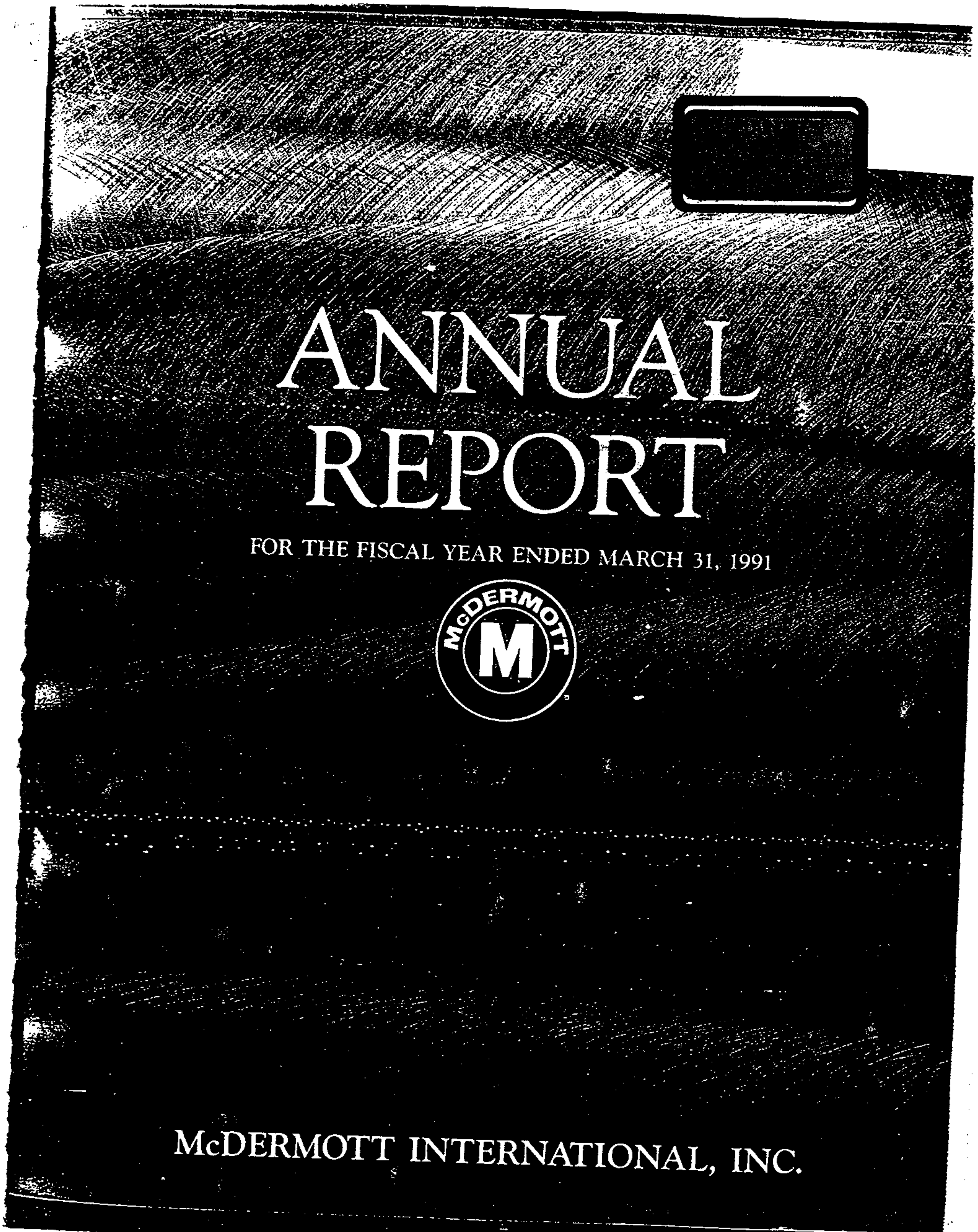


ANNUAL REPORT

FOR THE FISCAL YEAR ENDED MARCH 31, 1991

McDERMOTT INTERNATIONAL, INC.

RESULTS AT A GLANCE

McDermott International, Inc. for the Fiscal Years ended March 31, 1991 and 1990
In thousands of dollars except per share amounts, shares outstanding, and number of employees

	1991	1990
Revenues	**$ 3,135,954**	$ 2,644,690
Operating Loss	**$ (10,966)**	$ (89,406)
Loss From Continuing Operations	**$ (86,349)**	$ (100,552)
Income From Discontinued Operations	**$ 16,824**	$ 90,351
Net Loss	**$ (69,525)**	$ (10,201)
Primary and Fully Diluted Earnings (Loss) Per Common and Common Equivalent Share:		
Continuing Operations	**$ (1.97)**	$ (2.68)
Discontinued Operations	**$ 0.39**	$ 2.41
Net Loss	**$ (1.58)**	$ (0.27)
Stockholders' Equity Per Common Share	**$ 12.88**	$ 15.24
Cash Dividends Per Common Share	**$ 1.00**	$ 1.00
Common Stock Price Per Common Share:		
High	**$ 34 1/2**	$ 27 3/8
Low	**$ 20 1/2**	$ 17 3/8
Weighted Average Number of Common and Common Equivalent Shares Outstanding During the Year	**43,939,768**	37,458,528
Capital Expenditures	**$ 139,335**	$ 127,370
Backlog	**$ 5,240,051**	$ 4,167,781
Number of Employees Including Subcontract Labor	**34,000**	30,000

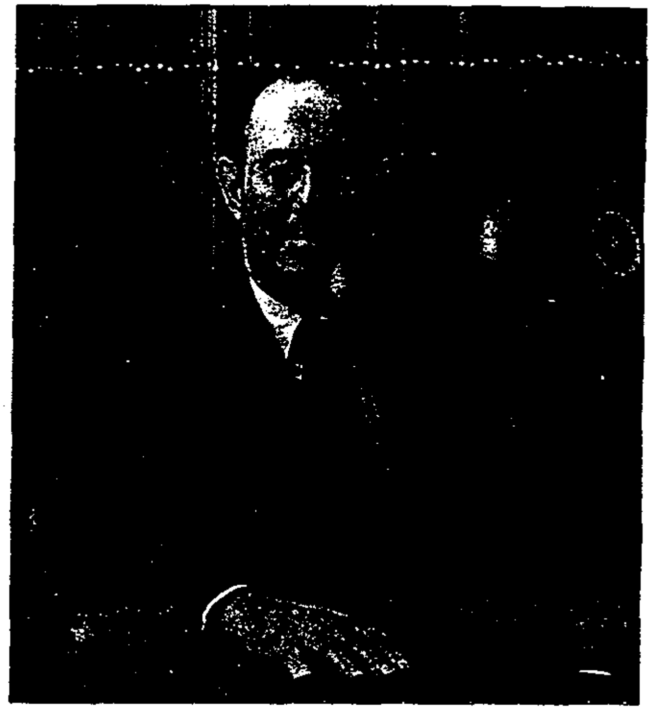
TO OUR STOCKHOLDERS:

In light of our expectations a year ago, the past fiscal year was disappointing. Our businesses continued to grow, as we expected; however, several events contributed to disappointing financial results for the year.

The Gulf Crisis caused us to suspend offshore work in that region, idling equipment and delaying revenues and income; a worldwide overcapacity of equipment depressed our offshore markets; and the U.S. recession caused many of our power generation customers to reduce spending during the last half of the fiscal year.

Despite these setbacks, we continue to believe in our future. Our worldwide energy markets and our U.S. government markets will grow in the 1990s, creating many opportunities in production and processing, in protecting the environment, and in manufacturing.

We are positioned both technologically and geographically to take advantage of these opportunities, and we intend to do so profitably. McDermott will continue to be where the world comes for energy solutions.



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

Financial Results

In fiscal 1991, revenues increased to $3.136 billion from $2.645 billion in the previous year. Once again, the increase was primarily on the strength of Marine Construction revenues, which were up nearly 54 percent.

The net loss for the year was $69.5 million, compared with a net loss of $10.2 million in fiscal 1990. However, the loss from continuing operations declined in fiscal 1991 to about $86 million, from just over $100 million the year before. Income from discontinued operations was about $90 million in fiscal 1990, compared to about $17 million in fiscal 1991.

Looking Ahead

ven though our operations will face many of the ame conditions as in 1991—overcapacity of offhore equipment and delays in power generation rojects—and we will begin to see the effect of educed demand for components for the Naval Reactors Program, our fiscal 1992 revenues will ncrease significantly as we work through our ecord marine construction backlog. We expect arked improvements in our operating results.

Our capital requirements will also present us ith an important challenge in fiscal 1992. We ill need funds for scheduled repayments of long-rm debt, capital expenditures and working pital. We expect to obtain them through a mbination of operating activities, liquidation of iort-term investments, additional debt financing, d a public stock offering.

However, several positive factors will benefit us the fiscal year. Our marine fabrication operaons will be profitable again and our offshore perations will continue to make improvements. ur power generation operations expect orders for nvironmental equipment. And our government perations will see increasing returns from the new rograms they have established.

We do not intend to rely on these developments one to bring us back to profitability and to ovide for our future. Instead, we are implementing rategies that will benefit our finances and our erations in both the short and long terms.

Strategies for the Future

For the short term, we will reduce our overall costs. While we cannot control the outside factors which influence our profitability, we can control our costs.

These controls will not interfere with our obligation to quality, technology, the environment, or our customers. However, they will allow us to honor our obligation to our shareholders by maximizing our potential for earnings.

For the long term, we will find new markets for McDermott. We have a unique mixture of capabilities in nuclear energy, solid fuels, oil, and natural gas that can help the world meet the growing demand for energy in the next decade and beyond. Those capabilities have been created within the traditional boundaries of our core businesses, but we are developing ways to use them that will expand those boundaries.

There are many projects for which we can provide or arrange a full scope of services. In some cases they will come from the combined resources of two or more McDermott divisions; in other cases, they will come from a team that includes McDermott divisions as well as the resources of outside partners.

Equally important is developing new streams of revenue. To do this, we will seek long-term contracts for our service, repair, and management capabilities for power generation, environmental and nuclear projects, and hydrocarbon production and processing facilities onshore and offshore.

We will also seek equity in certain kinds of projects, which can lower costs for our customers while providing us with a steady stream of income.

