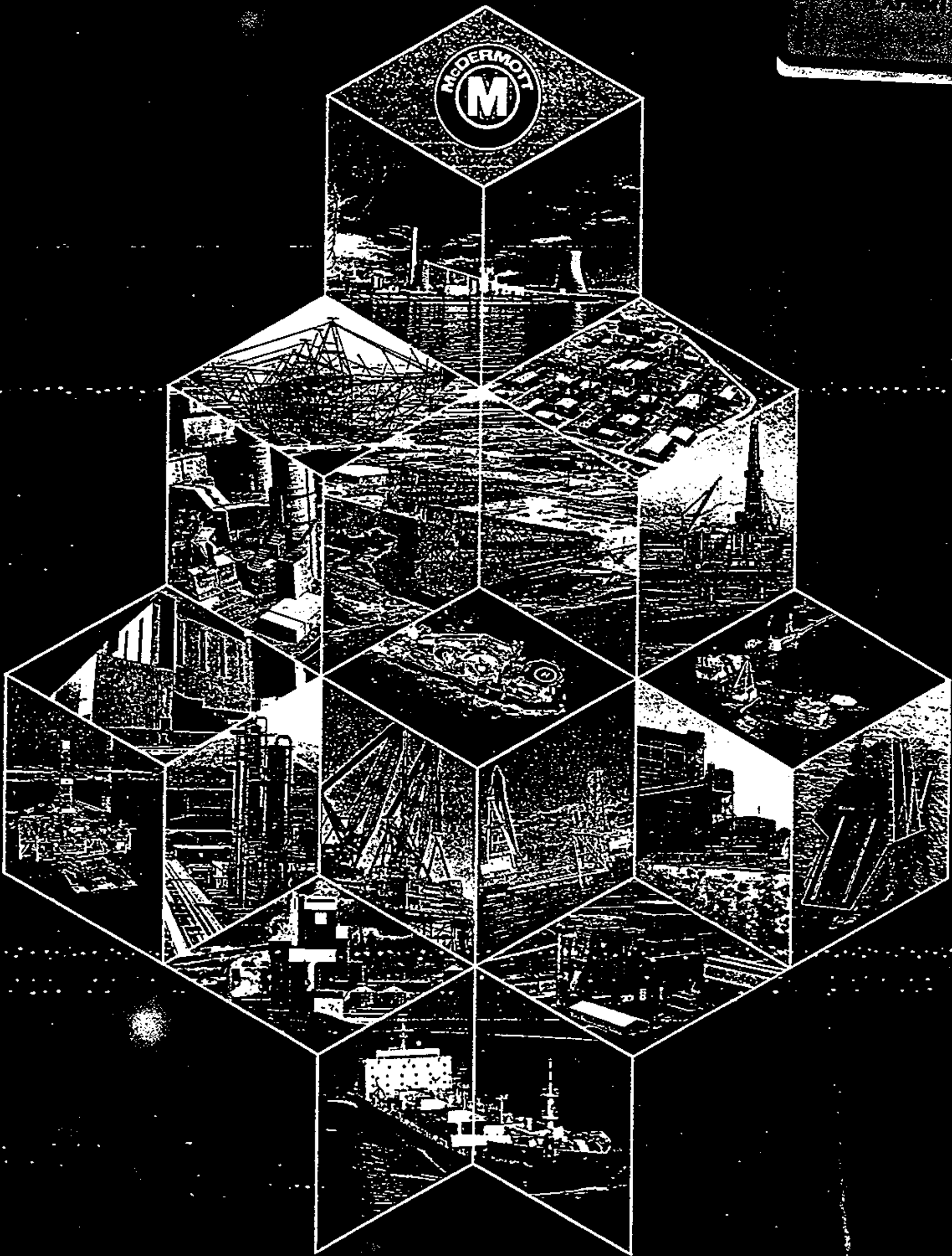
McDermott International, Inc.

Annual Report
for the Year Ended March 31, 1996



FINANCIAL HIGHLIGHTS

(Dollars in thousands, except per share amounts, shares outstanding, and number of employees)

March 31,	1996	1995
FOR THE YEAR:		
Revenues	**$ 3,279,106**	$ 3,043,680
Equity in income of investees	**$ 48,438**	$ 33,852
Operating income	**$ 74,309**	$ 40,666
Net income	**$ 20,625**	$ 9,111
Net income applicable to common stock	**$ 12,359**	$ 845
Per common and common equivalent share	**$ 0.23**	$ 0.02
Common and preferred dividends declared	**$ 62,532**	$ 61,956
Per share of common stock	**$ 1.00**	$ 1.00
Per share of preferred stock	**$ 2.875**	$ 2.875
Common stock price		
High	**$ 28**	$ 29 1/8
Low	**$ 15 3/8**	$ 19 3/8
Average number of shares outstanding	**54,372,084**	53,748,389
Capital expenditures[1]	**$ 115,458**	$ 97,890
AT END OF YEAR:		
Cash and cash equivalents	**$ 238,663**	$ 85,909
Working capital (deficit)	**$ 331,986**	$ (40,790)
Net property, plant, and equipment	**$ 690,687**	$ 899,677
Total investments	**$ 244,103**	$ 715,093
Total assets	**$ 4,387,251**	$ 4,751,670
Total debt	**$ 810,514**	$ 986,687
Stockholders' equity	**$ 684,520**	$ 710,579
Consolidated backlog	**$ 3,399,396**	$ 3,473,832
Backlog of unconsolidated affiliates	**$ 1,629,660**	$ 1,182,307
Number of employees including subcontract labor	**25,400**	25,200

1. Includes investment in asset held for lease (1996 = $29,620; 1995 = $6,711).

The Cover: *McDermott International, Inc.'s five business units provide total project management for power generation, marine construction, onshore hydrocarbon processin, the U.S. government, shipbuilding, and industries around the world.*

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

To Our Shareholders:

We expected fiscal 1996 to be a tough year. Unfortunately, it was tough beyond our expectations.

Our Marine Construction Services segment encountered unforeseen market conditions and reported lower than expected revenues and segment operating income.

Revenues from our Power Generation Systems and Equipment segment were about the same in fiscal 1996 as in fiscal 1995, while the segment's operating income was lower when 1995 operating income is adjusted for a provision to close a nuclear facility.

This trend cannot continue. We are committed to getting our businesses back on track in fiscal 1997.

Financial Results

Revenues for fiscal 1996 were $3.28 billion, compared to $3.04 billion the year before. Net income, after deducting the Series C Preferred Stock dividend of $8.3 million, was $12.4 million, or $0.23 a share, in fiscal 1996, compared to $0.85 million, or $0.02 a share, in fiscal 1995. The 1996 figures include a $20.0 million gain for the repurchase of two power purchase contracts by a utility, a $34.8 million gain from the sale of our interest in three Caspian Sea oil fields, and a $7.8 million write off of an insurance claim. The 1995 figures include a provision of $27.1 million for decontaminating, decommissioning, and closing a nuclear facility.

What We Accomplished

Important accomplishments in fiscal 1996 included:

- Achieving substantial costs savings from the synergies created in the formation of J. Ray McDermott with additional savings from programs in our other operating groups;
- Restructuring J. Ray McDermott's HeereMac joint venture to monetize our assets and fully dedicate them to the joint venture's operations while retaining our 50% ownership;
- Selling our interest in the Caspian Sea; and
- Winning important work in target markets such as international power generation, deepwater, subsea, U.S. government site management and operations, barge building, and ship repair.

We accomplished these things while continuing to improve our safety record and implementing a comprehensive project management system to improve profitability on major projects. Details of these accomplishments and many others can be found in the operations reviews in this report.

Operational and Financial Improvements

Fiscal 1996 was a low point of a cycle that has finally begun to move in a positive direction. Our year-end backlog, including unconsolidated affiliates, was about $5.0 billion, slightly higher than a year ago, and we've added several hundred million dollars since the close of the fiscal year. Our cost reductions, which were somewhat offset by low volumes in our marine construction business in fiscal 1996, will continue to be realized in fiscal 1997.

As our operations benefit from lower costs and growing markets, we intend to rebuild our investment portfolio to a level where cash and investments equal or exceed total debt. We will accomplish this with cash flow from operations and the disposition of unused, surplus, and non-strategic assets. Proceeds from the sale of two vessels to HeereMac and of our interest in the Caspian Sea oil fields, as well as funds from other sources, reduced our net debt by over 36% during the fourth quarter of fiscal 1996.

Project Management

Project management is an important key to overall improvement in our operations. During fiscal 1996, our new project management organization completed its first year of support to our operating groups with promising results.

Our project management team has established a performance database and systems for project review which will help us improve profitability of our projects. The team carefully reviews all major contracts prior to finalization to identify and resolve potential problems. It also assessed all operating units to find the best project management practices in the corporation and used them to establish corporate guidelines.

As we have done for our safety professionals, we are giving our project managers the the training they need to maintain and improve their proficiency. This has enabled us to develop project managers who qualify for professional certification in the field.

The Outlook

J. Ray McDermott's Gulf of Mexico operations are working near capacity in one of the most active markets we have seen in the past several years. In the Middle East, the Ras Laffan project will provide a steady level of work through 1998, supplemented by work in India. In the North Sea, J. Ray McDermott's joint ventures are active and its subsea operations are finishing the Foinaven project and preparing to start several others. Southeast Asia holds strong potential, but we do not expect meaningful improvements there in fiscal 1997. A recent project award from Total should improve those operations' profitability in fiscal 1998.

International markets for our power generation equipment will grow as Asia and the Middle East add electrical generating capacity. Our environmental equipment business should improve as two U.S. utilities begin work on environmental control projects and we begin the manufacture of our large scrubber order for Korea. The long-term outlook for the nuclear replacement steam generator market continues strong.

The Naval Reactors program gives our government business a solid base, which we will build upon with our entry into markets for automated production and inspection systems and additional management and operations contracts with the U.S. government.

The market for inland, brownwater barges provides our shipbuilding business with profitable work for its U.S. shipyard over the foreseeable future. In addition, ship repair at our TNG shipyard in Mexico is growing and the deepwater Gulf of Mexico offers exciting added opportunities for TNG.

In our engineering and construction markets, we have exited third-party construction, which removes us from a market which historically carried high risk and low profitability. We will continue to provide construction services for the engineered projects we build for our customers.

Events in our operations in the former Soviet Union during fiscal 1996 are significant to our outlook for fiscal 1997. In Azerbaijan, the sale of our interest in three oil and gas fields in the Caspian Sea shifts our focus to the engineering, offshore, and onshore services offered by our joint ventures there. In Russia, our consortium has notified the government of its intention to commence appraising fields off Sakhalin Island, as is required by the production sharing agreement with the government. When appraisal is complete, the consortium will submit development plans to the government for technical approval. As I have noted before, we will sell our interest in the Sakhalin project, as we did in Azerbaijan, at the proper time.

Our Commitment

The disappointments of fiscal 1996 temper somewhat our expectations for fiscal 1997. At the same time, they increase our resolve to reach our potential. We have proved time and time again that the technical proficiency of our company is unmatched. Today, it is the commitment of your management to create financial returns to match our technical expertise.

Robert E. Howson
Chairman of the Board and
Chief Executive Officer
June 1996

Power Generation Systems and Equipment

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

	1996	1995
Revenues	$ 1,708,566	$ 1,663,235
Segment Operating Income	20,579	13,440
Equity in Income of Investees	36,489	8,364
Backlog	2,261,799	2,130,754

This segment includes the B&W Power Generation and Government groups as well as the power generation operations of the Engineering and Construction and Shipbuilding and Industrial groups.

Revenues from cogeneration projects, defense and space-related products, replacement nuclear steam generators, and industrial boilers were higher during the year. Revenues from service, fabrication, and erection of fossil steam systems, from fabrication and erection of environmental systems, and from nuclear fuel and reactor components for the U. S. government were lower.

Segment operating income was higher in fiscal 1996 because of provisions of $46.5 million in fiscal 1995 for closing manufacturing facilities, including a nuclear facility. In fiscal 1996, volume was higher in replacement nuclear steam generators and defense and space-related products, and margins improved in the replacement nuclear steam generator, fossil steam, and environmental equipment businesses. Margins declined in both cogeneration and operations and maintenance projects; margins and volume declined in service. There was also a $12.6 million write-off of an insurance claim.

The sale of power purchase contracts to a utility created a gain of $30.6 million, which was the primary contribution to the increased equity income.

Marine Construction Services

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

	1996	1995
Revenues	$ 1,590,318	$ 1,390,919
Segment Operating Income	38,447	32,189
Equity in Income of Investees	11,949	25,488
Backlog	1,137,597	1,343,078

J. Ray McDermott, S.A., the company's majority-owned marine construction subsidiary, makes up most of this segment. It also includes the marine operations of the Engineering and Construction and Shipbuilding and Industrial groups.

Revenues were higher in the segment as a result of activity on BP's Foinaven project in the North Atlantic, the addition of business from Offshore Pipelines, Inc. (OPI), increased marine and engineering activity in North America, and the sale of our interest in three Caspian Sea oil fields. Revenues were down in the Far East and in domestic shipyard operations.

The $34.8 million gain from the sale of the Caspian Sea interests increased segment operating income. Excluding the gain, operating income decreased by $28.5 million because of higher amortization expense relating to goodwill and other intangibles resulting from the acquisition of OPI. Margins were lower in the Far East and Middle East, where high-margin projects were completed in fiscal 1995. Volume also was lower in the Far East. In North America, fabrication volume improved, as did fabrication and shipyard margins.

Reduced volume and margins on work performed in the North Sea by the HeereMac and McDermott-ETPM West joint ventures weakened equity income. However, backlog in these unconsolidated joint ventures increased from $1 billion to $1.4 billion during fiscal 1996.

Safety: The McDermott Commitment

In McDermott's businesses, the potential for danger is almost always present. When this danger materializes in the form of an accident or an injury to a McDermott employee, it translates directly into increased costs. In the early 1990s, to attack the high costs associated with the dangers inherent to our workplaces, we implemented a safety program which has not only lowered our costs but also made our workplaces among the safest in the world.

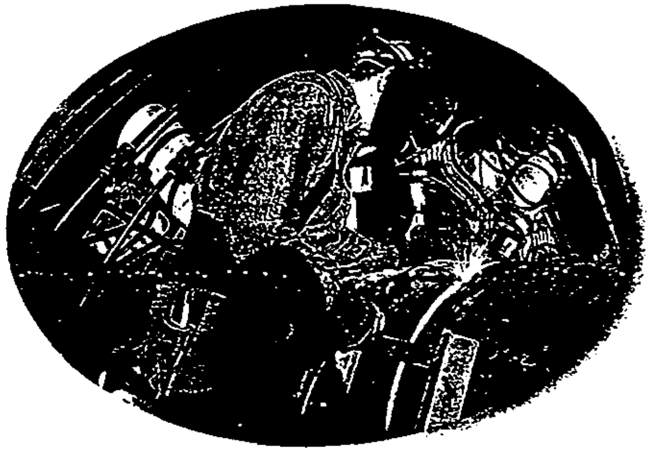
Our first initiative was to implement a comprehensive safety policy to reduce the frequency of accidents and create a healthy working environment. In fiscal 1991, the year prior to the policy's implementation, our lost workday incident rate was about 3.6. By the end of fiscal 1992, we had cut the rate to 1.9. The rate is derived from a standard industry formula which calculates a ratio of time lost to manhours worked.

While the improvement was significant, our goal was an injury free workplace. At the end of fiscal 1993, we created a new program called Target Zero and challenged our operations to hit the target. In fiscal 1994, the first year of the program, 39 company operations reported one or more quarters with no lost workdays. They represented over 50 percent of the manhours the company worked during the year. The result was an incident rate of .96.

In fiscal 1995, 44 company operations reported one or more quarters without a lost-time incident, six meeting the target for the entire year. The incident rate for the year was .51. In the fiscal year just completed, the rate dropped to .49; 47 operations hit Target Zero for at least one quarter, 17 for the entire year.

Our safety programs have provided a substantial financial benefit. Workers' compensation costs have dropped from a high of about $60 million in fiscal 1991 to about $17 million in fiscal 1996. Other insurance costs have dropped as well, saving more than $10 million in fiscal 1996.

This improvement has come with hard work by our corporate safety staff in concert with our safety council and our employees, who have been trained to recognize hazardous situations and been given the authority to stop work until a hazard or unsafe condition is corrected. The council consists of the McDermott safety professionals who designed the Target Zero program. Richard E. Woolbert,

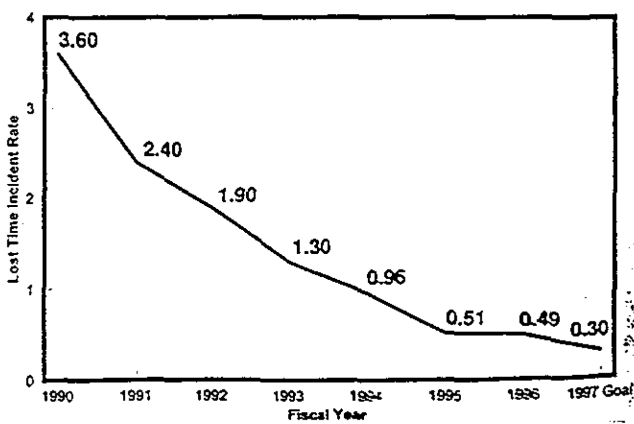


Target Zero teaches our employees the proper use of safety equipment.

executive vice president and chief administrative officer, who has been responsible for the corporate safety effort since 1990, sponsors the council.

Our experience proves our goal of an injury-free workplace is obtainable. As we move toward the goal, our operating costs have dropped substantially, a factor that has been extremely important in the competitive market places we have faced during the 1990s and will continue to be important as we anticipate improvements in coming years.

McDermott International, Inc.
Continuous Safety Improvement



Mike H. Lam
President
Marine Construction
Services

James J. Wildasin
President
Europe and Subsea
Development

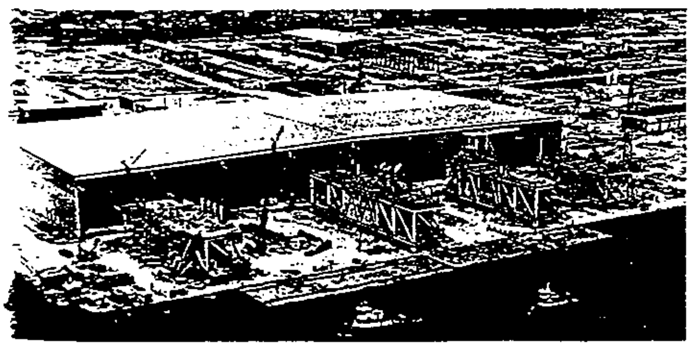
J. Ray McDermott, S.A.

McDermott International, Inc. is the majority shareholder in J. Ray McDermott, S.A. (JRM), a new company which completed its first year of operation during fiscal 1996. J. Ray McDermott, formed by the merger of McDermott Marine Construction and Offshore Pipelines, Inc. in January, 1995, provides engineering, design, fabrication, transportation, and installation for offshore developments around the world.

Deepwater Sets Trend for North America

J. Ray McDermott ended fiscal 1996 with a growing backlog and one of the most dynamic markets in recent years. Deepwater projects in the Gulf of Mexico supplied much of the work undertaken in fiscal 1996 as well as an outlook for substantial new work over the next several years.

Deepwater projects included topsides for Shell's Mars and Ram-Powell tension leg platforms (TLP). Mars topsides were completed and mated with the hull. The platform will operate in 2,984 feet of water, a depth record which will be broken in fiscal 1998, when Ram-Powell is installed in 3,228 feet of water. JRM's HeereMac joint venture has installation contracts for both Mars and Ram-Powell.



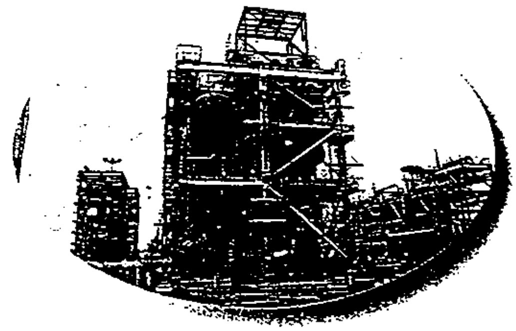
Deck modules for the Mars TLP, JRM's second TLP project for Shell, were completed at the Morgan City, Louisiana fabrication yard. Modules for Shell's next TLP are now under construction at the yard.

JRM is fabricating the deck for Oryx Energy and CNG Producing's spar platform, which the company will install in 1,930 feet of water during fiscal 1997. JRM has also been awarded work valued at about $150 million on a spar platform for Chevron, which will be installed in 2,600 feet of water in the summer of 1998.

JRM's marine operations installed just under 300 miles of pipelines in the Gulf of Mexico. To improve deepwater services, JRM built a pipelay reel and brought into service the McDermott Automatic Welding System, which completed welds on the 24-inch Mars pipeline.

Far East Completes Projects

In the Far East, JRM completed several major projects in fiscal 1996 and after the end of the fiscal year received a $180-million contract to fabricate and install platforms for Total's Yadana development, the first offshore development in Myanmar.



Modular construction creates an advantage for installation of the aromatics plant at a site in Singapore.

JRM's Malaysian joint venture completed installation of over 250 miles of gas trunklines for Sarawak Shell Berhad's MLNG 2 project, and JRM began fabrication of the jacket for Esso Malaysia's Lawit A project.

In a non-traditional market, JRM fabricated over 100 modules weighing about 10,000 tons for an onshore aromatics plant being built by Foster Wheeler. The modules will be installed on a site in Singapore.

JRM's Far East operations began installation of a pipeline for the Westminco East spar project in Australia, and in Thailand were awarded four platforms for Total Thailand's Bongkot field. The award from Total extends JRM's involvement in the field to a sixth year and gives the work a total value over $400 million.

Middle East Activity Turns Upward

The highlight of fiscal 1996 in the Middle East came near year's end when JRM's McDermott-ETPM East joint venture was awarded a contract to complete upstream facilities for the Ras Laffan liquefied natural gas project.

This project, the most significant of its type in the region, includes options for offshore facilities to support two additional liquefaction trains. Total value could exceed $500 million.

The Ras Laffan project continues our long-term association with oil and gas development in Qatar, and the development of Qatar's massive North Field natural gas reserves.

McDermott-ETPM East's fabrication facility in Dubai continued to support offshore development in Africa, completing a 4,000 ton structure for Elf's Cobo development off the Congo. The joint venture was awarded several contracts for work in India, including wellhead platforms and a process platform for Enron Oil and Gas (India) Ltd. The total value of the Enron contracts exceeds $100 million.

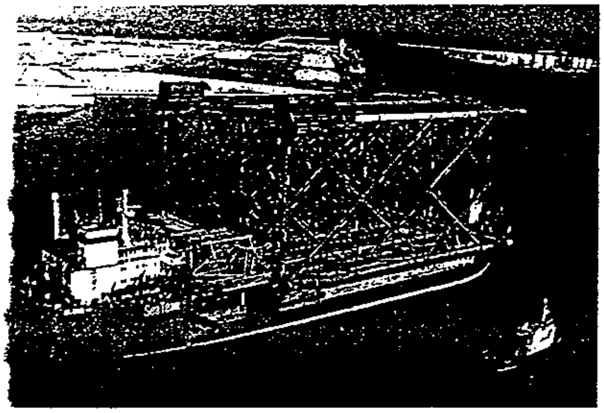
Foinaven Sets Subsea Pace

During fiscal 1996, JRM reached several milestones on the Foinaven project west of Shetlands in the North Atlantic, the most ambitious subsea project yet undertaken by the oil industry.

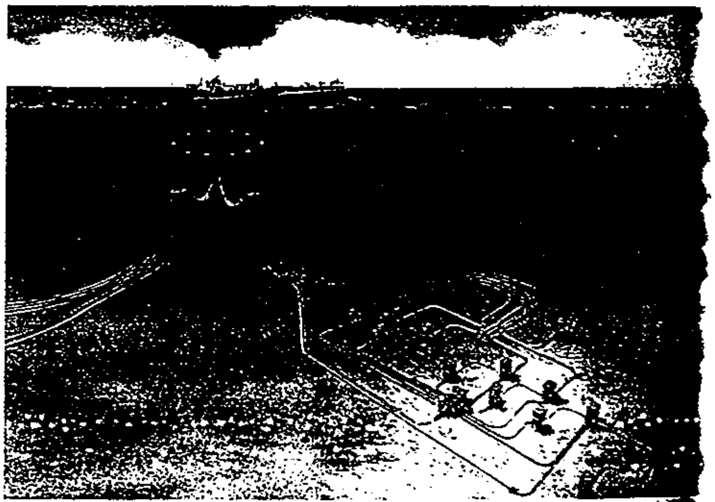
JRM's MSV *Norlift* installed about 25 miles of pipe in record depths of 1,640 feet. A second vessel, the MV *Northern Explorer*, laid umbilicals for the Foinaven project's control system at the same depths.

The Foinaven floating production, storage, and offloading (FPSO) vessel is expected to be delivered in Summer, 1996. Work on the hull was completed by JRM's partner, Golar-Nor, in October, 1995, while JRM delivered the final topside unit in December, 1995, just 13 months after the project was sanctioned.

