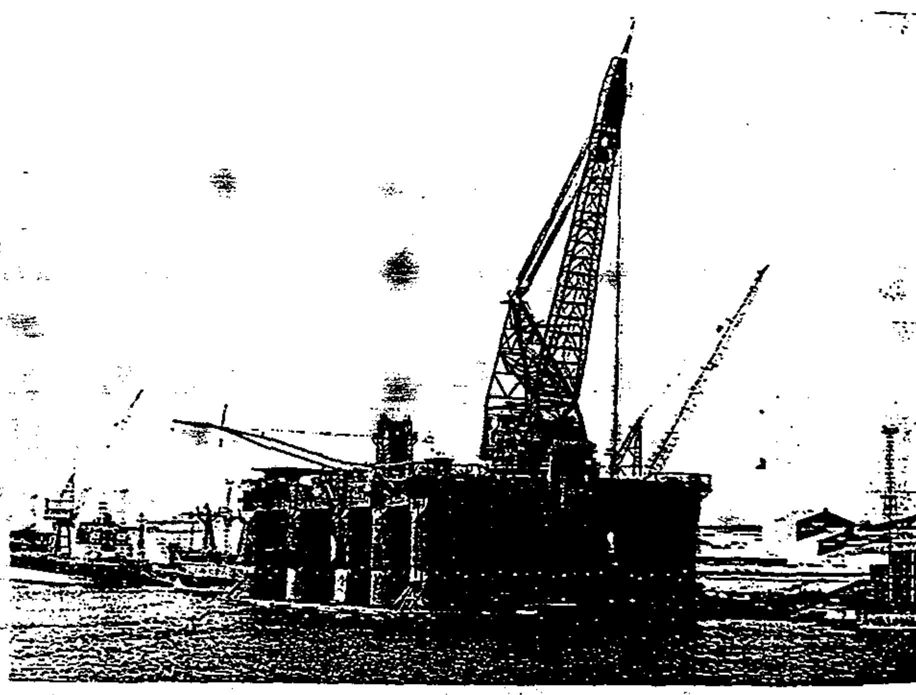
One unfortunate event was the loss overboard of Brazil's Petrobras jacket. The jacket was lost in heavy seas in the English Channel as it was being towed to its installation site off the Brazilian coast.

Recently, Derrick Barge 100 was completed. This new giant semi-submersible has a lift capacity of 2,000 tons and will improve our capabilities in heavy seas.

Middle East — The Middle East is active but not at a high level. The biggest project yet undertaken by us in the area is the "Dugas" onshore/offshore gas gathering and processing facility at Dubai in the United Arab Emirates. The Company provided engineering, fabrication, and installation for the project, which is designed to recover 100 million cubic feet per day of gas that had been flared. The gas will be collected offshore, compressed, and moved to shore by pipeline. There it will be processed, liquid petroleum gas (LPG) extracted, and the remainder used for an industrial plant.

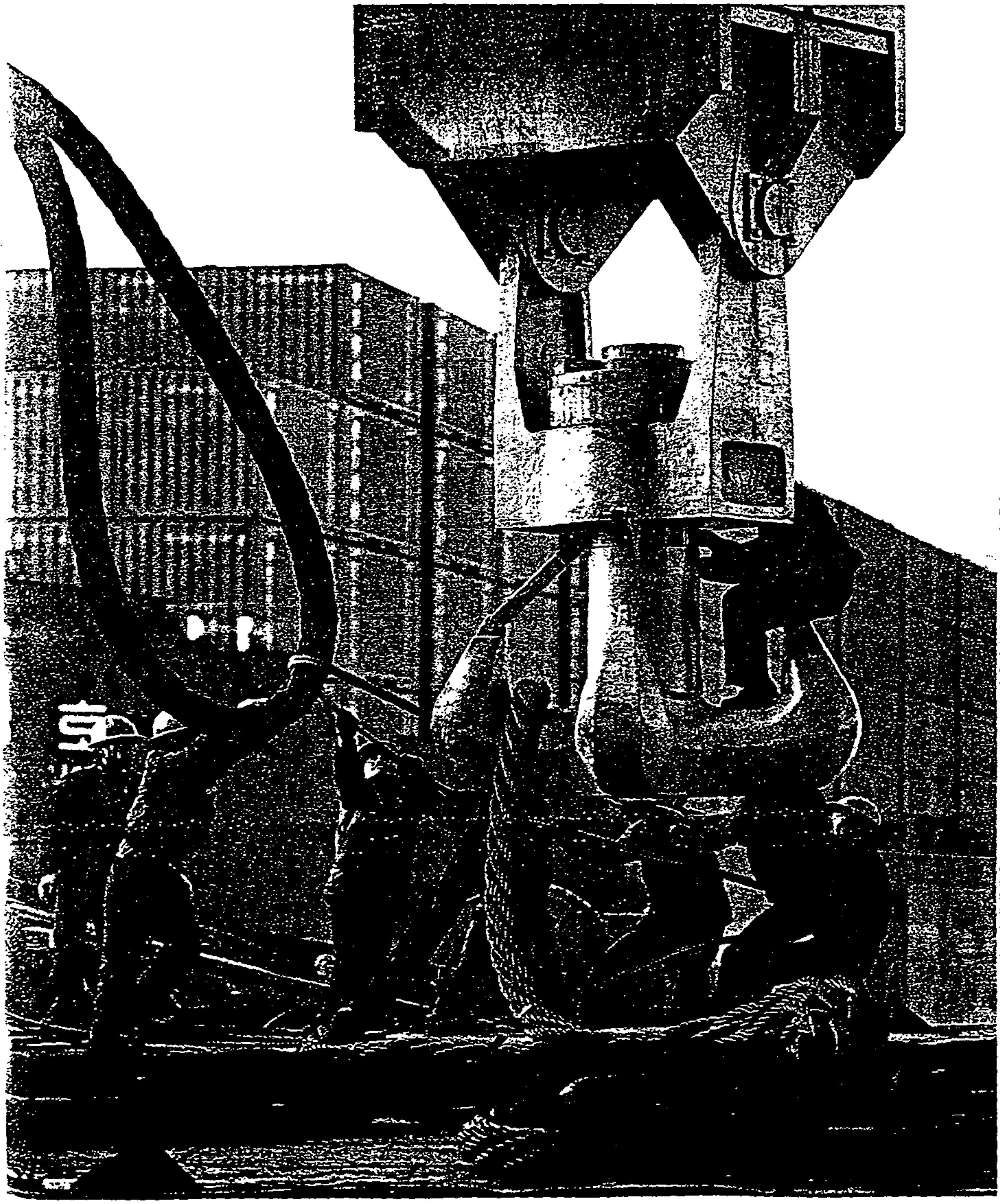
Another facility being built and installed is an LPG loading island situated in 80 feet of water at the end of a 6-mile-long causeway. This island will enable loading of propane and butane onto tankers of 25,000- to 200,000-ton capacity. The fabrication involves more than 12,000 tons of steel, and structures include four main jackets with six deck sections, piping, and complex electrical and instrument controls. The project is due to be completed later this year.

India is very active, and we recently were awarded two important jobs. The first is for design, procurement, fabrication, and installation of an eight-pile gas compression platform in the Bombay High North field. The Company also was successful in its bid for fabrication and installation of the Bombay High South complex, which will include a production platform, a drilling platform, and a flare structure. These turnkey projects also include pipelaying and hook-up work and will be completed next year along with the



The newest addition to the Company's fleet of offshore equipment is DB 100, a giant derrick barge capable of lifting 2,000 tons.

… overs attach steel cables to … Fdo's giant crane as they … pare the barge for lift tests.



other jobs in progress.

At present, we are building a facility in Egypt, the first phase of which is scheduled for completion in August. Although construction work is still in progress, the first jacket has been completed at this facility. The new facility is in an ideal location on the Gulf of Suez and will be expanded as the market requires.

South East Asia — The potential of South East Asia is great, and expectations for increased activity in the near future are high. At present, the amount of work is above last year's level. Among the areas with the most potential are the gas fields off Thailand and the Northwest Shelf of Australia.

The biggest project in fiscal '79 was the Conoco Udang platform. The eight-pile, 2,100-ton jacket was the largest ever fabricated in the area, and the job was completed in only five months. The drilling and production complex was installed in 303 feet of water in the South China Sea. At present smaller jackets are being fabricated at the Batam Yard.

In the Philippines, we are designing and building an onshore geothermal plant, which presents an interesting new challenge for the Company. For the Republic of the Philippines, a nation with few energy resources, the geothermal plant is a step toward a degree of energy self-sufficiency.

In the past, pipelaying jobs in South East Asia have been for small-diameter pipe and for short distances. Prospective jobs are larger and more complex. For example, we are laying 140 miles of pipe in the South China Sea. During the year, platforms will be installed and pipelines laid off Sarawak, Brunei, Sabah, Malaysia, and Indonesia.

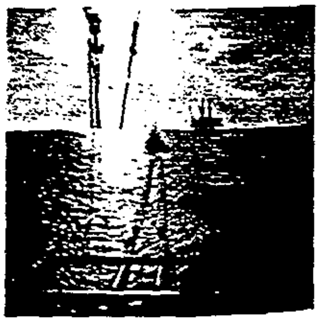
It now appears that the long-anticipated development of the Northwest Shelf of Australia will begin this year. Fifteen drilling rigs are in operation and so far have found mostly gas.

We are installing a platform in the Bass Strait for the development of the Snapper field.

West Africa, Central and South America — In West Africa, we are fabricating several platforms at the Warri Fabrication Yard and have installation and pipelaying jobs off of the coasts of Nigeria, Zaire, and Angola. There are more contracts in the area now than a year ago, and we foresee a number of prospects for the next several years.

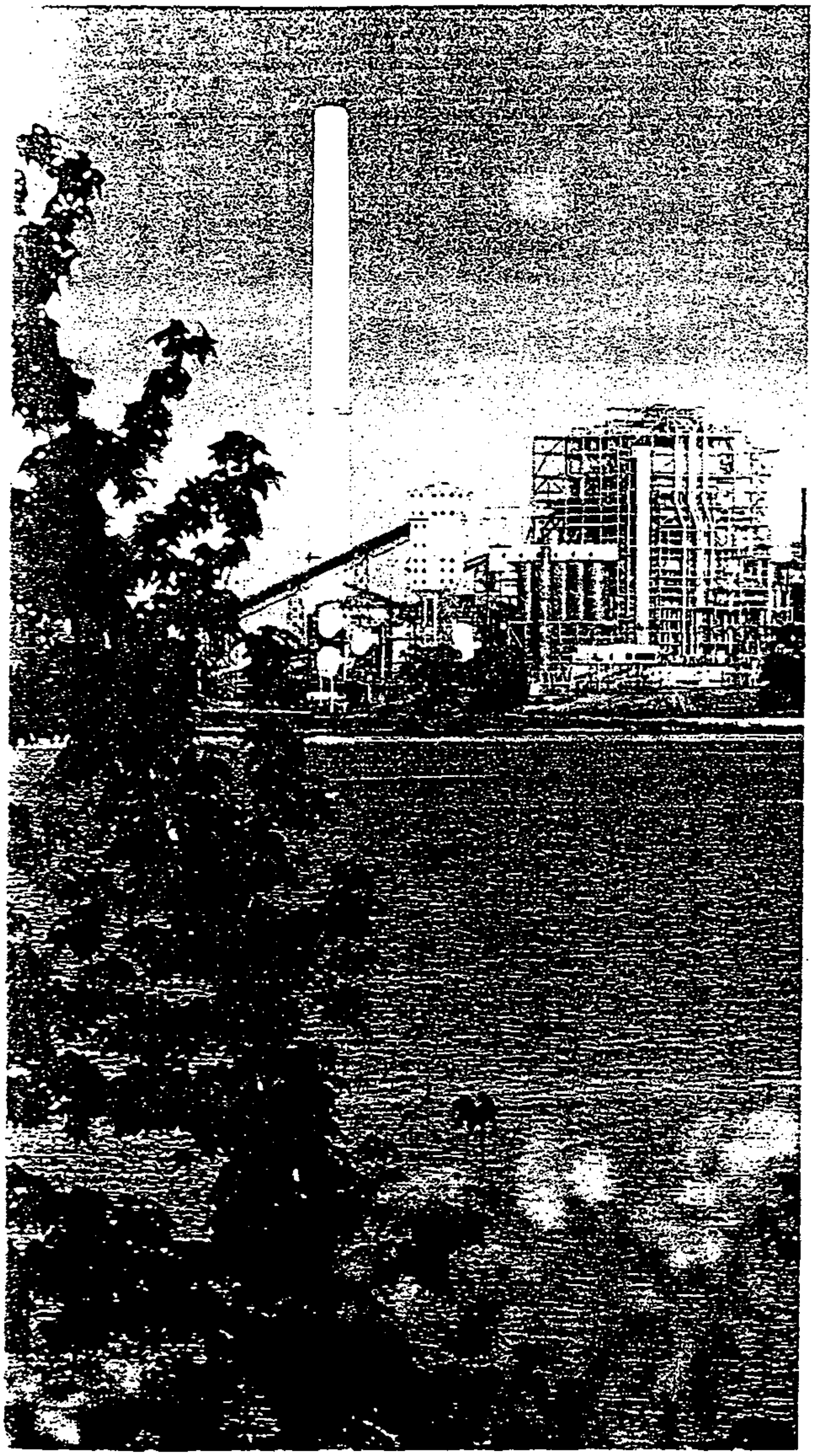
In Brazil, Petrobras recently announced the discovery of two more offshore fields, bringing the total to eight. We installed several platforms this year, and pipeline work should be available beginning in the 1981 or 1982 season.