To implement these strategies, we made several important personnel changes in fiscal 1991, selecting people from both inside and outside our organization to strengthen our management team.

Management Changes

To direct the focus of our traditional businesses, we named **Jack Eckert** our president and chief operating officer. Jack was formerly senior vice president and group executive of our Defense and Nuclear Power Group. He is now responsible for the Government Group, McDermott Marine Construction, the Power Generation Group, and the Research & Development and Contract Research Divisions.

For most of his 35-year career, Jack held management positions in our nuclear operations. In his new post, he will implement company-wide the high standards of quality, innovation, and responsiveness that made our U.S. government and commercial nuclear operations the Company's most profitable over the past several years.

As a group executive, Jack maintained our excellent relationship with the Navy's nuclear program, while finding new projects to replace declining Navy work. Among those projects are three for which we now have contracts: the new production reactor design for the Department of Energy (DOE), the quadrupole magnets for the DOE's superconducting super collider, and the advanced solid rocket motor for the National Aeronautics and Space Administration.

To help us on the financial side, we named **Brock Hattox** as our new chief financial officer. He comes to us from the Eaton Corporation, where he was vice president, controller and planning. At McDermott, he will formulate financial policies, plan and execute new financial programs, and monitor and report our results.

He is also reviewing our accounting methods to help us manage our cash flow and monitor and control project, manufacturing, and general and administrative costs.

Brock is an important addition to our team, and we look forward to benefiting from his guidance as we move into new financial territory, including equity ventures to provide steady, long-term returns and strategies for financing major projects.

To improve our engineering and construction capabilities, we brought on board **Bob Page**, a former chairman of the board and chief executive officer of Kellogg Rust and most recently the Assistant Secretary of the Army for civil works.

Bob, who reports directly to me, is executive vice president and group executive of our Engineering and Industrial Group, which also includes our Washington D.C. Operations. Bob has worked in international construction and engineering for over 35 years, and he will help us apply our resources in both private and public projects in the United States and internationally.

We are changing the course of the past five years. We are a diverse organization with many unique capabilities and accomplishments. We serve many customers in many different parts of the world and in many different markets. In the years to come, these broad abilities will bring us great strength. But in fiscal 1992, our immediate common focus will be on one goal: a return to profitability for McDermott International, Inc.

R E Howson

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

July 1991

PRESIDENT AND CHIEF OPERATING OFFICER'S COMMENTS

'n fiscal 1991, our operating results improved over 'iscal 1990, and overall, our markets grew stronger. As a result of better markets, especially in the narine construction business, we ended the year vith a total backlog of over $5.2 billion, the iighest it has been since fiscal 1982.

The backlog, which is almost a billion dollars iigher than a year ago, ensures that most of the vork that will generate our fiscal 1992 revenues is ilready booked. Our challenge is to meet our ustomer's requirements while performing this work rofitably.

We have the experience and resources to make his happen. Historically, McDermott has been the eader in our major markets, and we are proud of ur achievements. Among our resources, we count ot only outstanding equipment and facilities, but lso 34,000 talented and dedicated employees who ave an established tradition of service to istomers in each of our markets.

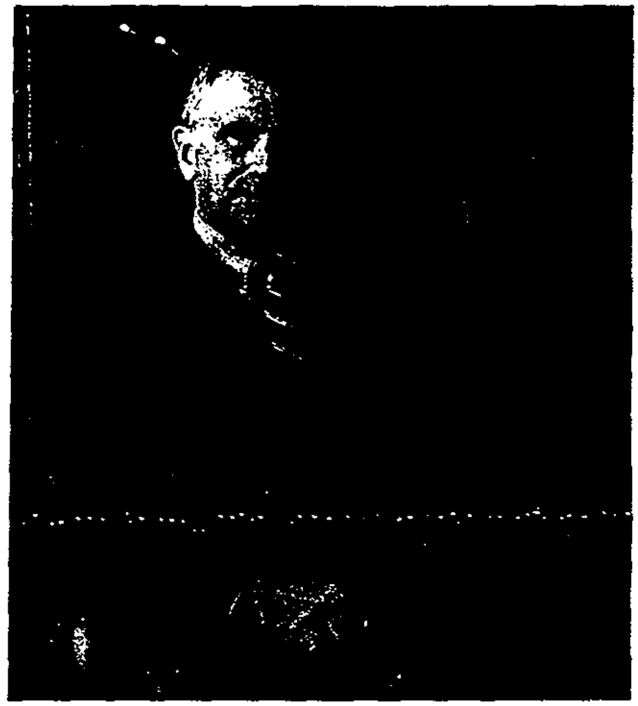
Through the proper management of these esources and by concentrating on our core skills, e will continue to improve our operations.

Our foremost task will be improving the financial erformance of our marine segment. Since fiscal 989, the revenues and backlog of this segment ave improved markedly. The operating loss has rown smaller each year, but in fiscal 1992, it is ır job to return this segment to profitability.

With a profitable marine segment, we can ncentrate on using our unique offshore equip-ent and our strategically located fabrication yards provide the products and services our marine nstruction customers will demand in the future. 'e will continue to review every aspect of this isiness and we will use the diverse resources—cluding facilities, equipment, and personnel—ailable within McDermott International to help e marine segment improve its performance.

Secondly, as Bob Howson mentions in his letter, e will make all of our operations more cost ective. Each of our core businesses has unmatched ilities to do its job. But in our competitive rld, cost effectiveness is essential if we are to vide superior products at the best price. It will o provide a base for growth by improving our ility to plan and forecast.

Third, we will expand our quality programs ross the board. While these programs will help achieve our goal of cost effective operation, we pect the benefits to extend much further. Our jective is to establish a program of continuous



improvement through every layer of the organization to the benefit of our customers and our investors. There are places in the Company where exemplary quality programs already exist, and we will use this experience to institute similar programs throughout McDermott.

It has been said many times that McDermott is a diverse company, but the message bears repeating. We are diverse not only in the capabilities we possess and the markets we serve, but also in the experience and talents of our employees. In fiscal 1992 and beyond, we will be successful by blending these experiences and talents into a corporate culture that preserves our strengths and overcomes our weaknesses.

The potential of our operations is unlimited. With proper management and the best use of our resources, I look forward to reaching our goal of profitability in fiscal 1992.

J. P. (Jack) Eckert
President and Chief Operating Officer

July 1991

POWER GENERATION SYSTEMS AND EQUIPMENT

Results For The Fiscal Year Ended March 31,

	1991	1990
	In thousands	
Revenues	$1,756,566	$1,747,110
Operating Income	38,217	27,908
Backlog	2,863,400	2,548,545

Revenues in this segment come primarily from our Government Group, our Power Generation Group, and Diamond Power Specialty Company and Hudson Products Corporation in our Engineering and Industrial Group.

This segment's slight improvement in revenues came primarily from the Government Group. The Naval Nuclear Fuel Division and the Aerospace Components Division both had higher revenues, which more than offset declines in revenues from the Nuclear Equipment Division.

In the Power Generation Group, Babcock & Wilcox International had higher revenues as did the Energy Services Division. However, the Fossil Power Division and Americon, Inc. had lower revenues. B&W Nuclear Technologies also had lower revenues; however, our commercial nuclear activities have been part of a joint venture since November 1, 1989, and are accounted for on the equity method.

The segment's operating income improved primarily because we reversed part of a reserve set aside during fiscal 1990. The reserve was made for the repair of internal corrosion damage to first-of-a-kind heat-pipe heat-exchangers installed at certain utility and industrial facilities. In addition, we accrued lower environmental clean-up costs in fiscal 1991.

Operating income increased in the Government Group in fiscal 1991, but the improvement was more than offset by lower operating income in the Power Generation Group.

MARINE CONSTRUCTION SERVICES

Results For The Fiscal Year Ended March 31,

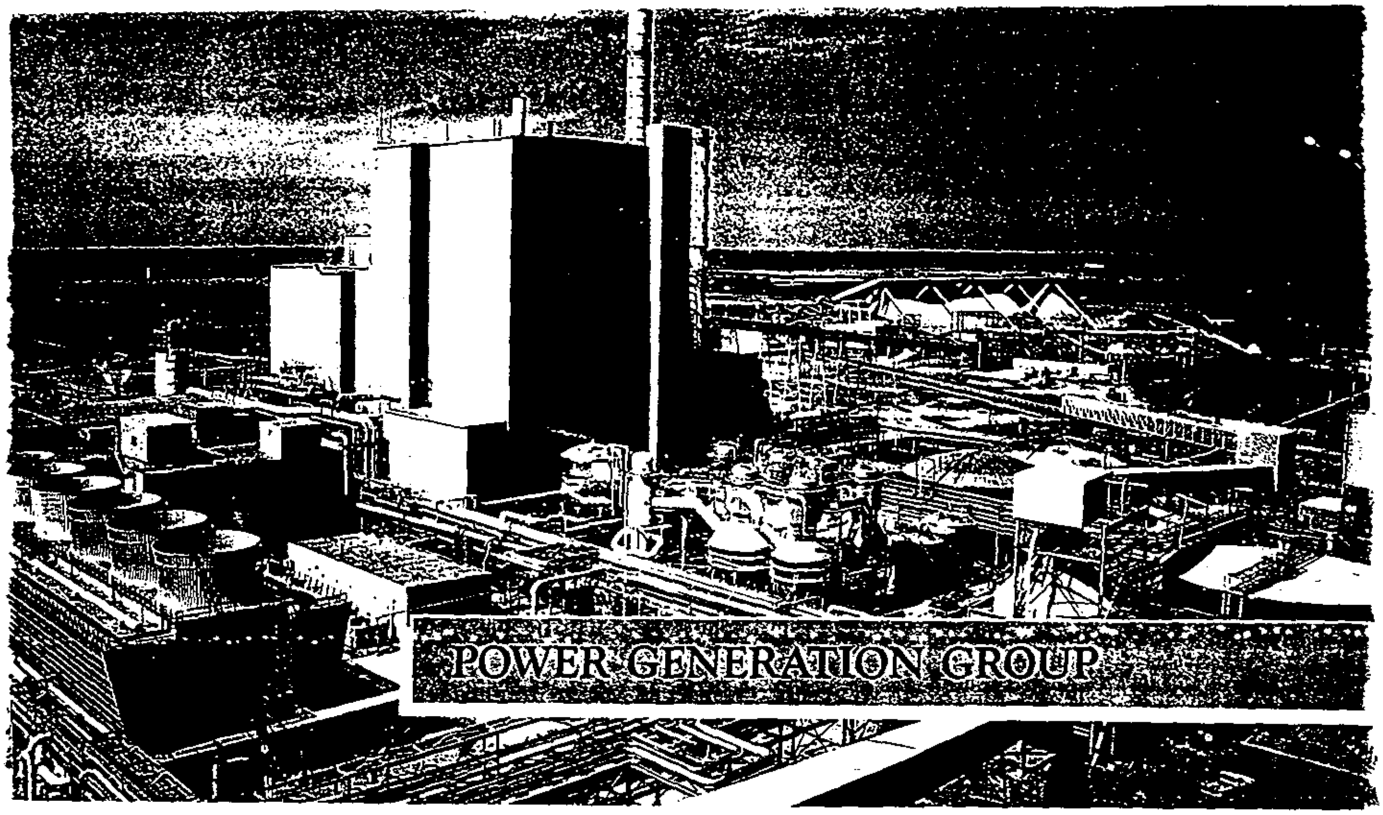
	1991	1990
	In thousands	
Revenues	$1,397,759	$ 909,935
Operating Loss	(52,062)	(61,200)
Backlog	2,376,651	1,619,236

This segment's revenues come primarily from McDermott Marine Construction's engineering, fabrication, offshore, and shipyard operations, and from Hudson Engineering and Project Management Corporation.