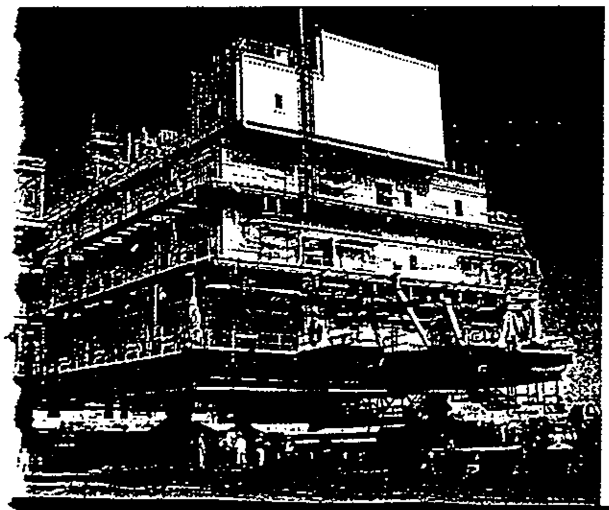
JRM has a second major subsea project, Shell UK Exploration and Productions's Teal, Teal South, and Guillemot development, underway in the Central North Sea. The $60-million project is scheduled for completion this summer.



The Jebel Ali yard has built a number of structures for areas outside the Middle East. Here, a jacket leaves the yard for Africa.

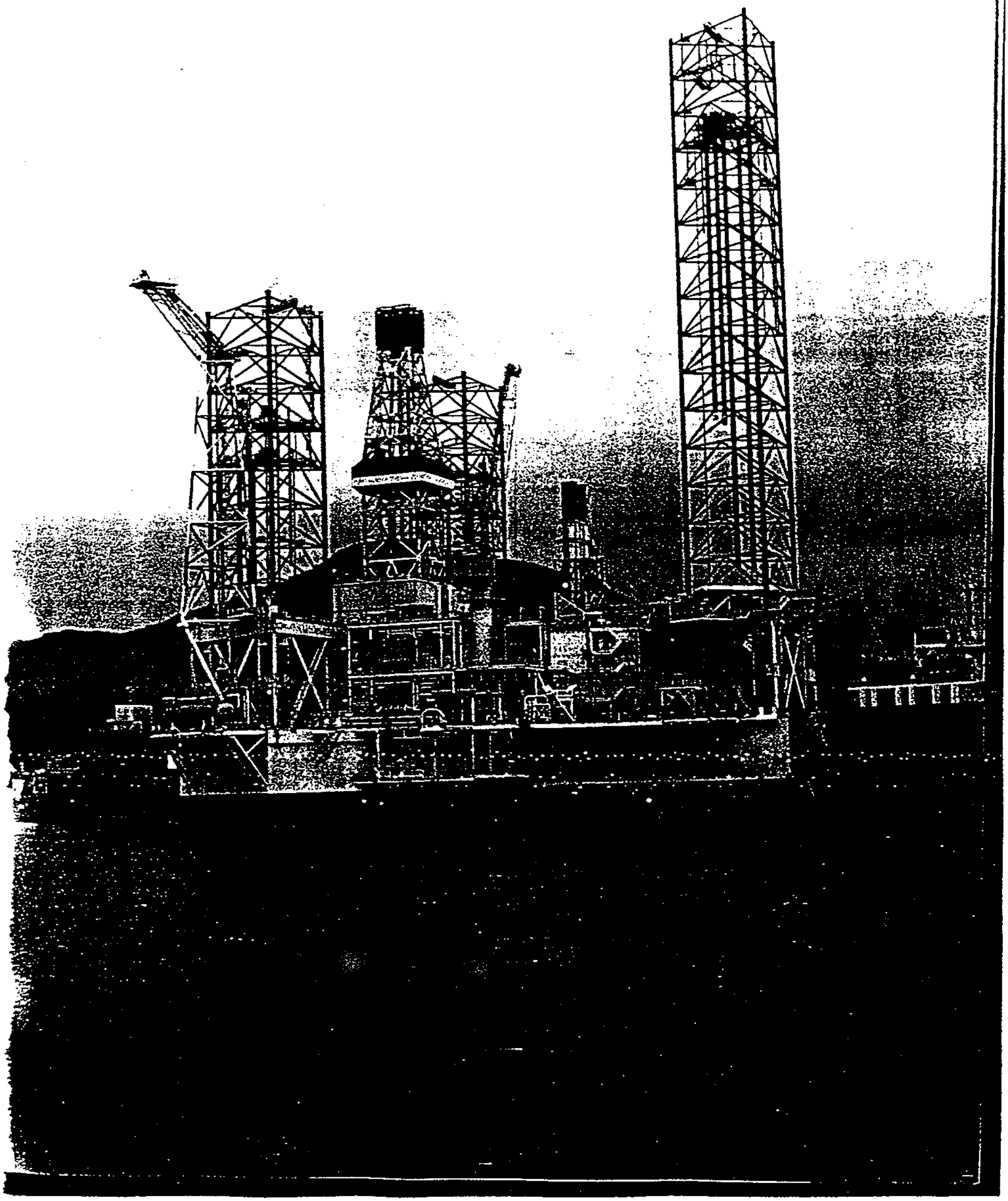


A schematic of the Foinaven subsea development in the North Atlantic shows the subsea complex engineered and installed by J. Ray McDermott.



Our long-term association with oil and gas development in Qatar continued at our fabrication yard in Jebel Ali, Dubai, with this quarters facility fabricated for the North Field gas development.

The TPG 500, the world's first "self-installed" platform, was developed and marketed by a J. Ray McDermott consortium for a North Sea field. Two more TPG 500s are in design.



A Self-Installed Platform

In the North Sea's Harding field, JRM completed the TPG 500 platform for BP, the world's first "self-installed" platform. The TPG 500 is a heavy-duty jack-up platform developed and marketed by a consortium of Technip-Geoproduction and McDermott Marine Construction Limited (MMCL), JRM's subsidiary.

Technip-Geoproduction designed and engineered the structure, including the jacking and locking systems for the platform's legs, and MMCL provided engineering for the design of the production facilities and systems mounted on the platform. MMCL is currently working on the front-end engineering design of TPG 500s for Elf Exploration UK and Shell.

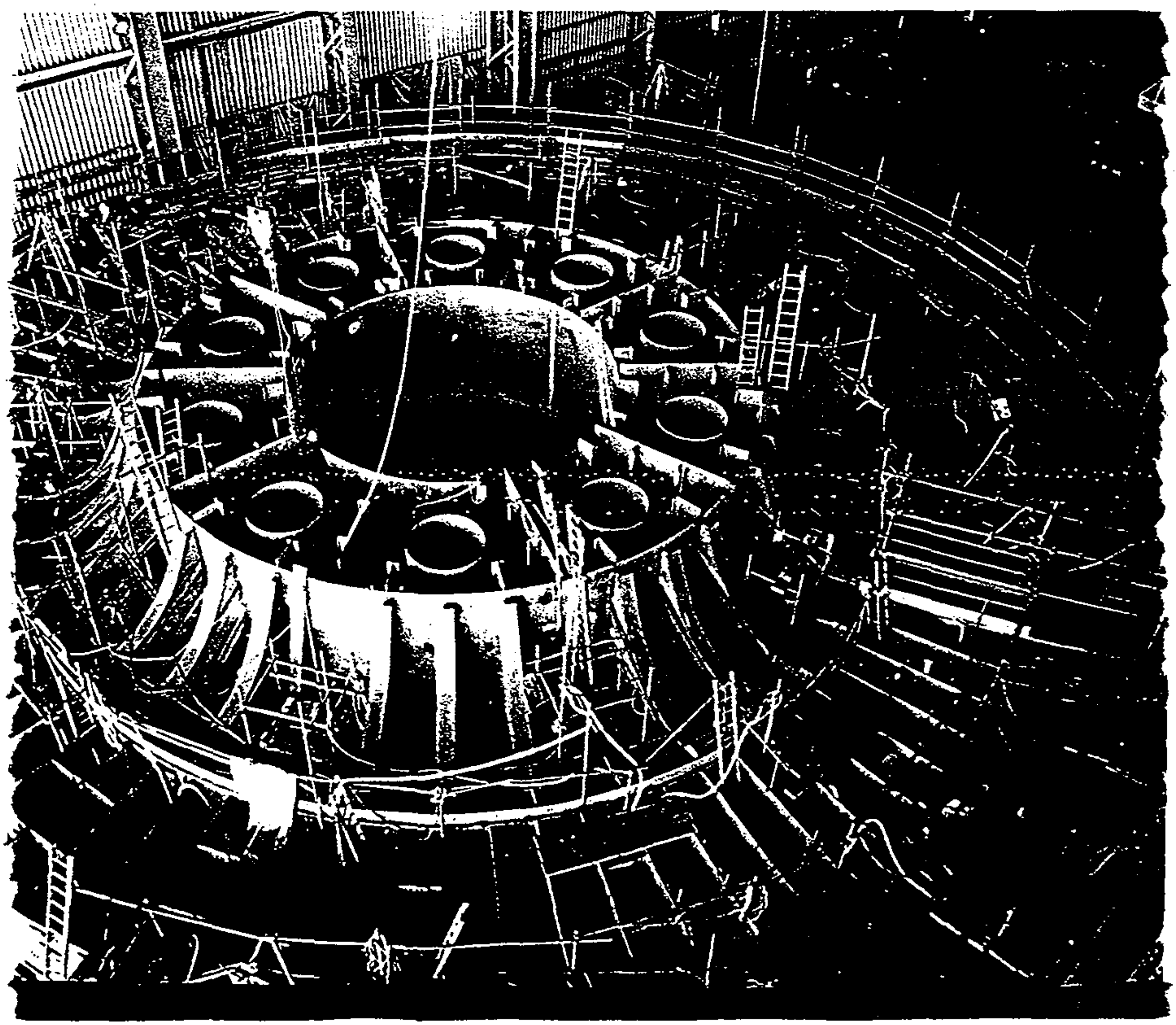
Joint Ventures

BARMAC, JRM's fabrication joint venture with Brown & Root Limited, delivered the turret for the Foinaven FPSO and completed Conoco's Ganymede platform. The joint venture also received orders totalling about $130 million.

At the joint venture's yard at Nigg, Scotland, the existing graving dock is being upgraded to meet the expected growth in demand for floating production systems.

JRM's HeereMac and McDermott-ETPM joint ventures reported a decline in activity in fiscal 1996. However their backlog is growing and includes a $230-million contract between McDermott-ETPM West and Statoil for the installation of over 1,200 miles of pipelines in the North Sea. Work on the project began after the close of the fiscal year.

The turret for the Foinaven FPSO was fabricated in Scotland by BARMAC, our joint venture with Brown & Root Limited.



Walter E. Boomer
Executive Vice President
President
Babcock & Wilcox Power Generation Group

Babcock & Wilcox Power Generation Group

The B&W Power Generation Group continued to benefit from a strong international market for fossil power systems in fiscal 1996, booking over $450 million in work from markets outside the United States.

This market will remain vigorous for the foreseeable future, as will our participation in it. Our boiler manufacturing facilities serve markets which are forecasted to buy more than 80% of the fossil steam equipment ordered over the next 10 years, and we are exploring strategies to serve the remainder.

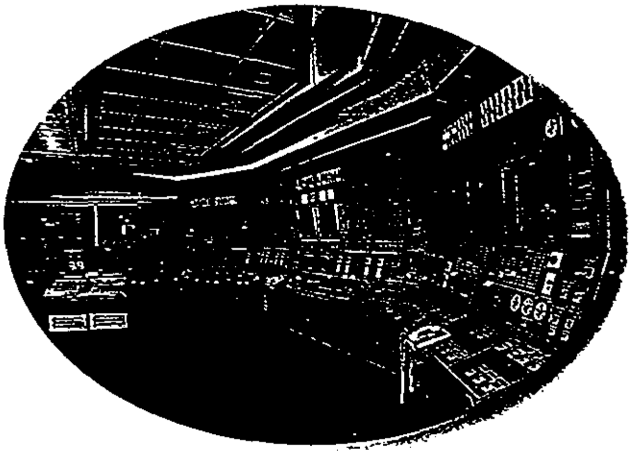
As the market grows, the group has improved operations and responsiveness to customers. A new organization emphasizes products and services rather than geography, reducing operating costs and eliminating functional duplications.

Working with the McDermott International project management organization, the group implemented new policies to improve its own practices. It has also implemented a re-engineering process it calls span reduction, an effort that will result in every process being updated, streamlined, and performed more efficiently.

New Power Projects

New power generation projects, both completed and awarded during fiscal 1996, continued at a steady pace. The group completed Black Hills Power & Light's 80-megawatt coal-fired boiler at Gillette, Wyoming ahead of schedule. In recognition of its technologies, the plant received the 1995 Public Service Award for Energy and Environmental Achievement from the American Boiler Manufacturers Association.

Other major utility projects were completed in Florida, Taiwan, and China, while work is now underway on multi-year boiler projects in Israel, Indonesia, Egypt, and China.



The control room of the 440-megawatt plant completed for the Orlando Utilities Commission.

During the 1990s, B&W has been a leader in the world's boiler markets. Among the orders B&W won in fiscal 1996 were:

- The 1,320-megawatt Tanjung Jati B project in Indonesia, worth about $200 million; the project includes boilers, environmental equipment, and related work.
- In Egypt, the Sidi Krir and Ayoun Moussa projects which will use B&W boilers to produce a combined 1,280 megawatts; the projects are valued at about $110 million.
- A 1,900-ton-per-day black liquor recovery boiler for Zellstoff Pöls AG of Austria, the first B&W boiler sold in Central Europe in several decades. The contract adds more than $20 million to our backlog.

New Strength in Enviromental Equipment

The group captured a major environmental contract in Korea, worth about $100 million. Under the contract, we will supply technology and equipment to Hyundai, our Korean licensee, for 10 wet scrubbers to be installed at two Korean power plants.

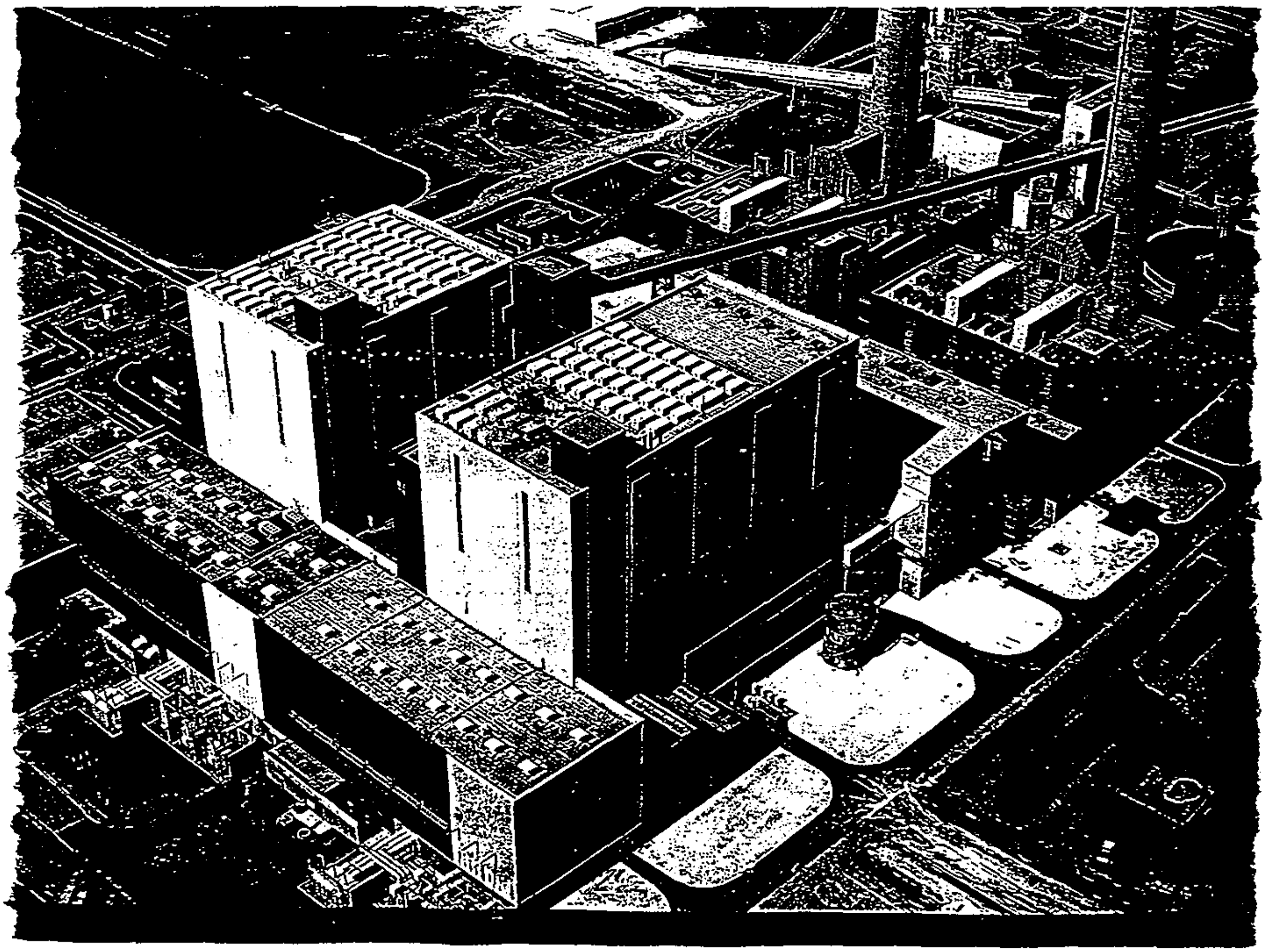
Projects in the Western United States should boost the group's U.S. environmental business in fiscal 1997. We are working with Public Service Company of Colorado and Public Service Company of New Mexico on environmental projects which could exceed $100 milion in value.

Services for Operating Plants

B&W's service organization filled about ten thousand orders for replacement parts, ranging in cost from $5 to $5,000,000. An Electronic Data Interchange with our customers and improved internal processes speed delivery of these products. To provide North American customers with a complete solution for maintenance and repair, the group closely integrates field construction personnel and headquarters customer service personnel.

Deregulation of the electric power industry means our U.S. customers are looking for ways to generate electricity more economically. The Power Generation Group is responding. The Assured Stock Program® maintains an inventory of parts for 30 companies, reducing their carrying costs while assuring timely delivery. For Union Electric, B&W is upgrading a boiler originally manufactured by another company to improve reliability and competitiveness of the power plant.

The Power Generation Group completed two power plants in the United States during fiscal 1996, including this Orlando Utilities plant.



Private Power Systems

Owning and operating power plants provides a continuous stream of income after construction. Today, we are affiliated with seven such projects and developing new ones.

National Ecology, Inc., a B&W subsidiary, is supplying a materials processing and recovery facility to Monmouth County, New Jersey, under a $64-million contract that includes a 10-year operating and maintenance agreement.

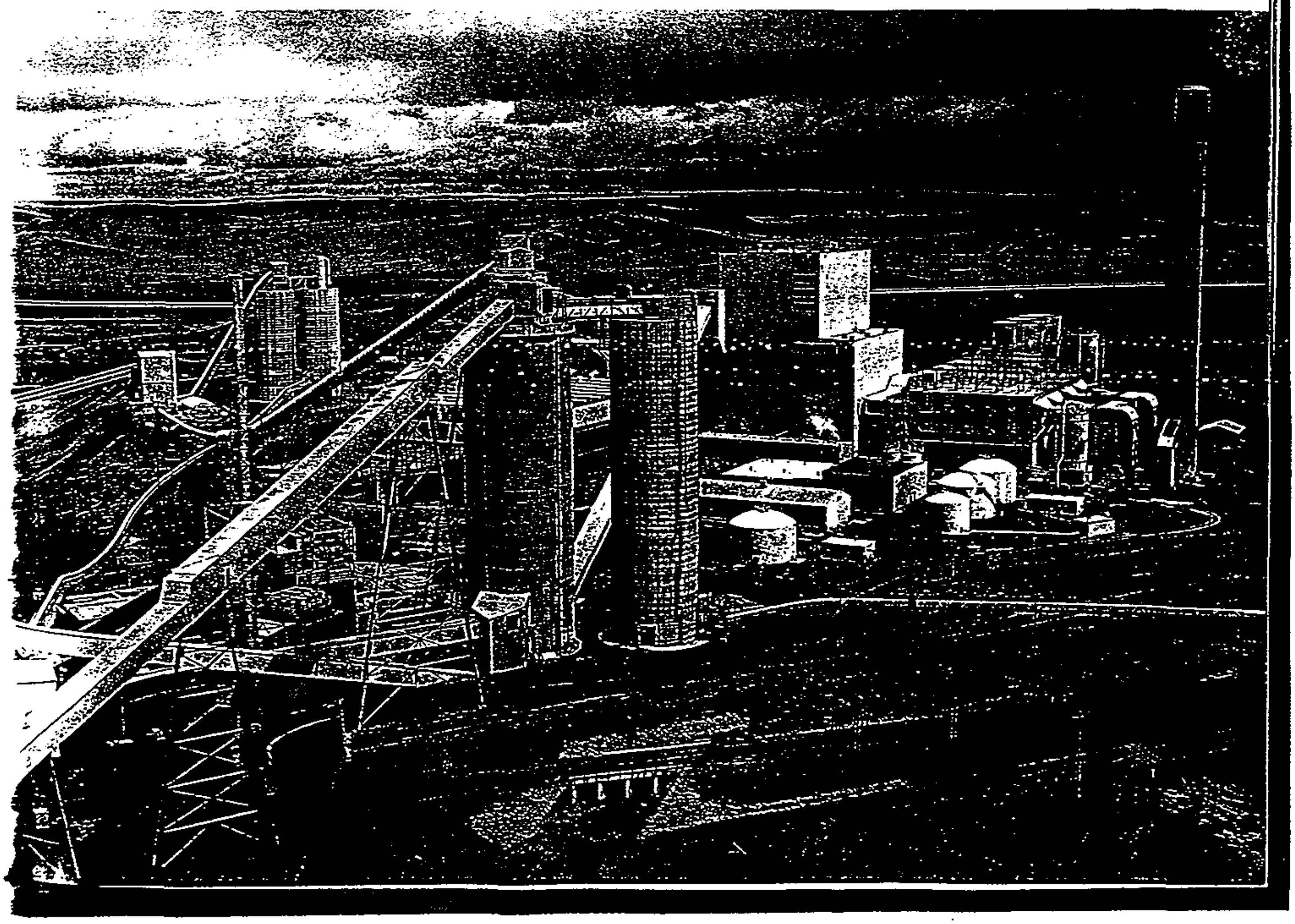
The emergence of independent power producers (IPPs) is changing the nature of the power generation business. Many of our long-time customers have developed IPPs to expand their operations beyond the United States. With a worldwide presence and reputation for innovation, B&W is prepared to meet the needs of these customers.

Worldwide Presence

The Power Generation Group's success in world markets can be traced to joint ventures. Since the mid-1980s, these ventures have given it a presence and competitive source of supply in Asia, India, and the Middle East.

To become more competitive in the remainder of the world's markets, the group is exploring joint ventures in Eastern Europe and the former Soviet Union, as well as South America.

This 80-megawatt coal-fired power plant, completed by B&W in South Dakota, won an energy and environmental achievement award from the American Boiler Manufacturers Association.



Nuclear Replacement Steam Generators

The group completed the shipment of two nuclear replacement steam generators (RSG) for Rochester Gas and Electric during fiscal 1996 and shipped four more to Duke Power.

While there were no new orders for RSG's in fiscal 1996, we expect as many as 90 will be ordered over the next 10 years by U.S. utilities. Value of the orders could average about $100 million a year. Since 1991, B&W has captured over 60% of this market.

Diamond Power Specialty Company

Diamond Power expanded significantly with the acquisition of Joy Environmental Technologies' ash handling business.