In Venezuela, we recently completed a dual 38-inch pipeline from the mainland to Margarita Island. The 23-mile-long line will be used to supply the island with fresh water.



GEORGE G. ZIPF
Vice Chairman of the Board, President and Chief Operating Officer, Babcock & Wilcox Operating Unit

Power Generation Systems and Equipment— About three-fourths of the B & W Operating Unit's business is from the sale of power generation systems and equipment, with the electric utility industry alone providing about one-half of the business. The utility market is depressed and has been so for several years. However, extended scope of supply for power generation systems and services to operating plants has compensated for this decline.



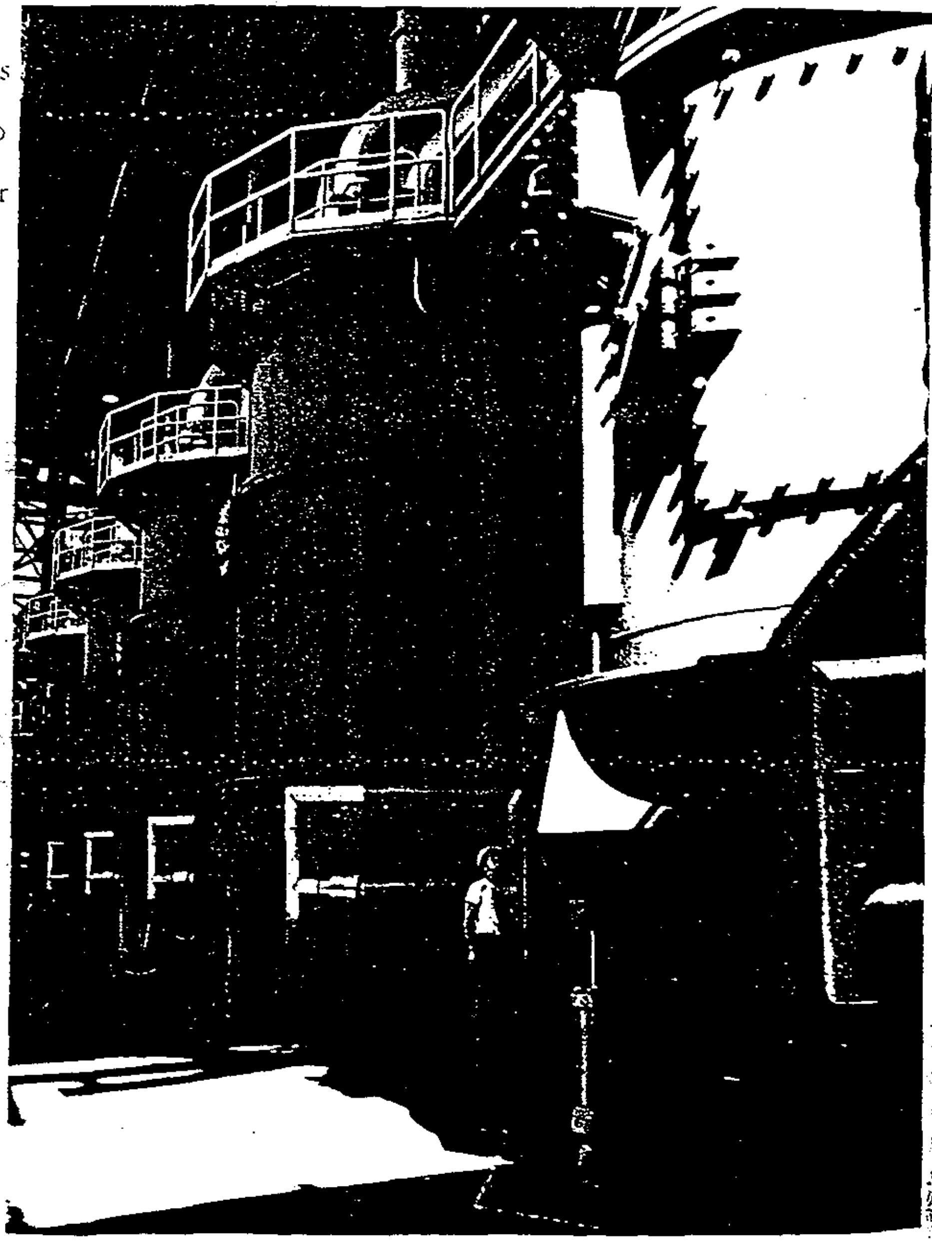
B & W built this 750-megawatt generating station, which is one of the first lignite-coal-fired units in the Southwest.

The Fossil Power Generation Division received the largest order in its history from Middle South Utilities of New Orleans. The contract is for six 750-megawatt coal-fired boilers valued at $250 million. We also received a contract for a 540-megawatt, coal-fired boiler from Cajun Electric Power Cooperative, Inc., of New Roads, Louisiana.

Among the other important orders for coal-fired radiant boilers were a letter of intent for a 470-megawatt unit from Colorado Ute Electric Association and a contract for a 364-megawatt unit for Lakeland, Florida. The Lakeland contract for $35 million includes the unit's air heaters, precipitators, and a system that removes sulfur dioxide.

The 14,400 megawatts of boiler capacity ordered this year by the U.S. utility industry was an improvement over the 13,000 of the year before. Still, the figure is far below the megawatts per year that were ordered in the early 1970's. Because of the decline in the U.S. market, B & W is making a stronger thrust in the international market. A recent success was a contract for five oil- and gas-fired, 190-megawatt radiant boilers for the Middle East.

B & W has been highly successful



Our MPS coal pulverizers have gained wide acceptance among electric utilities: more than 600 units have been sold worldwide.

in other markets related to the base boiler business: extended scope of supply products — airheaters, fans, and ash-handling equipment; environmental equipment — electrostatic precipitators, wet and dry scrubbers; customer services — replacement parts, engineered upgrades, alterations, in-service inspection and maintenance.

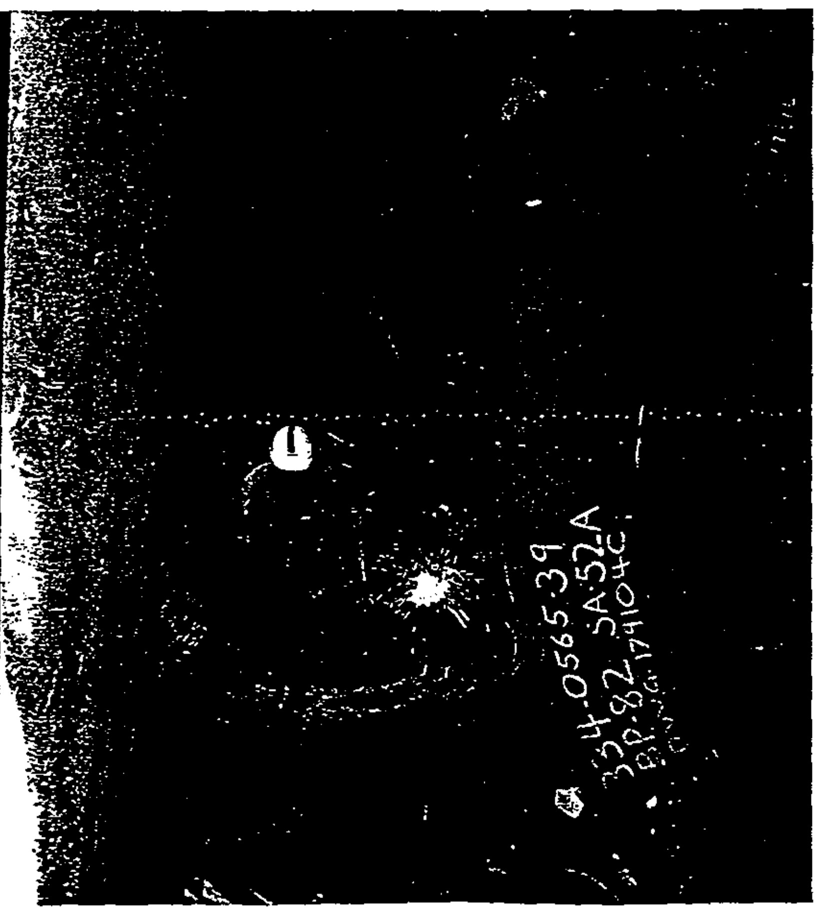
With the stricter air quality requirements now in effect, we can expect more orders for environmental equipment. Most new boilers will be required to have sulfur dioxide removal systems, and many old boilers will be retrofitted.

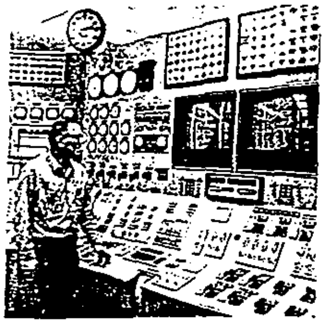
B & W has made significant progress in environmental quality systems based on extensive experience with operating units. For example, we recently received a $40 million order for an advanced flue-gas desulfurization system. The end product of the process is a dry powder rather than wet sludge, which facilitates disposal.

The extended scope of supply for B & W fossil steam systems provides additional sales for erection, controls and other auxiliary equipment.

TLT-Babcock, which makes heavy-duty fans and sound-abatement equipment for use by utilities and industry, made further progress during the past year. The company produced a large share of the fans sold to utilities and improved its share of the market for fans used by industry in such applications as

Through these pipes, pulverized coal is blown to the burner of a lignite-fired boiler.





mine ventilation and cement plant and steel mill processes. The company's first resonant silencers went into operation in the United States, and we believe this market has considerable growth potential. Sales last year were higher than in the previous year, and we expect the growth to continue.

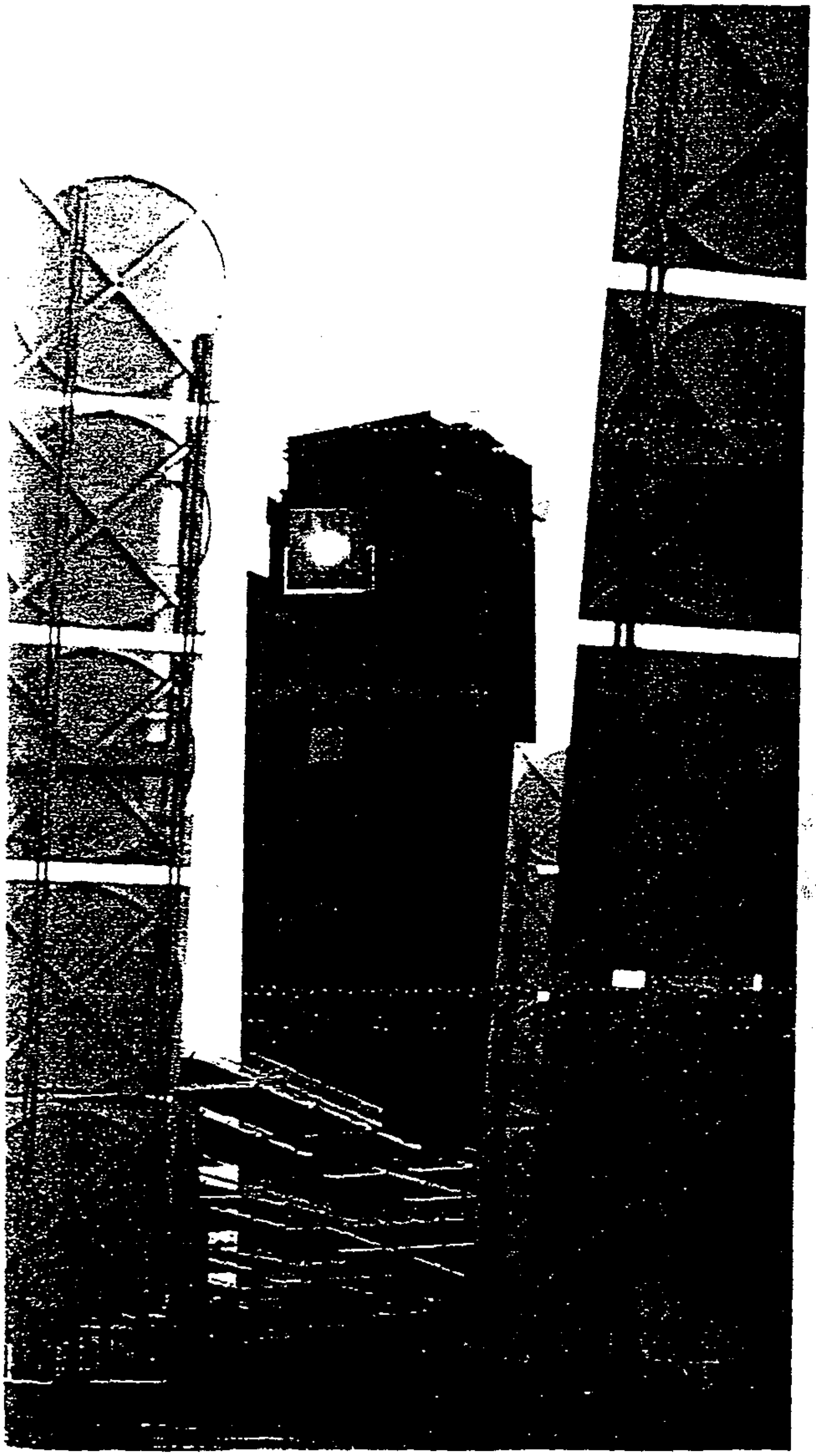
The Industrial and Marine Division captured 27 percent of the total domestic and international industrial and marine markets. I & M held or improved its share of the bookings in every product line. To compensate for reduced boiler sales, the division has improved its ability to provide a broad range of customer services, including the supply of replacement parts, fuel conversions, energy conservation equipment, and engineered improvements to boilers.