During fiscal 1991, the segment's revenues grew because of increased activity in both domestic and foreign fabrication and engineering, and because of incremental revenues from a majority-owned foreign joint venture.

The operating loss fell as activity increased and profit margins improved in foreign engineering and domestic and foreign fabrication operations. Profit margins also increased in our domestic offshore operations but declined in our foreign offshore operations. In addition, a majority-owned joint venture recognized losses on certain initial contracts included by our partner at the start-up of the venture. These contracts should be completed without further losses.

The segment's results were also influenced by increased workers compensation expense and the Iraqi crisis in the Middle East.



Americon Inc.
B&W International
B&W Nuclear Technologies
Domestic Fossil Operations
Energy Services Division
Environmental Equipment Division

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

In fiscal 1991, our Power Generation Group completed major projects for the pulp and paper industry, electric utilities, and cogenerators. The current recession slowed our industrial markets in the last half of the year, and the market for base-load electrical capacity was weak.

However, we received three orders for base-load equipment, and we remain confident that a significant amount of new base-load generating capacity will be ordered in the United States and the rest of the world, especially East Asia, in the 1990s.

We also expect the passage of the Clean Air Act by the U.S.

Above: The Weyerhaeuser pulp and paper facility in Columbus, Mississippi, was a turnkey project for our Power Generation Group.

Right: A replacement steam generator manufactured in our Canadian facility for Northeast Utilities.

Radiographic inspection of in-core detector components at B&W Fuel Co.

Congress to create a demand for our flue-gas desulphurization systems and low-emission burners, which will help U.S. utilities reduce emissions that cause acid rain. We formed the Environmental Equipment Division to pursue that work, and we expect our customers to begin awarding contracts for flue-gas scrubbers in fiscal 1992.

Our strategy for our power generation markets is to capitalize on our proven clean-coal technology for both existing and new power plants; to continue to improve our service to nuclear and fossil power plants; and to use our turnkey capabilities to increase our scope of work in future projects.

Pulp and paper manufacturers continued to provide a strong market during the fiscal year, despite an overall decline in capital spending in that industry.

Naheola Cogeneration Limited Partnership awarded us a $180-million turnkey contract for a black liquor recovery and power generation facility in Alabama. In Canada, Malette Inc. ordered a chemical recovery boiler island valued at approximately $45 million for a mill upgrade.

Coming on line were two turnkey projects, a $120-million facility we built for Weyerhaeuser and a $75-million facility we built for Champion International. We completed a $70-million boiler rebuild for Great Southern Paper Company, taking only 48 days to demolish and replace two boilers.

In British Columbia, Canada, we completed and commissioned the world's largest chemical recovery boiler for Howe Sound Pulp & Paper Ltd. The unit is sufficient to process 2,000 tons a day of pulp.

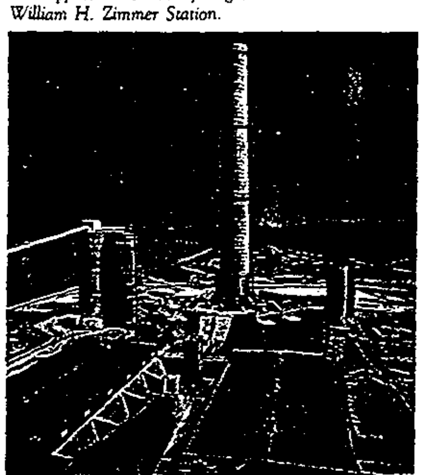
We received orders for base-load generating systems in the United States and Asia, and we completed three important U.S. utility projects in fiscal 1991.

The Orlando (Florida) Utilities Commission awarded us a $46-million order for a 440-megawatt coal-fired boiler for its Stanton plant. Korea Heavy Industries Corporation gave us a $28-million order for CANDU steam generators and heat exchangers, and Taiwan Power Company ordered a $45-million, 550-megawatt natural gas-fired boiler.

We finished the erection of the 1,300-megawatt universal pressure boiler, the auxiliary boilers, and the scrubbers at the William H. Zimmer Station, operated by the Cincinnati Gas & Electric Co.

At American Electric Power's Tidd plant, a 70-megawatt Clean Coal demonstration project, we completed construction of the United States' first pressurized fluidized-bed combustion system, and at our Canadian facility, we completed the replacement steam generators for Northeast Utilities' Millstone nuclear plant.

We supplied boilers and flue gas scrubbers at the William H. Zimmer Station.



Our equity participation in power plants continued with the startup of the $110-million, 55-megawatt Ebensburg, Pennsylvania, cogeneration plant. We own 100 percent of this plant, which makes it economical to burn culm, a waste from coal mining. It is the fifth power plant our Power Systems business operates, utilizing a variety of low-cost fuels, including wood chips and municipal solid waste. Power Systems showed a profit in fiscal 1991 for the first time, marking the culmination of development work which was initiated in fiscal 1985. We expect this unit to contribute increasing profits in the future.

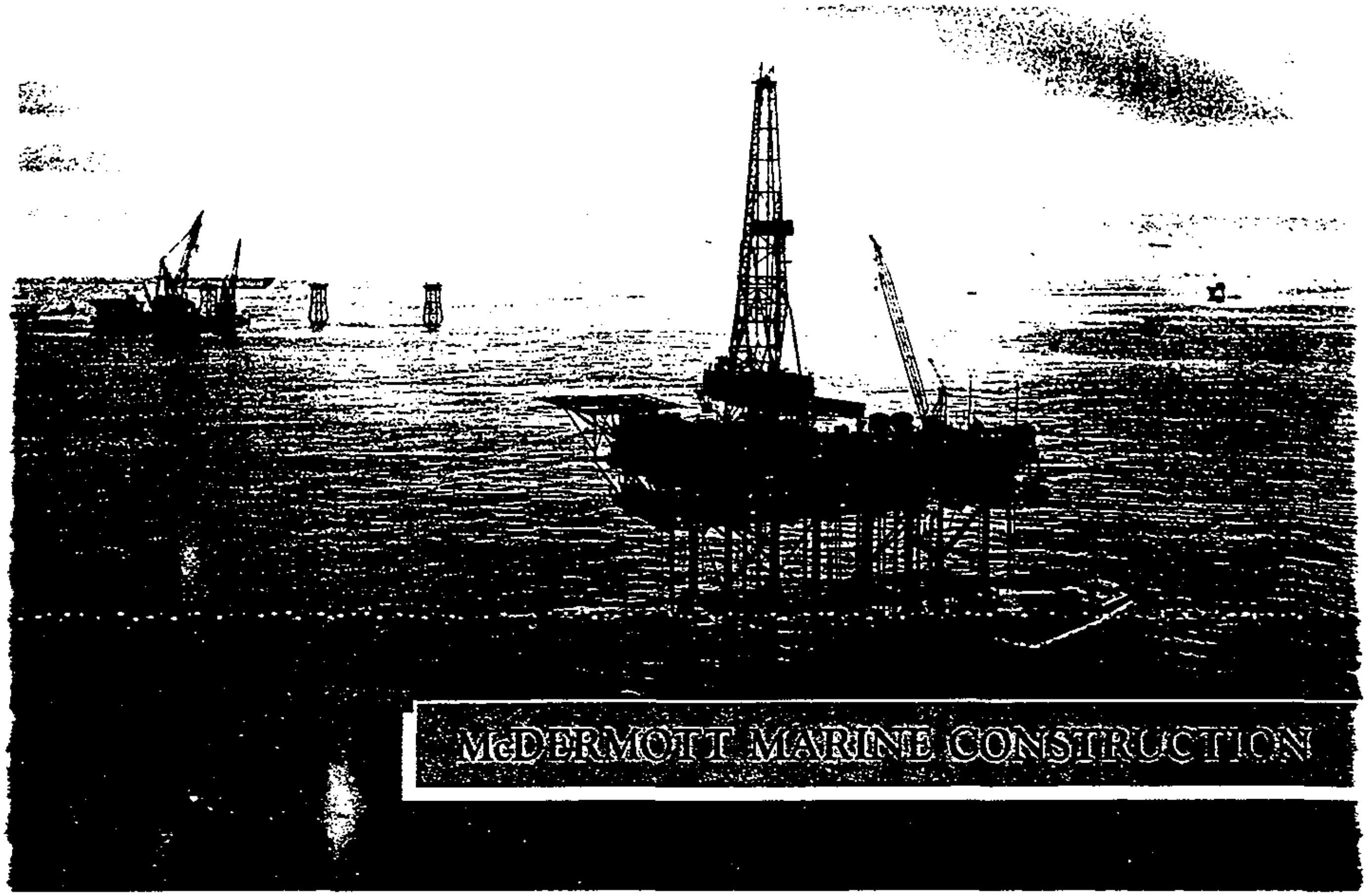
Our commercial nuclear joint ventures, B&W Fuel Co. and B&W Nuclear Service Co., continued to perform well. Our partners in both are leading companies in the French nuclear program—Framatome in both the service and fuel company and Cogema and Uranium Pechiney in the fuel company.