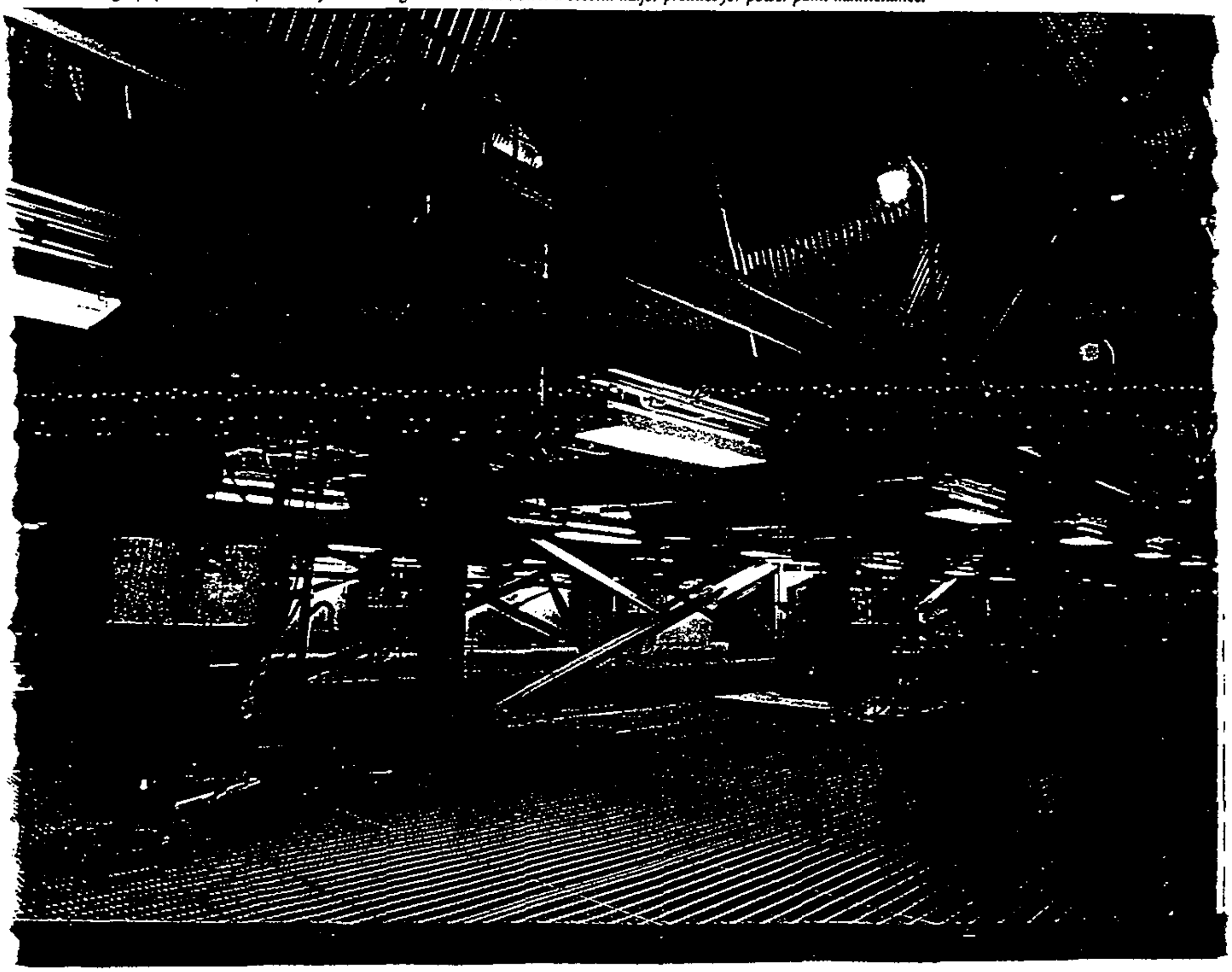
For many years, Diamond Power has been the world's leading supplier of boiler cleaning and diagnostic equipment and services to the power generation industry.

The addition of Joy Environmental's Allen-Sherman-Hoff™ (A-S-H™) ash handling systems gives Diamond Power the opportunity to expand into a second major area of power plant maintenance. A-S-H technology is used in about 40% of the power plants in the United States, where there is a large market for service, and in a growing number of plants in the Pacific Rim, where there is a demand for new sytems.

The market for Diamond Power's boiler cleaning equipment was driven by services at operating pulp and paper mills. Demand for service rose with the steady increase in consumption of paper. Utilities also contribuited to the market.

The company reintroduced ISIT™ (insulated steam-injection tubing) to a receptive market. The tubing is used to inject steam downhole for the growing worldwide heavy-oil recovery market

The ash handling equipment line acquired in fiscal 1996 gives Diamond Power a second major product for power plant maintenance.



Joe J. Stewart
Executive Vice President and
Chief Project Management Officer
President
Babcock & Wilcox Government Group

Babcock & Wilcox Government Group

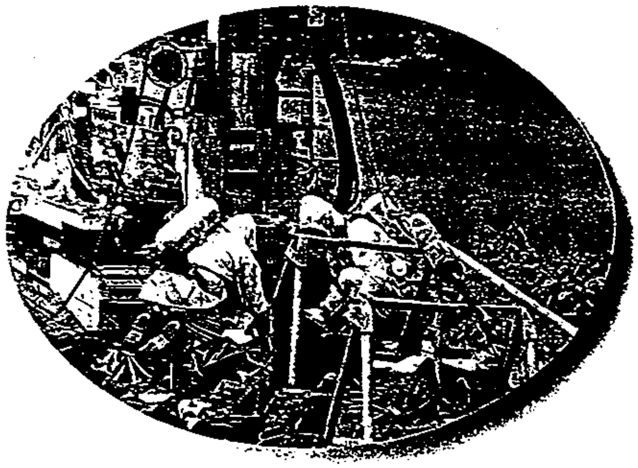
The Naval Reactors program continues to be the Babcock & Wilcox Government Group's largest customer. The group received orders from the program totalling over $375 million in fiscal 1996, including work on fuel and propulsion plant components for the Navy's new attack submarine. B&W continues to be the sole supplier of these products and is working closely with the Navy to ensure that nuclear power will continue to be an affordable option in the future. This initiative includes efforts to cut costs and improve the schedule required to manufacture our products and underscores our commitment to support the Naval Reactors program.

New Projects

The group's nuclear expertise helped us to diversify into unique projects during the year. Through the United States Enrichment Corporation (USEC) for the U.S. Department of Energy, we received a contract to down-blend highly enriched uranium from the former Soviet Republic of Kazakhstan, making us one of the first U.S. companies to process special nuclear material as part of a government-to-government non-proliferation agreement. We also received USEC contracts for work on a space-based propulsion system and for work on a new process which uses lasers to enrich uranium for nuclear power plants. Phillips Laboratory awarded us a contract for work on a B&W-patented space-based power and propulsion system.

In recent years, the Government Group has used resources developed for Navy work to move into related fields, spanning a variety of markets. One of the most successful efforts has been our entry into government M&O (management and operations) contracts. B&W Federal Services, Inc., a subsidiary formed to work in this market, recently began work at the Rocky Flats Environmental Technology Site in Colorado. Our portion of this work, which is being done through a company owned jointly with Westinghouse, is expected to equate to $500 million over five years.

Including Rocky Flats, we currently have four M&O contracts at DOE sites and we are pursuing other opportunities, including the contract for the Department of Energy's Savannah River site, where we are again teamed with Westinghouse. Our capabilities in the industry are reflected by the record award fee scores we received during 1995 at the Idaho National Engineering Laboratory and the Strategic Petroleum Reserve.



B&W NESI conducted a $70-million decontamination and decommissioning program at a site in Apollo, Pennsylvania.

Our B&W Nuclear Environmental Services, Inc. (B&W NESI) subsidiary completed the decontamination of a B&W site in Apollo, Pennsylvania and has applied for the site to be released by the Nuclear Regulatory Commission (NRC) for unrestricted use. B&W NESI has also submitted a plan to the NRC for decommissioning the former B&W facility in Parks Township, Pennsylvania. While the company has previously taken a charge for the decommissioning, we anticipate the U.S. government will help cover the costs because of the facility's substantial role in prior government programs.

B&W NESI leads a team that includes McDermott Shipbuilding in a $25-million contract to build a barge-mounted liquid radioactive-waste treatment plant to process low-level nuclear waste. The plant, which will be located near the Russian port of Vladivostok, is scheduled to be complete in late 1996.

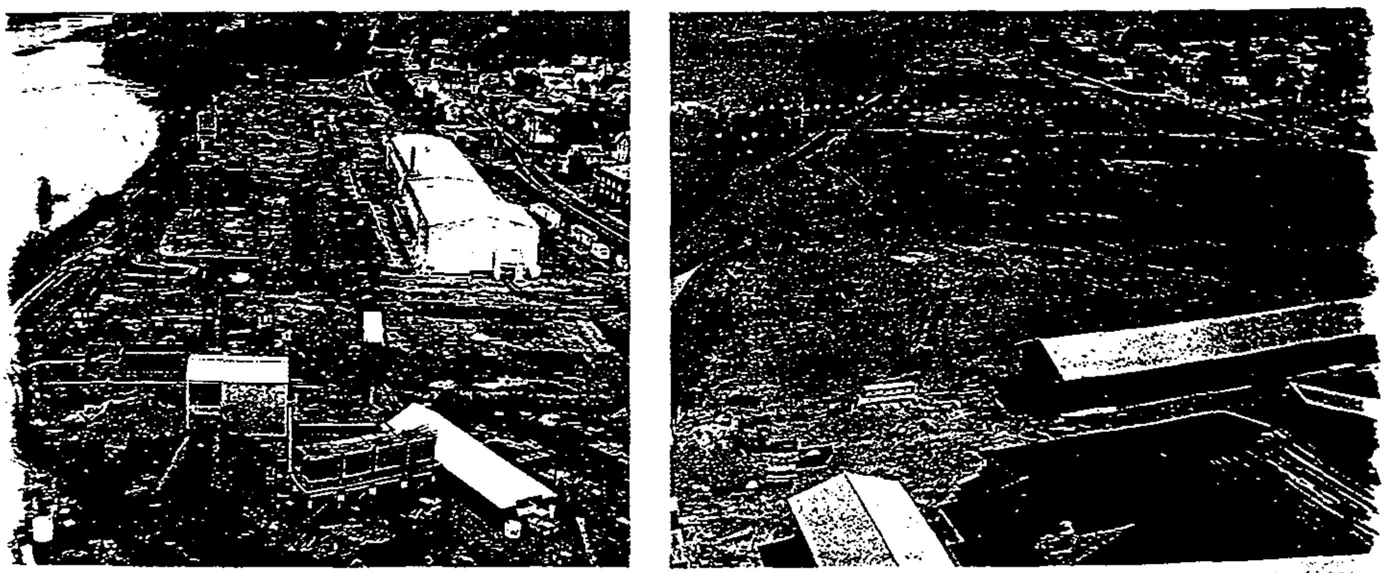
Manufactured Systems and Technology

The group's Manufactured Systems and Technology division's first commercial product, Temate™ 2000, received the prestigious R&D 100 award from *R&D Magazine* as one of 1995's most significant new products. Temate 2000 is an electromagnetic acoustic transducer which inspects coil-to-coil welds in sheet steel production lines in a fraction of the time required for visual inspection, the industry's standard practice. Results to date far exceed the accuracy of any other such inspection device.

The division completed design, fabrication, and field trials of a demonstration model of a new Temate product, the Temate 5000, designed to detect subsurface cracks in steel production rolls. Deliveries are scheduled to begin in July, 1996.

The first production application of another new product, the programmable automated welding system (PAWS), was also completed and delivered to the U.S. Army's Rock Island Arsenal. PAWS, which was delivered under a contract with the Army, has been developed in conjunction with the company's Research and Development Division and is scheduled to enter its commercialization phase with a pilot installation in a U.S. shipyard this year.

In other defense-related markets, the group has been instrumental in research, development, and manufacturing of mine and mine countermeasure systems for all branches of the U.S. Armed Forces. The group formed a Defense Systems unit for this market, and the unit was included in a team of companies selected to demonstrate and validate new concepts for clearing land and shallow water mines.



Before and after photos of the Apollo site. The plant fabricated nuclear fuel. B&W NESI cleaned up the site and has applied to the Nuclear Regulatory Commission to release it for unrestricted use.

Brock A. Hattox
Executive Vice President and
Chief Financial Officer
President
Engineering and Construction Group

Engineering and Construction Group

McDermott's Engineering and Construction Group increases our competitive capabilities in onshore engineering and project management for oil and gas, hydrocarbon processing, and power generation projects worldwide. The group also manages McDermott's operations in the former Soviet Union.

Delta Hudson Engineering

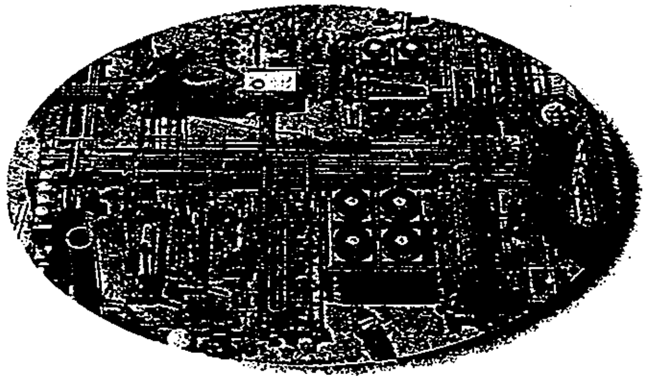
During fiscal 1996, the group completed the acquisition of Delta Catalytic Corporation, which together with Hudson Engineering Corporation, forms Delta Hudson Engineering. The combination created a company with international experience capable of competing anywhere in the world for engineering, procurement, and construction management.

In Saudi Arabia, Delta Hudson was awarded a project with Saudi Aramco, the world's largest oil producer, for the front-end engineering and design of a debottlenecking project at a gas processing plant.

In New Zealand, Delta Hudson is providing engineering and construction management for a 115-megawatt cogeneration facility for TransAlta Energy Inc. of Calgary, Alberta and Mercury Energy of New Zealand. It also won the design of a major heavy-oil project for Imperial Oil Ltd. (Exxon) of Canada for phases 11 and 12 of the Cold Lake heavy-oil development. Our experience with heavy oil offers us opportunities in Canada, where production from oil sands is forecast to expand, as well as in other regions of the world.

In the United States, Delta Hudson completed the first year of a three and a half year project to degasify oil stored in the Strategic Petroleum Reserve in Texas and Louisiana. The oil is removed from underground storage caverns, degassed, and replaced in the caverns. Delta Hudson designed and fabricated innovative portable units to perform the process.

In the fourth quarter of the fiscal year, Delta Hudson entered a business agreement with Stewart & Stevenson Services to build and sell pre-engineered power barges based on Stewart & Stevenson's packaging technology for the GE LM6000 gas turbine. The high reliability of the turbine and the mobility created by mounting it on a barge has attracted significant attention as an option to provide immediate power in underdeveloped nations.



Delta Hudson designed portable units to degasify oil stored in the Strategic Petroleum Reserve.

The design offered by Delta Hudson and Stewart & Stevenson mounts two 40-megawatt units burning natural gas, diesel, or naphtha fuels.

Delta Hudson has identified other technology targets, including liquefied natural gas developments. We continue to work with Chiyoda Corporation of Japan in this market.

The Engineering and Construction Group exited third-party construction in fiscal 1996 to focus on construction support for projects which we manage and on industrial maintenance services. This shift lets us avoid high labor costs and competitive markets found in pure construction while we retain the capability to manage or support the construction of any project.

supplies fans to the majority of cooling tower manufacturers in the United States and to an increasing number internationally.

Hudson's success has been accomplished in part because of its Total Quality Management program, which increased efficiency and improved productivity. In 1996, Hudson intends to reintroduce its heat-pipe heat exchanger, which uses water as a heat-transfer medium, to the hydrocarbon processing industry.

Menck GmbH

Menck GmbH, our German subsidiary which manufactures pile-driving hammers, benefitted from growth in the Gulf of Mexico's deep-water market. The company installed a pile in a record depth of about 4,100 feet for the evaluation of Shell's Ursa project. Menck also successfully operated a deepwater pile driving system from a drilling rig for the first time. Driving piles from a drilling rig instead of a derrick barge could lower costs for our customers.

Technical Operations

During fiscal 1996, our technical operations, consisting of the Research and Development and Contract Research (CRD) divisions, continued to support technology across McDermott International.

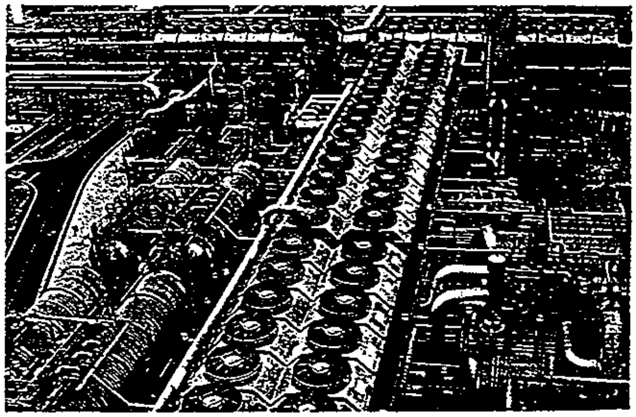
They started up the $20-million Clean Environment Development Facility (CEDF), the world's most advanced facility for the study of fossil-fuel combustion and emission control. It will be an important part of our ability to meet the needs of our power generation customers in the next century.

One of the facility's first efforts was a study of the control of air toxics, such as heavy metals, during the combustion of coal. The multi-phase study has already indicated it will result in technologies that will benefit our coal-burning customers as well as the environment.

Other programs at the CEDF include continued improvements in B&W's XCL burner, which reduces NOx emissions from coal, and tests of oil/gas burners, also designed to reduce NOx emissions.

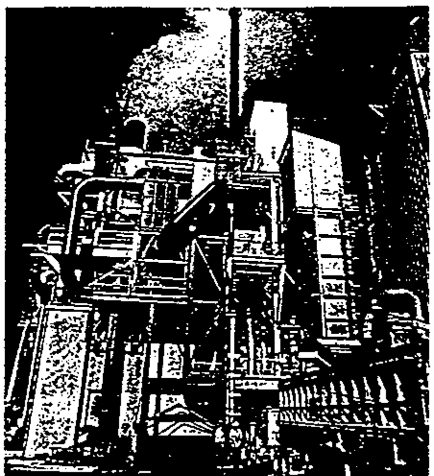
Our technical operations helped other McDermott divisions improve the way they work, modeling the manufacturing operations at shipbuilding facilities and assisting the Power Generation Group's span reduction program. The CRD helped McDermott Shipbuilding win the contract for the conceptual design of a mobile offshore barge.

Technical operations have also been instrumental in developing a programmable automated welding system under the auspices of programs in the Department of Defense. The U.S. Navy is planning to implement a pilot commercial system to automate welding in a U.S. shipyard during calendar 1996. In another welding program, the Research and Development Division helped Diamond Power Specialty Company cut weld cycle times and the cost of tube-to-tube welds.



Hudson Products installed Fin-Fan® air-cooled heat exchangers at a refinery on the west coast of the United States.

The Clean Environment Development Facility is the world's most advanced facility for the study of fossil-fuel combustion and emission control.



Former Soviet Union

The group continues to focus on services for the development of Caspian Sea oil and gas fields in conjunction with our business ventures in Azerbaijan. We have negotiated a contract with the Azerbaijan International Operating Company to refurbish offshore facilities for early oil production. The contract will be performed by our operations in Baku in conjunction with our local affiliates there.

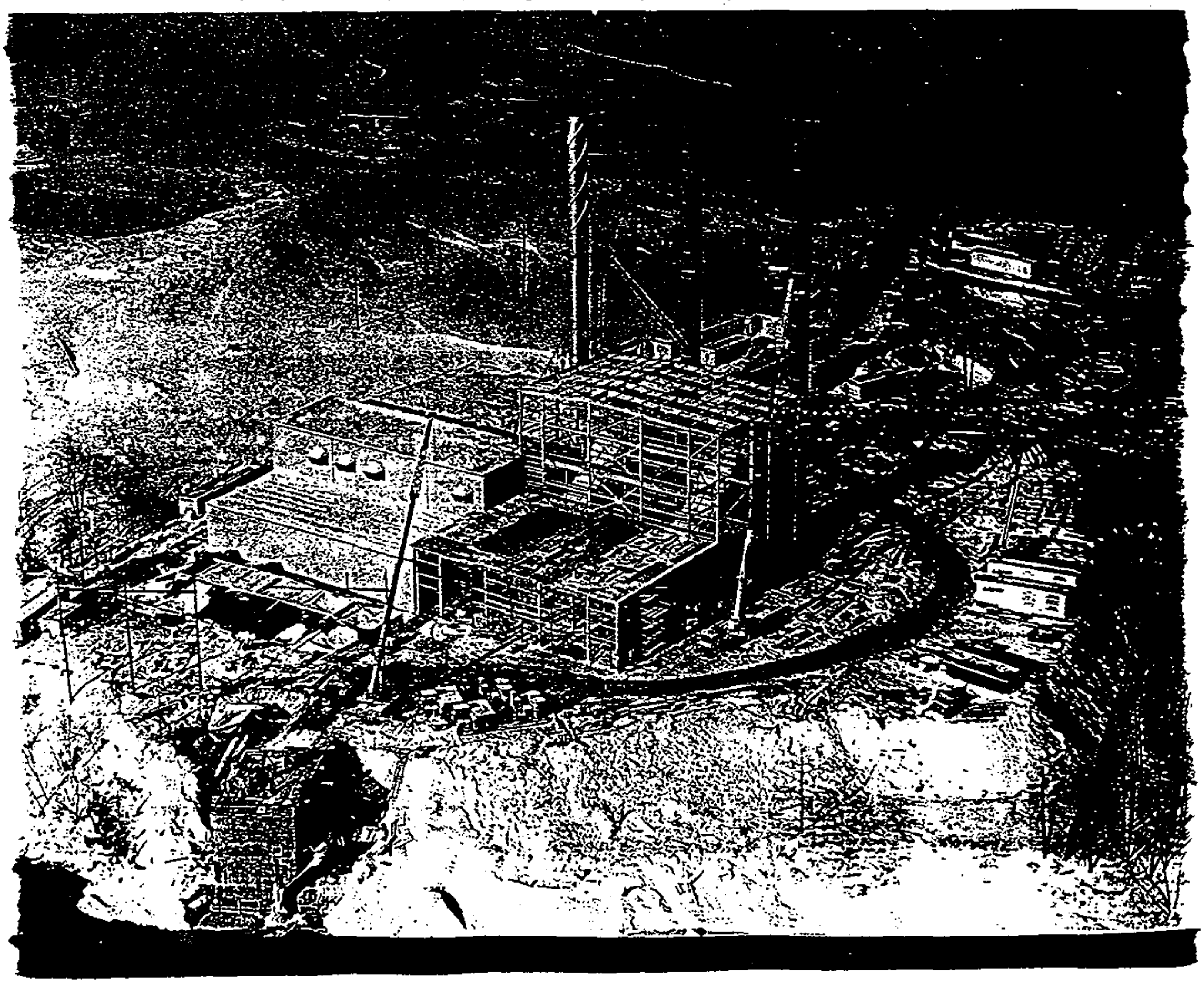
We are also bidding on the installation of over 150 miles of oil and gas pipelines in the Caspian Sea.

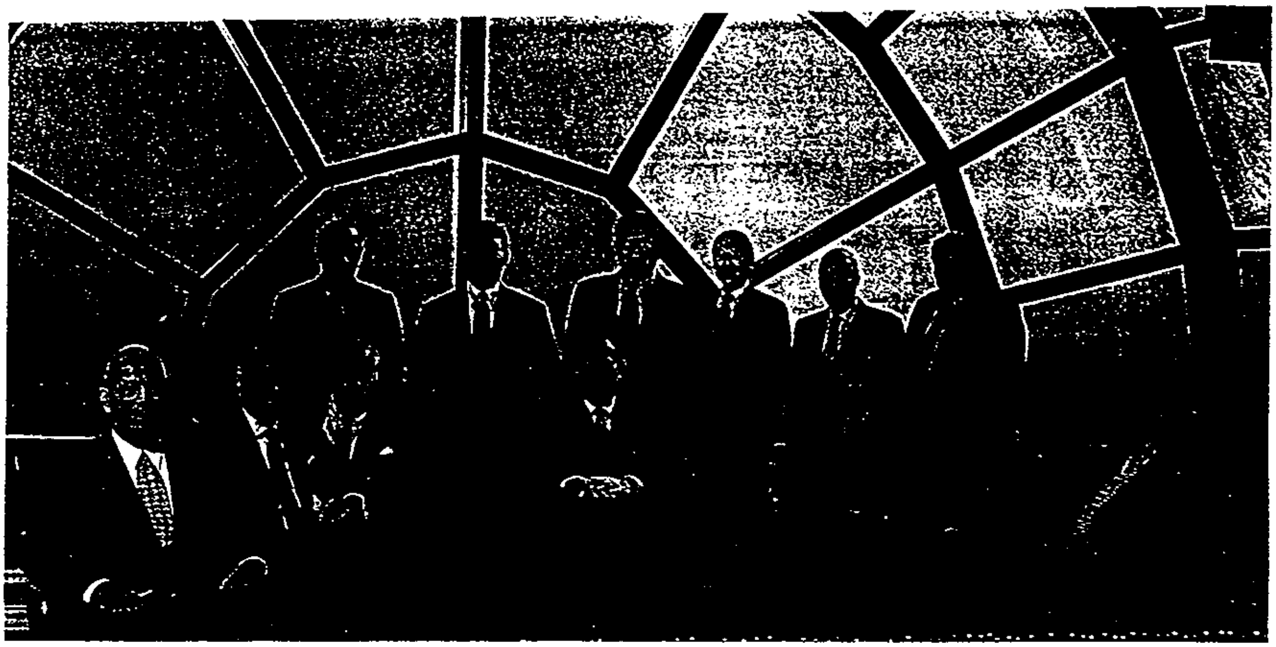
The agreement on export pipeline routes from the Caspian to the Black Sea has increased activity in the region and we have begun to upgrade fabrication facilities in Baku, refurbish marine construction equipment in the Caspian Sea, and train local workers to meet international standards.

Our second major project in the former Soviet Union, the Sakhalin II development in the Russian Far East, was approved and received a license under Russia's new production sharing law.

In a third project, we are studying the infrastructure that would be needed for offshore oil and gas production in the Kazakhstan sector of the Caspian Sea and providing technical assistance to develop local support industries for offshore activities.

In Canada, Delta Hudson is completing construction of a 110-megawatt cogeneration facility which will provide steam and electrical power.





Seated, L-R: James L. Dutt, John F. Bookout, Theodore H. Black, Robert E. Howson, William McCollam, Jr., John N. Turner, John W. Johnstone, Jr.
Standing, L-R: John A. Morgan, Brock A. Hattox, Thomas D. Barrow, Phillip J. Burguieres, J. Howard Macdonald, James A. Hunt.