During the year, we were awarded all major process recovery boilers bought by the pulp and paper industry. In Akron, a refuse burning unit was completed and six refuse burning boilers were sold to Columbus, Ohio. The latter was the largest municipal order placed during the year and the largest order in the history of the division.

As the need for new steam generators has declined, the B & W Construction Company has expanded into related construction fields. Particularly, maintenance and upgrading of existing boilers continues at a high level as utilities stress improved performance and availability. Thus, this division had an outstanding year.

The reduced load growth, excess generating capacity, and financial pressures on the utility industry have resulted in continued delays and cancellations of nuclear steam system contracts, and few new orders are expected by the Nuclear Power Generation Division in the near term. Customer service has been an expandeding part of our nuclear utility business, and prospects for growth are good.

B & W's five-megawatt solar receiver, designed and tested for the U. S. Department of Energy, has exceeded expectations and has been delivered to the Sandia Laboratories Central Receiver Test Facility for more tests.

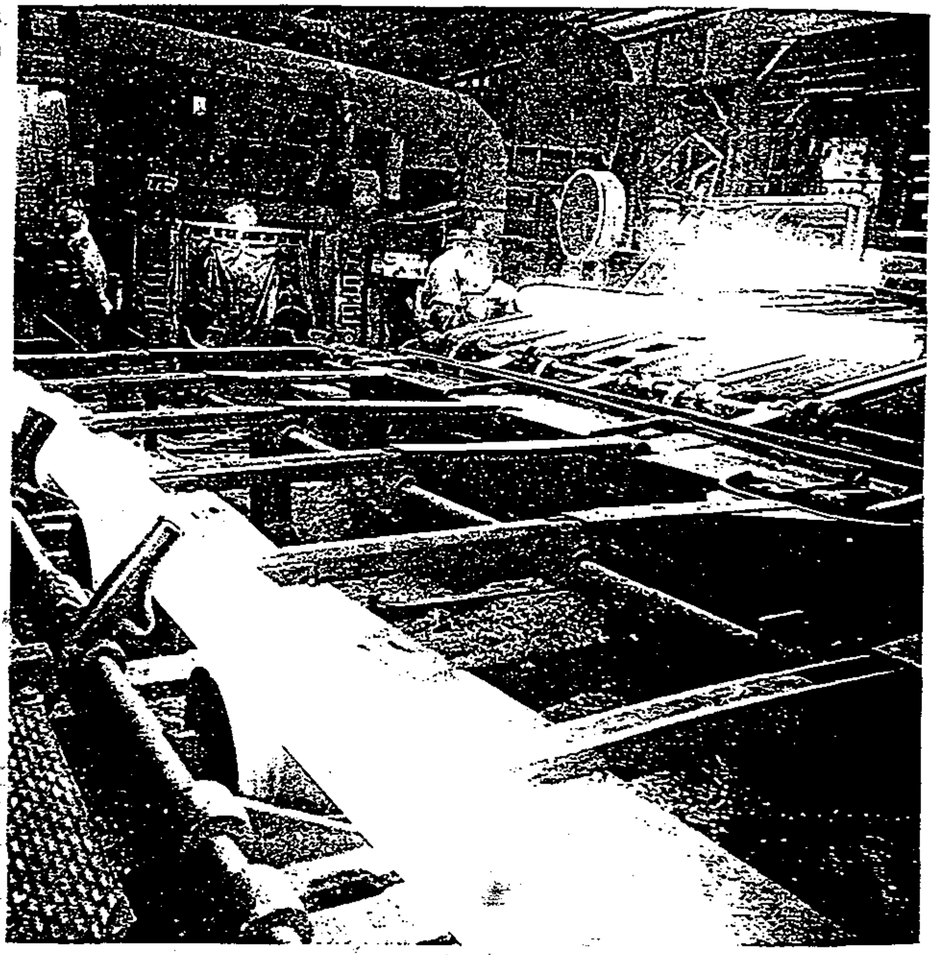


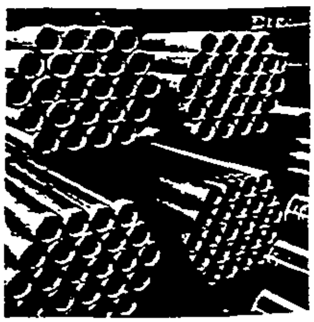
The nuclear fuel business continues to do well, as we supply reload fuel for the nine B & W units that are in operation, and we anticipate expansion as new units come on-line. The Nuclear Materials and Manufacturing Division, which supplies nuclear fuel for both commercial and government applications, had its best year ever in these operations.

The Naval Nuclear Fuel Division was awarded new orders, which maintained the division's substantial backlog.

The Nuclear Equipment Division, which supplies components for the Navy and for commercial nuclear power plants, was awarded a major share of the available business for the U.S. Navy's nuclear propulsion program. The division is expanding its activities in markets requiring similar equipment and expertise. The division is now designing and manufacturing the reactor vessel and several other components for the Clinch River Breeder Reactor plant, as well as designing and manufacturing a

Manufacture of specialty steel tubing is one of our fastest growing activities.

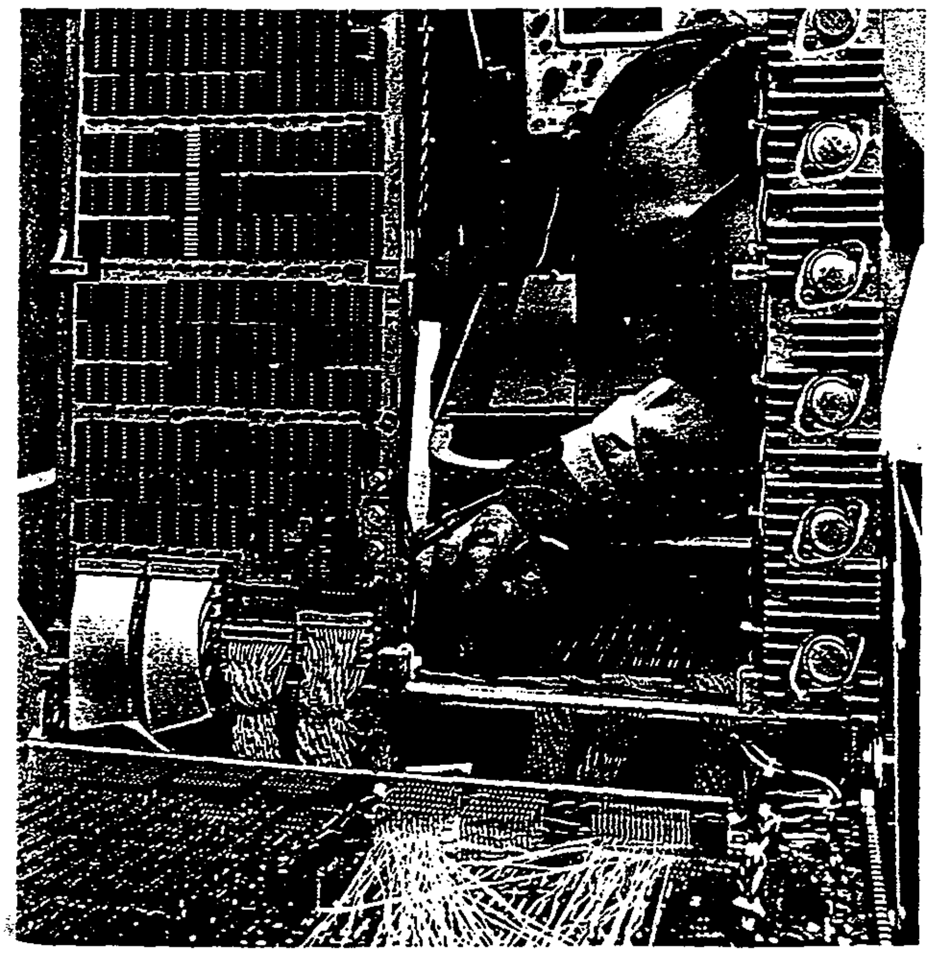




prototype of an advanced breeder reactor steam generator under a contract with the Department of Energy.

B & W Canada supplies both fossil and nuclear steam generating equipment for domestic and international markets. The market conditions in Canada parallel those in the United States for both utility and industrial steam generating equipment. Nevertheless, B & W Canada had a high level of bookings during the year, including new equipment, repair and alteration work on existing boilers, and an expanding customer service and replacement parts business. B & W Canada received two orders from Ontario Hydro — one for 16 nuclear steam generators and the other for two 200-megawatt coal-fired boilers. The combined value of these contracts is about $80 million.

Direct Digital Control system supplied by our Bailey Controls Company is installed in the control room of a utility power plant.



Bailey Controls Company received a record number of new orders during the year and considerably improved overall performance. The demand for Bailey's products and systems was strong here and overseas, where customers are ordering combustion control equipment at record rates.

The recent success is largely the result of new products such as the Model KA Pressure Transmitter and the 1055 Computer. During the fiscal year, the first shipments of the 1055 Computer were made and a significant backlog is now on order. This is one of the most powerful computers in the utility industry, and Bailey expects continued rapid sales. Bailey's Conserver Control System has been well received for use in industrial and chemical processes, where it provides significant fuel savings to such industries as steel, oil, chemical, and pulp and paper.

Diamond Power Specialty Corporation, which is the world's leading supplier of boiler cleaning equipment, had another in a long history of record years. Diamond's position has been enhanced by the trend toward coal-fired boilers and its technological leadership in developing advanced designs. Among the new products introduced this year was a retractable sootblower designed to clean heat exchangers for the petroleum, chemical, and other industries.

The industrial market for cleaning equipment is expected to grow — for new installations and for conversion from gas to oil or coal — while the replacement parts business is another large and growing market for Diamond's equipment.