The service company, with our partner, Framatome, won a major international contract, performing repairs on the Alamaraz reactor in Spain. It also modified a nuclear pressure vessel at Baltimore Gas & Electric's Calvert Cliffs station and won a contract for the long-term management of outages at Arizona Public Services' Palo Verde plant.

The B&W Fuel Co. shipped its first production quantities of nuclear fuel for a large class of competitor-designed reactors.

As part of a team led by Ebasco, we were awarded a contract by the Department of Energy to design a heavy-water reactor, one of two reactor designs being considered to produce strategic materials for the United States nuclear defense program. (Our Government Group has an agreement to produce fuel and equipment for the alternative design.)

McDERMOTT MARINE CONSTRUCTION



Villiam L. Higgins, III
:ecutive Vice President
:d Group Executive,
omestic and Southeast Asia Group

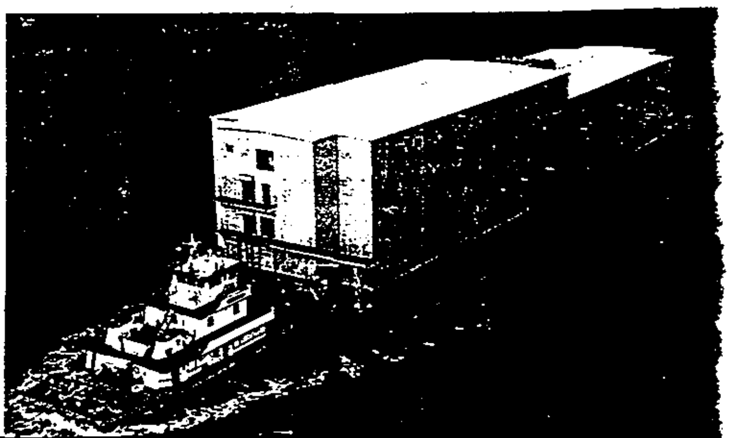
James J. Wildasin
Vice President and
Group Executive,
North Sea, Middle East,
and West Africa Group

)omestic Operations
:outheast Asia Operations

North Sea Operations
HeereMac
McDermott-ETPM

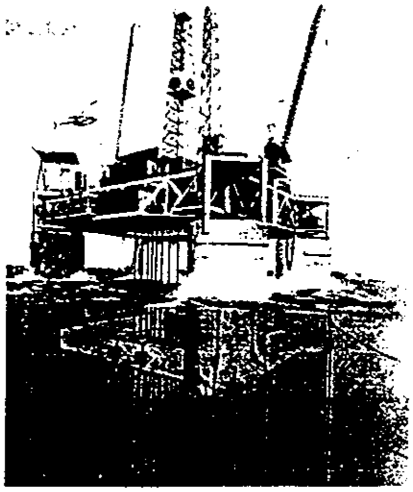
The Marine Construction group's backlog reached nearly $2.4 billion in fiscal 1991, its highest level ever. The growth was driven primarily by oil prices. Although they increased sharply during the Iraqi crisis, they began and ended the fiscal year at about the same level, thereby giving our customers confidence to proceed with new projects.

As the demand for energy increases during the 1990s, we expect our customers worldwide to proceed with new projects. Oil-



Above: Installation work proceeds on Freeport-McMoRan Resource Partners' Main Pass complex in the Gulf of Mexico.

Right: An accommodations barge fabricated by McDermott Shipyard for Newport News Shipbuilding.



An artist's concept of the Shell Auger tension leg platform, for which we received contracts in fiscal 1991.

related projects will continue to make up a large part of our backlog, and we will see a growing number of natural gas projects as environmental considerations make it the fuel of choice for many applications.

Our strategy is to continue our leadership in our marine markets by taking advantage of our worldwide presence, our strong relationships with our customers, our technological superiority, and our unique ability to perform turnkey marine construction projects anywhere in the world.

In the near-term, the marine fabrication business will generally remain strong and our offshore installation business will improve; however, there will continue to be an overcapacity of offshore equipment, worldwide.

By region, weak gas prices will slow activity in the Gulf of Mexico. However, stable or improved oil prices should allow deepwater developments to continue.

In the North Sea, activity will increase in fiscal 1992, and we expect to benefit from our established presence there. We also expect both Southeast Asia and the Middle East to be strong markets over the next several years as nations in these regions go forward with programs to expand their production of oil and gas.

During fiscal 1991, we began to see a trend towards large, complex projects, which will characterize the marine construction industry in the future. We worked on several of these kinds of projects during the year, both in the United States and in international markets.

In the Gulf of Mexico, we continued fabrication and began to install structures in Freeport-McMoRan Resource Partners' Main Pass complex. The value of our work on this project, which is the largest single offshore development ever undertaken in the Gulf of Mexico, now exceeds $300 million. When complete in 1992, it will include 19 platforms, 14 of which will be connected by bridges, and will stretch nearly a mile across the Gulf of Mexico.

We were also awarded contracts to fabricate the deck, mate and install the deck and hull, and install the pipelines for Shell's tension-leg platform, *Auger*, which will operate in a record 2,800 feet of water. Value of our work is about $200 million.

In the North Sea, Amerada Hess awarded us a $200-million contract to fabricate two large jackets, one which weighs over 14,000 tons and another which weighs just under 8,000 tons.

In Southeast Asia, we completed the Maxus project, worth approximately $300 million, which developed the largest offshore field in Indonesia. We continued work on the $150-million Goodwyn project for Woodside Offshore Petroleum of Australia at our Batam Island facility in Indonesia.

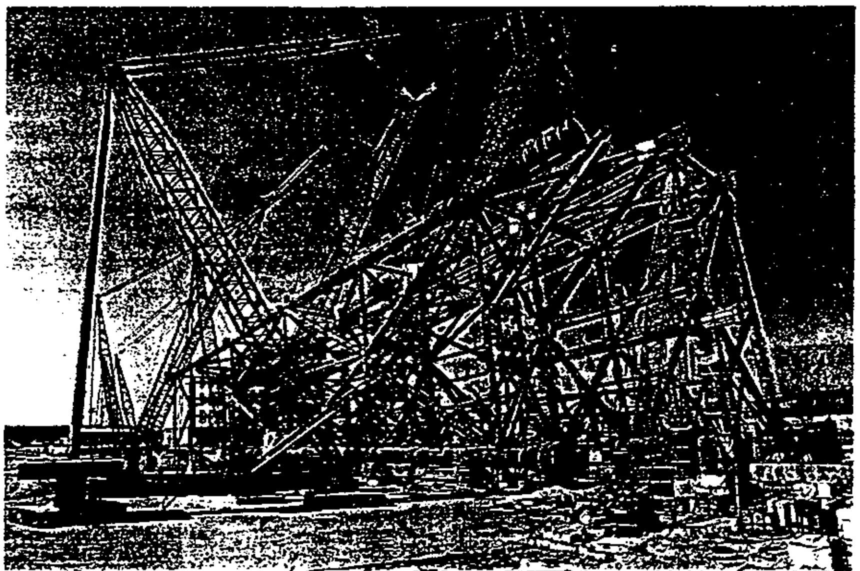
Improvements made to complete the Goodwyn work have made the Batam facility the most advanced fabrication yard in the region.

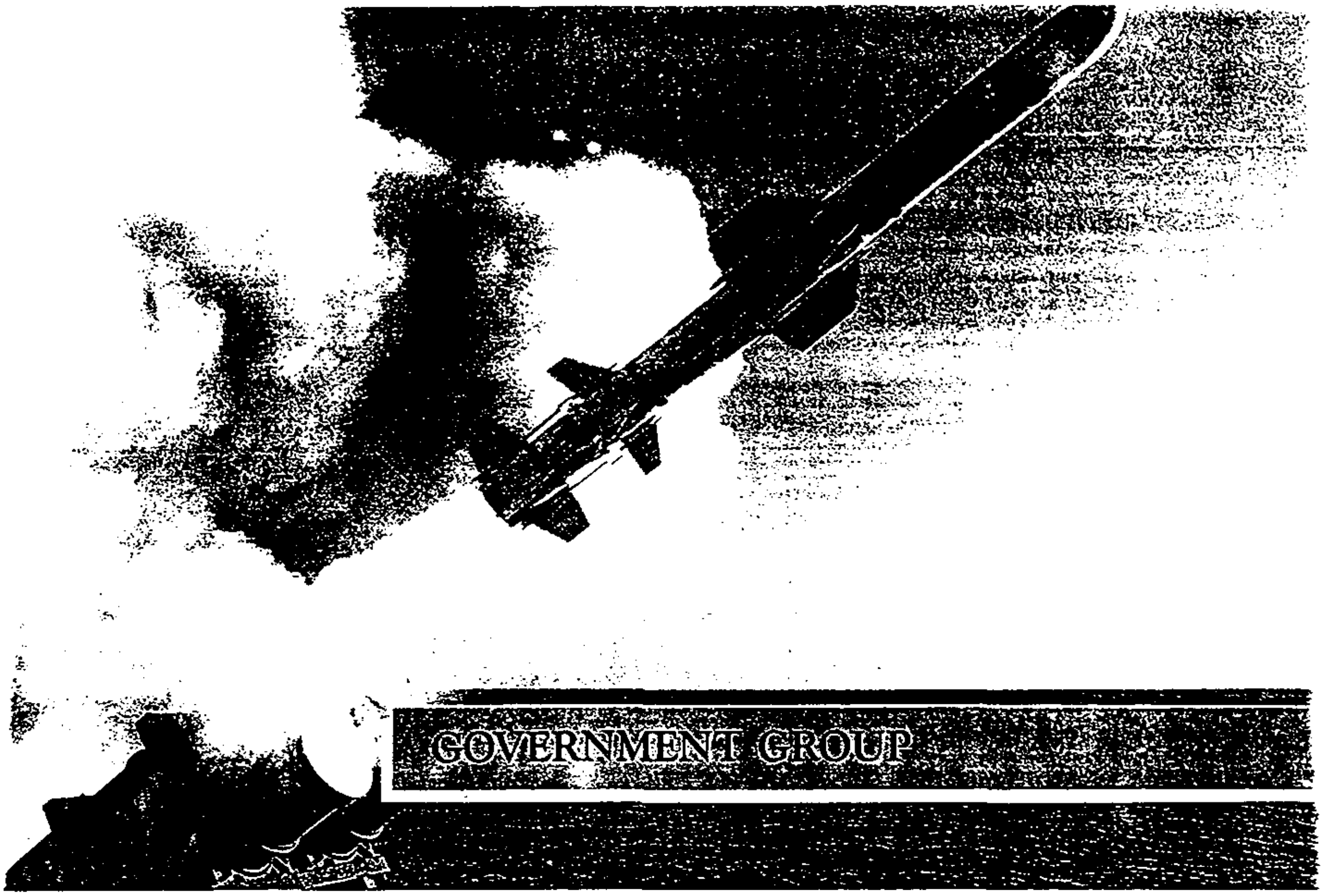
The Iraqi crisis resulted in the delay of the $200-million Salman project off Iran, as well as other projects in the region. But at the close of the fiscal year, work was again underway in the area.