Directors

Robert E. Howson [5,7,8]
Chairman of the Board and
Chief Executive Officer

Thomas D. Barrow [1,4,6,8]
Former Vice Chairman of the Board,
The Standard Oil Company (Ohio) -
integrated petroleum company

Theodore H. Black [1,2,6,8]
Former Chairman of the Board and
Chief Executive Officer,
Ingersoll-Rand Company -
manufacturer of heavy equipment

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

Phillip J. Burguieres [1,6]
Chairman of the Board,
President, and Chief Executive Officer,
Weatherford Enterra, Inc. -
energy service and
manufacturing company

James L. Dutt [3,4,5,8]
Former Chairman of the Board and
Chief Executive Officer,
Beatrice Companies, Inc.-
food, chemical, and manufactured
products

Brock A. Hattox [7]
Executive Vice President and
Chief Financial Officer;
President,
Engineering and Construction Group

James A. Hunt [1,2,3,5]
President,
James A. Hunt, Inc. -
investment banking

John W. Johnstone, Jr. [2,6,8]
Chairman of the Executive
Finance Committee of the
Board of Directors,
Olin Corporation -
manufacturer of industrial and
defense related products

William McCollam, Jr. [1,3,6,8]
Energy Management Consultant;
President Emeritus,
Edison Electric Institute -
association of investor-owned
electric utilities

J. Howard Macdonald [1,2,5]
Former Chairman of the Board and
Chief Executive Officer,
NatWest Investment Bank -
commercial and investment banking

John A. Morgan [3,4,5]
Partner,
Morgan Lewis Githens & Ahn -
investment banking

John N. Turner [3,4]
Partner,
Miller Thompson -

1. *Audit Committee*
2. *Compensation Committee*
3. *Directors Nominating Committee*
4. *Employee Benefits Committee*
5. *Finance Committee*
6. *Technical Committee*
7. *Administrative Committee*
8. *Strategy and Succession Planning Committee*

Non-Director Executive Officers

Richard E. Woolbert
Executive Vice President and
Chief Administrative Officer

Daniel R. Gaubert
Vice President
Finance and Controller

S. Wayne Murphy
Vice President and General Counsel,
Corporate Secretary

Management Organization

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

WHOLLY-OWNED SUBSIDIARIES AND OPERATIONS

Babcock & Wilcox Power Generation Group

Walter E. Boomer
Executive Vice President
President
Babcock & Wilcox Power Generation Group

Paul P. Koenderman
Senior Vice President and Group Executive
Global Marketing and Sales

James F. Wood
Vice President and General Manager
Global Ventures and Power

P. Eric Ralston
Vice President and Group Executive
Nuclear and Industrial Power Divisions

William M. Farrell
Vice President and General Manager
B&W Service Company

John A. Fees
President
Diamond Power Specialty Company

Richard D. Pummell
Vice President and General Manager
Utility and Environmental Power Division

Babcock & Wilcox Government Group

Joe J. Stewart
Executive Vice President and
Chief Project Management Officer
President
Babcock & Wilcox Government Group

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

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

Gary W. Drinkwater
Vice President and General Manager
Project Management

Thomas F. Hash
President
B&W Federal Services, Inc.

James S. Kulig
Vice President and General Manager
Project Management

Kurt S. Nelson
Vice President and General Manager
Project Management

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

Shipbuilding and Industrial Group

E. Allen Womack, Jr.
Senior Vice President and
Chief Technical Officer
Senior Vice President and Group Executive
Shipbuilding and Industrial Group

J. Michael Pearson
Vice President and General Manager
McDermott Shipbuilding, Inc.

John Ruckert
Vice President
McDermott Information Technology

Engineering and Construction Group

Brock A. Hattox
Executive Vice President and
Chief Financial Officer
President
Engineering and Construction Group

Sidney P. Victory
Senior Vice President
Business Development

A. Bernard Coady
Vice President and Group Executive
Engineering and Project Management

R. J. (Reg) Thibeault
Vice President and Group Executive
Construction Operations

James E. Franklin
Vice President and General Manager
Baku Opertions

MAJORITY-OWNED SUBSIDIARY

J. Ray McDermott, S.A.

Mike H. Lam
President
Marine Construction Services

L. E. (Ed) Walker
Senior Vice President
Business Development

F. Rickey Oehrlein
Vice President and Group Executive
Project Services

Robert H. Rawle
Vice President and Group Executive
North, Central, and South America,
West Africa

Alex H. Cortese
Vice President and General Manager
Central and South America

Mervyn W. Raynor
Vice President and Group Executive
Middle East, India, and Far East

R. Clay Etheridge
Vice President and General Manager
Far East Projects

James J. Wildasin
President
Europe and Subsea Development

Kurt S. Nelson
Vice President and Group Executive
Subsea Development

John M. Clinton
Managing Director
McDermott Marine Construction Limited

Richard R. Foreman
Executive Vice President and
Chief Financial Officer

Richard E. Woolbert
Executive Vice President and
Chief Administrative Officer

Daniel R. Gaubert
Vice President
Finance

CORPORATE STAFF

Brock A. Hattox
Executive Vice President and
Chief Financial Officer
President
Engineering and Construction Group

Daniel R. Gaubert
Vice President
Finance and Controller

Thomas A. Henzler
Vice President
Tax Administration

Robert A. Jolliff
Treasurer

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

Richard E. Woolbert
Executive Vice President and
Chief Administrative Officer

Robert J. Machen
Senior Vice President
Marketing - China

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

George J. Ciessuras
Vice President
Marketing - Former Soviet Union and
Eastern Europe

Francisco J. San Miguel
Vice President
Marketing - Mexico

George A. Stoddart
Vice President
Corporate Communications

S. Wayne Murphy
Vice President and General Counsel,
Corporate Secretary

John D. Krueger
Vice President
Planning and Business Development

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

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

For the fiscal year ended March 31, 1996

OR

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

For the transition period from __________________ to __________________

Commission File Number 1-8430

McDERMOTT INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA	72-0593134
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1450 POYDRAS STREET NEW ORLEANS, LOUISIANA	70112-6050
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each Exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange
Rights to Purchase Common Stock (Currently Traded with Common Stock)	New York Stock Exchange

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES [X] NO [ ]

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

[X]

The aggregate market value of voting stock held by non-affiliates of the registrant was $1,144,922,838 as of April 23, 1996.

The number of shares outstanding of the Company's Common Stock at April 23, 1996 was 54,535,823.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934 in connection with the Company's 1996 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

McDERMOTT INTERNATIONAL, INC.

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PART 1

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PART II

PART III

INDEX - FORM 10-K

PART IV

PART I

Items 1. and 2. BUSINESS AND PROPERTIES

A. GENERAL

McDermott International, Inc. ("International") was incorporated under the laws of the Republic of Panama in 1959. International is the parent company of the McDermott group of companies, which includes J. Ray McDermott, S.A. ("JRM") and McDermott Incorporated. International's Common Stock, JRM's Common Stock, and McDermott Incorporated's Series A $2.20 Cumulative Convertible Preferred Stock and Series B $2.60 Cumulative Preferred Stock are publicly traded.

Unless the context otherwise requires, hereinafter "International" will be used to mean McDermott International, Inc., a Panama corporation; "JRM" will be used to mean J. Ray McDermott, S.A., a Panama corporation, which is a majority owned subsidiary of International, and its consolidated subsidiaries; the "Delaware Company" will be used to mean McDermott Incorporated, a Delaware corporation which is a subsidiary of International, and its consolidated subsidiaries; and "McDermott International" will be used to mean the consolidated enterprise.

McDermott International operates in two business segments:

- Power Generation Systems and Equipment, whose principal businesses are the supply of fossil-fuel and nuclear steam generating equipment to the electric power generation industry, and nuclear reactor components to the U. S. Navy; and

- Marine Construction Services, which supplies worldwide services for the offshore oil and gas exploration and production and hydrocarbon processing industries, and to other marine construction companies, primarily through JRM. Principal activities include the design, engineering, fabrication and installation of offshore drilling and production platforms and other specialized structures, modular facilities, marine pipelines and subsea production systems and onshore construction and maintenance services; and the maintenance and construction of a variety of marine vessels.

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

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

The following tables show revenues and operating income of McDermott International for the three fiscal years ended March 31, 1996. See Note 16 to the consolidated financial statements for additional information with respect to McDermott International's business segments and operations in different geographic areas.

REVENUES

(Dollars in Millions)

	FOR FISCAL YEARS ENDED MARCH 31,					
	1996		1995		1994	
Power Generation Systems and Equipment	$1,708.6	52%	$ 1,663.2	54%	$1,614.2	53%
Marine Construction Services	1,590.3	48%	1,390.9	46%	1,452.5	47%
Intersegment Transfer Eliminations	(19.8)	-	(10.4)	-	(6.8)	-
Total Revenues [1]	$3,279.1	100%	$ 3,043.7	100%	$3,059.9	100%

OPERATING INCOME

(Dollars in Millions)

	FOR FISCAL YEARS ENDED MARCH 31,					
	1996		1995		1994	
Segment Operating Income:[2]						
Power Generation Systems and Equipment	$ 20.6	35%	$ 13.4	29%	$ 41.8	55%
Marine Construction Services	38.4	65%	32.2	71%	34.2	45%
Total Segment Operating Income [1]	59.0	100%	45.6	100%	76.0	100%
Equity in Income of Investees:						
Power Generation Systems and Equipment	36.5	75%	8.4	25%	12.1	10%
Marine Construction Services	11.9	25%	25.5	75%	107.8	90%
Total Equity in Income of Investees	48.4	100%	33.9	100%	119.9	100%
General Corporate Expenses[2]	(33.1)	-	(38.8)	-	(36.1)	-
Total Operating Income	$ 74.3	-	$ 40.7	-	$ 159.8	-

[1] See Note 2 to the consolidated financial statements regarding the acquisitions during fiscal years 1996, 1995 and 1994.

[2] Fiscal years 1995 and 1994 have been restated to reflect the allocation of certain expenses to the business segments which were previously included in General Corporate Expenses.

B. POWER GENERATION SYSTEMS AND EQUIPMENT

GENERAL

The Power Generation Systems and Equipment segment provides engineered products and services for energy conversion worldwide. It supplies individually engineered boilers, complete fossil fuel steam generating systems and related equipment and facilities, and environmental control systems for electric power generation and for industrial processes. These facilities use a wide variety of fuels, including, but not limited to, coal, oil, bitumen, natural gas, solid municipal waste, agricultural waste and biomass. This segment is also engaged in the erection of electric power plants and industrial facilities and the repair and alteration of such existing equipment. It provides replacement parts and engineered plant enhancements for existing fossil fuel steam generating systems and specially engineered accessories and components, such as air heaters and cleaning systems for heat transfer surfaces. This segment also supplies air-cooled and condensing heat exchangers for the process and power industries.

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

The Power Generation Systems and Equipment segment provides nuclear fuel assemblies and nuclear reactor components to the U. S. Navy for the Naval Reactors Program. This activity has made significant contributions to the operating income of McDermott International in all three fiscal years and is expected to do so in the foreseeable future. B&W, in addition to its Naval Reactors Program business, is a supplier of ordnance, missile and torpedo metal parts and other equipment and services to the U. S. Government and is proceeding with new, non-defense Government projects and exploring new programs which require the technological capabilities it developed as a Government contractor for the Naval Reactors Program.

B&W is a major supplier of nuclear steam generating equipment, including critical heat exchangers and replacement recirculating steam generators, in the Canadian, U. S. and international markets, from its Cambridge, Ontario and other B&W locations. The Cambridge facility was awarded contracts during fiscal years 1993 through 1995 valued at approximately $430,000,000 to supply replacement recirculating steam generators to four domestic utilities and work performed on these contracts has made significant contributions to the operating income of this facility. While most of these contracts will be completed during fiscal year 1997, this activity is expected to continue to make significant contributions to operating income in the foreseeable future, although at lower levels. B&W also supplies field repair and refurbishment services to the Canadian, U. S. and international markets from this location.

The principal plants of this segment, which are owned by B&W, are located at Indianapolis, Indiana; West Point, Mississippi; Barberton and Lancaster, Ohio; Beasley and Paris, Texas; Lynchburg, Virginia; Cambridge, Ontario, and Calgary, Alberta, Canada. This segment's unconsolidated affiliates (equity investees) foreign plants are located in Beijing, China; Batam Island, Indonesia; Pune, India; and Cairo, Egypt. All these plants are well maintained, have suitable equipment and are of adequate size.

with the U. S. Government at March 31, 1996. The backlog of orders for U. S. Navy nuclear fuel assemblies and nuclear reactor components is expected to continue to be a significant part of backlog because B&W became the sole source provider of these assemblies in fiscal year 1991, and supplies nuclear fuel assemblies due to reload requirements.

B&W has applied its technological capabilities by supplying new products for power generation applications. It has diversified into new markets and activities not related to power generation that require complex engineering and machining. Examples of these markets include environmental restoration services, computer integrated manufacturing products and services and the management of government owned facilities, primarily within the Department of Energy's nuclear weapons complex. Currently, B&W operates the Specific Manufacturing Capability facility at the Department of Energy's Idaho National Engineering Laboratory and since July 1, 1995, has participated in the management and operation of the Rocky Flats Environmental Technology Site near Denver, Colorado with six other companies. In addition, B&W is part of a team that operates and manages the Strategic Petroleum Reserve from New Orleans, Louisiana.

C. MARINE CONSTRUCTION SERVICES

GENERAL

On January 31, 1995, McDermott International contributed substantially all of its marine construction services business to JRM, a new company incorporated under the laws of the Republic of Panama in 1994. Also, on January 31, 1995, JRM acquired Offshore Pipelines, Inc. (the "Merger"). Prior to the Merger with Offshore Pipelines, Inc. ("OPI"), JRM was a wholly owned subsidiary of McDermott International; as a result of the Merger, JRM is a majority owned subsidiary of McDermott International. The business activities of this segment are conducted primarily through JRM.

The Marine Construction Services segment consists of the basic and detailed design, engineering, fabrication and installation of offshore drilling and production platforms and other specialized structures, modular facilities, marine pipelines and subsea production systems. This segment also provides comprehensive project management services, feasibility studies, engineering services, subsea trenching services, diving services and removal, salvage and refurbishment services for offshore fixed platforms. This segment operates throughout the world in all major offshore oil and gas producing regions, including the Gulf of Mexico, the North Sea, West Africa, South America, the Middle East, India and the Far East. This segment's shipyard facilities supply complete maintenance and construction facilities and is a builder of a variety of marine vessels, including ferries, barges, tugboats, container ships, bulk carriers and other specialized vessels.

This segment conducts operations both directly and through its participation in joint ventures, some of which it manages and others of which are managed by other marine construction contractors. Some of the joint ventures are consolidated for financial reporting purposes while others (including the HeereMac joint venture and McDermott-ETPM West, Inc. both of which are described below) are accounted for using the equity method. JRM's joint ventures are largely financed through their own resources, including, in some cases, stand-alone borrowing arrangements. Historically, JRM has obtained funds from its joint ventures primarily through chartering arrangements, whereby it charters vessels to the joint ventures for use in their operations, as well as through distributions from the joint ventures. While JRM and the other parties to the joint venture arrangement generally must agree on the amount of cash flow to be distributed, the joint ventures have historically distributed to their respective owners cash in excess of estimated working capital requirements, based on the owners' relative ownership percentages.

The HeereMac joint venture was formed with Heerema Offshore Construction Group, Inc. ("Heerema") in January 1989 and utilizes the specialized, heavy-lift marine construction vessels which were previously owned by the two parties. Each party has a 50% interest in the joint venture, and Heerema has responsibility for its day-to-day operations (although major decisions relating to the joint venture operations require the approval of JRM). In March 1996, JRM and Heerema, through their respective subsidiaries, sold to companies included in the HeereMac joint venture the semi submersible derrick vessels which they were formerly chartering to the joint venture (JRM's DB101 and DB102 and Heerema's Hermod and Balder).

JRM formed its initial joint venture with ETPM S.A., McDermott-ETPM, in April 1989 to provide general marine construction services to the petroleum industry in West Africa, South America, the Middle East and India and offshore pipelaying services in the North Sea. With the addition of two new joint venture operating companies in March 1995, JRM and ETPM S. A. have expanded their joint venture's operations to include the Far East region and to begin jointly pursuing subsea contracting work on a worldwide basis. Most of the operating companies in the McDermott-ETPM joint venture are majority-owned and controlled by JRM. However, the operations of McDermott-ETPM West, Inc., which conducts operations in the North Sea, South America and West Africa, are managed and controlled by ETPM S.A. ETPM S.A. has dedicated all of its marine construction assets to the joint ventures with JRM, including 3 combination derrick-pipelaying vessels and fabrication yards in Sharjah, U.A.E. and Tchengue, Gabon. JRM currently charters 4 combination derrick-pipelaying vessels and 1 pipelaying vessel to the joint ventures and provides the use of its facilities in Jebel Ali and Ras-al-Khaimah in the U.A.E., Batam Island, Indonesia and Warri, Nigeria.

JRM participates in numerous other joint ventures (including 49%-owned joint ventures in Mexico and Malaysia) involving operations in foreign countries that require majority-ownership by local interests. Through a subsidiary, JRM also participates in an equally owned joint venture with the Brown & Root Energy Services unit of Halliburton Company ("Brown & Root"), which was formed in February 1995 to combine the operations of JRM's Inverness and Brown & Root's Nigg fabrication facilities in Scotland. In April 1996, JRM and Teleglobe Inc., a Canadian telecommunication company ("Teleglobe"), formed a joint venture, McDermott Submarine Cable Systems Limited, to install and maintain submarine fiber optic cable. JRM and Teleglobe own 79.4% and 20.6%, respectively, of the joint venture.

The Marine Construction Services segment owns or operates 6 fabrication facilities throughout the world. This segment's principal domestic fabrication yard and offshore base is located on 1,114 acres of land, under lease, near Morgan City, Louisiana. This segment also owns or operates fabrication facilities near Corpus Christi, Texas, near Inverness, Scotland, in Indonesia on Batam Island, in Jebel Ali, U.A.E. and in Warri, Nigeria. This segment also operates a shipyard on approximately 58 acres of leased land near Morgan City and a second shipyard in Vera Cruz, Mexico.

The fabrication facilities are equipped with a wide variety of heavy-duty construction and fabrication equipment, including cranes, welding equipment, machine tools and robotic and other automated equipment, most of which is movable. JRM has the capability to fabricate a full range of offshore structures, from conventional jacket-type fixed platform to deepwater platform configurations employing compliant-tower, tension leg, floating production platform and spar technology. JRM also fabricates platform deck structures and modular components, including complete production processing systems, hydrocarbon separation and treatment systems, pressure and flow control systems and personnel quarters.

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

Ras-al-Khaimah, U.A.E.	Year 1996
Morgan City, Louisiana	Years 2000-2033
Jebel Ali, U.A.E.	Year 2005
Batam Island, Indonesia	Year 2008
Warri, Nigeria	Year 2065

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

JRM owns or, through its ownership interests in joint ventures, has interest in the largest fleet of marine equipment used in major offshore construction. The nucleus of a "construction spread" is a large derrick barge, pipelaying barge or combination derrick-pipelaying barge capable of offshore operations for an extended period of time in remote locations. JRM owns or, through ownership interests in joint ventures has interest in 12 derrick vessels, 6 pipelaying vessels, 11 combination derrick-pipelaying vessels and 3 pipe burying vessels. The lifting capacities of the derrick and combination derrick-pipelaying vessels range from 250 to 13,200 tons. These vessels range in length from 400 to 660 feet and are fully equipped with stiff leg or revolving cranes, auxiliary cranes, welding equipment, pile-driving hammers, anchor winches and a variety of additional gear. Some of these vessels hold various records for heavy lifts and installations of deepwater pipelines in different regions of the world. The largest vessels are the derrick barge DB 102, which is one of the world's largest semi submersible derrick vessels in both size and lifting capacity and provides quarters for approximately 750 workers, and the LB 200, a semi submersible pipelaying vessel capable of laying 60-inch diameter pipe (including concrete coating) and operating in water depths of up to 2,000 feet.

To support the operations of these major marine construction vessels, JRM and its joint ventures also own or lease a substantial number of other vessels, such as tugboats, utility boats, launch barges and cargo barges. In connection with its construction and pipelaying activities, this segment conducts diving operations which, because of the water depths involved, require sophisticated equipment, including diving bells and an underwater habitat.

The following table describes the major marine construction vessels owned and utilized in the conduct of McDermott International's marine construction business and their location as of March 31, 1996.

Vessel	Vessel Type	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
United States			
DB 16	Derrick	860	-
DB 28	Derrick/Pipelay	860	40
DB 50	Derrick	4,000	-
BB 316	Pipe Bury	-	-
BB 356	Pipe Bury	-	-
LB 30	Pipelay	-	60
LB 280	Pipelay	-	48
SLC 5000	Shearleg	5,000	-
Ocean Builder [1]	Derrick/Pipelay	2,000	48
Mexico and South America			
DB 15	Derrick/Pipelay	860	40
DB II	Derrick	600	-
Europe and West Africa			
DLB 1	Derrick/Pipelay	250	24
LB Pipeliner 6	Pipelay	-	16
MV Norlift	Pipelay	-	10
MV Northern Explorer	Pipe Bury	-	-
LB 200	Semi Submersible Pipelay	-	60
Middle East			
DB 27	Derrick/Pipelay	2,400	60
Far East			
DB 17	Derrick/Pipelay	860	60
DB 26	Derrick/Pipelay	900	60
DLB KP1	Derrick/Pipelay	800	60

[1] JRM is chartering and operating the vessel and has an option to purchase the vessel at the end of the five-year charter term.

The following table describes the major marine construction vessels owned by McDermott International's joint venture companies and utilized in the conduct of their marine construction business and their location as of March 31, 1996.

Vessel	Vessel Type	Maximum Derrick Lift (tons)	Maximum Pipe Diameter (inches)
United States			
Balder	Semi Submersible Derrick	7,000	-
Europe and West Africa			
DB 101	Semi Submersible Derrick	3,500	-
DB 102	Semi Submersible Derrick	13,200	-
Far East			
Hermod	Semi Submersible Derrick	9,000	-
Teknik Pada	Derrick/Pipelay	1,100	60
Teknik Perdana	Derrick/Pipelay	750	60
Other Foreign			
Huasteco	Derrick/Pipelay	2,000	48
Mixteco	Derrick	800	-
Olmeca II	Pipelay	-	48
Sara Maria	Derrick	550	-

Over the past several years, McDermott International has entered into certain strategic investments in oil and gas projects in the former Soviet Union. Its intention with respect to these investments is to establish a presence in these markets for its marine construction services and to sell its interest in these projects as early as practicable in the development cycle.

Accordingly, in March 1996, McDermott International sold its interest in three Caspian Sea oil fields to Itochu Corporation, a Japanese trading company. McDermott International's interest in these fields was 2.45% prior to the sale. In May 1994, McDermott International formed two joint ventures that are currently providing marine construction services, and vessel and drilling rig maintenance and repair services to the oil and gas industry in the Caspian Sea region.

McDermott International is a member of a consortium that has an interest in the development of two oil and gas fields lying offshore Sakhalin Island, Russian Federation. The consortium has received the license to develop these fields and has notified the Russians of its intent to declare its commencement date for project development by June 22, 1996.

FOREIGN OPERATIONS

The amount of Marine Construction Services' revenues, including intersegment revenues, and segment operating income derived from operations located outside of the United States, and the approximate percentages of those revenues and segment operating income to McDermott International's total revenues and total segment operating income, respectively, follow:

	REVENUES		SEGMENT OPERATING INCOME	
FISCAL YEAR	AMOUNT	PERCENT	AMOUNT	PERCENT
		(Dollars in thousands)		
1996	$1,138,632	35%	$ 43,794	74%
1995	1,021,986	34%	58,634	129%
1994	1,076,610	35%	43,382	57%

Revenues and segment operating income presented above do not include the operating results of this segment's equity investees.

RAW MATERIALS

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

CUSTOMERS AND COMPETITION

This segment's principal customers are oil and gas companies (including foreign government owned companies) and shipping companies, ship owners and barge operators and owners primarily in the U.S. inland waterways. Customers generally contract with this segment for the design, engineering, fabrication and installation of offshore drilling and production platforms and other specialized structures, modular facilities, marine pipelines and subsea production systems and onshore construction and maintenance services. Contracts are usually awarded on a competitive bid basis.

There are a number of companies which compete effectively with McDermott International, the HeereMac joint venture, McDermott-ETPM and McDermott International's various other joint ventures in each of the separate marine construction phases in various parts of the world. In shipbuilding, McDermott International competes with shipyards from around the world including established Korean and Japanese firms and emerging firms in Eastern Europe and China. Ship repair, performed primarily at our Vera Cruz facility, also has many competitors throughout the Gulf of Mexico and around the world.

BACKLOG

As of March 31, 1996 and 1995, the Marine Construction Services' backlog amounted to $1,137,597,000 and $1,343,078,000, or approximately 33% and 39%, respectively, of McDermott International's total backlog. Of the March 31, 1996 backlog, it is expected that approximately $920,950,000 will be recognized in revenues in fiscal year 1997, $163,159,000 in fiscal year 1998 and $53,488,000 thereafter.

This segment's backlog at March 31, 1996, includes a contract award of $233,614,000 to JRM's McDermott-ETPM East, Inc. joint venture by the Ras Laffan Liquified Natural Gas Company of Qatar for the installation of offshore power and communication cables, fabrication and installation of living quarters and wellhead platforms, and overall project management.