Engineered Materials

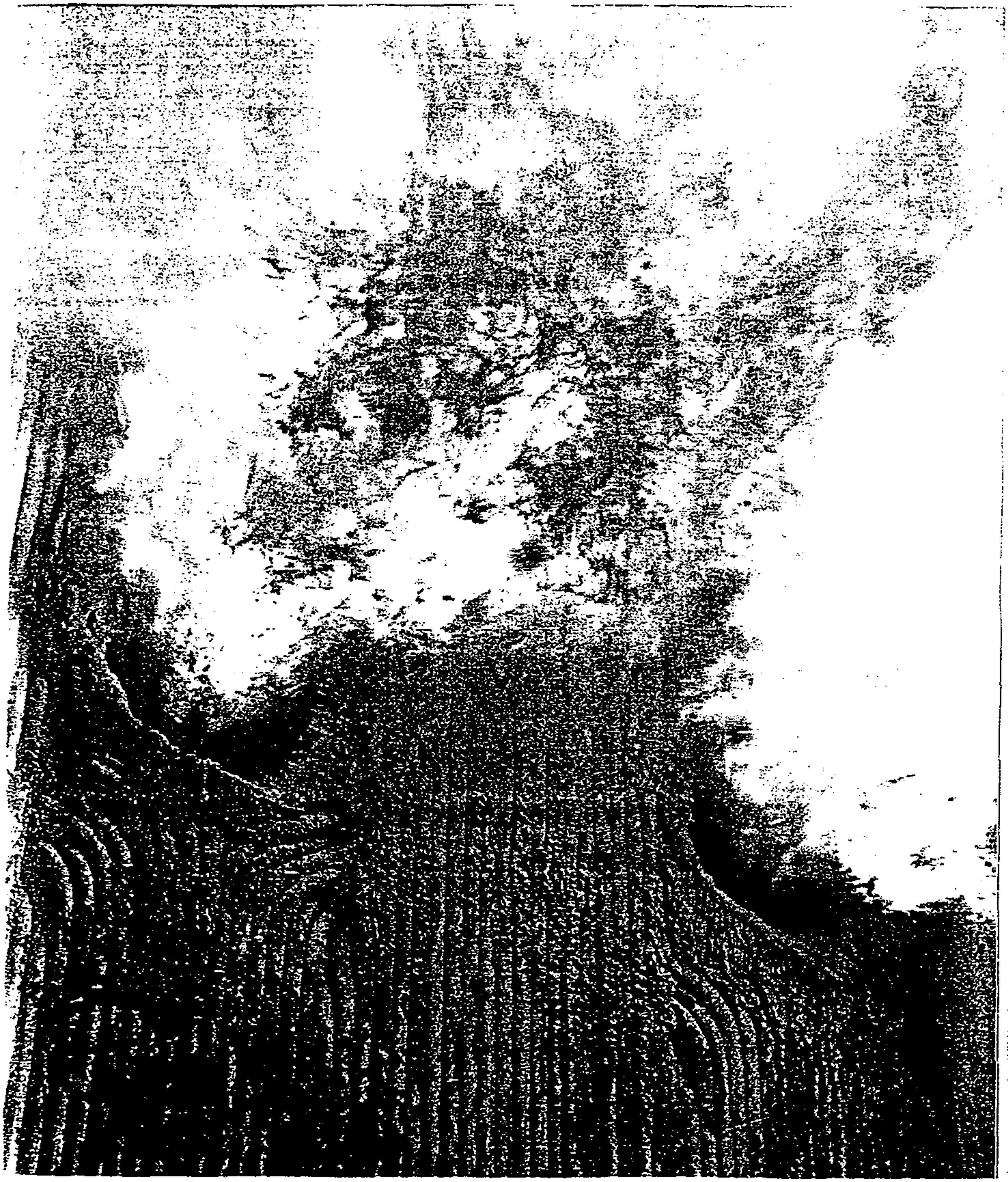
Improved manufacturing performance, modernization, expansion, and increased product demand at the Tubular Products Division led to nearly a 10 percent increase in tonnage shipments and a 25 percent increase in dollar shipments during the 1979 fiscal year.

Record volumes were achieved at the division's Alliance, Ohio, and Beaver Falls, Pennsylvania, facilities. The Alliance plant increased its tonnage shipments by more than 9 percent, and the Beaver Falls plant, which includes the new Ambridge operations, finished the year with more than a 15 percent increase in total volume.

The Ambridge hot mill — the heart of the new $70 million facility and one of the most advanced seamless-pipe mills in the world — nearly doubled the tube-piercing rate of a year ago. Oil well tubing shipments were at a record level.

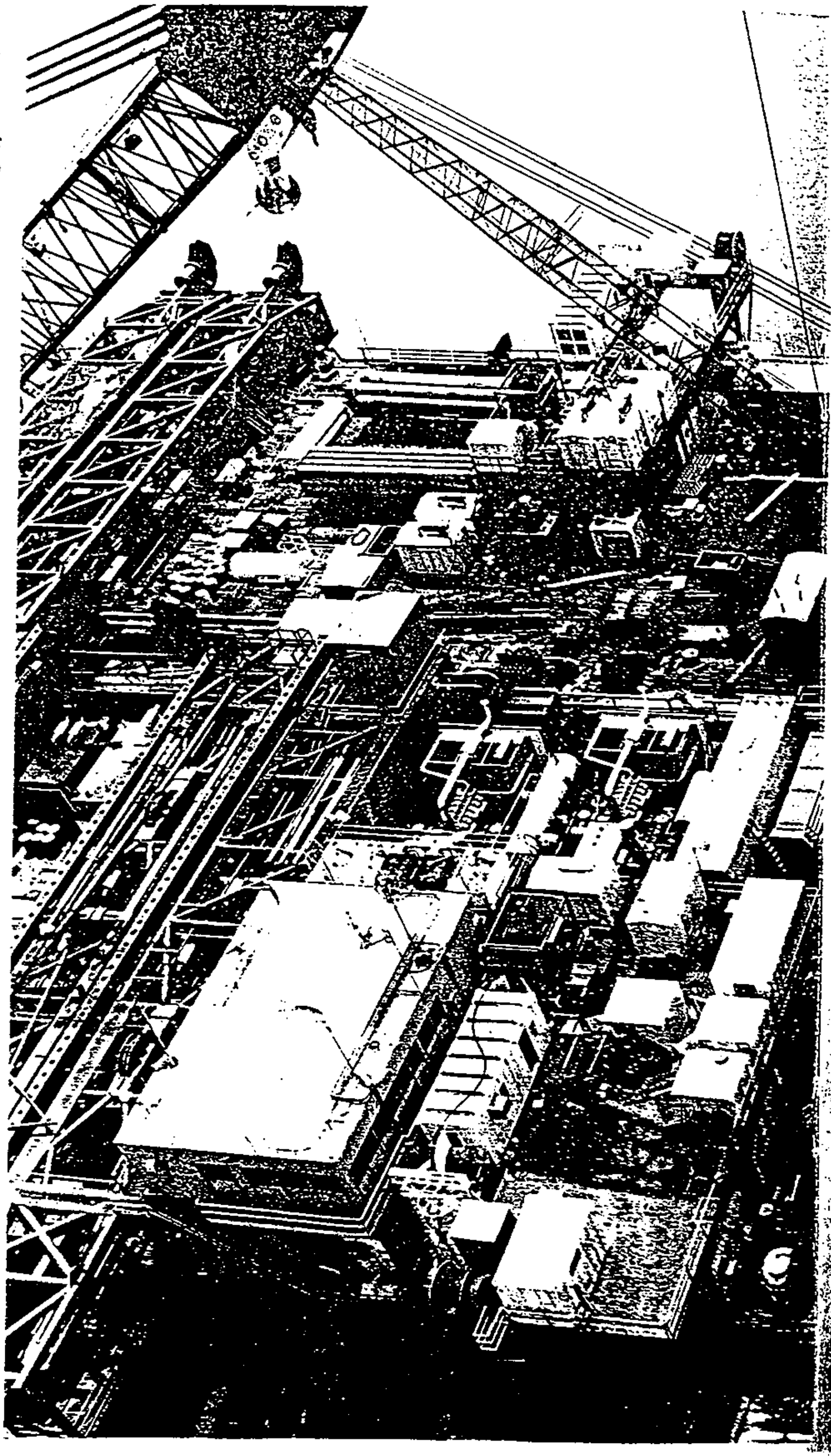
Shipments of large-diameter and heavy-wall welded products from the Alliance plant increased over last year's volume. At the Milwaukee plant, the modernization program was

he nation turns to greater use of its abundant coal resources to supply the ountry's electric energy needs, modern coal-fired power plants will play an ncreasingly important role. B & W manufactures the largest coal-fired team generating systems in the world.



The Beaver County Industrial Development Authority issued $17 million of 6.8 percent Pollution Control Revenue Bonds Due February 1, 2009. The debt service on the bonds is payable pursuant to a Pollution Control Financing Agreement between the Authority and the Company. The proceeds of this Issue will be used in constructing water treatment facilities at our Beaver Falls and Koppel, Pennsylvania, plants.

In fiscal 1979 dividends totaled $2.20 a share for the Series A Cumulative Convertible Preferred Stock, and $2.60 a share for the Series B Cumulative Preferred Stock. During the year the Common Share dividend rate was increased 11 percent over the $0.90 per share paid in fiscal 1978. On June 11, 1979, the Board of Directors voted to increase the regular quarterly Common Stock cash dividend 20 percent to $0.30 per share from $0.25 per share.



1979 VERSUS 1978

Revenues for the twelve months ended March 31, 1979, increased by $1,850,853,000 over those of the twelve months ended March 31, 1978. This increase is attributable to the revenues of The Babcock & Wilcox Company's (B&W) operations (power generation systems and equipment, engineered materials and other operations) in the amount of $2,047,025,000 which are fully consolidated for the first time in the twelve months ended March 31, 1979, offset by marine and onshore construction operations' revenues, which decreased by $196,172,000, largely as a result of a decrease in revenues from foreign operations of $170,286,000.

Costs and expenses for the twelve months ended March 31, 1979, increased by $1,866,571,000 over those of the twelve months ended March 31, 1978. Included in this increase were costs and expenses of $48,494,000 in connection with the relocation of certain operations of one of the Company's foreign areas and warranty and other related design and fabrication problems experienced in certain nuclear contracts. Of the total increase, $1,899,564,000 reflects the costs and expenses of the power generation systems and equipment, engineered materials and other operations, offset by costs and expenses of the marine and onshore construction operations which decreased by $32,993,000.

Costs and expenses of the power generation systems and equipment, engineered materials and other operations were 93% of related revenues for the twelve months ended March 31, 1979. Costs and expenses of the marine and onshore construction operations were 97% of related revenues for the twelve months ended March 31, 1979, as compared to 85% for the twelve months ended March 31, 1978, producing lower profit margins in both the North American and foreign areas of the marine and onshore construction operations. The continuation of the slowdown in worldwide hydrocarbon development in offshore areas has resulted in lower profit margins reflecting intense competition and a lower rate of utilization of the Company's equipment in substantially all of the Company's markets. The Company expects the rates of equipment utilization in the marine and onshore construction operations to be lower during fiscal year 1980 than in fiscal year 1979 and, as a result, such operations may not be profitable.

For the twelve months ended March 31, 1979, operating income from the marine and onshore construction operations was $34,589,000, as compared to $197,768,000 for the twelve months ended March 31, 1978, and operating income from the power generation systems and equipment, engineered materials and other operations was $147,461,000.

Interest income for the twelve months ended March 31, 1979, increased by $20,702,000 over that of the twleve months ended March 31, 1978. This increase results from the consolidation of interest income of the power generation systems and equipment, engineered materials and other operations along with changes relating to the interest bearing investments of the marine and onshore construction operations, as well as the interest rates thereon prevailing in the respective periods.

Interest expense for the twelve months ended March 31, 1979, increased $25,336,000 over that of the twelve months ended March 31, 1978. Approximately one-half of this increase is attributable to the consolidation of interest expense on debt carried by the power generation systems and equipment, engineered materials and other operations. The remaining increase is attributable to the additional borrowings related to the investment in B & W, new debt incurred during the current year and fluctuations in the revolving credit and term loan agreement, along with changes in the interest rates prevailing in the respective periods.

Equity in earnings of affiliated companies for the twelve months ended March 31, 1979 decreased $15,240,000 from that of the twelve months ended March 31, 1978. For the twelve months ended March 31, 1978, the Company reported its share of its equity in the net income of B & W in the amount of $20,364,000. The principal increase in the current twelve months' period, other than the equity income of the power generation systems and equipment, engineered materials and industrial products operations, was that of the equity in an unconsolidated affiliated company which began operations early in fiscal 1978.

Decrease in other income is due mainly to losses in translation of foreign currency for the twelve months ended March 31, 1979, versus gains in translation of foreign currency for the twelve months ended March 31, 1978. The remaining differences were attributable to a number of other factors including workmen's compensation retrospective adjustments, bad debt expense, royalties, and minority interest.

The provision for income taxes for the twelve months ended March 31, 1979, increased by $27,475,000 over that provided for the twelve months ended March 31, 1978. This increase is primarily due to the fact that a greater percentage of consolidated earnings were from domestic rather than foreign sources, and that certain foreign losses resulted in no tax benefits, resulting in an effective income tax rate of 54% for fiscal 1979 compared to 34% for fiscal 1978.

1978 VERSUS 1977

Revenues for the fiscal year ended March 31, 1978, increased $69,870,000 as compared to the fiscal year ended March 31, 1977. This increase marks the culmination of five years of extraordinary growth of worldwide hydrocarbon development in offshore areas, peaking in the third quarter of fiscal year 1978. Domestic revenues increased to an all-time high, while foreign revenues decreased.

Costs and expenses for the fiscal year ended March 31, 1978 were 85% of revenues as compared to 79% for the fiscal year ended March 31, 1977. This increase was attributable to lower utilization of Company-operated equipment, particularly in the North Sea, South East Asia and West Africa areas, resulting from a slowdown in offshore activity and increased competition in foreign markets.

Interest expense increased $10,730,000 principally as a result of the additional borrowings related to the investment in B & W.

The increase in equity in earnings of affiliated companies in the fiscal year 1978 is principally attributable to the Company's share of the earnings of B & W. The Company increased its investment to approximately 49% of B & W in September 1977, and its share of B & W's earnings has been accounted for on the equity method through March 31, 1978, at which time the Company acquired the remaining interest in B & W. The Company included its equity in the earnings of B & W as other income in the amount of $20,364,000.

Additional increases in other income were attributable to an increase in interest income of $12,300,000, consistent with changes in interest bearing investments as well as interest rates thereon, prevailing in the respective periods; further increases were attributable to a net gain on foreign currency translation of $12,400,000 as well as workmen's compensation premium adjustments, gains and losses on disposal of assets, royalty income, bad debt recoveries and inventory adjustments.