HeereMac, our joint venture with Heerema, was a major participant in the North Sea market for offshore lifts. McDermott-ETPM was also active in the North Sea, signing a contract worth $225 million to install the 255-mile Amoco Central Area Transmission System (CATS) pipeline.

Our shipyard continued work on several projects for the U.S. Navy, including the T-AGOS SWATH program. Two SWATH ships were launched during the year, and two more of the twin-hulled ships are being fabricated. In the future, the shipyard will benefit from its expertise in an emerging commercial shipbuilding market.

The Occidental Piper B jacket being fabricated at the McDermott Scotland facility.





GOVERNMENT GROUP

Aerospace Components Division
Manufactured Systems and Technology
Naval Nuclear Fuel Division
Nuclear Environmental Services
Nuclear Equipment Division
Space & Nuclear Systems
Special Metals

Roger E. Tetrault
Vice President and Group Executive, Government Group

During fiscal 1991, our Government Group faced a significant decline in its traditional markets as the U.S. Congress cut spending for new nuclear-powered aircraft carriers and submarines for the U.S. Navy.

Despite the overall decline in the Naval Reactors market, our position improved when the government selected our Naval Nuclear Fuel Division to become the sole-source fuel supplier for the Navy's nuclear reactors. With this selection, the division remains at the center of our profitable government business.

Above: Harpoon missiles incorporate precision mechanical components produced by Manufactured Systems and Technology.

Right: Our Government Group is the principal supplier of the Navy's MK 48 ADCAP torpedo warheads.

We will use our precision manufacturing capabilities to manufacture magnets for the DOE's superconducting super collider.

In order to offset these declines, which will continue for the next two years, we are developing new areas of business, based on the group's strengths.

We have worked with the Department of Energy (DOE) for over 30 years, and for five of the past six years, we have been the department's largest supplier.

DOE defense projects have given us valuable experience in working with nuclear material, which we are using to develop program management, environmental restoration, and waste management businesses.

The unique automation and precision manufacturing technologies we developed for the Navy are being transferred to other DOE programs. The quality and performance standards we developed to compete in the Naval Reactors market have helped us win new customers who demand high quality and on-time delivery.

On these strengths, we intend to maintain our government operations at approximately their current levels, while preparing them for growth in other Department of Energy and Department of Defense markets.

Our technologies helped us win contracts in fiscal 1991 worth over $220 million to manufacture reusable casings for the National Aeronautics and Space Administration space shuttle's advanced solid rocket motor. Contract options could bring another $270 million.

Manufacturing of the casings—which will be 12-and-a-half feet in diameter, 5/8th of an inch thick, and about 115 feet long when assembled for launch—will begin in 1992 at our facilities in Mt. Vernon, Indiana, which are now being expanded to handle the program. The first shuttle flight powered by the new design rockets is currently scheduled for the mid-1990s.

The Mt. Vernon facility and our Nuclear Equipment Division both used their large-component manufacturing capabilities to support McDermott Marine Construction's Freeport-McMoRan project. This is a model for the kind of cross-functional relationships we are striving to develop throughout McDermott.

After the end of fiscal 1991, we were awarded a $62-million contract by the DOE's Superconducting Super Collider Laboratory to manufacture quadrupole magnets. We will set up the first commercial manufacturing program in the United States for these magnets, which will focus subatomic particles as they travel along the 54-mile super collider ring.

The superconducting quadrupole magnets are an important component of the super collider, which will accelerate subatomic particles to very high energies and then cause them to collide. The results of the collisions will be studied by scientists to learn more about the fundamental nature of energy and matter.

We have also transferred our precision manufacturing technology into ordnance markets. Three years ago, we began a program to manufacture the Navy's MK 48 ADCAP torpedo warheads; in fiscal 1990, we delivered three prototypes; and in fiscal 1991, we became the principle supplier of the warheads. In addition, we are also manufacturing warheads for the Navy's latest production lightweight torpedo, the MK 50.

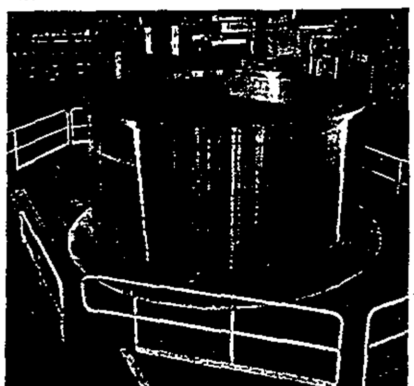
We were active in other U.S. defense programs in fiscal 1991 as well. We received contracts to manufacture advanced HARM (high-speed, anti-radar missile) warheads and Maverick missile warheads. We manufactured components and provided engineering services for the DOE's weapons programs, and we expect this experience to benefit us as the DOE consolidates its weapons complex.

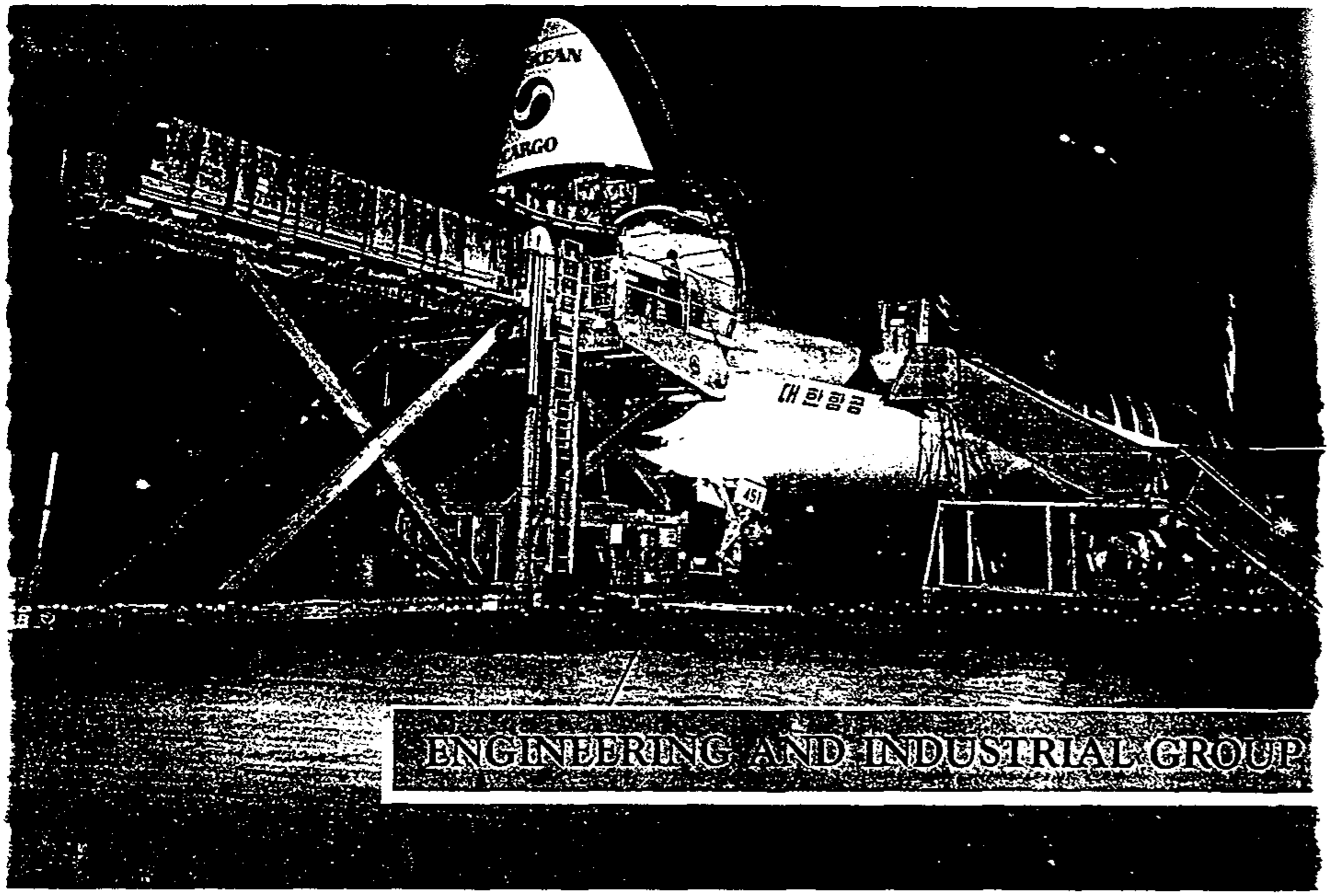
For the new production reactor planned by the DOE, the Government Group is teamed with General Atomics and has been awarded a contract to produce fuel and equipment for the gas-cooled reactor design, one of two designs being considered by the DOE. (Our Power Generation Group is preparing the alternative design.)

We are developing this teaming arrangement into a joint venture that will also supply fuel for the commercial version of the gas cooled reactor. The commercial market is expected to develop by the end of this decade.

Other DOE work includes design and engineering on compact reactors for space and defense applications, and a project to clean up radioactive waste for the Naval Reactors Program. We expect the DOE to budget nearly $40 billion for waste management and environmental restoration over the next five years, and we believe our experience in this business will help us be competitive.

Our large component manufacturing capabilities will be used to make casings for the advanced solid rocket motor.





ENGINEERING AND INDUSTRIAL GROUP

Diamond Power Specialty Company
Hudson Engineering and
Project Management Corporation
Hudson Products Corporation

Robert W. Page
Executive Vice President and Group Executive, Engineering and Industrial Group

The Engineering and Industrial Group was formed in November 1990 and comprises McDermott companies whose products and services are used by other McDermott divisions, and by energy and process industries worldwide.