Not included in backlog is a letter of award for $180,000,000 received after March 31, 1996 from Total Myanmar Exploration and Production for the management, engineering, supply, construction, installation, hook-up and commissioning of two wellhead platforms; and quarters, flare and production platform facilities for the Yadana Development Project. This is the first offshore development in Myanmar and is expected to be completed by May 1998.

Not included in Marine Construction Services' backlog at March 31, 1996 and 1995 was backlog relating to contracts to be performed by unconsolidated joint ventures of approximately $1,407,000,000 and $1,014,000,000, respectively. Included in backlog to be performed by its unconsolidated joint ventures is $230,350,000 related to a contract awarded during fiscal year 1995 by Statoil A/S to JRM's McDermott-ETPM West, Inc. joint venture to install up to three large diameter gas pipelines in the North Sea. Installation of the pipelines is scheduled to start during fiscal year 1997 and continue through fiscal year 2000.

Work is performed on a fixed price, cost plus or day rate basis or combination thereof. This segment attempts to cover increased costs of anticipated changes in labor, material and service costs of long-term contracts either through an estimation of such changes, which is reflected in the original price, or through price escalation clauses. Most long-term contracts have provisions for progress payments.

FACTORS AFFECTING DEMAND

The activity of the Marine Construction Services' segment depends mainly on the capital expenditures of oil and gas companies and foreign governments for developmental construction. These expenditures are influenced by the selling price of oil and gas along with the cost of production and delivery, the terms and conditions of offshore leases, the discovery rates of new reserves offshore, the ability of the oil and gas industry to raise capital, and local and international political and economic conditions. Demand for new ship construction and inland barges is impacted by charter rates that ship and barge owners can earn and by the age and condition of the existing fleet.

Oil company capital exploration and production budgets in calendar year 1996 are higher than 1995 expenditures. While oil prices remain flat, natural gas prices have increased significantly as compared to calendar year 1995. Expenditures in both domestic and international areas are expected to increase; domestic at a higher rate. Worldwide demand for offshore drilling

McDermott International's compliance with U.S. federal, state and local environmental control and protection regulations necessitated capital expenditures of $1,576,000 in fiscal year 1996, and it expects to spend another $3,948,000 on such capital expenditures over the next five years. McDermott International cannot predict all of the environmental requirements or circumstances which will exist in the future, but it anticipates that environmental control and protection standards will become increasingly stringent and costly. Complying with existing environmental regulations resulted in a charge against income before taxes of approximately $8,607,000 in fiscal year 1996.

McDermott International has been identified as a potentially responsible party at various cleanup sites under the CERCLA, as amended. McDermott International has not been determined to be a major contributor of wastes to these sites.. However, each potentially responsible party or contributor may face assertions of joint and several liability. Generally, however, a final allocation of costs is made based on relative contribution of wastes to each site. Based on its relative contribution of waste to each site, McDermott International's share of the ultimate liability for the various sites is not expected to have a material effect on McDermott International's consolidated financial position, results of operations or liquidity in any given year.

Remediation projects have been or may be undertaken at certain of McDermott International's current and former plant sites, and, during fiscal year 1995, B&W completed subject to Nuclear Regulatory Commission ("NRC") certification, the decommissioning and decontamination of its former nuclear fuel processing plant at Apollo, Pennsylvania. All fabrication and support buildings have been removed, and all contaminated soil has been shipped to authorized disposal facilities. B&W expects to obtain approval from the NRC to have the site released for unrestricted use before the end of calendar year 1996.

During fiscal year 1995, a decision was made to close certain of B&W's nuclear manufacturing facilities, and a provision of $41,724,000 for the decontamination, decommissioning and the closing of these facilities was recognized. Previously, decontamination and decommissioning costs were being accrued over the facilities' remaining expected life. Decontamination is proceeding as permitted by the existing NRC license, while funding support is being sought. A decommissioning plan was submitted for review and approval as required by the NRC during January 1996. B&W expects to reach an agreement with the NRC in fiscal 1997 on the plan that provides for the completion of facilities dismantlement and soil restoration by the end of fiscal year 2001. B&W expects to request approval from the NRC to release the site for unrestricted use at that time.

The Department of Environmental Resources of the Commonwealth of Pennsylvania ("PADER"), by letter dated March 19, 1994, advised B&W that it will seek monetary sanctions, and remedial and monitoring relief, related to B&W's Parks Facilities in Parks Township, Armstrong County, Pennsylvania. The relief sought relates to potential groundwater contamination related to the previous operations of the facilities. B&W is currently negotiating with PADER and expects to reach a settlement without having to resort to litigation. Any sanctions ultimately assessed are not expected to have a material effect on the consolidated financial statements of McDermott International.

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

Decommissioning regulations promulgated by the U.S. Nuclear Regulatory Commission require B&W to provide financial assurance that it will be able to pay the expected cost of decommissioning its facilities at the end of their service lives. B&W will continue to provide financial assurance of $11,788,000 during fiscal year 1997 by issuing letters of credit for the ultimate decommissioning of all its licensed facilities, except one. This facility, which represents the largest portion of B&W's eventual decommissioning costs, has provisions in its government contracts pursuant to which all of its decommissioning costs and financial assurance obligations are covered by the U. S. Government.

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

Item 3. LEGAL PROCEEDINGS

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

For a discussion of McDermott International's potential liability for non-employee products liability asbestos claims see Item 1F and Notes 1 and 10 to the consolidated financial statements.

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

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

PART II

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

International's Common Stock is traded on the New York Stock Exchange. High and low stock prices and dividends declared for the fiscal years ended March 31, 1996 and 1995 follow:

FISCAL YEAR 1995

QUARTER ENDED	SALES PRICE HIGH	SALES PRICE LOW	CASH DIVIDENDS DECLARED
June 30, 1994	$ 25 - 7/8	$ 19 - 3/8	$0.25
September 30, 1994	27 - 1/4	24 - 1/4	0.25
December 31, 1994	26 - 1/8	23 - 1/2	0.25
March 31, 1995	29 - 1/8	23 - 3/4	0.25

FISCAL YEAR 1996

QUARTER ENDED	SALES PRICE HIGH	SALES PRICE LOW	CASH DIVIDENDS DECLARED
June 30, 1995	$ 28	$ 23 - 1/4	$0.25
September 30, 1995	25 - 3/8	19 - 5/8	0.25
December 31, 1995	22 - 1/8	15 - 3/8	0.25
March 31, 1996	21 - 3/4	17 - 7/8	0.25

As of March 31, 1996, the approximate number of record holders of Common Stock was 6,294.

Item 6. SELECTED FINANCIAL DATA

	FOR THE FISCAL YEARS ENDED MARCH 31,				
	1996	1995	1994	1993	1992
	(In thousands, except for per share amounts)				
Revenues	$3,279,106	$3,043,680	$3,059,912	$ 3,172,555	$3,524,482
Income from Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes	$ 20,625	$ 10,876	$ 89,956	$ 67,323	$ 80,537
Net Income (Loss)	$ 20,625	$ 9,111	$ (10,794)	$ (188,732)	$ 77,169
Primary and Fully Diluted Earnings (Loss) Per Common Share:					
Income from Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes	$ 0.23	$ 0.05	$ 1.57	$ 1.29	$ 1.75
Net Income (Loss)	$ 0.23	$ 0.02	$ (0.32)	$ (3.63)	$ 1.67
Total Assets	$4,387,251	$4,751,670	$4,223,569	$ 3,092,963	$3,126,195
Long-Term Debt	$ 576,256	$ 579,101	$ 667,066	$ 583,211	$ 765,053
Subsidiary's Redeemable Preferred Stocks	173,301	179,251	196,672	204,482	204,482
Total	$ 749,557	$ 758,352	$ 863,738	$ 787,693	$ 969,535
Cash Dividends Per Common Share	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00

See Note 2 to the consolidated financial statements regarding acquisitions in fiscal years 1996, 1995 and 1994. See Note 1 regarding the adoption of Statement of Financial Accounting Standards ("SFAS") No. 112 in fiscal year 1995 and Emerging Issues Task Force Issue No. 93-5 in fiscal year 1994. Fiscal year 1993 includes the cumulative effect of the adoption of SFAS No. 106 and SFAS No. 109. See Note 10 regarding the uncertainty as to the ultimate loss relating to products liability asbestos claims.

In fiscal year 1996, Net Income included a gain of $34,788,000 resulting from the sale of McDermott International's interest in three Caspian Sea oil fields, an after tax equity income gain of $20,047,000 resulting from the sale of two power purchase contracts, and an after tax charge of $7,840,000 due to the write-off of an insurance receivable due to an unfavorable arbitration ruling related to the recovery of cost incurred for corrective action in certain utility and industrial installations. In fiscal year 1995, Income before Cumulative Effect of Accounting Change included after tax charges of $30,218,000 for provisions for the decontamination, decommissioning and closing of certain nuclear manufacturing facilities and the closing of a manufacturing facility, and $8,832,000 for the reduction of estimated products liability asbestos claims recoveries from insurers. Also, in fiscal year 1995, after tax income included $16,631,000 for a reduction in accrued interest expense due to the settlement of outstanding tax issues. In fiscal years 1993 and 1992, Income from Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Changes included after tax gains from the sale of McDermott International's interest in its two commercial nuclear joint ventures of $15,667,000 and $35,436,000, respectively.

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

GENERAL

A significant portion of McDermott International's revenues and operating results are derived from its foreign operations. As a result, McDermott International's operations and financial results are affected by international factors, such as changes in foreign currency exchange rates. McDermott International's policy attempts to minimize its exposure to changes in foreign currency exchange rates by attempting to match foreign currency contract receipts with like foreign currency disbursements. To the extent that it is unable to match the foreign currency receipts and disbursements related to its contracts, its practice of entering into forward exchange contracts to hedge foreign currency transactions reduces the impact of foreign exchange rate movements on operating results.

In general, both of McDermott International's business segments are capital intensive businesses that rely on large contracts for a substantial amount of the revenues.

The performance of the Power Generation Systems and Equipment segment is largely a function of capital spending in the electric power generation industry and U. S. Government spending, especially for nuclear fuel assemblies and reactor components for the U.S. Navy. This segment's recent business activities have been characterized by significant demand for large, new baseload generating units for electric utilities in Asia and the Middle East and relatively weaker markets in the United States and Europe.

The performance of the Marine Construction Services segment is a function of the level of oil and gas development activity in the world's major hydrocarbon producing regions. As a result, this segment's revenues and profitability reflect some variability associated with the timing of the completion of significant development projects and the commencement of others as to which it has contracts, as well as the worldwide volume of projects and their geographic distribution. This segment's recent operating results have been adversely impacted by a substantial decline in the number of projects generating demand for marine construction services in the Southeast Asia market. McDermott International believes this decline is only temporary and is largely due to project timing. This decline has had an adverse effect on other markets as a result of the migration of equipment and other resources previously allocated to the Southeast Asia market to other markets and the resultant pressure on pricing in those markets caused by the increased capacity. Based on its ongoing dialogue with existing customers with respect to possible future projects, McDermott International expects improvements in certain of its significant markets, including Southeast Asia and the Gulf of Mexico. McDermott International believes that some level of improvement in market activity is reflected in an increase in the backlog relating to contracts to be performed by its unconsolidated joint ventures from $1,014,000,000 at March 31, 1995 to $1,407,000,000 at March 31, 1996. Notwithstanding these signs of improvement, McDermott International cannot at this time, predict the timing or extent of any improvement in the industry or the future level of demand for the services of this segment.

The foregoing statements regarding McDermott International's markets and the other statements in this discussion are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, among others, the uncertainties relating to the development of electric generating units and offshore development decisions to be made by oil and gas exploration and development companies.

FISCAL YEAR 1996 VS FISCAL YEAR 1995

Power Generation Systems and Equipment's revenues increased $45,331,000 to $1,708,566,000. This was primarily due to higher revenues from engineering, procurement and construction of cogeneration plants, from defense and space-related products (other than nuclear fuel assemblies and reactor components), replacement nuclear steam generators for domestic customers manufactured at B&W's Cambridge, Ontario location and fabrication of industrial boilers. These increases were partially offset by lower revenues from repair and alteration of existing fossil fuel steam systems, fabrication and erection of fossil fuel steam and environmental control systems and nuclear fuel assemblies and reactor components for the U. S. Government.

Power Generation Systems and Equipment's segment operating income increased $7,139,000 to $20,579,000 due to provisions of $46,489,000 for the decontamination, decommissioning and closing of certain nuclear manufacturing facilities and the closing of a manufacturing facility in the prior year. In addition, there were higher volume and margins from replacement nuclear steam generators, improved margins from fabrication of fossil fuel steam and environmental control systems (including a license buyout agreement of $8,574,000) and higher volume from defense and space-related products (other than nuclear fuel assemblies and reactor components). These increases were offset by the write-off of an insurance claim of $12,600,000 due to an unfavorable arbitration ruling related to the recovery of cost incurred for corrective action in certain utility and industrial installations. There were also lower margins from engineering, procurement and construction of cogeneration plants. In addition, there were lower volume and margins from the repair and alteration of existing fossil fuel steam systems and industrial boilers, plant enhancement projects and from operations and maintenance contracts.

Power Generation Systems and Equipment's equity in income of investees increased $28,125,000 to $36,489,000. This represents the results of approximately 16 active joint ventures, but is primarily due to a nonrecurring equity income gain of $30,612,000 resulting from the sale of power purchase contracts back to a local utility.

Backlog for this segment at March 31, 1996 was $2,261,799,000 compared to $2,130,754,000 at March 31, 1995. At March 31, 1996, this segment's backlog with the U.S. Government was $816,783,000 (of which $57,988,000 had not been funded) and includes orders for nuclear fuel assemblies and reactor components for the U.S. Navy. These orders are expected to continue to comprise a substantial portion of backlog with the U.S. Government as B&W is the sole source provider of these nuclear fuel assemblies, and supplies assemblies due to reload requirements.

This segment's foreign markets for industrial and utility boilers remain strong as electric utilities in Asia and the Middle East are active purchasers of large, new baseload generating units, due to the rapid growth of their economies and to the small existing stock of electrical generating capacity in most developing countries.

Domestic utility markets remain weak as competition within the electric power industry in the United States has intensified, as the Federal Energy Regulatory Commission has begun to implement the provisions of the Energy Policy Act of 1992, which deregulated the electric power generation industry by allowing independent power producers and other companies access to its transmission and distribution systems. The modest growth in demand and the changes associated with this transition from a regulated to a competitive industry have caused electric utilities to defer ordering of large, new baseload power plants in the United States and when electric utilities are in need of peaking capacity, many are purchasing combustion turbines with short lead-times or they are purchasing electricity from other utilities and non-regulated sources, such as cogenerators and independent power producers. In addition, the Clean Air Act amendments of 1990 required many customer industries to implement systems to limit or remove emissions. These mandated expenditures have caused some customers to defer repairs and refurbishments on existing plants. However, the U.S. market for replacement nuclear steam generators is expected to continue to make significant contributions to operating income in the foreseeable future, although at lower levels than in recent years.

As discussed (see Item 1F - Insurance), provisions for estimated future costs for non-employee products liability asbestos claims have been recognized for financial reporting purposes (see Notes 1 and 10 to the consolidated financial statements and the discussion of Liquidity below). Inherent in the estimate of these liabilities and recoveries are expected trends in claim severity and frequency and other factors, including recoverability from insurers, which may vary significantly as claims are filed and settled.

Marine Construction Services' revenues increased $199,399,000 to $1,590,318,000, primarily due to higher purchased engineered equipment and subcontract activities in the North Sea related to the B.P. Exploration Foinaven Development program west of the Shetlands in the North Atlantic and revenues resulting from the acquisition of OPI. There were higher revenues on marine and engineering activities in North America, and the sale of an interest in three Caspian Sea oil fields. These increases were partially offset by lower revenues in the Far East and domestic shipyard operations.

Marine Construction Services' segment operating income increased $6,258,000 to $38,447,000. Excluding the gain of $34,788,000 from the sale of an interest in three Caspian Sea oilfields, segment operating income decreased $28,530,000 due to higher amortization expense relating to goodwill and other intangibles resulting from the acquisition of OPI on January 31, 1995. There were lower margins due to the completion of higher profit margin contracts in the Far East and the Middle East during fiscal 1995, lower volume in the Far East this year, and lower operating income in North America on offshore activities because of weather downtime and lower margins on certain contracts. This decrease was partially offset by a favorable insurance adjustment of $12,000,000, higher volume and margins in North America on fabrication activities, and higher margins on shipyard operations. During fiscal year 1995, there were also operating losses associated with the fabrication yard in Scotland and accelerated depreciation of $4,314,000 on certain marine equipment in the Far East.

Marine Construction Services' equity in income of investees decreased $13,539,000 to $11,949,000. This decrease was primarily due to lower results from both the HeereMac and McDermott-ETPM West, Inc. joint ventures. The revenues of these two joint ventures declined from $656,490,000 to $542,772,000, primarily in the Gulf of Mexico, the Far East and the North Sea, partially offset by increased volume in West Africa. The equity income from these two joint ventures declined from $24,759,000 to $3,616,000 as a result of reduced volume and margins in the North Sea. Together these two investees accounted for 30% of equity in earnings of investees. While both joint ventures performed at low levels during fiscal 1996, worldwide demand for offshore drilling rigs has increased and has resulted in an increase in these joint ventures' backlog. The decrease was partially offset by higher operating activity from the Brown and Root McDermott Fabricators Limited joint venture which was formed in the last quarter of the prior year.

Backlog for this segment at March 31, 1996 and 1995 was $1,137,597,000 and $1,343,078,000, respectively. Not included in backlog at March 31, 1996 and 1995 was backlog relating to contracts to be performed by unconsolidated joint ventures of approximately $1,407,000,000 and $1,014,000,000, respectively.

The activity of the Marine Construction Services' segment (including its significant investees) depends mainly on the capital expenditures of oil and gas companies and foreign governments for developmental construction. These expenditures are influenced by the selling price of oil and gas along with the cost of production and delivery, the terms and conditions of offshore leases, the discovery rates of new reserves offshore, the ability of the oil and gas industry to raise capital, and local and international political and economic conditions. Demand for new ship construction and inland barges is impacted by charter rates that ship and barge owners can earn and by the age and condition of the existing fleet.

Oil company capital exploration and production budgets in calendar year 1996 are higher than 1995 expenditures. While oil prices remain flat, natural gas prices have increased significantly as compared to calendar year 1995. Expenditures in both domestic and international areas are expected to increase; domestic at a higher rate. Worldwide demand for offshore drilling rigs has increased and this, historically, has been a leading indicator for an increase in the need for marine construction services. This segment's markets are expected to begin to emerge from the competitive environment that has put pressure on margins in prior periods.

Interest income decreased $15,502,000 to $37,238,000 primarily due to decreases in investments in government obligations and other investments in the current year and income recognized in the prior year on a receivable from an equity investee and settlement of claims for interest relating to foreign tax refunds and contract claims.

Interest expense increased $27,197,000 to $84,312,000, primarily due to a reduction in accrued interest of $26,300,000 on proposed tax deficiencies that was recorded in the prior year.

Minority interest expense decreased $2,137,000 to $10,030,000 primarily due to minority shareholder participation in the increased losses of the McDermott-ETPM East joint venture in the current year which was partially offset by participation in losses in the prior year of DCC.

Other-net increased $37,790,000 from expense of $33,291,000 to income of $4,499,000. This increase was primarily due to a loss related to the reduction of estimated products liability asbestos claim recoveries of $14,478,000 from insurers and a provision for the settlement of a lawsuit, both in the prior year, and gains in the current year of $9,115,000 on the disposal of assets.

The provision for income taxes increased $21,122,000 from a benefit of $20,043,000 to a provision of $1,079,000, while income before income taxes and cumulative effect of accounting change increased $30,871,000 from a loss of $9,167,000 to income of $21,704,000. The increase in income taxes is primarily due to an increase in income from operations partially offset by a reappraisal of $5,600,000 of liabilities in certain foreign tax jurisdictions. In addition, McDermott International operates in many different tax jurisdictions. Within these jurisdictions, tax provisions vary because of nominal rates, allowability of deductions, credits and other benefits, and even tax basis (for example, revenues versus income). These variances, along with variances in the mix of income within jurisdictions, are responsible for shifts in the effective tax rate. As a result of these factors, the provision for income taxes was 5% of pretax income in fiscal year 1996 compared to a benefit from income taxes of 219% of pretax loss in fiscal year 1995.

Net Income increased $11,514,000 to $20,625,000 reflecting the cumulative effect of the adoption of SFAS No. 112, in addition to the other items mentioned above.

FISCAL YEAR 1995 VS FISCAL YEAR 1994

Power Generation Systems and Equipment's revenues increased $49,029,000 to $1,663,235,000. This was primarily due to higher revenues from fabrication and erection of fossil fuel steam and environmental control systems, nuclear fuel assemblies and reactor components for the U. S. Government, replacement nuclear steam generators, repair and alteration of existing fossil fuel steam systems, and operations and maintenance contracts for small power plants. These increases were partially offset by lower revenues from defense and space-related products (other than nuclear fuel assemblies and reactor components), extended scope of supply and fabrication of industrial boilers, and replacement parts.

Power Generation Systems and Equipment's segment operating income decreased $28,365,000 to $13,440,000 due to provisions for the decontamination, decommissioning and closing of certain nuclear manufacturing facilities and the closing of a manufacturing facility ($46,489,000) and a favorable warranty reserve recorded in the prior year ($11,000,000). Operating income increased due to lower operating expenses (including favorable workers compensation adjustments) and administrative expenses (including cost reduction initiatives); higher volume and margins on operations and maintenance contracts; and improved margins on plant enhancement projects. These increases were partially offset by lower volume and margins on extended scope of supply and fabrication of industrial boilers, lower volume on replacement parts, and lower margins on nuclear fuel assemblies and reactor components for the U. S. Government.

Power Generation Systems and Equipment's equity in income of investees decreased $3,668,000 to $8,364,000. This represents the results of approximately fifteen active joint ventures each of which is relatively small. The decrease was primarily due to a discontinued domestic venture which engaged in simulation training and lower operating results from its Chinese venture engaged in boiler manufacturing.

Marine Construction Services' revenues decreased $61,578,000 to $1,390,919,000, primarily due to lower volume in worldwide marine and domestic fabrication operations. These decreases were partially offset by the inclusion of revenues as a result of the acquisitions of OPI ($44,439,000) on January 31, 1995 and Northern Ocean Services ("NOS") ($59,644,000 for the full fiscal year) in February 1994 and higher volume in foreign fabrication and procured materials.

Marine Construction Services' segment operating income increased slightly to $32,189,000 from $34,174,000 (including $4,993,000 from OPI) primarily due to improved margins in foreign marine operations, inclusion of the operating results of NOS for the full fiscal year; and higher volume of procured materials, domestic engineering operations, and foreign fabrication. These increases were mostly offset by higher operating expenses, lower operating results from DCC's operations, lower margins from shipyard operations, and start-up costs associated with new shipbuilding activities.

Marine Construction Services' equity in income of investees decreased $82,340,000 to $25,488,000. Both the HeereMac and McDermott-ETPM West, Inc. joint ventures performed at lower levels than in the previous year, as several large contracts were completed in fiscal 1994. The revenues of these two joint ventures declined from $895,666,000 to $656,490,000. Most of the HeereMac decline was in the North Sea. McDermott-ETPM West, Inc. also declined in the North Sea, but this was partially offset by increased volume in West Africa. The equity income from these two joint ventures declined from $106,783,000 to $24,759,000. HeereMac's equity income decreased as a result of the reduced volume and reduced margins. McDermott-ETPM West, Inc.'s equity income also decreased as a result of the reduced volume, but the decrease was not as severe. McDermott-ETPM West, Inc. also had a loss provision of approximately $7,500,000 on a major North Sea contract. Together these two significant investees accounted for 97% of equity in earnings of investees. No other venture contributed significantly to the decline.

Interest income increased $13,989,000 to $52,740,000 primarily due to recognition of interest on a receivable from an equity investee, settlement of claims for interest relating to foreign tax refunds and contract claims, and higher interest rates on investments in government obligations and other investments.

Interest expense decreased $6,860,000 to $57,115,000, primarily due to a reduction of accrued interest on proposed tax deficiencies, partially offset by changes in debt obligations and interest rates prevailing thereon.

Minority interest expense decreased $3,084,000 to $12,167,000 primarily due to minority shareholder participation in increased losses of DCC and JRM's losses for the two months ended March 31, 1995. These decreases in expense were partially offset by an increase due to minority shareholder participation in the improved results of the McDermott-ETPM East joint venture.

Other-net expense increased $28,926,000 to $33,291,000 primarily due to a loss related to the reduction of estimated products liability asbestos claim recoveries from insurers, a provision for the settlement of a lawsuit and losses on the sales of investment securities in the current period.

The provision for income taxes decreased $45,041,000 from a provision of $24,998,000 to a benefit of $20,043,000, while income before income taxes and cumulative effect of accounting changes decreased $124,121,000. The reduction in income taxes is primarily due to a decrease in income from operations along with a reduction in a provision for taxes due to a settlement of outstanding issues and higher non-taxable earnings.

Net Income increased $19,905,000 from a loss of $10,794,000 to income of $9,111,000 reflecting the cumulative effect of the adoption of SFAS No. 112 of $1,765,000 in the current year and the cumulative effect of accounting change for non-employee products liability asbestos claims of $100,750,000 in the prior year, in addition to other items described above.