Domestic operations accounted for a greater proportion of income before provision for income taxes during fiscal year 1978 than was the case in the prior fiscal year. United States investment tax credits for fiscal year 1978 were less than those for the prior fiscal year. Also, a greater proportion of income before taxes attributable to foreign operations was generated in geopolitical areas subject to higher tax rates. Additionally, an income tax holiday applicable in fiscal year 1977 was not applicable in the fiscal year 1978. These combined factors increased the effective income tax rate for the fiscal year ended March 31, 1978, to 34% as compared to 27% for the fiscal year ended March 31, 1977, producing provisions for income taxes of $80,995,000 and $70,116,000, respectively.

Net income was increased for the fiscal year ending March 31, 1977 by an extraordinary item of $132,000 resulting from utilization of foreign tax benefits from an operating loss carryforward. There were no extraordinary items in fiscal year 1978.

MARKET PRICE OF VOTING STOCK

The Voting Stock of the Company is listed on the New York Stock Exchange (symbols MDE, MDEa, MDEb). The following table shows the reported high and low sales price of these securities on a quarterly basis in fiscal years ended March 31, 1979 and 1978, as reported by the National Quotation Bureau, Inc.

	FISCAL 1979		FISCAL 1978	
Common Stock	**High**	**Low**	**High**	**Low**
First Quarter Ended June 30	31 1/2	23 1/4	29 7/8	25 1/8
Second Quarter Ended Sept. 30	29 1/4	22 5/8	29 5/8	22 1/8
Third Quarter Ended Dec. 31	28 1/2	20 3/8	29 3/4	22 7/8
Fourth Quarter Ended March 31	22 3/4	18 3/4	28 1/2	21 1/2
Series A Preferred Stock				
First Quarter Ended June 30	35 3/4	29 1/8		
Second Quarter Ended Sept. 30	35	29		
Third Quarter Ended Dec. 31	33 5/8	25 3/4		
Fourth Quarter Ended March 31	28	25 1/2		
Series B Preferred Stock				
First Quarter Ended June 30	30 3/4	28 3/4		
Second Quarter Ended Sept. 30	32 1/8	28 7/8		
Third Quarter Ended Dec. 31	31	28 1/4		
Fourth Quarter Ended March 31	30 5/8	28 1/2		

DIVIDENDS

The Company has declared a quarterly dividend on the Common Stock for 97 consecutive quarters. A quarterly comparison of dividends declared in fiscal years ended March 31, 1979 and 1978 on a per share basis is as follows:

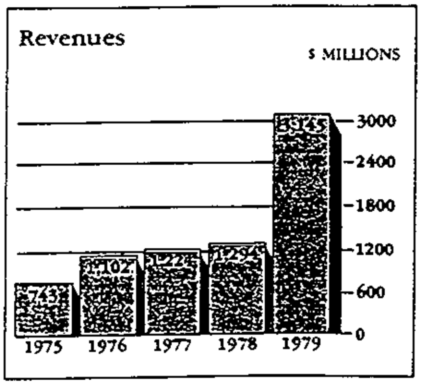
Common Stock	**FISCAL 1979**	**FISCAL 1978**
First Quarter Ended June 30	$ .25	$ .20
Second Quarter Ended Sept. 30	.25	.20
Third Quarter Ended Dec. 31	.25	.25
Fourth Quarter Ended March 31	.25	.25
	$1.00	$ .90
Series A Preferred Stock		
First Quarter Ended June 30	$ .55	
Second Quarter Ended Sept. 30	.55	
Third Quarter Ended Dec. 31	.55	
Fourth Quarter Ended March 31	.55	
	$2.20	
Series B Preferred Stock		
First Quarter Ended June 30	$ .65	
Second Quarter Ended Sept. 30	.65	
Third Quarter Ended Dec. 31	.65	
Fourth Quarter Ended March 31	.65	
	$2.60	

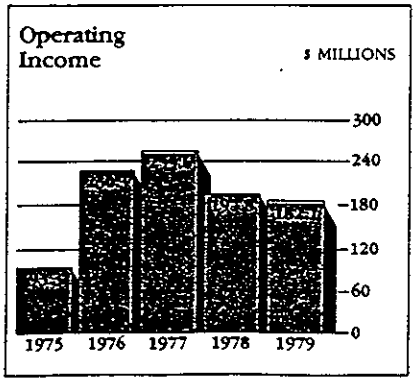
J. Ray McDermott & Co., Inc. and Subsidiaries

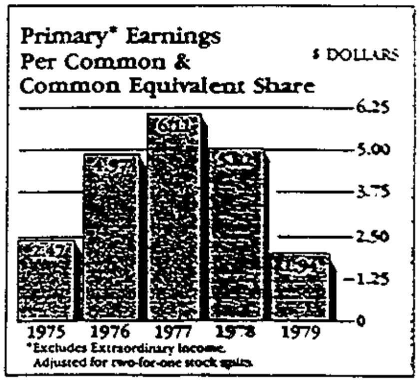
Ten Year Summary of Operations

In Thousands of Dollars Except Shares and Per Share Amounts

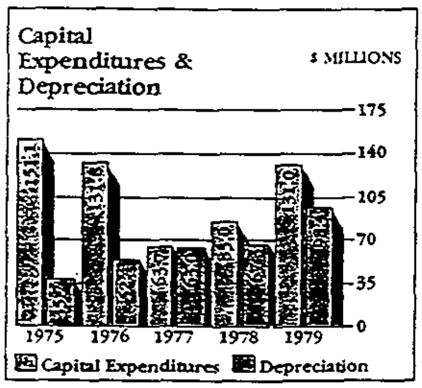
FOR THE FISCAL YEARS ENDED MARCH 31,	1979	1978	1977
Revenues	$ 3,144,564	$ 1,293,711	$ 1,223,841
Costs and expenses	2,962,514	1,095,943	964,210
Operating income	182,050	197,768	259,631
Other income (expense):			
Interest expense	(52,223)	(26,887)	(16,157)
Other	71,600	69,206	18,152
Income before provision for income taxes	201,427	240,087	261,626
Provision for income taxes	108,470	80,995	70,116
Income before extraordinary items and cumulative effect of accounting change	92,957	159,092	191,510
Extraordinary items (net of taxes on income)	—	—	132
Cumulative effect of accounting change (net of taxes on income)	—	—	—
Net income	$ 92,957	$ 159,092	$ 191,642
Earnings per common and common equivalent share:			
Primary earnings:			
Before extraordinary items and cumulative effect of accounting change	$ 1.94	$ 5.02	$ 6.11
Extraordinary items (net of taxes on income)	—	—	—
Cumulative effect of accounting change (net of taxes on income)	—	—	—
Net income	$ 1.94	$ 5.02	$ 6.11
Fully diluted earnings:			
Before extraordinary items and cumulative effect of accounting change	$ 1.92	$ 4.92	$ 5.93
Extraordinary items (net of taxes on income)	—	—	—
Cumulative effect of accounting change (net of taxes on income)	—	—	—
Net income	$ 1.92	$ 4.92	$ 5.93
Cash dividends:			
Per common share	$ 1.00	$ .90	$ .575
Cash dividends paid on common stock	32,132	28,571	18,038
Cash dividends paid on preferred stock	30,295	—	—
Total amount	$ 62,427	$ 28,571	$ 18,038
Weighted average number of common shares outstanding	32,366,019	31,670,923	31,342,492
Stockholders' equity per common share at March 31	$ 27.09	$ 26.15	$ 22.12

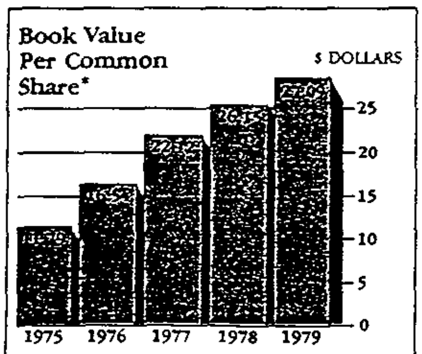




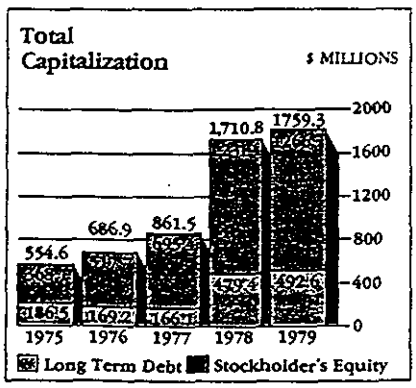


1976	1975	1974	1973	1972	1971	1970
$ 1,102,078	$ 742,825	$ 425,756	$ 358,399	$ 321,509	$ 238,158	$ 284,547
871,797	649,543	379,339	331,145	313,949	231,052	259,234
230,281	93,282	46,417	27,254	7,560	7,106	25,313
(22,067)	(15,972)	(8,679)	(5,974)	(4,146)	(3,888)	(3,842)
13,487	13,354	9,461	8,179	6,867	4,762	3,409
221,701	90,664	47,199	29,459	10,281	7,980	24,880
66,427	14,217	12,178	12,554	2,128	1,188	8,801
155,274	76,447	35,021	16,905	8,153	6,792	16,079
4,910	—	—	270	10,962	—	8,109
—	—	(3,023)	—	—	—	—
$ 160,184	$ 76,447	$ 31,998	$ 17,175	$ 19,115	$ 6,792	$ 24,188
$ 4.97	$ 2.47	$ 1.26	$ .63	$ .30	$ .25	$ .61
.16	—	—	.01	.41	—	.31
—	—	(.11)	—	—	—	—
$ 5.13	$ 2.47	$ 1.15	$ .64	$ .71	$ .25	$ .92
$ 4.80	$ 2.39	$ 1.13	$ .61	$ .30	$ .25	$ .61
.15	—	—	.01	.41	—	.31
—	—	(.09)	—	—	—	—
$ 4.95	$ 2.39	$ 1.04	$ .62	$ .71	$ .25	$ .92
$ .425	$ .30	$ .2625	$ .25	$ .25	$ .25	$ .25
13,283	9,289	7,380	6,733	6,724	6,715	6,604
—	—	—	—	—	—	—
$ 13,283	$ 9,289	$ 7,380	$ 6,733	$ 6,724	$ 6,715	$ 6,604
31,247,192	30,891,736	27,852,508	26,928,184	26,884,332	26,859,712	26,404,928
$ 16.54	$ 11.79	$ 9.74	$ 7.66	$ 7.22	$ 6.75	$ 6.91





* Adjusted for two-for-one stock splits.



REVENUES	Fiscal Years Ended March 31,				
	1979	1978	1977	1976	1975
	(In thousands of dollars)				
Marine Construction Services	$1,010,816	$1,116,119	$1,089,455	$1,010,105	$ 684,309
Power Generation Systems and Equipment	1,463,793				
Engineered Materials	508,546				
Other Products & Services	161,409	177,592	134,386	91,973	58,516
Total	$3,144,564	$1,293,711	$1,223,841	$1,102,078	$ 742,825

PERCENT OF REVENUES	Fiscal Years Ended March 31,				
	1979	1978	1977	1976	1975
Marine Construction Services	32%	86%	89%	92%	92%
Power Generation Systems and Equipment	47%				
Engineered Materials	16%				
Other Products & Services	5%	14%	11%	8%	8%
Total	100%	100%	100%	100%	100%

OPERATING INCOME	Fiscal Years Ended March 31,				
	1979	1978	1977	1976	1975
	(In thousands of dollars)				
Marine Construction Services	$ 61,011	$ 205,559	$ 247,644	$ 219,752	$ 95,893
Power Generation Systems and Equipment	117,722				
Engineered Materials	50,989				
Other Products & Services	(893)	15,364	11,987	10,529	(2,611)
Total	$ 228,829	$ 220,923	$ 259,631	$ 230,281	$ 93,282

PERCENT OF OPERATING INCOME	Fiscal Years Ended March 31,				
	1979	1978	1977	1976	1975
Marine Construction Services	27%	93%	95%	95%	103%
Power Generation Systems and Equipment	51%				
Engineered Materials	22%				
Other Products & Services	—	7%	5%	5%	(3%)
Total	100%	100%	100%	100%	100%

See Note 11 to the consolidated financial statements for a description of the Company's industry segments.

For fiscal 1979 and 1978, industry segments have been determined on a basis different from prior years to conform with FASB 14 on segment reporting, and operating income is before allocation of general corporate expenses. For the prior fiscal years 1977, 1976 and 1975, Onshore Construction Services (now categorized as a part of "Other Products & Services") consisted of amounts attributable to Hudson Engineering Corporation and its subsidiaries, and Marine Construction Services represented all other. Operating income for these prior years was after allocation of general corporate expenses.