Above: Heat exchangers manufactured by Hudson Products being loaded for shipment to Korea.

Right: Marathon's Steelhead platform in Cook Inlet, Alaska, was designed by Hudson Engineering.

Diamond Power soot blowers work under conditions of extreme heat.

Diamond Power Specialty Company

Diamond Power continues to be the world's leading supplier of boiler cleaning equipment, providing equipment for boiler rebuilds and retrofits, as well as for new boilers.

Demand for this equipment remains stable as our customers maintain, repair, and replace existing equipment. New opportunities will come from expanded service, from utilities who switch to low-sulphur coal to comply with the Clean Air Act, and later in the decade, from orders for new base-load generating equipment.

In fiscal 1991, we established service partnerships with our customers to help them control costs, and we developed products that increase the efficiency of boiler cleaning equipment and boilers.

Our service partnerships provide our customers with on-site engineers to help forecast service on boiler cleaning equipment, plan the service outage, and order the parts from our inventory to arrive at our customer's plant in time to minimize the outage.

To help utilities who will switch from high-sulphur to low-sulphur coal, we will offer methods to both diagnose and solve their unique boiler cleaning problems.

In a partnership with Weyerhaeuser, we are refining infra-red imaging techniques that will measure deposits of ash and soot on boiler walls and allow our customers to more accurately determine when the walls need to be cleaned. These techniques and our superior equipment offer an excellent solution for cleaning boilers that burn low-sulphur coal.

Hudson Engineering and Project Management

Hudson Engineering provides McDermott with a broad range of engineering expertise and computer technology. We intend to use Hudson's capabilities to compete for engineering, procurement and construction contracts, maximizing the assets and expertise of other McDermott operating units.

In fiscal 1991, as oil and gas markets strengthened, the demand for our engineering services grew substantially. We were awarded several important marine engineering contracts, and began to address opportunities in petrochemical and cogeneration markets which will draw on our experience in gas processing.

We continue to be a leading designer for deepwater structures, completing the design of a structure for over 1,200 feet of water. The fixed structure will be built and installed in the Gulf of Mexico.

In China, we were awarded a contract worth approximately $25 million for engineering and procurement of oil and gas producing equipment for an offshore floating production and storage unit. This is one of several contracts we have been awarded in China in recent years.

Hudson Products

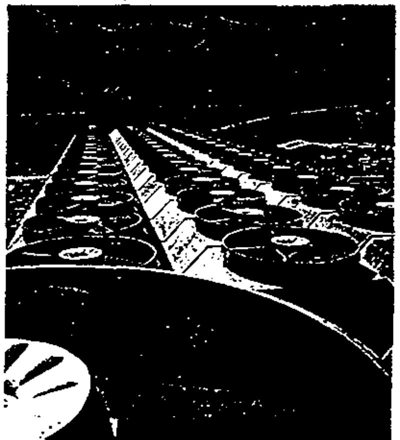
In fiscal 1991, Hudson Products benefited from a worldwide increase in hydrocarbon processing and refining projects, as well as from power generation projects. Hudson Products also implemented Total Quality Management, which will be fundamental to success in our global markets.

In the power generation market, we completed a $19-million contract to supply steam condensers for a combined-cycle power plant in Virginia, and we completed a contract to supply 80 air-cooled heat exchangers holding 240 of our Tuf-Lite® fans to the Mammoth Pacific Geothermal Power Plant in California. Because our heat exchangers don't use water for cooling, they made the Mammoth-Pacific plant acceptable in an environmentally sensitive area.

In the oil and gas market, we provided new heat exchangers to a major U.S. refinery in just 27 days, three fewer days than the contract required. Getting repairs made and the refinery back on line was critical to the customer, and by quickly responding to stringent specifications, Hudson provided a crucial service.

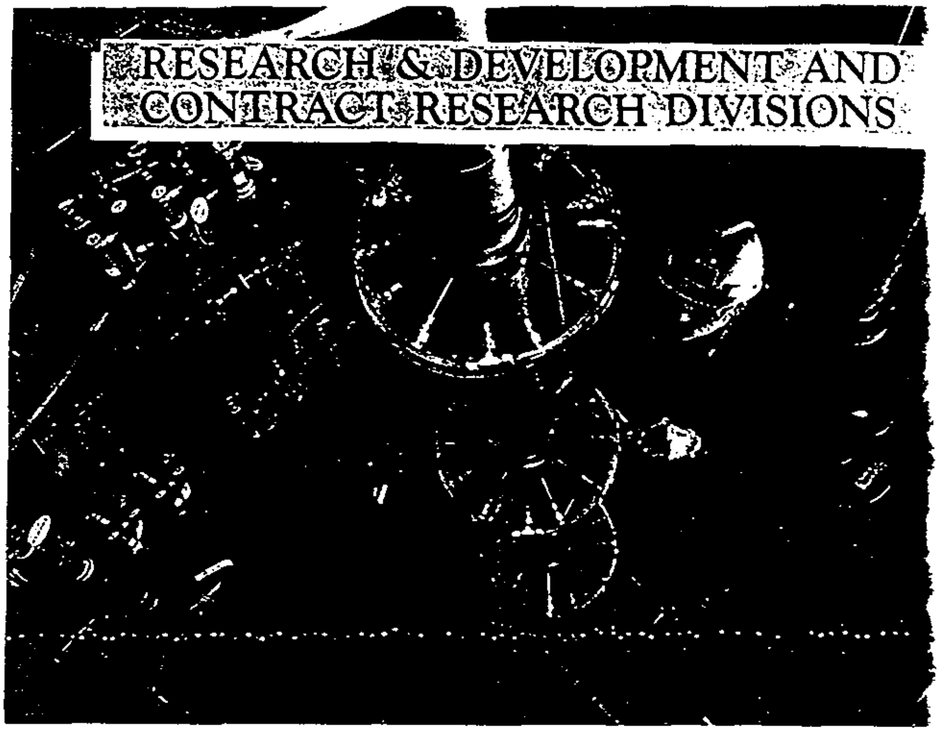
Total Quality Management was initiated at Hudson Products in late 1989, and has resulted in measurable reductions in costs and increases in productivity, as well as in improvements in the overall quality of products. Hudson's success in Total Quality Management will assure our customers that we are the best choice for heat transfer equipment.

Hudson Products' air-cooled heat exchangers at the Mammoth Pacific Geothermal Power Plant.



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

RESEARCH & DEVELOPMENT AND CONTRACT RESEARCH DIVISIONS



Our Alliance Research Center used this fuel assembly for thermal hydraulics experiments supporting a Department of Energy program.

'he research and development of ew technologies is essential to :he products and services offered v McDermott International.

Our research centers in .lliance, Ohio and Lynchburg, 'irginia provide services to all of ·ur operations and provide con-.act research to a variety of ustomers.

The centers, with a staff of ·ationally and internationally nown engineers and scientists, ive McDermott and our customers n ever-expanding horizon of nowledge in fossil power and uclear systems, in thermal ·draulics and fluid mechanics, in ıaterials development and evalua-on, in manufacturing technology, ıd in other specialized areas.

We routinely work with uncom-ıon materials such as uranium, tanium, and zirconium, and we ıve developed unique instrumen-tion systems using fiber optics :nd lasers to analyze many .fferent processes.

One of our greatest successes is 'lean Coal Technology research. .'e are the only company to par-cipate as a prime contractor in 'l three rounds of the Depart-·ent of Energy's Clean Coal rogram.

To clean flue gasses, we've developed and demonstrated new technologies which resolve the conflict between the use of coal as a fuel for electricity and our environment. We're also working on systems which allow new or existing boilers to burn coal more cleanly, while improving power-plant efficiency.

Besides technologies to burn coal cleanly, we're developing methods for coal gasification, another way to derive energy from coal. The world's supply of coal is ten times greater than its supply of oil and natural gas, combined. In the future, gasification of coal will provide fuel for energy as well as for the manufacturing of synthetic materials.

In the field of manufacturing, we are developing automated welding systems that will plan, control, and evaluate welding to improve productivity and quality.

Our ability to work with high-strength material helped the Company's Aerospace Components Division win the contract to manufacture casings for the space shuttle's advanced solid rocket motor. We will perform over 5,000 tests to analyze the material and to develop methods of welding, heat treating, and inspection for this project.

In the future, we will use this knowledge of materials and testing for other new applications, such as equipment for refining oil and gas and for the subsea development of hydrocarbons.

As science and technology progresses, industry is moving to an age of new materials. We're preparing for that era by developing advanced materials such as ceramic fibers that behave like steel and other durable materials, but that can be fabricated into large, complex shapes.

Our commitment to research and development prepares McDermott International for a future which will be increasingly determined by our ability to provide our customers with technological solutions which balance their needs for energy, economy, and protection of the environment.

DIRECTORS AND MANAGEMENT

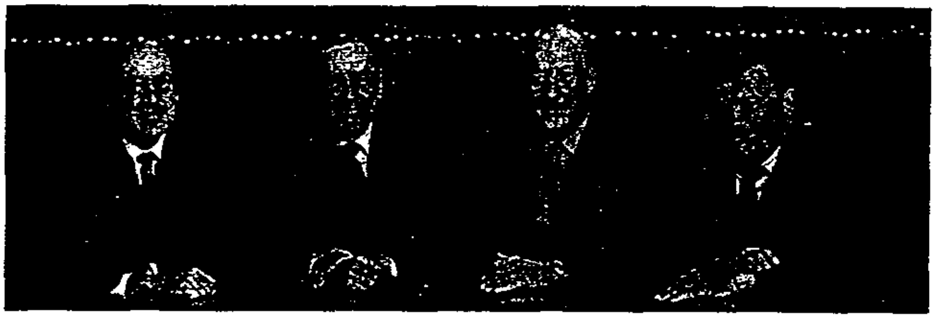
Officer-Directors

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

J. P. (Jack) Eckert
President and Chief Operating Officer

John A. Lynott
Executive Vice President, Corporate

Directors

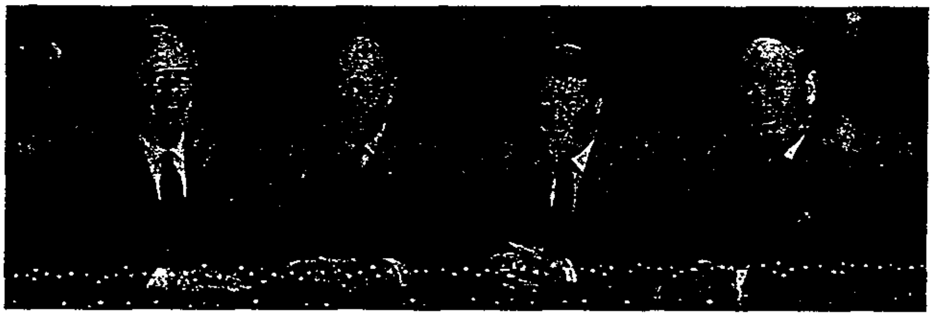


Philip J. Burguieres
President and Chief Executive Officer, Weatherford International Incorporated - energy service and manufacturing company

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

James E. Cunningham
Retired Chairman of the Board and Chief Executive Officer, McDermott International, Inc.