Effect of Inflation and Changing Prices

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

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

Liquidity and Capital Resources

During fiscal year 1996, McDermott International's cash and cash equivalents increased $152,754,000 to $238,663,000 and total debt decreased $176,173,000 to $810,514,000. This included McDermott International's repayment of its 10.25% Notes of $150,000,000 on June 1, 1995. During this period, McDermott International used cash of $174,331,000 for repayment of long-term debt; $165,836,000 in operating activities; $85,838,000 for additions to property, plant and equipment; $62,411,000 for dividends on International's common and preferred stocks; $29,620,000 for the conversion of a barge to a floating production unit; $23,364,000 for investments in equity investees; $23,260,000 for acquisitions; and $5,743,000 for the repurchase of a subsidiary's preferred stock to satisfy current and future sinking fund requirements. Also during this period, McDermott International received cash of $478,343,000 from the liquidation of its investment portfolio; $165,060,000 from the proceeds of asset sales; $30,000,000 as a deposit on the sale of certain marine equipment and $46,497,000 from the return of capital from its equity investees.

The decrease in accounts payable relates primarily to the Britoil contract for the Atlantic Frontier Programme Development of Foinaven Phase One Facility ("Foinaven"). Increases in net contracts in progress and advance billings were primarily due to the timing of billings on the Foinaven contracts and Canadian activities.

Pursuant to an agreement with the majority of its principal insurers, McDermott International negotiates and settles products liability asbestos claims from non-employees and bills these amounts to the appropriate insurers. As a result of collection delays inherent in the process, reimbursement is usually delayed for three months or more. The number of claims had increased during the second half of fiscal year 1995 and the first nine months of fiscal year 1996, but have decreased during the March quarter. Management believes, based on information currently available, that the recent increase represented an acceleration in the timing of the receipt of these claims, but does not represent an increase in its total estimated liability. The average amount of these claims (historical average of approximately $5,500 per claim over the last three years) has continued to rise. Claims paid in fiscal year 1996 were $151,961,000, of which $135,778,000 has been recovered or is due from insurers. At March 31, 1996, receivables of $63,223,000 were due from insurers for reimbursement of settled claims including $21,050,000 due from certain insurers which have refused to reimburse B&W for amounts paid by B&W to settle claims under applicable policies. B&W has filed a lawsuit against these insurers seeking reimbursement of these claims and expects to prevail in this litigation which may continue beyond fiscal year 1997 unless a settlement is reached. B&W will require that any settlement reimburse B&W for all amounts billed to date and future payments up to full policy limits. Estimated liabilities for pending and future non-employee products liability asbestos claims are derived from McDermott International's claims history and constitute management's best estimate of such future costs. Estimated insurance recoveries are based upon analysis of insurers providing coverage of the estimated liabilities. Inherent in the estimate of such liabilities and recoveries are expected trends in claim severity and frequency and other factors, including recoverability from insurers, which may vary significantly as claims are filed and settled. Accordingly, the ultimate loss may differ materially from amounts provided in the consolidated financial statements. Settlement of the liability is expected to occur over approximately the next 25 years. The collection delays (including the lawsuit mentioned above), and the amount of claims paid for which insurance recovery is not probable have not had a material adverse effect on McDermott International's liquidity, and management believes, based on information currently available, that they will not have a material adverse effect on liquidity in the future.

McDermott International's expenditures for property, plant and equipment decreased $5,341,000 to $85,838,000 in fiscal year 1996. While the majority of these expenditures were incurred to maintain and replace existing facilities and equipment, $8,669,000 was expended for the installation of a new pipe reel system on a marine barge. In addition to expenditures for property, plant and equipment, McDermott International expended $29,620,000 for the conversion of a barge to a floating production unit which is now leased to a third party. The barge conversion is financed by $21,700,000 in loan facilities, of which $21,139,000 was outstanding at March 31, 1996. McDermott International has committed to make capital expenditures of approximately $43,689,000 during fiscal 1997.

At March 31, 1996 and 1995, The Babcock & Wilcox Company had sold, with limited recourse, an undivided interest in a designated pool of qualified accounts receivable of approximately $107,000,000 and $175,000,000, respectively, under an agreement with a U.S. bank. During fiscal year 1996 the maximum sales limit available under the agreement was reduced from $225,000,000 to $140,000,000 and the agreement was amended to provide for an annual renewal of the program.

At March 31, 1996 and 1995, International and its subsidiaries had available to them various uncommitted short-term lines of credit from banks totaling $439,610,000 and $373,867,000, respectively. Borrowings against these lines of credit at March 31, 1996 and 1995 were $149,067,000 and $63,025,000, respectively. In addition, The Babcock & Wilcox Company had available to it an unsecured and committed revolving credit facility which was amended during fiscal year 1996 to increase the commitment to $150,000,000 and to extend the agreement to March 31, 1999. It is a condition to borrowing under this revolving credit facility that the borrower's tangible net worth, debt to capitalization, and interest coverage as defined in the agreement meet or exceed certain covenant requirements. There were borrowings of $50,000,000 against this facility at March 31, 1996 and none at March 31, 1995. JRM also had available a $150,000,000 unsecured and committed revolving credit facility on which no borrowings were outstanding at March 31, 1996. JRM is restricted, as a result of the consolidated tangible net worth covenant in this agreement, in its ability to transfer funds to International and its subsidiaries through cash dividends or through unsecured loans or investments. At March 31, 1996, approximately $13,000,000 of JRM's net assets were not subject to this restriction.

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

McDermott International maintains an investment portfolio of government obligations and other investments. The fair value of short-term investments and the long-term portfolio at March 31, 1996 was $244,103,000. At March 31, 1996, approximately $125,361,000 fair value of these obligations were pledged to secure a letter of credit in connection with a long-term loan and certain reinsurance agreements.

During March 1996, JRM sold the vessels DB101 and DB102 (previously leased to the joint venture) to the HeereMac joint venture for $240,969,000, including $30,000,000 as a deposit in advance of the sale of certain marine equipment. Consideration received included cash of $135,969,000 and a promissory note of $105,000,000 bearing interest at a rate of 7.75%. The cash portion of the purchase price was funded in part through a $200,000,000 stand-alone credit arrangement obtained by the HeereMac joint venture. Proceeds from the sale were used to repay JRM's Floating Rate Note to McDermott International and to repay other indebtedness of approximately $72,000,000. The remaining proceeds were invested in cash equivalents. As a result of the sale, JRM recorded a deferred gain of $103,239,000, which it is amortizing over 12 years.

deferred tax assets at March 31, 1996 in all other tax jurisdictions are realizable through carrybacks and future reversals of existing taxable temporary differences and, if necessary, the implementation of tax planning strategies involving the sales of appreciated assets. A major uncertainty that affects the ultimate realization of deferred tax assets is the possibility of declines in value of appreciated assets involved in identified tax planning strategies. This factor has been considered in determining the valuation allowance. Management will continue to assess the adequacy of the valuation allowance on a quarterly basis.

New Accounting Standards

In March 1995, the Financial Accounting Standards Board ("FASB") issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," effective for fiscal years beginning after December 15, 1995. SFAS No. 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. SFAS No. 121 also applies to similar assets that are held for disposal, except for the assets of a discontinued operation. McDermott International has not yet finalized its review of the impact of this statement, but it is not expected to have a material impact on the consolidated financial statements.

In October 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation," effective for fiscal years beginning after December 15, 1995. SFAS No. 123 established financial accounting and reporting standards for stock-based employee compensation plans. McDermott International has not yet finalized its review of the provisions of this statement, and accordingly, has not yet determined whether it will adopt SFAS No. 123 for expense recognition purposes, or continue to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and make the pro forma information disclosures required under the new method.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

COMPANY REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

May 15, 1996

LIABILITIES AND STOCKHOLDERS' EQUITY

	1996	1995
	(In thousands)	
Current Liabilities:		
Notes payable and current maturities of long-term debt	$ 234,258	$ 407,586
Accounts payable	264,930	286,219
Environmental and products liabilities - current	161,062	133,280
Accrued employee benefits	98,159	104,883
Accrued liabilities - other	410,103	326,688
Advance billings on contracts	187,378	180,018
U.S. and foreign income taxes	36,662	52,683
Total Current Liabilities	1,392,552	1,491,357
Long-Term Debt	576,256	579,101
Accumulated Postretirement Benefit Obligation	401,321	393,744
Environmental and Products Liabilities	721,740	913,939
Other Liabilities	268,975	310,989
Contingencies		
Minority Interest:		
Subsidiary's redeemable preferred stocks	173,301	179,251
Other minority interest	168,586	172,710
Total Minority Interest	341,887	351,961
Stockholders' Equity:		
Preferred stock, authorized 25,000,000 shares; outstanding 2,875,000 Series C $2.875 cumulative convertible, par value $1.00 per share, (liquidation preference $143,750,000)	2,875	2,875
Common stock, par value $1.00 per share, authorized 150,000,000 shares; outstanding 54,435,823 at March 31, 1996 and 53,959,597 at March 31, 1995	54,436	53,960
Capital in excess of par value	949,022	936,134
Deficit	(290,968)	(249,061)
Minimum pension liability	(1,428)	(391)
Net unrealized loss on investments	(1,875)	(8,050)
Currency translation adjustments	(27,542)	(24,888)
Total Stockholders' Equity	684,520	710,579
TOTAL	$ 4,387,251	$4,751,670

costs in fiscal year 1994 that would have been recognized under McDermott International's prior practice were included in the cumulative effect of the accounting change.

Postemployment Benefits - Effective April 1, 1994, McDermott International adopted *Statement of Financial* Accounting Standards ("SFAS") No. 112, "Employers' Accounting for Postemployment Benefits," in accounting for disability benefits and other types of benefits paid to employees, their beneficiaries and covered dependents after active employment, but before retirement. The cumulative effect as of April 1, 1994 of this change in accounting was to reduce net income by $1,765,000 (net of income taxes of *$287,000) or $0.03 per share. Other than the cumulative effect, the* accounting change had no material effect on the results of fiscal year 1995. Prior to April 1, 1994, McDermott International recognized the cost of providing most of these benefits on a cash basis.

Investments - Effective *April 1, 1994, McDermott International adopted SFAS No. 115,* "Accounting for Certain Investments in Debt and Equity Securities" for investments held as of or acquired after April 1, 1994. The adoption of SFAS No. 115 resulted in a decrease in the opening balance of stockholders' equity of $4,095,000 to reflect the net unrealized holding losses on McDermott International's investment securities which were previously carried at amortized cost.

At *March 31, 1996* and 1995 *McDermott* International's investments, primarily government obligations and other debt securities, are classified as available-for-sale and are carried at fair value, with the unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity. Management determines the appropriate classifications of debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. *Investment securities available for current operations are* classified in the balance sheet as current assets while securities held for long-term investment purposes are classified as non-current assets. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains and losses are included in other income. The cost of securities sold is based on the specific identification method. Interest on securities is included in interest income.

Income Taxes

Income taxes have been provided using the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes".

Foreign Currency Translation

Assets and liabilities of foreign operations, other than operations in highly inflationary economies, are translated into U.S. Dollars at current exchange rates and income statement *items are translated at average exchange rates for the year.* Adjustments resulting from the translation of foreign currency financial statements are recorded in a separate component of equity. Foreign currency transaction adjustments are reported in income. Included in Other Income (Expense) are transaction losses of $3,840,000, $1,057,000, and $2,260,000 for fiscal years 1996, 1995 and 1994, respectively.

Contracts and Revenue Recognition

Contract revenues and related costs are principally recognized on a percentage of completion method for individual contracts or components thereof based upon work performed or a cost to cost method, as applicable to the product or activity involved. Revenues and related costs so recorded, plus accumulated contract costs that exceed amounts invoiced to customers under the terms of the contracts, are included in Contracts in Progress. Billings that exceed accumulated contract costs and revenues and costs recognized under percentage of completion are included in Advance Billings on Contracts. Most long-term contracts have provisions for progress payments. There are no unbilled revenues which will not be billed. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in income in the period when such estimates are revised. Provisions are made currently for all known or anticipated losses. Variations from estimated contract performance could result in a material adjustment to operating results for any fiscal quarter or year. Claims for extra work or changes in scope of work are included in contract revenues when collection is probable. Included in Accounts Receivable and Contracts in Progress are approximately $58,190,000 and $50,831,000 relating to commercial and U.S. Government contracts claims whose final settlement is subject to future determination through negotiations or other procedures which had not been completed at March 31, 1996 and 1995, respectively.

	1996	1995
	(In thousands)	
Included in Contracts in Progress are:		
Costs incurred less costs of revenue recognized	$ 77,483	$ 32,070
Revenues recognized less billings to customers	379,782	246,946
Contracts in Progress	$ 457,265	$ 279,016
Included in Advance Billings on Contracts are:		
Billings to customers less revenues recognized	$ 207,036	$ 212,197
Costs incurred less costs of revenue recognized	(19,658)	(32,179)
Advance Billings on Contracts	$ 187,378	$ 180,018

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

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

	1996	1995
	(In thousands)	
Retainages	$ 67,886	$ 72,257
Retainages expected to be collected after one year	$ 17,699	$ 41,355

Of its long-term retainages at March 31, 1996, McDermott International anticipates collection of $13,541,000 in fiscal year 1998 and $4,012,000 in fiscal year 1999.

Inventories

Inventories are carried at the lower of cost or market. Cost is determined on an average cost basis except for certain materials inventories, for which the last-in first-out (LIFO) method is used. The cost of approximately 19% and 20% of total inventories was determined using the LIFO method at March 31, 1996 and 1995, respectively. Consolidated inventories at March 31, 1996 and 1995 are summarized below:

	1996	1995
	(In thousands)	
Raw Materials and Supplies	$ 47,457	$ 38,570
Work in Progress	17,305	15,341
Finished Goods	12,830	10,133
	$ 77,592	$ 64,044

Warranty Expense

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

Environmental Clean-up Costs

McDermott International accrues for future decommissioning and decontamination of its nuclear facilities that will permit the release of these facilities to unrestricted use at the end of each facility's life, which is a condition of its licenses from the Nuclear Regulatory Commission. Such accruals are based on the estimated cost of those activities over the economic useful life of each facility, which is estimated at 40 years.

Research and Development

The cost of research and development which is not performed on specific contracts is charged to operations as incurred. Such expense was approximately $23,000,000, $19,905,000 and $21,036,000 in fiscal years 1996, 1995 and 1994, respectively. In addition, expenditures on research and development activities of approximately $45,106,000, $44,240,000 and $48,112,000 in fiscal years 1996, 1995 and 1994, respectively, were paid for by customers of McDermott International.

Depreciation, Maintenance and Repairs and Drydocking Expenses

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

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

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

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

Excess of the cost over fair value of net assets of purchased businesses primarily pertains to the acquisition of The Babcock & Wilcox Company, which is being amortized on a straight-line basis over 40 years, and the acquisition of Offshore Pipelines, Inc. which is being amortized on a straight-line basis over 15 years. Management periodically reviews goodwill to assess recoverability, and impairments would be recognized in operating results if a permanent diminution in value were to occur.

Capitalization of Interest Cost

In fiscal years 1996, 1995 and 1994, total interest cost incurred was $86,239,000, $59,715,000 and $65,296,000, respectively, of which $1,927,000, $2,600,000 and $1,321,000, respectively, was capitalized.

Earnings Per Share

Primary earnings per share are based on the weighted average number of common and dilutive common equivalent shares outstanding during the year. Fully diluted earnings per share are the same as primary since the computations were antidilutive.

Cash Equivalents

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

Derivative Financial Instruments

Derivatives, primarily forward exchange contracts, are utilized to minimize exposure and reduce risk from foreign exchange fluctuations in the regular course of business. Gains and losses related to qualifying hedges of firm commitments are deferred and recognized in income or as adjustments of carrying amounts when the hedged transactions occur. Gains and losses on forward exchange contracts which hedge foreign currency assets or liabilities are recognized in income as incurred. Such amounts effectively offset gains and losses on the foreign currency assets or liabilities that are hedged.

Accounting for Long-Lived Assets

McDermott International is currently reviewing Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," effective for fiscal years beginning after December 15, 1995. SFAS No. 121 established financial accounting and reporting standards for long-lived assets and certain identifiable intangibles. McDermott International has not yet finalized its review of the impact of this statement, but it is not expected to have a material impact on the consolidated financial statements.

Stock-Based Compensation

McDermott International accounts for its stock compensation arrangements under the provision of Accounting Principles Board ("APB") No. 25, "Accounting for Stock Issued to Employees," but is reviewing the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," which is effective for fiscal years beginning after December 15, 1995. SFAS No. 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. McDermott International has not yet finalized its review of the provisions of this statement, and accordingly, has not yet determined whether it will adopt SFAS No. 123 for expense recognition purposes, or continue to follow APB Opinion No. 25, and make the proforma information disclosures required under the new standard.

NOTE 2 - ACQUISITIONS

During the three years ended March 31, 1996, McDermott International made the acquisitions described below which were accounted for by the purchase method. Operating results have been included in the Consolidated Statement of Income (Loss) from the acquisition dates.

During fiscal year 1996, McDermott International acquired the minority ownership interest in McDermott Engineers & Constructors (Canada), Ltd. ("MECL"), formerly Delta Catalytic Corporation, a controlling interest in Talleres Navales Del Golfo ("TNG"), a Mexican shipyard, and the assets of Joy Environmental Technologies, which specialized in technologies used by electric utilities and other industrial companies to comply with clean air regulations. Proforma results of operations have not been presented because the effects of these acquisitions were not significant.

On January 31, 1995, McDermott International contributed substantially all of its marine construction services business to JRM and JRM acquired Offshore Pipelines, Inc. ("OPI"), a full-range provider of offshore marine construction and other related services on a worldwide basis to the oil and gas industry. Pursuant to the Merger Agreement, JRM issued 13,867,946 shares of Common Stock, 897,818 options to acquire shares of Common Stock and 458,632 shares of Series B $2.25 Cumulative Convertible Exchangeable Preferred Stock valued at $347,599,000 in exchange for all of the outstanding common stock, stock options and preferred stock of OPI. As a result of the acquisition of OPI, McDermott International's ownership interest in the common stock of JRM was reduced to approximately 64%. The purchase price ($369,868,000, including direct costs of acquisition and non-compete agreements) was allocated to the underlying assets and liabilities based upon preliminary fair values at the date of acquisition which resulted in excess cost over fair value of net assets acquired of $235,000,000. During fiscal year 1996, McDermott International completed certain asset and liability valuations related primarily to joint ventures, property, plant and equipment and preacquisition contingencies resulting in an increase in excess of cost over fair value of net assets acquired of $95,000,000. Additionally, during fiscal year 1996, management completed its assessment of the amortization period for excess of cost over fair value of net assets acquired and determined the amortization period should be 15 years.

Unaudited proforma results of operations for fiscal years 1995 and 1994 assuming the acquisition of OPI had occurred as of the beginning of fiscal year 1994 are: revenues of $3,359,054,000, loss before cumulative effect of accounting changes of $9,547,000 ($0.33 loss per share) and net loss of $11,312,000 ($0.36 per share) for fiscal year 1995; revenues of $3,399,186,000, income before cumulative effect of accounting changes of $56,031,000 ($0.93 per share) and net loss of $44,719,000 ($0.95 per share) for fiscal year 1994. The proforma information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisition been completed as of April 1, 1993.

During fiscal year 1994, McDermott International acquired Northern Ocean Services Limited ("NOS") for $57,645,000 and the Delaware Company acquired a controlling interest in MECL for $28,249,000. Of the purchase prices, $32,832,000 was assigned to excess of cost over fair value of net assets acquired and is being amortized over a period of 10 years.

Assuming the acquisitions of NOS and MECL had occurred at the beginning of fiscal year 1994 the unaudited proforma results of operations for revenues, income before cumulative effect of accounting changes and net loss are $3,164,468,000, $94,704,000 ($1.66 per share) and $6,046,000 ($0.23 per share), respectively. The proforma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the acquisitions been completed as of April 1, 1993.

NOTE 3- INVESTMENTS IN JOINT VENTURES AND OTHER ENTITIES

Investments in joint ventures and other entities, which are accounted for on the equity method, were $129,658,000 and $163,029,000 at March 31, 1996 and 1995, respectively. Transactions with entities for which investments are accounted for by the equity method included sales to ($180,198,000, $152,517,000 and $89,123,000 in fiscal years 1996, 1995 and 1994, respectively, including approximately $44,491,000, $54,657,000 and $49,121,000, respectively, attributable to leasing activities) and purchases from ($39,915,000, $12,582,000, and $137,942,000 in fiscal years 1996, 1995 and 1994, respectively) these entities. Included in non-current Other Assets at March 31, 1996 and 1995 are $23,000,000 and $12,996,000, respectively of accounts and note receivable from unconsolidated investees. Included in Accounts payable at March 31, 1996 and 1995 are $14,260,000 and $7,168,000, respectively, of payables to unconsolidated investees.

During fiscal year 1996, McDermott International sold to the HeereMac joint venture the major marine vessels it had been leasing to the joint venture. McDermott International received cash of $135,969,000, including a $30,000,000 deposit in advance of the sale of certain marine equipment, and a 7.75% note receivable of $105,000,000, and recorded a deferred gain of $103,239,000, which is being amortized over HeereMac's 12 year depreciable lives of the vessels. The note receivable, net of the deferred gain, is included in investments in joint ventures. In addition to the vessel sale in fiscal year 1996, JRM received $37,097,000 as a return of capital from the HeereMac joint venture.

In fiscal year 1995, JRM contributed various marine construction barges with a cost of $102,602,000 and accumulated depreciation of $76,763,000 and sold a derrick barge to the HeereMac joint venture for $9,101,000. In fiscal year 1994, McDermott International recognized revenues of $131,000,000 on work subcontracted to HeereMac.

At March 31, 1996 and 1995, property, plant and equipment included $141,293,000 and $402,479,000, and accumulated depreciation included $89,312,000 and $230,674,000, respectively, of marine equipment that is leased to unconsolidated investees. Dividends received from unconsolidated investees were $42,475,000, $76,481,000 and $65,214,000 in fiscal years 1996, 1995 and 1994, respectively. Undistributed earnings in unconsolidated affiliates were $50,997,000 and $44,503,000, respectively, at March 31, 1996 and 1995.

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

	1996	1995
	(In thousands)	
Current Assets	$ 582,480	$ 602,761
Non-Current Assets	939,624	608,500
Total Assets	$1,522,104	$1,211,261
Current Liabilities	$ 550,383	$ 510,098
Non-Current Liabilities	692,440	361,623
Owners' Equity	279,281	339,540
Total Liabilities and Owners' Equity	$1,522,104	$1,211,261

	1996	1995	1994
		(In thousands)	
Revenues	$1,236,695	$1,038,686	$1,160,363
Gross Profit	$ 259,431	$ 239,424	$ 361,699
Income before Provision for Income Taxes	$ 106,974	$ 87,717	$ 232,366
Provision for Income Taxes	11,330	9,509	13,539
Net Income	$ 95,644	$ 78,208	$ 218,827

NOTE 4 - INCOME TAXES

Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted. All income has been earned outside of Panama and McDermott International is not subject to income tax in Panama on income earned outside of Panama. Therefore, there is no expected relationship between the provision for, or benefit from, income taxes and income, or loss, before income taxes. The major reason for the variations in such relationships is that income is earned within and subject to the taxation laws of various countries, each of which has a regime of taxation which varies from that of any other country (not only with respect to nominal rate but also with respect to the allowability of deductions, credits and other benefits) and because the proportional extent to which income is earned in, and subject to tax by, any particular country or countries varies from year to year. International and certain of its subsidiaries keep books and file tax returns on the completed contract method of accounting.

Deferred income taxes reflect the net tax effects of temporary differences between the financial and tax bases of assets and liabilities. Significant components of deferred tax assets and liabilities as of March 31, 1996 and 1995 were as follows:

	1996	1995
	(In thousands)	
Deferred tax assets:		
Accrued warranty expense	$ 13,725	$ 12,796
Accrued vacation pay	9,162	8,574
Accrued liabilities for self-insurance (including postretirement health care benefits)	176,369	170,326
Accrued liabilities for executive and employee incentive compensation	16,541	17,773
Investments in joint ventures and affiliated companies	8,014	12,496
Net operating loss carryforwards	21,635	17,323
Foreign tax credits	-	15,662
Environmental and products liabilities	344,839	410,588
Other	40,153	44,687
Total deferred tax assets	630,438	710,225
Valuation allowance for deferred tax assets	(30,889)	(34,943)
Deferred tax assets - Net	599,549	675,282
Deferred tax liabilities:		
Property, plant and equipment	57,725	54,194
Long-term contracts	10,029	15,842
Prepaid pension costs	99,997	96,680
Investments in joint ventures and affiliated companies	11,261	27,346
Insurance recoverable	282,065	336,429
Other	10,588	7,819
Total deferred tax liabilities	471,665	538,310
Net deferred tax assets	$ 127,884	$ 136,972

Income (loss) before provision for (benefit from) income taxes and cumulative effect of accounting changes was as follows:

	1996	1995	1994
		(In thousands)	
U.S.	$ (34,649)	$ (124,271)	$ (53,574)
Other than U.S.	56,353	115,104	168,528
	$ 21,704	$ (9,167)	$ 114,954

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

	1996	1995	1994
		(In thousands)	
Current:			
U. S. - Federal	$ (17,323)	$ (35,891)	$ (15,029)
U.S. - State and local	(3,810)	(4,405)	1,804
Other than U.S.	13,091	24,149	34,348
Total current	(8,042)	(16,147)	21,123
Deferred:			
U.S. - Federal	21,358	(826)	(1,798)
U.S. - State and local	(3,009)	2,778	(4,392)
Other than U.S.	(9,228)	(5,848)	10,065
Total deferred	9,121	(3,896)	3,875
Provision for (Benefit from) Income Taxes	$ 1,079	$ (20,043)	$ 24,998

The current provision for other than U.S. income taxes in 1996, 1995 and 1994 includes a reduction of $3,763,000, $1,323,000 and $22,515,000, respectively, for the benefit of net operating loss carryforwards.