Consolidated Balance Sheet

ASSETS

	1979	1978
	(In thousands of dollars)	
Current Assets:		
Cash	$ 19,752	$ 22,842
Short-term investments, at cost which approximates market	621,112	595,150
Accounts and notes receivable (Note 3)	604,059	535,281
Marketable securities, at cost (market $18,302,000 in 1979 and $17,056,000 in 1978)	9,231	9,231
Contracts in progress (Note 3)	330,020	324,126
Inventories (Note 4)	342,493	332,030
Prepaid expenses	10,083	12,354
Total Current Assets	1,936,750	1,831,014
Investments in Affiliated Companies, at Equity	12,398	19,906
Property, Plant and Equipment, at Cost:		
Land	36,579	36,077
Buildings	194,535	174,390
Machinery and equipment	1,021,738	931,226
Property under construction	108,238	97,114
	1,361,090	1,238,807
Less accumulated depreciation and amortization	440,346	347,226
Net Property, Plant and Equipment	920,744	891,581
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Amortization	379,404	403,320
Other Assets	51,646	36,986
Total	$3,300,942	$3,182,807

See accompanying notes to consolidated financial statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	1979	1978
	(In thousands of dollars)	
Current Liabilities:		
Notes payable to banks and current maturities of long-term debt (Note 7)	$ 20,425	$ 12,108
Accounts payable	186,718	232,606
Accrued liabilities	345,864	279,672
Advance billings on contracts (Note 3)	262,518	278,530
Provision for warranty expense	106,934	79,390
U.S. and foreign income taxes	126,839	120,991
Dividends payable	15,623	7,999
Total Current Liabilities	1,064,921	1,011,296
Deferred and Non-Current Income Taxes (Note 6)	381,523	372,798
Long-Term Debt (Note 7)	492,647	479,432
Other Liabilities	95,189	87,842
Contingencies and Commitments (Note 8)		
Stockholders' Equity (Note 9):		
Preferred stock	394,507	394,847
Common stock	32,523	32,307
Capital in excess of par value	133,038	129,505
Retained earnings (Notes 6 & 7)	714,883	684,353
	1,274,951	1,241,012
Less: Cost of common stock in treasury	2,871	2,681
Unamortized deferred Career Executive Stock Plan expense	5,418	6,892
Total Stockholders' Equity	1,266,662	1,231,439
Total	$3,300,942	$3,182,807

J. Ray McDermott & Co., Inc. and Subsidiaries for the Fiscal Years Ended March 31, 1979 and 1978

Consolidated Statement of Income and Retained Earnings

	1979	1978
	(In thousands of dollars except per share amounts)	
Revenues	$3,144,564	$1,293,711
Costs and Expenses:		
Cost of operations	2,600,274	901,696
Depreciation and amortization	111,365	67,614
Selling, general and administrative expenses	250,875	126,633
	2,962,514	1,095,943
Operating Income	182,050	197,768
Other Income (Expense):		
Interest income	54,826	34,124
Interest expense	(52,223)	(26,887)
Equity in earnings of affiliated companies — B & W	—	20,364
— Other	8,678	3,554
Other	8,096	11,164
	19,377	42,319
Income Before Provision for Income Taxes	201,427	240,087
Provision for Income Taxes (Note 6):		
Current	25,756	68,290
Deferred	82,714	12,705
	108,470	80,995
Net Income	92,957	159,092
Retained Earnings, Beginning of Year	684,353	553,832
Deduct:		
Cash dividends — common ($1.00 in 1979 and $0.90 in 1978 per share)	32,132	28,571
— preferred (Series A, $2.20 and Series B, $2.60 per share in 1979)	30,295	—
Retained Earnings, End of Year (Note 7)	$ 714,883	$ 684,353
Earnings Per Common and Common Equivalent Share:		
Primary	$1.94	$5.02
Fully diluted	$1.92	$4.92

See accompanying notes to consolidated financial statements

Consolidated Statement of Changes in Financial Position

	1979	1978
	(In thousands of dollars)	
SOURCE OF FUNDS:		
Operations:		
Net income	$ 92,957	$ 159,092
Charges (credits) not affecting working capital:		
Depreciation and amortization	111,365	67,614
Deferred income taxes	100,205	10,464
Equity in earnings of affiliated companies net of dividends received of $17,922,000 in 1979 and $750,000 in 1978	9,244	(23,168)
Other	7,420	14,168
Working capital provided from operations	321,191	228,170
Issuance of common stock	3,749	9,172
Issuance (conversion) of preferred stock	(340)	394,847
Non-current liabilities of B & W, principally long-term debt and non-current income taxes	—	495,358
Long-term borrowing (including fluctuations under the revolving credit agreement)	405,318	275,000
Other — net	—	2,813
	729,918	1,405,360
APPLICATION OF FUNDS:		
Additions to property, plant and equipment	131,026	84,975
Reductions of long-term debt (including fluctuations under the revolving credit agreement)	392,103	108,602
Reduction of non-current income taxes	91,480	—
Cash dividends	62,427	28,571
Excess of cost over fair value of net assets of B & W	(14,352)	399,764
Non-current assets of B & W, principally property, plant and equipment	—	426,675
Other — net	15,123	—
	677,807	1,048,587
NET INCREASE IN WORKING CAPITAL	$ 52,111	$ 356,773
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ 22,872	$ 85,470
Accounts and notes receivable	68,778	277,629
Contracts in progress	5,894	291,876
Inventories	10,463	281,061
Prepaid expenses	(2,271)	6,565
	105,736	942,601
Increase (decrease) in current liabilities:		
Notes and accounts payable and accrued liabilities	28,621	368,204
Advance billings on contracts	(16,012)	104,539
Provision for warranty expense	27,544	79,390
U.S. & foreign income taxes	5,848	31,985
Dividends payable	7,624	1,710
	53,625	585,828
NET INCREASE IN WORKING CAPITAL	$ 52,111	$ 356,773

See accompanying notes to consolidated financial statements

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiaries. All significant intercompany transactions and accounts have been eliminated.

Investments in affiliated (20% to 50% owned) companies are accounted for on the equity method.

Certain amounts previously reported in the consolidated financial statements at March 31, 1978 have been reclassified to conform with the presentation at March 31, 1979.

Contracts and Revenue Recognition

Marine and onshore construction contract revenues are generally recognized as contractual obligations are completed. Revenues are recognized on certain marine contracts containing identifiable separate projects when such projects are completed and accepted by the customer. Revenues from time or day-rate basis marine contracts are recognized as earned. General and administrative costs are included in marine and onshore contract costs. Current provisions are made for all known or anticipated losses on marine and onshore construction contracts which have not been completed.

Power generation systems and equipment 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 so recorded are included in unbilled revenues until invoiced to customers under the terms of the contracts. 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.

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

Foreign Currency Translation

The accounts of foreign subsidiaries maintained in foreign currencies are translated into U.S. Dollars based on current exchange rates at the end of the fiscal year for assets and liabilities except for inventories, prepaid expenses, property, plant and equipment, and stockholders' equity for which historical exchange rates are used. Average exchange rates prevailing during the fiscal years are used for revenues and expenses other than depreciation and prepaid expenses. Exchange gains and losses are recognized in the year of occurrence. Included in other income are losses of $4,739,000 for the fiscal year ended March 31, 1979, and gains of $3,460,000 for the fiscal year ended March 31, 1978.

Depreciation, Maintenance and Repairs

Property, plant and equipment is depreciated by the straight-line method, using estimated useful lives of 8 to 40 years for buildings and 2 to 20 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 Company's marine fleet. Under the accounting method for accrual of drydocking costs, estimated costs are provided and charged to operations currently.

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

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

Warranty Expense

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

Research and Development

The cost of research and development which is not performed on specific contracts is charged to operations as incurred. Such expense was $28,464,000 in fiscal 1979.

Earnings Per Share

Primary earnings per common share are computed after preferred dividend requirements and are based on the weighted average number of common and common equivalent shares (stock options) outstanding during the year. Fully diluted earnings per common share assume the conversion of the convertible subordinated debentures and convertible preferred stock.

NOTE 2 — ACQUISITION OF THE BABCOCK & WILCOX COMPANY

In September 1977, the Company acquired approximately 4,800,000 common shares of B & W for $62.50 per share pursuant to a tender offer. An additional 1,205,600 shares had been acquired previously in open market transactions. These acquisitions represented approximately 49% of the B & W shares outstanding. On March 31, 1978, the Company acquired the remaining outstanding shares of B & W in exchange for 6,317,545 shares of Series A $2.20 Cumulative Convertible Preferred Stock and 6,317,545 shares of Series B $2.60 Cumulative Preferred Stock. The total cost of the acquisition, which has been accounted for as a purchase, was approximately $748,000,000, including expenses.

The assets and liabilities of B & W were consolidated with the Company's at March 31, 1978. The results of operations of B & W have been fully consolidated for 1979.

If B & W had been combined with the Company throughout 1978, pro forma unaudited revenues and net income would have been $3,216,000,000 and $193,000,000, respectively. Pro forma unaudited net income per common share, primary and fully diluted, would have been $5.09 and $4.53, respectively.

NOTE 3 — CONTRACTS IN PROGRESS

Contracts in progress and advance billings on contracts at March 31 consist of the following:

	Contracts in Progress		Advance Billings on Contracts	
	1979	1978	1979	1798
	(In thousands of dollars)			
Marine and onshore construction contracts:				
Cost of uncompleted contracts	$144,459	$120,346	$206,889	$183,904
Billings to customers	116,135	84,608	258,080	263,749
	28,324	35,738	51,191	79,845
Power generation systems & equipment & other contracts:				
Unbilled revenues	213,009	207,268		
Cost of work in progress	226,832	175,846		
	439,841	383,114		
Billings to customers in excess of revenues recognized	138,145	94,726	211,327	198,685
	301,696	288,388	211,327	198,685
	$330,020	$324,126	$262,518	$278,530

The amounts of general and administrative expenses remaining in the cost of uncompleted marine and onshore construction contracts at March 31, 1979 and 1978 were $48,384,000 and $37,337,000, respectively. Cost of work in progress of power generation systems and equipment and other contracts is based upon accumulated production costs less estimated costs associated with revenues recognized.

Unbilled revenues on contracts include $54,137,000 and $39,000,000 as at March 31, 1979 and 1978, respectively, expected to be collected after one year.

NOTE 6 — INCOME TAXES

The provision for income taxes consists of:

	1979		1978	
	Current	Deferred	Current	Deferred
	(In thousands of dollars)			
Federal	$ 12,694	$ 71,012	$ 30,808	$ 12,829
Foreign	11,042	4,572	35,397	(124)
State and local	2,020	7,130	2,085	—
	$ 25,756	$ 82,714	$ 68,290	$ 12,705

Tax benefits of $14,882,000, arising from the use of net operating loss and investment tax credit carryforwards available from the B&W acquisition, have been credited to excess of cost over fair value of net assets of purchased businesses.

Investment tax credits, accounted for on the flow-through method, utilized in fiscal 1979 and fiscal 1978, were $6,456,000 and $1,609,000, respectively.

The effective income tax rate is reconciled to the statutory federal income tax rate as follows:

	1979	1978
	Percent	Percent
Statutory federal tax rate	47.5	48.0
Increases (reductions) in income tax rate resulting from:		
Foreign operations	5.1	(10.3)
Earnings of affiliates reported net of taxes	(2.0)	(4.4)
Investment tax credits	(3.2)	(.7)
State income taxes net of federal benefit	2.4	.5
Other	4.1	.6
Effective tax rate	53.9	33.7

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

	1979	1978
	(In thousands of dollars)	
Excess tax over financial depreciation	$ 10,190	$ 11,984
Long-term contracts, primarily on the completed contract method for tax purposes	86,127	2,929
Other	(13,603)	(2,208)
	$ 82,714	$12,705

Undistributed income of foreign subsidiaries included in consolidated retained earnings at March 31, 1979, amounted to approximately $535,000,000. Under present law, such amount would be subject to United States income taxes at prevailing tax rates less foreign tax credits if remitted to the parent company; no provision for such taxes has been made in the consolidated financial statements as it is the Company's intention to indefinitely reinvest said undistributed earnings in the foreign subsidiaries.

At March 31, 1979, the Company classified income taxes payable and deferred income taxes applicable to long-term construction contracts as non-current to the extent that such amounts will not reverse or be paid during the next year. To conform to this presentation at March 31, 1978, $304,748,000 has been reclassified from U.S. and foreign income taxes to deferred and non-current income taxes.

The Company's income tax returns for the four fiscal years ended March 31, 1975 are under civil and fraud examination by the Internal Revenue Service. In addition, the fiscal years ended March 31, 1976 and 1977 and B&W's years 1975 and 1976 are under civil examination only. No reports have been received from the Internal Revenue Service for any of these years; however, in the opinion of management the results of the examinations will not have a material adverse effect upon the Company's consolidated financial position or results of operations.

NOTE 8 — CONTINGENCIES AND COMMITMENTS

Antitrust Investigation — On December 14, 1978 a Federal grand jury in New Orleans, Louisiana indicted the Company, Brown & Root, Inc. and certain of their officers on charges of conspiring to allocate contracts and to fix prices and contract terms for marine construction projects in violation of Section 1 of the Sherman Act during a period from 1960 through 1975. The Company and Brown & Root, Inc. each pleaded nolo contendere to the charges and were each fined $1,000,000. This might lead to civil antitrust treble damage claims which might have a material adverse effect upon the Company.