James A. Hunt
President, James A. Hunt, Inc. - investment banking



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

John A. Morgan
Partner, Morgan Lewis Githens & Ahn - investment banking

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

John F. Bookout
Retired President and Chief Executive Officer, Shell Oil Company - integrated petroleum company

John B. Tweedy
Attorney; Former Executive Vice President and Director, [illegible] Corporation - [illegible] refining and fertilizer operations

Thomas D. Barrow
Retired Vice Chairman of the Board, The Standard Oil Company - integrated petroleum company

William McCollam, Jr.
Energy Management Consultant; President Emeritus, Edison Electric Institute - association of investor-owned electric utilities

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

Audit Committee
John A. Morgan, Chairman
Philip J. Burguieres
James E. Cunningham
James L. Dutt
James A. Hunt
William McCollam, Jr.
Walter B. Shaw
John B. Tweedy

Compensation Committee
William T. Seawell, Chairman
Thomas D. Barrow
John F. Bookout
James A. Hunt
J. Howard Macdonald
John A. Morgan
Walter B. Shaw

Directors Nominating Committee
James A. Hunt, Chairman
Thomas D. Barrow
John F. Bookout
James L. Dutt
John A. Morgan
William T. Seawell
John B. Tweedy

Employee Benefits Committee
John B. Tweedy, Chairman
James E. Cunningham
James L. Dutt
William McCollam, Jr.
J. Howard Macdonald
William T. Seawell
Walter B. Shaw

Finance Committee
Robert E. Howson, Chairman
Thomas D. Barrow
John F. Bookout
James A. Hunt
John A. Lynott
J. Howard Macdonald
John A. Morgan
William T. Seawell

Technical Oversight Committee
John F. Bookout, Chairman
Thomas D. Barrow
Philip J. Burguieres
James E. Cunningham
William McCollam, Jr.
J. P. (Jack) Eckert

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

F O R M 1 0 - 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, 1991
OR

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

For the transition period from ________________ to ____________

Commission File Number 1-8430

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

REPUBLIC OF PANAMA (State or other jurisdiction of incorporation or organization)	72-0593134 (I.R.S. Employer Identification No.)
1010 COMMON STREET NEW ORLEANS, LOUISIANA (Address of principal executive offices)	70112-2401 (Zip Code)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

The aggregate market value of voting stock held by non-affiliates of the registrant was $1,055,729,488 as of May 20, 1991.

The number of shares outstanding of the Company's Common Stock at May 20, 1991 was 44,174,605.

DOCUMENTS INCORPORATED BY REFERENCE

The Proxy Statement for the 1991 Annual Meeting of Shareholders is incorporated by reference into Part III of this report.

McDERMOTT INTERNATIONAL, INC.
INDEX - FORM 10-K

INDEX - FORM 10-K

PART I

Items 1. and 2. BUSINESS AND PROPERTIES

A. GENERAL

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

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

McDermott International operates in two business segments:

- o Power Generation Systems and Equipment, which principally serves the electric utility industry and the U.S. Government.
- o Marine Construction Services, which principally serves the oil and gas industry for offshore development drilling and for the production and transportation of oil and gas on a worldwide basis.

During fiscal 1991, McDermott International sold its seamless tubular line of business, which was discontinued in fiscal 1987. In fiscal 1990, McDermott International sold its Bailey Controls operations. During fiscal 1989, McDermott International completed the sale of its Trading segment and in fiscal 1988, sold its Insulating Products Group. (See Note 2 to the consolidated financial statements for additional information with respect to discontinued operations.)

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

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

The following tables show revenues and operating income (loss) from the continuing operations of McDermott International for the three fiscal years ended March 31, 1991. See Note 12 to the consolidated financial statements for additional information with respect to McDermott International's business segments and operations in different geographic areas.

REVENUES AND PERCENT OF REVENUES

(Dollars in Millions)

	FOR FISCAL YEARS ENDED MARCH 31, 1991		1990		1989	
Power Generation Systems and Equipment	$1,756.6	56%	$1,747.1	66%	$1,576.9	73%
Marine Construction Services	1,397.8	45%	910.0	34%	593.2	27%
Intersegment Transfer Eliminations	(18.4)	(1)%	(12.4)	-	(3.3)	-
Total	$3,136.0	100%	$2,644.7	100%	$2,166.8	100%

OPERATING INCOME (LOSS) (1)

(Dollars in Millions)

	FOR FISCAL YEARS ENDED MARCH 31, 1991	1990	1989
Power Generation Systems and Equipment	$ 88.2	$ 27.9	$ 48.7
Marine Construction Services	(52.0)	(61.2)	(60.9)
Total	$ 36.2	$ (33.3)	$ (12.2)

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

B. POWER GENERATION SYSTEMS AND EQUIPMENT

GENERAL

The Power Generation Systems and Equipment segment is a supplier of individually engineered complete fossil fuel and nuclear steam generating systems, and nuclear fuel assemblies for the electric utility industry, as well as fossil fuel steam generating systems for industrial processes and power generation. This segment also provides replacement parts and engineered plant enhancements for existing fossil and nuclear steam generating systems, and specially engineered accessories and components, such as air heaters and cleaning systems for heat transfer surfaces. It also supplies process recovery boilers and pollution control systems for the process and utility industries, and air-cooled heat exchangers. This segment also provides non-boiler related equipment when it is contractually obligated for extended scope of supply on a project. It is also engaged in the erection of utility plants and industrial facilities and the repair and alteration of such existing equipment. In addition, it provides tubing for various mechanical and pressure applications for the automotive, machinery, fabricated metal and power generation industries.

This segment is actively involved in the market for providing power through cogeneration, refuse-fueled power units, and other small power plants with primarily nontraditional fuel-burning capability. It is participating in this market as an equipment supplier, as an operations and maintenance contractor and through ownership interests.

No new contracts for domestic nuclear steam generating systems have been awarded for a number of years. As a consequence, the commercial nuclear power generation business currently consists of fuel assemblies for refueling and engineering, field repair and refurbishment services, and computer services for existing nuclear reactors. This segment conducts its nuclear fuel assembly business through B&W Fuel Company, a 51%-owned partnership which was formed in fiscal 1989 with Virginia Fuels, Inc., a company formed by the U.S. subsidiaries of three French companies, and conducts its commercial nuclear service business through B&W Nuclear Service Company, a 50%-owned partnership formed in fiscal 1990 with Framatome Services Company, Inc., a U.S. subsidiary of a French company.

The Power Generation Systems and Equipment segment also provides nuclear fuel assemblies and nuclear reactor components to the U.S. Navy for the Naval Reactors Program. Revenues from the U.S. Government related to this activity were approximately 14%, 14% and 15% of McDermott International's total revenues for fiscal years 1991, 1990 and 1989, respectively. This activity has made significant contributions to the operating income of McDermott International in all three fiscal years. B&W, in addition to its Naval Reactors Program business, is a supplier of ordnance and other equipment and services to the U.S. Government, and just recently, B&W has contracted to manufacture reusable steel casings for space shuttle advanced solid rocket motors.

The principal plants of this segment, which manufacture power generation systems and equipment, are situated at Indianapolis and Mount Vernon, Indiana; West Point, Mississippi; Alliance, Barberton and Lancaster, Ohio; Beasley and Paris, Texas; Lynchburg, Virginia; and Cambridge, Ontario, Canada. These plants and properties are owned by B&W and are well maintained, have suitable equipment, and are of adequate size. Babcock & Wilcox Investment Company has recently acquired a plant in Little Rock, Arkansas to expand capacity for replacement parts and small industrial boilers and to participate in the steam flood boiler market.

FOREIGN OPERATIONS

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

FISCAL YEAR	REVENUES AMOUNT	REVENUES PERCENT	OPERATING INCOME
	(Dollars in Thousands)		
1991	$ 228,052	7	$ 5,780
1990	219,059	8	9,052
1989	143,986	7	4,994

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

RAW MATERIALS

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

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

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

CUSTOMERS AND COMPETITION

The principal customers of this segment are the electric utility industry (including government-owned utilities), the U.S. Government (including its contractors), and the pulp and paper and other process industries. The electric utility industry (including government-owned utilities) accounted for approximately 19%, 25% and 34% of McDermott International's total revenues for fiscal years 1991, 1990 and 1989, respectively. U.S. Government business with this segment, excluding government-owned utilities, accounted for approximately 17%, 16% and 17% of McDermott International's total revenues for such periods.

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

In regard to the Naval Reactors Program, B&W is the sole source supplier of nuclear fuel assemblies to the U.S. Navy. However, there are a small number of suppliers of nuclear components, with B&W being the largest based upon revenues.

BACKLOG

Backlog as of March 31, 1991 and 1990 for the Power Generation Systems and Equipment segment was $2,863,400,000 and $2,548,545,000 or approximately 55% and 61%, respectively, of McDermott International's backlog. Of the March 31, 1991 backlog, it is expected that approximately $977,381,000 will be recorded in revenues in fiscal year 1992, $1,394,103,000 in fiscal years 1993-1996, and $491,916,000 thereafter. Also, this segment's backlog with the U.S. Government was approximately 26% of McDermott International's total backlog at March 31, 1991.

If in management's judgment it becomes doubtful whether contracts will proceed, the backlog is adjusted accordingly. If contracts are deferred or cancelled, B&W is usually entitled to a financial settlement related to the individual circumstances of the contract.