During fiscal year 1995, settlements were reached with the Internal Revenue Service ("IRS") concerning the Delaware Company's U.S. income tax liability for the fiscal years ended March 31, 1983 through March 31, 1988 disposing of all U.S. federal income tax issues for those years. These settlements resulted in a reduction in accrued interest expense of $26,300,000 during fiscal year 1995. The IRS has issued notices for fiscal years March 31, 1989 and March 31, 1990 asserting deficiencies in the amount of taxes reported. The deficiencies are based on issues substantially similar to those of earlier years. The Delaware Company believes that any income taxes ultimately assessed will not exceed amounts already provided.

Pursuant to a stock purchase and sale agreement (the "Intercompany Agreement"), the Delaware Company has the right to sell to International and International has the right to buy from the Delaware Company, 100,000 units, each unit consisting of one share of International Common Stock and one share of International Series A Participating Preferred Stock, at a price based primarily upon the stockholders' equity of McDermott International at the close of the fiscal year preceding the date at which the right to sell or buy, as the case may be, is exercised, and, to a limited extent, upon the price-to-book value of the Dow Jones Industrial Average. At April 1, 1996, the current unit value was $2,529 and the aggregate current unit value for the Delaware Company's 100,000 units was $252,886,000. The net proceeds to the Delaware Company from the exercise of any rights under the Intercompany Agreement would be subject to U. S. federal, state and other applicable taxes. No tax provisions have been established, since there is no present intention by either party to exercise such rights.

NOTE 5 - LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt consists of:	1996	1995
	(In thousands)	
Unsecured Debt:		
Series A Medium Term Notes (maturities ranging from 1 to 7 years; interest at various rates ranging from 7.92% to 9.00%)	$ 75,000	$ 75,000
Series B Medium Term Notes (maturities ranging from 2 to 27 years; interest at various rates ranging from 6.50% to 8.75%)	101,000	101,000
9.375% Notes due 2002 ($225,000,000 face value)	224,538	224,482
10.25% Notes due June 1, 1995	-	150,000
12.875% Guaranteed Senior Notes due 2002 ($70,000,000 face value)	74,473	74,933
Other notes payable through 2009 (interest at various rates ranging to 6.80%)	38,255	31,669
Secured Debt:		
10.375% Note payable due 1998	55,300	73,800
Other notes payable through 2012 and capitalized lease obligations	42,881	25,167
	611,447	756,051
Less: Amounts due within one year	35,191	176,950
	$576,256	$579,101

Notes payable and current maturities of long-term debt consist of:

	1996	1995
	(in thousands)	
Short-term lines of credit:		
Unsecured	$ 199,067	$ 70,445
Secured	-	24,500
Repurchase agreements	-	135,691
Current maturities of long-term debt	35,191	176,950
Total	$ 234,258	$ 407,586
Weighted average interest rate on short-term borrowings	6.35%	7.19%

The Indenture for the 9.375% Notes due 2002 and the Series A and B Medium Term Notes contain certain covenants which restrict the amount of funded indebtedness that the Delaware Company may incur, and place limitations on certain restricted payments, certain transactions between affiliates, the creation of certain liens and the amendment of the Intercompany Agreement.

In connection with the OPI acquisition, a subsidiary of JRM assumed OPI's $70,000,000 12-7/8% Guaranteed Senior Notes ("12.875% Notes"). The 12.875% Notes are subject to mandatory sinking fund requirements beginning on July 15, 2000 calculated to retire 50% of the original principal amount prior to maturity in 2002. The 12.875% Notes are redeemable, for cash, at the option of the issuer, at any time on or after July 15, 1997, in whole or in part, at a price of 106.4% of the principal amount, and thereafter at prices declining annually to 100% of the principal amount on or after July 15, 2000.

McDermott International's 10.375% Note payable due 1998 is secured by a letter of credit issued by a U. S. bank. The letter of credit was secured by $60,847,000 market value of McDermott International's long-term portfolio at March 31, 1996. The outstanding principal is repayable in semi-annual payments with the final installment due June 20, 1998. The letter of credit and collateral amounts decline as the loan principal is repaid. At March 31, 1996 and 1995, McDermott International had an interest rate swap outstanding on the current notional principal amount of this note which effectively changes the fixed interest rate of 10.375% to a floating rate based on LIBOR (See Note 14).

Maturities of long-term debt during the five fiscal years subsequent to March 31, 1996 are as follows: 1997 - $35,191,000; 1998 - $82,892,000; 1999 - $54,983,000; 2000 - $30,735,000; 2001 - $27,000.

The Delaware Company and JRM are restricted, as a result of covenants in certain credit agreements, in their ability to transfer funds to International and its subsidiaries through cash dividends or through unsecured loans or investments. At March 31, 1996, substantially all of the net assets of the Delaware Company and JRM were subject to such restrictions.

At March 31, 1996 and 1995, International and its subsidiaries had available to them various uncommitted short-term lines of credit from banks totaling $439,610,000 and $373,867,000, respectively. Borrowings against these lines of credit at March 31, 1996 and 1995 were $149,067,000 and $63,025,000, respectively. In addition, The Babcock & Wilcox Company had available to it an unsecured and committed revolving credit facility which was amended during fiscal year 1996 to increase the commitment to $150,000,000 and to extend the agreement to March 31, 1999. It is a condition to borrowing under this revolving credit facility that the borrower's tangible net worth, debt to capitalization, and interest coverage as defined in the agreement meet or exceed certain covenant requirements. There were borrowings of $50,000,000 against this facility at March 31, 1996 and none at March 31, 1995. JRM also had available a $150,000,000 unsecured and committed revolving credit facility on which no borrowings were outstanding at March 31, 1996. JRM is restricted, as a result of the consolidated tangible net worth covenant in this agreement, in its ability to transfer funds to International and its subsidiaries through cash dividends or through unsecured loans or investments.

NOTE 6 - PENSION PLANS AND POSTRETIREMENT BENEFITS

Pension Plans - McDermott International provides retirement benefits, primarily through non-contributory pension plans, for substantially all of its regular full-time employees, except certain non-resident alien employees of foreign subsidiaries who are not citizens of a European Community country or who do not earn income in the United States, Canada, or the United Kingdom. Salaried plan benefits are based on final average compensation and years of service, while hourly plan benefits are based on a flat benefit rate and years of service. McDermott International's funding policy is to fund applicable pension plans to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, generally, to fund other pension plans as recommended by the respective plan actuary and in accordance with applicable law. At January 1, 1996 and 1995, approximately one-half of total plan assets were invested in listed stocks and bonds. The remaining assets were held in foreign equity funds, U.S. Government securities and investments of a short-term nature.

U.S. Pension Plans:

The net periodic pension benefit for fiscal years 1996, 1995 and 1994 included the following components:

	1996	1995	1994
		(In thousands)	
Service cost - benefits earned during the period	$ 21,599	$ 22,917	$21,035
Interest cost on projected benefit obligation	69,911	62,690	62,827
Actual return on plan assets	(218,895)	16,701	(166,978)
Net amortization and deferral	122,281	(114,343)	81,509
Net periodic pension benefit	$ (5,104)	$(12,035)	$ (1,607)

Due to the sale of a domestic entity, loss before cumulative effect of accounting change in fiscal year 1995, includes a net after-tax gain of $732,000 resulting from the recognition of a curtailment of a related plan.

The following table sets forth the U.S. plans' funded status and amounts recognized in the consolidated financial statements:

	Plans for Which Assets Exceed Accumulated Benefits		Plans for Which Accumulated Benefits Exceed Assets	
	1996	1995	1996	1995
	(In thousands)			
Actuarial present value of benefit obligations:				
Vested benefit obligation	$ 763,561	$ 534,093	$ 62,752	$ 134,801
Accumulated benefit obligation	$ 824,121	$ 584,938	$ 72,980	$ 163,374
Projected benefit obligation	$ 930,558	$ 654,066	$ 94,733	$ 165,799
Plan assets at fair value	1,156,121	912,329	46,904	117,606
Projected benefit obligation (in excess of) or less than plan assets	225,563	258,263	(47,829)	(48,193)
Unrecognized net (gain) loss	32,286	40,295	21,629	(5,497)
Unrecognized prior service cost	13,936	(25,796)	(6,118)	19,695
Unrecognized transition asset	(32,342)	(38,669)	(1,533)	(1,892)
Adjustment required to recognize minimum liability	-	-	(5,952)	(10,322)
Prepaid pension cost (pension liability)	$ 239,443	$ 234,093	$ (39,803)	$ (46,209)

The assumptions used in determining the funded status of the U. S. plans were:

	1996	1995	1994
Actuarial assumptions:			
Discount rate	7.25%	8.25%	7.5%
Rate of increase in future compensation levels	5.0%	5.0%	4.5%
Expected long-term rate of return on assets	8.5%	8.5%	8.5%

The projected benefit obligation increase at March 31, 1996 was primarily due to the change in the discount rate for the U.S. plans ($119,458,000) and changes in actuarial assumptions relative to mortality and retirement.

In accordance with the provisions of SFAS No. 87, "Employers' Accounting for Pensions," McDermott International recorded, during 1996 and 1995, an additional minimum liability for certain of its U.S. plans of $5,952,000 and $10,322,000, respectively. These liabilities resulted in recognition of intangible assets of $4,114,000 and $9,910,000 and reductions in stockholders' equity of $1,839,000 and $391,000, respectively, in fiscal years 1996 and 1995.

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

Non-U.S. Pension Plans:

The net periodic pension benefit for fiscal years 1996, 1995 and 1994 included the following components:

	1996	1995	1994
		(In thousands)	
Service cost - benefits earned during the period	$ 4,602	$ 4,832	$ 3,816
Interest cost on projected benefit obligation	11,446	11,103	10,027
Actual return on plan assets	(35,281)	(5,702)	(32,477)
Net amortization and deferral	14,814	(16,174)	12,297
Net periodic pension benefit	$ (4,419)	$ (5,941)	$ (6,337)

Due to a plan settlement, net income includes a net gain of $1,104,000 for fiscal year 1996. Due to a reduction in workforce at one foreign subsidiary, income before cumulative effect of accounting change in fiscal year 1994 includes a net after-tax loss of $1,456,000 resulting from the recognition of a curtailment of a related plan.

The following table sets forth the non-U.S. plans' funded status (assets exceed accumulated benefits) and amounts recognized in the consolidated financial statements:

	1996	1995
	(In thousands)	
Actuarial present value of benefit obligations:		
Vested benefit obligation	$ 138,227	$ 117,738
Accumulated benefit obligation	$ 140,554	$ 119,973
Projected benefit obligation	$ 155,774	$ 136,155
Plan assets at fair value	226,338	205,840
Plan assets in excess of projected benefit obligation	70,564	69,685
Unrecognized net gain	(10,843)	(4,633)
Unrecognized prior service cost	5,154	4,375
Unrecognized transition asset	(21,270)	(26,449)
Net prepaid pension cost	$ 43,605	$ 42,978

The assumptions used in determining the funded status of the non-U.S. plans were:

	1996	1995	1994
Actuarial assumptions:			
Discount rate	7.25-8.25%	8.0-8.25%	7.5-8.0%
Rate of increase in future compensation levels	5.0%	5.0%	4.5-6.0%
Expected long-term rate of return on plan assets	8.5%	8.5-9.0%	8.0-9.0%

The changes in the discount rate for the non-U.S. plans increased the projected benefit obligation at March 31, 1996 by $10,090,000.

Multiemployer Plans - One of McDermott International's subsidiaries contributes to various multiemployer plans. The plans generally provide defined benefits to substantially all unionized workers in this subsidiary. Amounts charged to pension cost and contributed to the plans were $4,441,000, $9,838,000 and $8,367,000 in fiscal years 1996, 1995 and 1994, respectively.

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

The following table sets forth the amounts recognized in the consolidated financial statements at March 31:

	1996	1995
	(In thousands)	
Accumulated Postretirement Benefit Obligation:		
Retirees	$ 343,469	$ 318,276
Fully eligible active participants	17,284	16,226
Other active plan participants	79,183	65,199
	439,936	399,701
Unrecognized net gain (loss)	(10,516)	22,142
Accrued postretirement benefit cost	$ 429,420	$ 421,843
Weighted-average discount rate	7.25%	8.25%

The accumulated postretirement benefit obligation in the above table includes $395,808,000 and $358,543,000 for McDermott International's health care plans and $44,128,000 and $41,158,000 for McDermott International's life insurance plans at March 31, 1996 and 1995, respectively. The changes in the accumulated postretirement benefit obligation and the unrecognized net gain (loss) at March 31, 1996 were primarily attributable to the decrease in the discount rate.

Net periodic postretirement benefit cost for fiscal years 1996, 1995 and 1994 included the following components:

	1996	1995 (In thousands)	1994
Service cost	$ 3,902	$ 4,686	$ 3,570
Interest cost	31,494	32,494	32,507
Net amortization and deferral	(1,581)	3,004	19
Net periodic postretirement benefit cost	$ 33,815	$ 40,184	$ 36,096

For measurement purposes, a weighted-average annual assumed rate of increase in the per capita cost of covered health care claims of 10-3/4% was assumed for 1996, 11-1/2% for 1995 and 12-1/2% in 1994. For 1997, a rate of 9-3/4% was assumed. In all years, the rate was assumed to decrease gradually to 5% in 2005 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. For example, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of March 31, 1996 by $27,440,000 and the aggregate of the service cost and interest cost components of net periodic postretirement benefit cost for fiscal year 1996 by $2,397,000.

NOTE 7 - SALE OF ACCOUNTS RECEIVABLE

The Babcock & Wilcox Company has an agreement with a U.S. bank, whereby it can sell, with limited recourse, an undivided interest in a designated pool of qualified accounts receivable. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously sold accounts receivable. The maximum sales limit under the agreement was reduced during fiscal year 1996 from $225,000,000 to $140,000,000. At March 31, 1996 and 1995, approximately $107,000,000 and $175,000,000, respectively, of receivables had been sold for cash under this agreement. Receivables sold under this agreement are presented as a reduction of accounts receivable on the accompanying balance sheets. Included in Other-net income were expenses recorded on the sale of receivables which represent bank fees and discounts of $8,518,000, $9,709,000 and $8,699,000 for fiscal years 1996, 1995 and 1994, respectively. Discounts are based on the bank's cost of issuing commercial paper and bank fees are a fixed amount based on the maximum limit which may be sold.

NOTE 8 - SUBSIDIARIES' STOCKS

At March 31, 1996 and 1995, 13,000,000 shares of Delaware Company Preferred Stock, with a par value of $1 per share, were authorized. Of the authorized shares, 2,818,780 shares of Series A Preferred Stock, and 2,726,860 and 2,917,236 shares of Series B Preferred Stock, respectively, were outstanding (in each case, exclusive of shares owned by the Delaware Company) at March 31, 1996 and 1995. The outstanding shares are entitled to $31.25 per share in liquidation. Preferred dividends of $13,539,000, $14,142,000 and $15,719,000 are classified as minority interest in Other Income (Expense) in fiscal years 1996, 1995 and 1994, respectively. Both series of Preferred Stock are entitled to general voting rights of one-half vote for each share. The Board of Directors of the Delaware Company may authorize additional series of Preferred Stock, and may set terms of each new series except that the Delaware Company cannot create any series of stock senior to the existing Series A and Series B Preferred Stock without the consent of the holders of at least 50% of the shares of such Preferred Stock.

Each share of the outstanding Series A Preferred Stock is convertible into one share of International's Common Stock plus $0.10 cash. Series A and Series B Preferred Stock are redeemable at the option of the Delaware Company at $31.25 per share plus accrued dividends. On March 31, 1997 and each subsequent year through March 31, 2008, the Delaware Company is obligated to redeem, at a redemption price of $31.25 plus accrued dividends, 313,878 shares of Series A Preferred Stock. On March 31 of fiscal years 1997 through 2006, and March 31 of fiscal years 2007 and 2008, the Delaware Company is obligated to redeem 252,702 and 189,526 shares, respectively, of Series B Preferred Stock. For the five fiscal years subsequent to March 31, 1996, the obligation to redeem the Series A and B Preferred Stock is $17,706,000 for each of the fiscal years 1997 through 2001. The Delaware Company may apply to the mandatory sinking fund obligations any Series A or B Preferred Stock reacquired, redeemed or surrendered for conversion which have not been previously credited against the mandatory sinking fund obligations. The Delaware Company applied 313,878 shares of Series A Preferred Stock and 252,702 shares of Series B Preferred Stock that it owned to satisfy the March 31, 1996 mandatory sinking fund obligations. During fiscal years 1996 and 1995, 190,376 and 557,416 shares, respectively, of Series B Preferred Stock were purchased on the open market. At March 31, 1996, 49,637 shares of Series A Preferred Stock have been converted to date and the Delaware Company owned 947,749 and 179,213 shares of Series A and Series B Preferred Stock, respectively.

At March 31, 1996, JRM had outstanding 3,200,000 shares of Series A $2.25 Cumulative Convertible Preferred Stock ("Series A Preferred Stock" - liquidation preference $160,000,000), all of which were owned by McDermott International. Each share of Series A Preferred Stock is convertible into 1.794 shares of Common Stock at any time after a call by JRM for redemption of any or all of the outstanding Series A Preferred Stock or at any time after January 31, 2000. At March 31, 1996, 15,592,108 shares of Common Stock were reserved for issuance in connection with the conversion of Series A Preferred Stock, and the exercise of stock options, awards of restricted stock under JRM's stock incentive plans and contributions to the Thrift Plan. At March 31, 1996, 1,092,094 options were outstanding at an average exercise price of $13.47 per share (557,440 options exercisable at an average price of $8.77 per share).

NOTE 9 - CAPITAL STOCK

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

At March 31, 1996 and 1995, 85,880,211 and 86,389,216 shares of Common Stock, respectively, were reserved for issuance in connection with the conversion and redemption of the Delaware Company's Series A Preferred Stock, the conversion of International's Series C Preferred Stock, the exercise of International Rights, the 1992 Officer Stock Program (and its predecessor programs), the 1992 Director Stock Program, the 1992 Senior Management Stock Program and contributions to the Thrift Plan.

International Preferred Stock - At March 31, 1996 and 1995, 25,000,000 shares of Preferred Stock were authorized. Of the authorized shares, 100,000 shares of Series A Participating Preferred Stock (the "Participating Preferred Stock") and 60,000 and 70,000 shares of Series B Non-Voting Preferred Stock (the "Non-Voting Preferred Stock"), respectively, were issued and owned by the Delaware Company at March 31, 1996 and 1995. The Non-Voting Preferred Stock is currently callable by International at $275 per share and 10,000 shares are to be redeemed each year by International at $250 per share. The annual per share dividend rates for the Participating Preferred Stock and the Non-Voting Preferred Stock are $10 (but no more than ten times the amount of the per share dividend on International Common Stock) and $20, respectively, payable quarterly, and dividends on such shares are cumulative to the extent not paid. In addition, shares of Participating Preferred Stock are entitled to receive additional dividends whenever dividends in excess of $3.00 per share on International Common Stock are declared (or deemed to have been declared) in any fiscal year. In 1987, the voting rights of the Participating Preferred Stock were eliminated.

Of the authorized shares, International issued 2,875,000 shares of Series C Cumulative Convertible Preferred Stock in July 1993. Net cash proceeds to International were $140,066,000. The Series C shares have a par value of $1.00 per share, and a liquidation preference of $50.00 per share, plus an amount equal to accrued and unpaid dividends. Dividends on Series C shares are cumulative at the annual rate of 5.75% per share on the liquidation preference, equal to $2.875 per annum. International may not redeem Series C shares prior to July 1, 1997. On or after July 1, 1997, the Series C shares are redeemable, in whole or in part, at the option of International, either in cash, shares of International Common Stock, or a combination thereof. Holders of Series C shares may convert them, in whole or in part, at any time, into International Common Stock at a conversion price of $35.25 per share of Common Stock (equivalent to a conversion rate of 1.4184 shares of Common Stock for each share of Series C Preferred Stock), subject to adjustment.

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

International Rights - On December 30, 1995, the then existing Stockholder Rights Plan expired and was replaced by a new Stockholder Rights Plan. Under the new Plan, on January 2, 1996, each holder of Common Stock received a dividend distribution of one Right for each outstanding share of Common Stock. The Rights currently trade with the Common Stock and at March 31, 1996 and 1995, International had outstanding Rights to purchase 54,535,823 and 54,059,597 shares (including Rights to purchase 100,000 shares held by the Delaware Company at March 31, 1996 and 1995), respectively, of its Common Stock at a price of $50 per share subject to anti-dilution adjustments. The Rights will become exercisable and will detach from the Common Stock a specified period of time after a person or a group either becomes the beneficial owner of 15 percent or more of the outstanding Common Stock, or commences or announces an intention to commence a tender or exchange offer for 30 percent or more of the outstanding Common Stock. If thereafter the acquiring person or group engages in certain self-dealing transactions, holders of Rights may purchase at the exercise price that number of shares of Common Stock having a market value equal to twice the exercise price. In the event International merges with or transfers 50 percent or more of its assets or earnings to any person after the Rights become exercisable, holders of Rights may purchase at the exercise price that number of shares of common stock of the acquiring entity having a market value equal to twice the exercise price. The Rights are redeemable by International and expire on January 2, 2006.

International's Stock Plans - The following table summarizes activity for International's stock option plans:

	1996	1995	1994
Options outstanding, April 1,	3,934,196	3,333,613	3,506,710
Granted	705,845	813,730	654,040
Exercised	(76,004)	(147,217)	(783,285)
Cancelled/forfeited	(115,287)	(65,930)	(43,852)
Options outstanding, March 31,	4,448,750	3,934,196	3,333,613
Options exercisable at March 31,	2,924,919	2,653,541	2,106,362

	1996	1995	1994
Average price:			
Outstanding options	$ 22.7185	$ 23.2349	$ 22.6017
Exercisable options	$ 22.8843	$ 22.2608	$ 22.1261
Shares available at March 31, that may be granted for options	703,830	1,375,018	1,405,415
Charges to income	$ 3,614,290	$ 4,155,000	$ 3,576,000

A total of 314,292 shares of Common Stock (including 287,671 of approved shares that were not awarded, and rights to shares that have not terminated or expired, under predecessor plans) are available for grants of options under the 1992 Officer Stock Program. Options become exercisable at such time or times as determined at the date of the grant, and expire ten years after the date of grant. Pursuant to the program, eligible employees may be granted rights to purchase shares of Common Stock at par value ($1.00 per share) subject to restrictions on transfer which lapse at such times and circumstances as specified when granted. Substantially all of the shares of Common Stock available for award under the 1992 Officer Stock Program may be granted as rights under the program. A total of 950,010 rights have been granted to purchase shares at par value ($1.00 per share) under the 1992 Officer Stock Program (and its predecessor plans) at March 31, 1996.

A total of 10,925 shares of Common Stock are available for grants of options, and rights to purchase shares, to non-employee directors under the 1992 Director Stock Program. Options to purchase 900, 300 and 300 shares will be granted on the first, second, and third years, respectively, of a Director's term at not less than 100% of the fair market value on the date of grant. Options become exercisable, in full, six months after the date of the grant, and expire ten years and one day after the date of grant. Rights to purchase 450, 150 and 150 shares are granted on the first, second and third years, respectively, of a Director's term at par value ($1.00 per share) subject to restrictions on transfer, which lapse at the end of such term. A total of 13,175 rights have been granted to purchase shares at par value ($1.00 per share) under the 1992 Director Stock Plan at March 31, 1996.

Under the 1992 Senior Management Stock Option plan, senior management employees may be granted options to purchase shares of Common Stock. The total number of shares available for grant is determined by the Board of Directors from time to time. Options to purchase shares are granted at no less that 100% of the fair market value on the date of grant, become exercisable at such time or times as determined when granted, and expire ten years after the date of the grant.

In the event of a change in control of McDermott International, all three programs have provisions that may cause restrictions to lapse and accelerate the exercisability of options outstanding.

Thrift Plan - On November 12, 1991 and June 5, 1995, a maximum of 5,000,000 e the authorized and unissued shares of International's Common Stock and JRM's Co Stock was reserved for possible issuance to be used as the employer match for em contributions to the Thrift Plan for Employees of McDermott Incorporated and Partici Subsidiary and Affiliated Companies. Such employer contributions equal 50% of th 6% of compensation, as defined in the Plan, contributed by participants, and fully ve are non-forfeitable after five years of service or upon retirement, death, lay-off or app disability. During fiscal years 1996, 1995 and 1994, 300,951, 312,883 and 300,3 International's shares, respectively, were issued as employer contributions pursuant t Plan. During fiscal year 1996, 80,356 of JRM's shares were issued as em contributions pursuant to the Plan. At March 31, 1996, 3,622,934 and 4,919,6 International and JRM shares, respectively, remained available for issuance.