Litigation — The Company and certain of its officers, directors and subsidiaries are defendants in several legal proceedings claiming amounts which are material, alleging, among other things, liability for damages allegedly caused by a nuclear incident at the nuclear power plant on Three Mile Island outside Harrisburg, Pennsylvania and violations of federal securities laws in connection with the acquisition of B & W. It is the opinion of management and of general counsel that the outcome of these proceedings will not have a material adverse effect upon the Company's consolidated financial position or results of operations.

Operating Leases — The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at March 31, 1979:

Years ending March 31:

	(In thousands of dollars)
1980	$ 11,502
1981	8,359
1982	6,525
1983	5,927
1984	4,255
After 1984	16,277
Total minimum payments required	$ 52,845

Future minimum lease payments and leased property under capital leases are not material.

Total rental expense for fiscal 1979 and 1978, was $83,315,000 and $80,921,000, respectively. These expense figures include contingent rentals and are net of sublease income, both of which are not material.

Other — The Company performs significant amounts of work for the government under both prime contracts and subcontracts and thus is subject to continuing reviews by governmental agencies.

Firm and contemplated commitments for capital expenditures amounted to $159,412,000 at March 31, 1979.

NOTE 9 — CAPITAL STOCK

Preferred Stock — At March 31, 1979, 25,000,000 shares of $1 par value preferred stock were authorized, 6,600,000 shares were designated Series A $2.20 Cumulative Convertible Preferred Stock and 6,600,000 shares were designated Series B $2.60 Cumulative Preferred Stock. Of the authorized Series A Preferred Stock and Series B Preferred Stock 6,306,692 and 6,317,545 shares, respectively, were issued and outstanding and were entitled to $31.25 per share in liquidation. The outstanding shares were issued in connection with the acquisition of B & W and are stated at the mandatory redemption value which approximated market value at the time the shares were issued. Both series of preferred stock are entitled to general voting rights of one-half vote for each share. The Board of Directors may authorize additional series of preferred stock and may set the terms of each new series except that the 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 common share. The shares are redeemable at the option of the Company on or after March 31, 1983 at the following prices plus accrued dividends: 1983 — $33.45; 1984 — $33.09; 1985 — $32.72; 1986 — $32.35; 1987 — $31.97; 1988 — $31.62; and 1989 through 2008 — $31.25. On March 31, 1989 and each subsequent year through March 31, 2008, the Company is obligated to redeem, at a redemption price of $31.25 plus accrued dividends, 5% of the number of shares which are outstanding at December 31, 1988.

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

Additional shares of Series A or Series B Preferred Stock, equal to the number of shares the Company is obligated to redeem, may be redeemed on each redemption date by the Company, on a non-cumulative basis. The 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 obligation.

Common Stock — At March 31, 1979 and 1978, 60,000,000 shares of $1 par value common stock were authorized. Changes in common stock during the two years ended March 31, 1979, are summarized as follows:

	Shares	Par Value	Capital in Excess of Par Value
	(In thousands of dollars except share data)		
Balance, March 31, 1977	15,877,948	$ 15,878	$136,762
Conversion of 4-3/4% convertible subordinated debentures	322,820	323	8,728
Issuance of Shares to effect stock split	16,106,204	16,106	(16,106)
Forfeitures under the Career Executive Stock Plan	—	—	121
Balance, March 31, 1978	32,306,972	32,307	129,505
Conversion of 4-3/4% convertible subordinated debentures	85,723	86	1,323
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	10,853	11	328
Shares issued upon exercise of stock options	115,222	115	1,720
Shares issued under the Career Executive Stock Plan (net of forfeitures)	4,000	4	162
Balance, March 31, 1979	32,522,770	$ 32,523	$133,038

At March 31, 1979 and 1978, 326,132 and 316,672 shares, respectively, were in treasury. At March 31, 1979, 7,094,493 shares were reserved for issuance in connection with the 1974 Career Executive Stock Plan, exercise of stock options, and conversion of the 4-3/4% convertible subordinated debentures and Series A cumulative convertible preferred stock.

Stock Options — In connection with the acquisition of B & W, options granted under a B & W stock option plan became options to purchase two shares of the Company's common stock. All options outstanding under this plan are non-qualified stock options and no additional options will be granted under the plan. Options were granted at an option price equal to at least 100% of the fair market value on the date of grant.

Changes during 1979 in the number of shares covered by the stock option plan are as follows:

Outstanding and Exercisable	Number of Shares	Option Price Per Share	Option Price Total
Balance, March 31, 1978	470,482	$6.813 - $9.688	$4,087,000
Exercised	115,222	6.813 - 9.688	904,000
Expired	5,650	9.688	55,000
Balance, March 31, 1979	349,610		$3,128,000

The aggregate market value of the shares issued upon the exercise of stock options was $2,824,000.

Career Executive Stock Plan — The Plan, which was adopted in 1974, 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 price. Shares may be issued pursuant to the Plan until June 30, 1984. Restrictions with respect to issued shares lapse in approximately equal amounts on the second through tenth anniversary dates of the date of issuance. The cost of the Plan, based on fair market value on the date of issuance of common stock, is amortized over a ten-year period following the date of issuance. Upon forfeiture of stock by employees, previous expense attributable to unvested stock is credited to income. Forfeited shares under the Plan returned to the Company amounted to 9,460 shares during 1979, and 6,716 shares during 1978. As of March 31, 1979, 135,516 shares of common stock are available for grant to eligible employees pursuant to the terms of the Plan. Amounts charged to income under the Plan and its predecessor Plan amounted to $1,518,000 and $1,541,000 in fiscal 1979 and fiscal 1978, respectively.

NOTE 10 — FOREIGN SUBSIDIARIES

Summarized financial information with respect to consolidated foreign subsidiaries is as follows:

	March 31, 1979	March 31, 1978
	(In thousands of dollars)	
Assets (including cash and short-term investments of $594,052,000 and $537,456,000 at March 31, 1979 and 1978, respectively)	$1,019,802	$923,602
Liabilities	423,478	338,985
Net assets	$ 596,324	$584,617
Net income (loss)	$ (5,005)	$ 89,392

NOTE 11 — SEGMENT REPORTING

The Company has operated primarily in three industry segments since the acquisition of B & W — marine construction services, power generation systems and equipment and engineered materials.

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

Power generation systems and equipment include individually engineered complete fossil fuel boilers, nuclear steam systems, nuclear fuel and nuclear fuel assemblies; and associated equipment for electric utility and marine applications as well as fossil fuel boilers for industrial processes and power generation. The associated equipment includes individually engineered recovery processes and pollution control systems for the process and utility industries, cleaning systems for heat transfer surfaces, control and performance computers, instruments and nuclear control-rod drives. In addition, the Company is engaged in the erection of this and other equipment through a separate construction unit.

Engineered materials consist of tubular and refractory products designed and manufactured from basic and raw materials. Tubular products include stainless, alloy and carbon steel, seamless and welded tubes and pipe, tubular and solid shapes, extrusions, special metal tubes, welding fittings and flanges, and seamless rolled rings. These are primarily "specialty" products of high quality and engineered for special applications. Material amounts of tubes are manufactured by the Company to satisfy its own requirements. However, the major portion of the Company's tubes are sold for use in the bearing, petroleum, machinery, primary metal, fabricated metal and construction industries. Refractory products include kaolin clays, specially engineered and vacuum-formed ceramic fibers, and other insulating and specialty products for use in high temperature furnaces for various heating and heat treating purposes and in other applications where the temperatures and rates of combustion or chemical reactions are unusually demanding.

Other products and services engaged in by the Company include the design and manufacturing of control valves, automated machines and machine tools, as well as air-cooled heat exchangers and onshore construction services which were previously classified separately.

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

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

Transfers between geographic areas are accounted for at prices which are generally established by reference to similar transactions with unaffiliated customers or, in certain circumstances, by reference to provisions of the U.S. Internal Revenue Code.

Revenues attributable to domestic government agencies, including government owned utilities, amounted to $317,220,000 in fiscal 1979. These revenues were primarily related to the power generation systems and equipment industry segment.

Revenues attributable to foreign governments or any one individual customer in fiscal 1979 did not exceed 10% of revenue. In fiscal 1978, revenues attributable to foreign governments were $211,945,000 and to an individual company were $175,037,000.

Foreign operations are presented in the aggregate for fiscal 1979 because there were no foreign geographic areas which exceeded 10% of revenue or identifiable assets for fiscal 1979.

Revenues attributable to transactions with unconsolidated affiliated companies were $51,978,000 in fiscal 1979 ($104,338,000 in fiscal 1978).

Segment Information For the Fiscal Years Ended March 31, 1979 and 1978

1. Information about the Company's Operations in Different Industry Segments. (In thousands of dollars)

	Revenues		Intersegment Transfers		Total Revenues	
	1979	1978	1979	1978	1979	1978
Marine Construction Services	$1,010,816	$1,116,119	$ —	$ —	$1,010,816	$1,116,119
Power Generation Systems & Equipment	1,463,793	—	1,171	—	1,464,964	—
Engineered Materials	508,546	—	80,043	—	588,589	—
Other Products & Services	161,409	177,592	9,356	—	170,765	177,592
Eliminations	—	—	(90,570)	—	(90,570)	—
Total	$3,144,564	$1,293,711	$ —	$ —	$3,144,564	$1,293,711

	Operating Income (1)		Equity In Earnings of Affiliated Companies	
	1979	1978	1979	1978
Marine Construction Services	$ 61,011	$ 205,559	$ 6,290	$ 3,554
Power Generation Systems & Equipment	117,722	—	877	—
Engineered Materials	50,989	—	1,511	—
Other Products & Services	(893)	15,364	—	—
Corporate	—	—	—	20,364 (2)
Total	$ 228,829	$ 220,923	$ 8,678	$ 23,918

	Capital Expenditures		Depreciation & Amortization	
	1979	1978	1979	1978
Marine Construction Services	$ 72,136	$ 61,642	$ 66,346	$ 57,528
Power Generation Systems & Equipment	29,063	—	23,809	—
Engineered Materials	20,648	—	14,104	—
Other Products & Services	1,934	22,660	5,658	8,954
Corporate	7,245	673	1,448	1,132
Total	$ 131,026	$ 84,975	$ 111,365	$ 67,614

	Identifiable Assets (3)		Investments In Net Assets of Vertically Integrated Affiliated Companies		Total Assets	
	1979	1978	1979	1978	1979	1978
Marine Construction Services	$ 742,369	$ 777,147	$ 6,139	$ 16,299	$ 748,508	$ 793,446
Power Generation Systems & Equipment	1,120,087	1,030,240	1,899	1,021	1,121,986	1,031,261
Engineered Materials	644,023	602,246	4,360	2,586	648,383	604,832
Other Products & Services	173,261	181,307	—	—	173,261	181,307
Corporate	608,804	571,961	—	—	608,804	571,961
Total	$3,288,544	$3,162,901	$ 12,398	$ 19,906	$3,300,942	$3,182,807

(1) Reconciling items between Operating Income and Income Before Provision for Income Taxes are General Corporate Expenses and Other Income (Expense).

(2) Equity in the earnings of affiliated companies for 1978 includes the Company's share of B & W's earnings of $20,364,000.

(3) Identifiable assets for 1978 have been restated to reflect the Allocation of excess of cost over fair value of net assets of purchased businesses to industry segments.

2. Information about the Company's Operations in Different Geographic Areas. (In thousands of dollars)

	Domestic		Foreign		Consolidated	
	1979	1978	1979	1978	1979	1978
Revenues	$2,533,048	$ 638,556	$ 611,516	$ 655,155	$3,144,564	$1,293,711
Transfers between Geographic Areas	18,984	28,560	(18,984)	(28,560)	—	—
Total Revenues	$2,552,032	$ 667,116	$ 592,532	$ 626,595	$3,144,564	$1,293,711
Operating Income by Geographic Areas (1)	$ 267,300	$ 128,260	$ (38,471)	$ 92,663	$ 228,829	$ 220,923
Equity In Earnings of Affiliated Companies	—	$ 20,364	$ 8,678	$ 3,554	$ 8,678	$ 23,918
Identifiable Assets (2)	$2,029,353	$1,946,904	$ 650,387	$ 644,036	$2,679,740	$2,590,940
Investments In Net Assets of Vertically Integrated Affiliated Companies	—	—	$ 12,398	$ 19,906	$ 12,398	$ 19,906
Corporate Assets					608,804	571,961
Total Assets					$3,300,942	$3,182,807

(1) Reconciling items between Operating Income by Geographic Areas and Income Before Provision for Income Taxes are General Corporate Expenses and Other Income (Expense).

(2) Identifiable assets for 1978 have been restated to reflect the allocation of excess of cost over fair value of net assets of purchased businesses to geographic segments.

NOTE 12 — QUARTERLY FINANCIAL DATA

The following tables set forth selected unaudited quarterly financial information for the years ended March 31, 1979 and 1978:

	1979 Quarter Ended			
	June 30, 1978	Sept. 30, 1978	Dec. 31, 1978	March 31, 1979
	(In thousands of dollars except per share amounts)			
Revenues	$719,327	$820,457	$800,244	$804,536
Operating income	55,072	96,938	56,773	(26,733)
Net income	32,262	55,484	34,711	(29,500)
Earnings per common and common equivalent share:				
Primary	0.76	1.48	0.84	(1.14)
Fully diluted	0.72	1.32	0.79	(1.14)

	1978 Quarter Ended			
	June 30, 1977	Sept. 30, 1977	Dec. 31, 1977	March 31, 1978
	(In thousands of dollars except per share amounts)			
Revenues	$298,852	$324,972	$448,869	$221,018
Operating income	69,448	61,513	52,293	14,514
Equity in earnings of B & W	—	3,195	7,341	9,828
Net income	45,647	46,581	49,779	17,085
Earnings per common and common equivalent share:				
Primary	1.45	1.48	1.57	0.53
Fully diluted	1.41	1.44	1.54	0.53

During the quarter ended March 31, 1979, approximately $43,000,000 was charged to net income in connection with the relocation of certain operations of one of the Company's foreign areas and warranty and other related design and fabrication problems experienced in certain nuclear contracts.

NOTE 13 — REPLACEMENT COST INFORMATION

As required by the Securities and Exchange Commission, the Company's annual report on Form 10-K, a copy of which is available upon request, contains unaudited replacement cost information on inventories and productive capacity and its estimated effect on depreciation expense for the current fiscal year. The information is included in the notes to financial statements included in the Form 10-K.

The amounts reported attributable to unaudited replacement cost information are based on hypothetical assumptions and subjective assumptions. On this basis, the Company makes no representation that the replacement cost information is useful.

BOARD OF DIRECTORS

H. W. BAILEY
Executive Vice President of the Company

*G. W. DOUGLAS CARVER
Independent oil producer and General Partner of Cardo Company

J. E. CUNNINGHAM
Vice Chairman of the Board and Chief Executive Officer of the Company

C. L. DAVIS
President, Oceanic Contractors, Inc., a wholly owned subsidiary of the Company

W. E. EARLES
Group Vice President of the Company

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

*JAMES A. HUNT
Partner, Kalb Voorhis & Co. — securities brokers

GRAHAM D. MATTISON
Director of various corporations

*JOHN A. MORGAN
Vice Chairman of the Board, Smith Barney, Harris Upham & Co., Incorporated — investment bankers

R. K. RICHIE
President and Chief Operating Officer, McDermott Operating Unit

JOHN D. RITCHIE
Chairman of the Board — Consultant and Director of various corporations

WILLIAM T. SEAWELL
Chairman and Chief Executive Officer, Pan American World Airways, Inc. — commercial air transportation

*WALTER B. SHAW
Chairman and President, Turner Construction Company — general construction contractors

*JOHN B. TWEEDY
Executive Vice President and Director, Tosco Corporation — oil refining and marketing

WILLIAM L. WEARLY
Chairman and Chief Executive Officer, Ingersoll-Rand Company — manufacturer of industrial machinery and equipment

GEORGE G. ZIPF
Vice Chairman of the Board, President and Chief Operating Officer, Babcock & Wilcox Operating Unit

**MEMBER OF THE AUDIT COMMITTEE*

CORPORATE OFFICERS

JOHN D. RITCHIE
Chairman of the Board

J. E. CUNNINGHAM
Vice Chairman of the Board and Chief Executive Officer

GEORGE G. ZIPF
Vice Chairman of the Board, President and Chief Operating Officer, Babcock & Wilcox Operating Unit

R. K. RICHIE
President and Chief Operating Officer, McDermott Operating Unit

JOHN A. LYNOTT
Executive Vice President of Finance and Chief Financial Officer

WALTER M. VANNOY
Executive Vice President and Chief Administrative Officer

R. C. BASSETT
Vice President, Materials and Transportation

PHILIP BREITMEYER, II
Vice President, Corporate Planning and Development

JOHN D. DUPY
Vice President, Public Affairs

KENNEDY J. GILLY
Vice President, General Counsel and Secretary

R. E. WOOLBERT
Vice President, Employee Relations

R. A. JOLLIFF
Treasurer

CHARLES A. KRAUS
Controller, Tax Administration

EDMUND A. ROBIDOUX
Controller

McDermott Operating Unit

R. K. RICHIE
President and Chief Operating Officer

H. W. BAILEY
Executive Vice President, North American Operations

W. E. EARLES
Group Vice President, McDermott Structural Group

L. R. FOSTER, JR.
Group Vice President, Administration Coordination

V. J. LEBLANC
Group Vice President, McDermott Shipyard Group

GRIFF C. LEE
Group Vice President, McDermott Engineering Services Group

H. ROGERS REEVES
Group Vice President, Harvey Division Group

L. B. SMITH
Group Vice President, Hudson Engineering Group

J. LEON BATES
Senior Vice President, McDermott Engineering Services Group

E. J. DRESSEL
Senior Vice President, Equipment and Materials Group

DAVID D. BATTERSHELL
Vice President, Business Development

ROY R. STRIEKERT, JR.
Vice President, Business Development

CHARLES E. YOUNG
Vice President, McDermott Engineering Services Group

Hudson Engineering Corporation

L. B. SMITH
Group Vice President

R. E. CURTIS
Vice President

S. P. VICTORY
Vice President

W. M. DOUGLAS
Vice President

Hudson Products Corporation

E. C. SMITH
President

M. W. EARINOFF
Vice President

Oceanic Contractors, Inc.

C. L. DAVIS
President

E. P. CLINE
Group Vice President, Middle East Group

R. E. HOWSON
Group Vice President, North Sea Group

J. W. McCARTE
Group Vice President, West Africa and Central and South America Group

R. D. MILLER
Group Vice President, South East Asia Group

ERIC R. H. SELLEY
Group Vice President, Engineering Services Group

J. C. ANDREWS
Vice President, Administration-Coordination

W. L. HIGGINS, III
Vice President, North Sea Group

R. J. MACHEN
Vice President, McDermott Scotland

R. J. MAXSON
Vice President, Middle East Group

J. M. SMITH
Vice President, Middle East Group

R. P. STAGG
Vice President, Engineering Services Group

Babcock & Wilcox Operating Unit

GEORGE G. ZIPF
President and Chief Operating Officer

L. M. FAVRET
Executive Vice President, Power Generation Group

G. W. KROSS, JR.
Executive Vice President, Materials Group

H. D. KURT
Executive Vice President, Industrial Products Group

W. MARKERT, JR.
Vice President, Research and Development

H. H. POOR
Vice President, Contract Research

A. C. TENDLER
Vice President, International

Power Generation Group

L. M. FAVRET
Executive Vice President

Babcock & Wilcox Canada Ltd.
T. M. CAMPBELL
President and Chief Executive Officer

B&W Construction Company
E. M. GRIFFIN
Division Vice President

Fossil Power Generation Division
D. E. HEYBURN
Division Vice President

TLT-Babcock, Inc.
F. G. RAYNOR
President

Industrial and Marine Division
E. C. MONCRIEF
Division Vice President

Nuclear Equipment Division
W. B. BEISEL
Division Vice President

Nuclear Materials Division
J. S. DZIEWISZ
Division Vice President

Nuclear Power Generation Division
J. H. MACMILLAN
Division Vice President

Utility Sales
J. W. THOMPSON
Division Vice President

Industrial Products Group

H. D. KURT
Executive Vice President

Automated Machine Division
S. W. BARANYK
Division Vice President

Bailey Controls Company
R. J. CAMPBELL
President

Control Components International
H. D. KURT
Acting President

Diamond Power Specialty Corporation
J. L. MENSON
President

Materials Group

G. W. KROSS, JR.
Executive Vice President

Refractories Division
R. P. STUNTZ
Division Vice President

Tubular Products Division
T. M. KREBS
Division Vice President

R. C. ANGELL
Vice President Sales, Tubular Products

Other Divisions

Naval Nuclear Fuel Division
J. E. EWING
Division Vice President

Transfer Agents and Registrars

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

Morgan Guaranty Trust Company
30 West Broadway
New York, New York 10015
Common Stock
Series A \$2.20 Cumulative Convertible Preferred Stock
Series B \$2.60 Cumulative Preferred Stock

Trustee and Paying Agent

Morgan Guaranty Trust Company
30 West Broadway
New York, New York 10015
9.58% Sinking Fund Debentures Due March 15, 2004
9.70% Sinking Fund Debentures Due December 1, 1999
8.90% Notes Due December 1, 1984

Pittsburgh National Bank
P. O. Box 340747
Pittsburgh, Pennsylvania 15230
6.80% Pollution Control Revenue Bonds, Series A
Due February 1, 2009

Trustee, Paying Agent and Conversion Agent

Citibank, N.A.
111 Wall Street
New York, New York 10015
4-3/4% Convertible Subordinated Debentures Due October 1987

Certified Public Accountants

Arthur Young & Company
New Orleans, Louisiana

Offices

CORPORATE HEADQUARTERS
New Orleans, Louisiana

HARVEY DIVISION GROUP

Dredging
Harvey, Louisiana

Harvey Fabrication
Harvey, Louisiana

Inland Services
Harvey, Louisiana

McDermott Divers
Harvey, Louisiana

Marine Pipeline
Harvey, Louisiana

MORGAN CITY DIVISION GROUPS

McDermott Shipyard Group
Morgan City, Louisiana
New Iberia, Louisiana

McDermott Structural Group
McDermott Fabricators
Bayou Black, Louisiana
Morgan City, Louisiana
McDermott Offshore
Morgan City, Louisiana

FOREIGN OPERATIONS

Central and South America
Rio de Janeiro, Brazil
Port of Spain, Trinidad-Tobago

Middle East
Ain Sukhna, Egypt
Cairo, Egypt
Bombay, India
Tehran, Iran
Solmiya, Kuwait
Doha, Qatar
Dhahran, Saudi Arabia
Abu Dhabi, United Arab Emirates
Dubai, United Arab Emirates
Ras Al Khaiman, United Arab Emirates

North Sea
Antwerp, Belgium
Brussels, Belgium
Great Yarmouth, England
London, England
Stavanger, Norway
Aberdeen, Scotland
Inverness, Scotland

South East Asia
Melbourne, Australia
Perth, Australia
Sale, Australia
Sydney, Australia
Batam Island, Indonesia
Jakarta, Indonesia
Kuala Lumpur, Malaysia
Singapore
Bangkok, Thailand

West Africa
Lagos, Nigeria
Warri, Nigeria

OTHER OPERATIONS

Equipment & Materials Group
New Orleans, Louisiana

Harvey Supply Company
Harvey, Louisiana
Morgan City, Louisiana
New Orleans, Louisiana

Hudson Engineering Corporation
Houston, Texas

Hudson Products Corporation
Beasley, Texas
Houston, Texas

Engineering Services
New Orleans, Louisiana
Houston, Texas
London, England
Singapore

POWER GENERATION GROUP

Babcock & Wilcox Canada Ltd.
Cambridge, Ontario, Canada

B&W Construction Company
Copley, Ohio

Fossil Power Generation
Brunswick, Georgia
West Point, Mississippi
Barberton, Ohio
Canton, Ohio
Paris, Texas

TET-Babcock
Akron, Ohio
Medina, Ohio

Industrial and Marine
Wilmington, North Carolina
North Canton, Ohio

Nuclear Equipment
Barberton, Ohio

Nuclear Materials and Manufacturing
Mt. Vernon, Indiana
Apollo, Pennsylvania
Parks Township, Pennsylvania
Lynchburg, Virginia

Nuclear Power Generation
Lynchburg, Virginia

INDUSTRIAL PRODUCTS GROUP

Automated Machine
Rockford, Illinois
Bloomfield Hills, Michigan
Rochester, Michigan
Hendersonville, North Carolina
Greer, South Carolina

Bailey Controls Company
Daytona Beach, Florida
Wickliffe, Ohio
Williamsport, Pennsylvania
Regents Park, New South Wales, Australia
Sao Paulo, Brazil
Pointe Claire, Quebec, Canada
Shizuoka, Japan
Mannheim, West Germany

Control Components International
Irvine, California
Tokyo, Japan

Diamond Power Specialty Corporation
Lancaster, Ohio
Burlington, Ontario, Canada
Dumbarton, Scotland
Bromma, Sweden
Oberhausen, West Germany

Advance Composites Department
Alliance, Ohio

MATERIALS GROUP

Refractories
Augusta, Georgia
Hephzibah, Georgia
Rio de Janeiro, Brazil
Burlington, Ontario, Canada
Sarnia, Ontario, Canada
Ponce, Puerto Rico

Tubular Products
Elkhart, Indiana
Alliance, Ohio
Ambridge, Pennsylvania
Beaver Falls, Pennsylvania
Bryan, Texas
Milwaukee, Wisconsin

OTHER DIVISIONS

Naval Nuclear Fuel Division
Lynchburg, Virginia

Contract Research Division
Alliance, Ohio

Research and Development Division
Alliance, Ohio
Lynchburg, Virginia