NOTE 10 - CONTINGENCIES AND COMMITMENTS

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

Products Liability - At March 31, 1996 and 1995, the estimated liability for pending and future non-employee products liability asbestos claims was $843,986,000 (of which approximately $208,000,000 had been asserted) and $995,948,000 and estimated insurance recoveries were $723,243,000 and $861,407,000, respectively. Certain B&W insurers have refused to reimburse B&W for amounts paid to settle claims under applicable policies. At March 31, 1996, receivables outstanding from these insurers were $21,050,000. B&W has filed a lawsuit against these insurers seeking reimbursement of these claims and expects to prevail in this litigation which may continue beyond fiscal year 1997 unless a settlement is reached. B&W will require that any settlement reimburse B&W for all amounts billed to date and for all future payments up to full policy limits. During fiscal year 1995, McDermott International received notice that provisional liquidators had been appointed to a London-based products liability asbestos insurer and, as a result, a loss of $14,478,000 related to the reduction of estimated insurance recoveries was recognized. Estimated liabilities for pending and future non-employee products liability asbestos claims are derived from McDermott International's claims history and constitute management's best estimate of such future costs. Estimated insurance recoveries are based upon analysis of insurers providing coverage of the estimated liabilities. Inherent in the estimate of such liabilities and recoveries are expected trends in claim severity and frequency and other factors, including recoverability from insurers, which may vary significantly as claims are filed and settled. Accordingly, changes in estimates could result in a material adjustment to operating results for any fiscal quarter or year and the ultimate loss may differ materially from amounts provided in the consolidated financial statements.

Environmental Matters - During fiscal year 1995, a decision was made to close certain nuclear manufacturing facilities, and a provision of $41,724,000 for the decontamination, decommissioning and closing of these facilities was recognized. Previously, decontamination and decommissioning costs were being accrued over the facilities' remaining expected life. Decontamination will proceed as permitted by the existing NRC license, while funding support will be sought and a decommissioning plan will be submitted for review and approval as required by the NRC. B&W expects to have reached agreement with the NRC in fiscal 1997 on the plan that will provide for the completion of facilities dismantlement and soil restoration by the end of fiscal year 2001. B&W expects to request approval from the NRC to release the site for unrestricted use at that time.

At March 31, 1996 and 1995, McDermott International had total environmental reserves of $38,816,000 and $51,271,000 (including the provision discussed above) respectively, of which $11,062,000 and $8,780,000 were included in current liabilities.

McDermott International has been identified as a potentially responsible party at various cleanup sites under the Comprehensive Environmental Response, Compensation and Liability Act, as amended. McDermott International has not been determined to be a major contributor of wastes to these sites. However, each potentially responsible party or contributor may face assertions of joint and several liability. Generally, however, a final allocation of costs is made based on its relative contribution of wastes to each site. Based on its relative contribution of waste to each site, McDermott International's share of the ultimate liability for the various sites is not expected to have a material effect on its consolidated financial position.

The Department of Environmental Resources of the Commonwealth of Pennsylvania, ("PADER"), by letter dated March 19, 1994, advised B&W that it will seek monetary sanctions, and remedial and monitoring relief, related to B&W's Parks Facilities in Parks Township, Armstrong County, Pennsylvania. The relief sought relates to potential groundwater contamination related to the previous operations of the facilities. B&W is currently negotiating with PADER and expects to reach a settlement without having to resort to litigation. Any sanctions ultimately assessed are not expected to have a material effect on the consolidated financial statements of McDermott International.

Operating Leases - Future minimum payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at March 31, 1996 are as follows: 1997 -$16,134,000; 1998 - $14,314,000; 1999 - $12,107,000; 2000 - $11,156,000; 2001 - $10,138,000; and thereafter - $63,088,000. Total rental expense for fiscal years 1996, 1995 and 1994 was $90,434,000, $109,655,000, and $120,515,000, respectively. These expense figures include contingent rentals and are net of sublease income, both of which are not material.

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

McDermott International maintains liability and property insurance that it considers normal in the industry. However, certain risks are either not insurable or insurance is available only at rates which McDermott International considers uneconomical.

Prior to JRM's acquisition of OPI, one of OPI's vessels was severely damaged during a typhoon while under going final work in connection with its refurbishment. Estimates for the repair of the vessel, together with out-of-pocket costs, total more than $45,000,000. At the time of the casualty loss, insurance policies had been issued insuring the vessel for its full value. Efforts to settle the claim with underwriters, however, have been unsuccessful, and resort to the courts may be necessary to collect the amount claimed. Management believes that the underwriters' refusal to satisfactorily adjust the claim is without basis and is of the opinion that the outcome of any necessary litigation will be favorable.

Commitments for capital expenditures amounted to approximately $43,689,000 at March 31, 1996, all of which relates to fiscal year 1997.

McDermott International is contingently liable under standby letters of credit totaling $445,602,000 (including $52,472,000 issued on behalf of unconsolidated foreign joint ventures) at March 31, 1996, issued in the normal course of business. McDermott International has guaranteed $50,297,000 of loans to and $18,981,000 of standby letters of credit issued by unconsolidated foreign joint ventures of McDermott International at March 31, 1996. In addition, McDermott International has guaranteed $13,333,000 of loans to a third party at March 31, 1996. At March 31, 1996, McDermott International had pledged approximately $64,515,000 fair value of government obligations and corporate bonds to secure payments under and in connection with certain reinsurance agreements.

NOTE 11 - RELATED PARTY TRANSACTIONS

In connection with the acquisition of OPI, two directors and two officers of JRM entered into noncompetition agreements. As consideration, such directors and officers received a total of approximately $10,131,000 (including 50,000 shares of JRM's common stock valued at $1,131,000) during fiscal year 1995. In addition, one such director (who resigned in April 1996) received $1,500,000 in fiscal year 1996 and will receive additional payments of $1,500,000 per year over the next four years.

In fiscal year 1995, JRM entered into an office sublease with an affiliate of a director (who resigned in April 1996) of JRM. Under the sublease, which expires no later than March 1997, the affiliate is required to make monthly rental payments of approximately $18,000. During fiscal year 1996, the affiliate paid $185,000 under the sublease. Under another agreement, the affiliate manages and operates JRM's offshore producing oil and gas property for a monthly fee of $48,000 and reimbursement of certain costs. During fiscal year 1996, JRM paid $576,000 to the affiliate and reimbursed the affiliate for out-or-pocket expenses for the management and operation of its offshore producing oil and gas property. Also, during fiscal year 1996, JRM fabricated a caisson for the affiliate for $84,000. In addition, JRM sold an offshore jacket and deck to the affiliate for $1,100,000 during fiscal year 1995 and received approximately $2,000,000 from the affiliate during fiscal year 1996 pursuant to a contract to refurbish, transport and install the jacket and deck.

JRM entered into agreements with an affiliate of another director of JRM pursuant to which, JRM acquired interests in certain offshore oil and gas property. During fiscal years 1996 and 1995, JRM paid $2,036,000 and $3,000,000 to the affiliate under the agreements in connection with the acquisition of its interests and the development of such property. During fiscal year 1996, JRM sold its interest in the property to the affiliate in exchange for an $8,000,000 convertible production payment relating to such property. Pursuant to the terms of the agreements entered into in connection with such sale, JRM received a right to a production payment that allows it to share in up to $8,000,000 of the net proceeds on any production from the property based upon a percentage of its original interest in such property. In December 1995, this property was placed on production and to date JRM has earned approximately $179,000 as a result of this production payment. In addition, JRM owns 140,000 shares of this affiliate and 20,000 units in a limited partnership which is also an affiliate of this director. JRM has a $15,000,000 contract to fabricate and install a platform with the limited partnership.

JRM has also entered into agreements with two affiliates of a director of JRM pursuant to which, JRM will design, fabricate and install several offshore pipelines and structures. The value of these agreements exceeds $80,000,000. As of March 31, 1996, these affiliates have paid to JRM approximately $59,000,000 for work completed under these agreements. The affiliates of the director have been invoiced for an additional $3,300,000 that is expected to be paid in the ordinary course of business.

JRM maintains employment agreements with certain officers and employees which contain change in control provisions that would entitle each to receive two times his three-year average annual salary plus continuation of certain benefits if there is a change in control of JRM (as defined) and a termination of his employment within two years after a change in control. These agreements also provide medical and health insurance benefits for a two - year period following the termination of employment.

NOTE 12 - FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

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

McDermott International believes that its provision for possible losses on uncollectible accounts receivable is adequate for its credit loss exposure. At March 31, 1996 and 1995, the allowance for possible losses deducted from Accounts receivable-trade on the balance sheet was $14,028,000 and $8,526,000, respectively.

NOTE 13 - INVESTMENTS

The following is a summary of available-for-sale securities at March 31, 1996:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$ 134,481	$ 148	$ 1,955	$ 132,674
Corporate notes and bonds	72,802	781	573	73,010
Other debt securities	49,500	263	31	49,732
Total debt securities	256,783	1,192	2,559	255,416
Equity securities	2,009	-	1,272	737
Total	$ 258,792	$ 1,192	$ 3,831	$ 256,153

The following is a summary of available-for-sale securities at March 31, 1995:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
U.S. Treasury securities and obligations of U.S. government agencies	$ 388,150	$ 1,085	$ 6,212	$ 383,023
Corporate notes and bonds	280,474	432	3,305	277,601
Other debt securities	64,222	21	297	63,946
Total debt securities	732,846	1,538	9,814	724,570
Equity securities	2,009	-	577	1,432
Total	$ 734,855	$ 1,538	$ 10,391	$ 726,002

The amortized cost and estimated fair value amounts above include $12,050,000 and $10,909,000 in other debt securities which are reported as cash equivalents in the balance sheet as of March 31, 1996 and 1995, respectively.

Proceeds, gross realized gains and gross realized losses on sales of available-for-sale securities were approximately $586,917,000, $1,562,000 and $1,008,000, respectively, for fiscal year 1996 and $251,565,000, $88,000 and $2,666,000, respectively, for fiscal year 1995. The amortized cost and estimated fair value of available-for-sale debt and equity securities at March 31, 1996, by contractual maturity, are shown below:

	Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 66,338	$ 66,434
Due after one through three years	173,711	172,716
Due after three years	16,734	16,266
	256,783	255,416
Equity securities	2,009	737
Total	$ 258,792	$ 256,153

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

McDermott International operates internationally giving rise to exposure to market risks from changes in foreign exchange rates. Derivative financial instruments, primarily forward exchange contracts, are utilized to reduce those risks. McDermott International does not hold or issue financial instruments for trading purposes.

Forward exchange contracts are entered into primarily as hedges of certain firm purchase and sale commitments denominated in foreign currencies. At March 31, 1996, McDermott International had forward exchange contracts to purchase $179,365,000 in foreign currencies (primarily Canadian Dollars and Pound Sterling), and to sell $133,626,000 in foreign currencies (primarily Canadian Dollars, Dutch Guilders, Saudi Riyals and Pound Sterling), at varying maturities from fiscal year 1997 through 2000. At March 31, 1995, McDermott International had forward exchange contracts to purchase $251,562,000 in foreign currencies (primarily Canadian Dollars, Japanese Yen, and Pound Sterling), and to sell $199,735,000 in foreign currencies (primarily Canadian Dollars, Dutch Guilders, Japanese Yen, Malaysian Ringgit, and Pound Sterling), at varying maturities from fiscal year 1996 through 2000.

Deferred realized and unrealized gains and losses from hedging firm purchase and sale commitments are included on a net basis in the balance sheet as a component of either contracts in progress or advance billings on contracts or as a component of either other current assets or accrued liabilities. They are recognized in income as part of the purchase or sale transaction when it is recognized, or as other gains or losses when a hedged transaction is no longer expected to occur. At March 31, 1996 and 1995, McDermott International had deferred gains of $4,306,000 and $2,231,000, respectively, and deferred losses of $1,081,000 and $10,865,000, respectively, related to forward exchange contracts which will principally be recognized in accordance with the percentage of completion method of accounting.

In management of its net interest costs (expense on debt and income on investments), McDermott International entered into interest rate swap agreements with certain banks which effectively change the fixed interest rates on certain long-term notes payable. Net amounts to be paid or received as a result of these agreements are accrued as adjustments to interest expense over the terms of these contracts. Interest rate swaps resulted in an increase in interest expense of $96,000 and $1,202,000 in fiscal years 1996 and 1995, respectively, and a reduction of interest expense of $5,782,000 in fiscal year 1994.

McDermott International is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments, but it does not anticipate nonperformance by any of these counterparties. The amount of such exposure is generally the unrealized gains in such contracts.

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

Note receivable with an unconsolidated affiliate: At March 31, 1996, it was not practicable to estimate the fair value of McDermott International's 7.75% Note Receivable with the HeereMac joint venture because of the lack of quoted market prices and because the time of its settlement cannot yet be determined.

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

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

Foreign currency exchange contracts: The fair values of foreign currency forward exchange contracts are estimated by obtaining quotes from brokers. At March 31, 1996 and 1995, McDermott International had net forward exchange contracts outstanding to purchase foreign currencies with notional values of $45,739,000 and $51,827,000 and fair values of $51,146,000 and $41,237,000, respectively.

Interest rate swap agreements: The fair values of interest rate swaps are the amounts at which they could be settled and are estimated by obtaining quotes from brokers. At March 31, 1996 and 1995, McDermott International had an interest rate swap outstanding on current notional principal of $55,300,000 with a fair value of ($470,000) and $73,800,000 with a fair value of ($2,541,000), respectively, which represents the estimated amount, McDermott International would have to pay to terminate the agreement.

The estimated fair values of McDermott International's financial instruments are as follows:

	March 31, 1996		March 31, 1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Balance Sheet Instruments				
Cash and cash equivalents	$ 283,663	$ 283,663	$ 85,909	$ 85,909
Investment securities	244,103	244,103	715,093	715,093
Debt excluding capital leases	793,622	847,510	966,397	988,343
Subsidiary's redeemable preferred stocks	173,301	166,362	179,251	174,108

NOTE 16 - SEGMENT REPORTING

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

Power Generation Systems and Equipments' principal businesses are the supply of fossil-fuel and nuclear steam generating systems and equipment to the electric power generation industry, and nuclear reactor components to the U. S. Navy.

Marine Construction Services supplies worldwide services for the offshore oil and gas exploration and production and hydrocarbon processing industries, and to other marine construction companies, primarily through JRM. Principal activities include the design, engineering, fabrication and installation of offshore drilling and production platforms and other specialized structures, modular facilities, marine pipelines and subsea production systems and onshore construction and maintenance services; and the maintenance and construction of a variety of marine vessels.

Intersegment sales are accounted for at prices which are generally established by reference to similar transactions with unaffiliated customers. Identifiable assets by industry segment are those assets that are used in McDermott International's operations in each segment. Corporate assets are principally cash and cash equivalents, short-term investments, marketable securities and prepaid pension costs.

In the fiscal years 1996, 1995 and 1994, the U.S. Government accounted for approximately 12%, 12% and 13%, respectively, of McDermott International's total

Continued

	1995 QUARTER ENDED			
	JUNE 30, 1994	SEPT. 30, 1994	DEC. 31, 1994	MARCH 31, 1995
	(In thousands, except for per share amounts)			
Revenues	$759,808	$724,065	$715,525	$844,282
Operating income	15,831	19,769	53,568	(48,502)
Income (Loss) before cumulative effect of accounting change	3,118	(3,262)	29,814	(18,794)
Net income (loss)	1,353	(3,262)	29,814	(18,794)
Primary and Fully Diluted Earnings (Loss) per Share:				
Income (Loss) before cumulative effect of accounting change	0.02	(0.10)	0.51	(0.39)
Net income (loss)	(0.01)	(0.10)	0.51	(0.39)

Pre-tax results for the quarter ended June 30, 1994 include a reduction in accrued interest expense of $5,700,000 due to settlement of an outstanding tax issue with the IRS. Results for the quarter ended September 30, 1994 include a loss related to the reduction of estimated products liability asbestos claim recoveries from insurers of $14,478,000 and a reduction in accrued interest expense of $5,600,000 due to the settlement of outstanding tax issues. Results for the quarter ended December 31, 1994 include a reduction in accrued interest expense of $5,000,000 due to the settlement of outstanding tax issues and favorable worker's compensation cost adjustments of $14,886,000. Results for the quarter ended March 31, 1995 include provisions of $46,489,000 for the decontamination, decommissioning, and closing of a nuclear facility and for the closing of a manufacturing facility, and a reduction in accrued interest expense and taxes of $10,000,000 and $5,200,000, respectively, due to the settlement of outstanding tax issues.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Information required by this item with respect to directors and executive officers is incorporated by reference to the material appearing under the headings "Election of Directors" in the Proxy Statement for International's 1996 Annual Meeting of Stockholders.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to the material appearing under the heading "Compensation of Executive Officers" in the Proxy Statement for International's 1996 Annual Meeting of Stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is incorporated by reference to the material appearing under the headings "Security Ownership of Directors and Executive Officers" and "Security Ownership of Certain Beneficial Owners" in International's Proxy Statement for the 1996 Annual Meeting of Stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

NONE

PART IV

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

(a) The following documents are filed as part of this Annual Report or incorporated by reference:

1. CONSOLIDATED FINANCIAL STATEMENTS

   Report of Independent Auditors

   Consolidated Balance Sheet
   March 31, 1996 and 1995

   Consolidated Statement of Income (Loss)
   For the Three Fiscal Years Ended March 31, 1996

   Consolidated Statement of Stockholders' Equity
   For the Three Fiscal Years Ended March 31, 1996

   Consolidated Statement of Cash Flows
   For the Three Fiscal Years Ended March 31, 1996

   Notes to Consolidated Financial Statements
   For the Three Fiscal Years Ended March 31, 1996

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

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

3. EXHIBITS

Exhibit Number	Description
3.1	McDermott International, Inc.'s Articles of Incorporation, as amended.
3.2	McDermott International, Inc.'s amended and restated By-Laws.
4.1	Rights Agreement (incorporated by reference to Exhibit 1 to McDermott International Inc.'s registration statement on Form 8-A, dated December 15, 1995).

10.1* McDermott International, Inc.'s Supplemental Executive Retirement Plan, as amended (incorporated by reference to Exhibit 10 of McDermott International Inc.'s 10-K/A for fiscal year end March 31, 1994 filed with the Commission on June 27, 1994).

10.2* McDermott International, Inc.'s 1983 Long-Term Performance Incentive Compensation Program (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983).

10.3 Intercompany Agreement (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983).

10.4* Trust for Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1990).

10.5* McDermott International, Inc.'s 1994 Variable Supplemental Compensation Plan (incorporated by reference to Exhibit A to McDermott International, Inc.'s Proxy Statement for its Annual Meeting of Stockholders held on August 9, 1994 as filed with the Commission).

10.6* McDermott International, Inc.'s 1987 Long-Term Performance Incentive Compensation Program (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report of Form 10-K, as amended, for the fiscal year ended March 31, 1988).

10.7* Retirement Plan for Non-Management Directors of McDermott International, Inc. (incorporated by reference to Exhibit 11 to McDermott International, Inc.'s current report on Form 8-K filed with the Commission December 10, 1991).

10.8* McDermott International, Inc.'s 1992 Senior Management Stock Option Plan (incorporated by reference to Exhibit 10 of McDermott International, Inc.'s 10-K/A for fiscal year ended March 31, 1994 filed with the Commission on June 27, 1994).

10.9* McDermott International, Inc.'s 1992 Officer Stock Incentive Program (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended for the fiscal year ended March 31, 1992).

FORM 8-K REPORTS

None

Signature	Title
s/ Theodore H. Black Theodore H. Black	Director
s/ John F. Bookout John F. Bookout	Director
 Phillip J. Burguieres	Director
s/ James L. Dutt James L. Dutt	Director
s/ James A. Hunt James A. Hunt	Director
s/ John W. Johnstone, Jr. John W. Johnstone, Jr.	Director
s/ J. Howard Macdonald J. Howard Macdonald	Director
s/ William McCollam, Jr. William McCollam, Jr.	Director
s/ John A. Morgan John A. Morgan	Director
s/ John N. Turner John N. Turner	Director

June 4, 1996

EXHIBIT II

McDERMOTT INTERNATIONAL, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS (LOSS)
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1996

(In thousands, except shares and per share amounts)

PRIMARY AND FULLY DILUTED

	1996	1995	1994
Income before extraordinary items and cumulative effect of accounting changes	$ 20,625	$ 10,876	$ 89,956
Less dividend requirements of preferred stock, Series C	(8,266)	(8,266)	(6,084)
Income applicable to common stock	12,359	2,610	83,872
Cumulative effect of accounting changes	-	(1,765)	(100,750)
Net income (loss) for primary computation	$ 12,359	$ 845	$ (16,878)
Weighted average number of common shares outstanding during the year	54,223,051	53,645,256	52,945,193
Common stock equivalents of stock options and stock appreciation rights based on "treasury stock" method	149,033	103,133	522,740
Weighted average number of common and common equivalent shares outstanding during the year for primary computation	54,372,084	53,748,389	53,467,933
Earnings (loss) per common and common equivalent share: (1)			
Income before extraordinary items and cumulative effect of accounting changes	$ 0.23	$ 0.05	$ 1.57
Accounting changes	-	(0.03)	(1.89)
Net income (loss)	$ 0.23	$ 0.02	$ (0.32)

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

EXHIBIT 21

McDERMOTT INTERNATIONAL, INC.
SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT
FISCAL YEAR ENDED MARCH 31, 1996

NAME OF COMPANY	ORGANIZED UNDER THE LAWS OF	PERCENTAGE OF OWNERSHIP INTEREST
McDermott International Investments Co., Inc.	Panama	100
McDermott International Project Management, Inc.	Panama	100
McDermott Azerbaijan Marine Construction, Inc.	Panama	100
Creole Insurance Company, Ltd.	Bermuda	100
J. Ray McDermott, S.A.	Panama	64
Hydro Marine Services, Inc.	Panama	100
Malmac Sdn. Bhd.	Malaysia	100
J. Ray McDermott Holdings, Inc.	Delaware	100
J. Ray McDermott, Inc.	Delaware	100
McDermott Incorporated	Delaware	93
Delta Hudson Engineering Corporation	Delaware	100
Hudson Engineering (Canada), Ltd.	Canada	100
McDermott Engineeers & Constructors (Canada) Ltd.	Canada	100
Babcock & Wilcox Investment Company	Delaware	100
The Babcock & Wilcox Company	Delaware	100
Americon	Delaware	100
Babcock & Wilcox Equity Investments, Inc.	Delaware	100
Babcock & Wilcox Jonesboro Power, Inc.	Delaware	100
Babcock & Wilcox West Enfield Power, Inc.	Delaware	100
Babcock & Wilcox Industries Ltd.	Canada	100

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

nsfer Agent and ..egistrar
First Chicago Trust Company
of New York
14 Wall Street
Suite 4680 - 8th Floor
New York, NY 10005

- Common Stock of McDermott International, Inc.
- Series A $2.20 *Cumulative* Convertible Preferred Stock of McDermott Incorporated
- Series B $2.60 Cumulative Preferred Stock of McDermott Incorporated
- Series C Cumulative Convertible Preferred Stock of McDermott International, Inc.
- Rights to purchase Common Stock of McDermott International, Inc.

Trustees and Agents
United States Trust Company
of New York
114 West 47th Street
New York, NY 10036-1532

- 9.375% Notes Due March 15, 2002
- Medium-term Notes, Series A Due 1997-2003

Citibank, N.A.
120 Wall Street
New York, NY 10043

- Medium-term Notes, Series B Due 1998-2023

Pittsburgh National Bank
Post Office Box 340747
Pittsburgh, PA 15230

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

Independent Auditors
Ernest & Young LLP
4200 One Shell Square
701 Poydras Street
New Orleans, LA 70139
(504) 581-4200

Annual Meeting
The Annual Meeting of the Stockholders of McDermott International, Inc. for the fiscal year ended March 31, 1996, will be held at the New Orleans Hilton Riverside, New Orleans, Louisiana, on Tuesday, August 6, 1996, at 9:30 a.m. local time.

Information
Additional information about the Company, including financial statement schedules and exhibits to the Annual Report to share-holders on Form 10-K for the fiscal year ended March 31, 1996, may be obtained, without charge, by writing:

Corporate Secretary
McDermott International, Inc.
1450 Poydras Street
New Orleans, LA 70112
(504) 587-5400

Stockholder Inquiries
Inquiries regarding stockholder account matters should be addressed to:

First Chicago Trust Company
of New York
P. O. Box 2500
Jersey City, N.J 07303-2500
1-(800) 446-2617

Stock Exchange
The Company's Common Stock and McDermott Incorporated's Series A and Series B Preferred Stocks are listed on the New York Stock Exchange

Symbols
MDR, MDEA, and MDEB

The use in this Report of the term International refers solely to McDermott International, Inc., a Panama corporation. Unless the context otherwise requires, the use of the term Delaware Company refers to McDermott Incorporated, a *Delaware corporation and its consolidated subsidiaries, and the use of the term J. Ray McDermott refers* to J. Ray McDermott, S.A., a Panamanian company, and its consolidated subsidiaries. The use of such terms as McDermott International, company, division, organization, joint venture, we, us, our and its, when referring either to McDermott International, Inc. and its conlidated subsidiaries or to subsidiaries and non-subsidiaries either individually or collectively, is only for convenience and is not intended to describe legal relationships. Significant subsidiaries of McDermott International, Inc. are listed as an exhibit to the Annual Report on Form 10-K of McDermott International, Inc. for the fiscal year ended March 31, 1996, as filed with the United States Securities and Exchange Commission.

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

McDermott International, Inc.
1450 Poydras Street
New Orleans, Louisiana 70112-6050
(504) 587-5400