Operations and maintenance contracts, which are performed over an extended period, are included in backlog based upon an estimate of the revenues from these contracts. No estimate of revenues from power sales agreements or thermal energy contracts associated with owned cogeneration or small power plants is included in backlog.

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

FACTORS AFFECTING DEMAND

Electrical consumption has grown moderately since 1983. As a result, certain electric utilities in several regions of the United States are investigating potential sources of new generating capacity. However, electric utilities have deferred ordering large, new base load units because of continuing uncertainties over rate regulation and environmental rules. Where electric utilities are in need of peaking capacity, many are purchasing alternate equipment with short lead-times. Certain electric utilities are purchasing electricity from other utilities with excess capacity or from non-regulated sources such as cogenerators and independent power producers. The current recession and uncertainties created by passage of the Clean Air Act have caused utilities to defer repairs and refurbishments in the short-term. Ultimately, the Clean Air Act should create significant demand for pollution control equipment and related plant enhancements. In addition, the current recession has affected demand for tubular products and other industrial related product lines.

With the maturing of the U.S. Navy's shipbuilding program, the demand for nuclear fuel assemblies and reactor components for the U.S. Navy has been reduced from levels experienced in the mid-1980's. This decline in demand has less of an adverse impact on the supply of nuclear fuel assemblies due to reload business. The backlog of orders for U.S. Navy nuclear fuel assemblies and nuclear reactor components comprised a substantial portion of this segment's backlog with the U.S. Government at March 31, 1991 and this activity is expected to continue to be a significant part of McDermott International's business. B&W received a contract in fiscal 1991 to manufacture the reusable steel casings for the space shuttle advanced solid rocket motors. The contract award was in excess of $200 million, including related equipment and installation, and includes an option by the U.S. Government to order work of a similar magnitude which is expected to begin in the mid-1990's.

C. MARINE CONSTRUCTION SERVICES

GENERAL

The Marine Construction Services segment consists of the design, construction and installation of specialized offshore fixed platforms and marine pipelines used for development drilling, production and transportation of oil and gas. Marine Construction Services also includes engineering and construction services for oil production in shoreline and marshland areas (principally in Louisiana and Texas); operation of a shipyard for the construction, repair and maintenance of specialized ships for the U.S. Navy, as well as ferries, barges, tugboats and other small vessels; the engineering and construction of processing plants for the oil, gas and petrochemical and mineral industries, primarily for offshore installation; and vessel chartering operations, principally to affiliated companies.

Fixed platforms, which are fastened to the seafloor by pilings driven through their structural legs, have been installed by McDermott International in water depths of more than 1,000 feet. These platforms have been engineered to withstand increasingly greater weights and stresses as the search for oil and gas has expanded into deeper water and into areas subject to severe weather conditions. In addition, this segment is capable of fabricating and installing tension-leg platforms, floating production systems and subsea templates.

In order to compete effectively in markets with overcapacity for offshore marine construction equipment, McDermott International participates in joint ventures with other marine contractors. McDermott International owns 50% of the HeereMac joint venture, formed with Heerema Offshore Construction Group, Inc., to provide heavy-lift marine installation services to the petroleum industry on a worldwide basis, especially in harsh environmental areas. Each party charters to the joint venture, on a long-term basis, 2 semi-submersible derrick barges, with the largest being McDermott International's DB-102 with a lift capacity of 13,200 tons. McDermott International owns approximately 57% of the McDermott-ETPM joint venture, formed with ETPM S.A., to provide general marine construction services to the petroleum industry in the Middle East, India, West Africa and South America; it also provides offshore marine installation services in the North Sea. This joint venture utilizes 3 combination derrick-pipelaying barges and 1 semi-submersible lay barge which are owned by McDermott International. The lay barge is capable of laying 60-inch diameter pipe (including concrete coating) and operable in water depths up to 2,000 feet. McDermott International also provides fabrication facilities located at Jebel Ali and Ras-al-Khaimah in the U.A.E., and at Warri, Nigeria. ETPM S.A. charters to this joint venture 4 combination derrick-pipelaying barges and provides fabrication facilities at Sharjah, U.A.E. and Tchengue, Gabon.

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

McDermott International, a world leader (based upon industry standards) in the fabrication of offshore structures, has its principal domestic fabrication yard and offshore base located on approximately 1,224 acres of land, under lease, near Morgan City, Louisiana. This segment also operates a shipyard on approximately 58 acres of leased land in Morgan City. It also owns approximately 134 acres of land at Gulfport, Mississippi and New Iberia, Louisiana for sub-assembly of components for the Morgan City fabrication yard and shipyard and for participation in the shallow water fabrication market. This segment has a fabrication yard on approximately 367 acres of owned and leased land near Morgan City and operates an additional fabrication yard on approximately 283 acres of leased land in Nueces County, Texas. McDermott International also operates fabrication yards on leased property in Indonesia at Batam Island and at Ain Soukhna, Egypt and on company-owned property in Scotland, near Inverness.

The equipment used at these yards, which are capable of fabricating a full range of offshore structures, consists principally of cranes, welding equipment, machine tools, and robotic and other automated equipment, in addition to other fabrication equipment, most of which is movable.

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

Morgan City, Louisiana	Years 1996-2032
Nueces County, Texas	Year 1996
Batam Island, Indonesia	Year 2008
Jebel Ali, U.A.E.	Year 2005
Ras-al-Khaimah, U.A.E.	Year 1991
Ain Soukhna, Egypt	Year 2001
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.

This segment owns the largest fleet of marine equipment used in major offshore construction. The nucleus of a "construction spread" is a large derrick barge, pipelaying barge or combination derrick-pipelaying barge capable of offshore operations for an extended period of time in remote locations. McDermott International owns 6 derrick barges, 3 pipelaying barges, 9 combination derrick-pipelaying barges and 2 pipeburying barges. The lifting capacities of the derrick and combination derrick-pipelaying barges range from 700 tons to 13,200 tons. These barges, which range in length from 300 feet to 660 feet, are fully equipped with revolving cranes, auxiliary cranes, welding equipment, pile driving hammers, anchor winches and a variety of additional gear. The largest of these vessels is the DB-102, which is one of the world's largest semi-submersible derrick barges in both size and lifting capacity, and provides quarters for approximately 750 workers. In addition, this segment owns a shearleg crane capable of lifting up to 5,000 tons. This segment has performed a commercial dual crane offshore lift of over 8,200 tons and has installed one of the deepest pipelines in over 1,400-ft. waters.

Of the above equipment, two semi-submersible derrick barges are operated by the HeereMac joint venture. In addition to the equipment it owns, McDermott International also has a long-term lease on a derrick barge with a lifting capacity of approximately 4,000 tons. It also owns or leases a substantial number of other vessels, such as tugs, utility boats and cargo barges to support the major marine vessels. Major spreads of equipment operated by McDermott International are in the Gulf of Mexico and Southeast Asia.

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.

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

FOREIGN OPERATIONS

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

	REVENUES		OPERATING LOSS
FISCAL YEAR	AMOUNT	PERCENT	
	(Dollars in Thousands)		
1991	$ 881,879	28	$ (38,303)
1990	520,492	20	(26,180)
1989	337,781	16	(30,114)

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 and the U.S. and other governments. Customers generally contract with this segment for the design, construction and installation of specific platforms, pumping stations, marine pipelines, and production networks and the construction of marine vessels. Contracts are usually awarded on a competitive bid basis.

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

BACKLOG

As of March 31, 1991 and 1990, the Marine Construction Services' backlog amounted to $2,376,651,000 and $1,619,236,000 or approximately 45% and 39%, respectively, of McDermott International's total backlog. The significant increase in this segment's backlog, of approximately 47%, is the result of increased demands for this segment's fabrication activities. Of the March 31, 1991 backlog, $1,546,304,000 is expected to be recognized in fiscal 1992, and $830,347,000 thereafter.

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

FACTORS AFFECTING DEMAND

Marine Construction Services' activity depends mainly on the capital expenditures of oil and gas companies and foreign governments for developmental construction and has traditionally been cyclical. 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 generate capital and local and international political and economic conditions. Oil company capital expenditures in calendar year 1991 are in general increasing when compared with the prior calendar year, principally in foreign areas.

The average price of oil in calendar year 1990 increased substantially over 1989 because of the Iraqi invasion of Kuwait. Projects planned for 1991 were based on oil price expectations excluding the unusual rise in the latter half of 1990, and have not been affected by the expected price decline to pre-war levels.

The spot price for natural gas in the United States averaged about the same in calendar year 1990 as in 1989. Following another warm winter, spot prices have declined sharply, and are expected to be below the 1990 level on average for the calendar year 1991. Unanticipated warm weather has again prolonged the gas surplus and slowed down gas-driven development in the Gulf of Mexico.

Oil companies are continuing the trend begun in calendar year 1990 and moving forward with projects which only a few years ago were uneconomical. The fabrication sector of the marine construction market improved during fiscal year 1991 and is expected to remain strong during fiscal year 1992 in most areas. The offshore installation sector will gradually improve as fabrication projects are completed. However, the overcapacity of marine equipment worldwide will continue to create a competitive environment.

D. PATENTS AND LICENSES

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

E. RESEARCH AND DEVELOPMENT ACTIVITIES

McDermott International conducts research and development activities at Alliance, Ohio; Lynchburg, Virginia; and Houston, Texas; and also conducts development activities at its various manufacturing plants and engineering and design offices. During the fiscal years ended March 31, 1991, 1990 and 1989, approximately $63,300,000, $53,000,000 and $72,100,000, respectively, was spent by McDermott International on research and development activities, of which approximately $40,200,000, $33,600,000 and $48,700,000, respectively, was paid for by customers of McDermott International. Research and development activities were related to development and improvement of new and existing products and equipment and conceptual and engineering evaluation for translation into practical applications. Approximately 300 employees were engaged full time in this activity at March 31, 1991.

F. INSURANCE

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

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

Although McDermott International does not own or operate any nuclear reactors, it has coverage under commercially available nuclear liability and property insurance for five of its six facilities which are licensed to maintain special nuclear materials. The sixth facility operates primarily as a conventional research center. However, this facility is licensed to possess special nuclear material and has a small and limited amount of special nuclear material on the premises. Due to the type or quantity of nuclear material present, two of the facilities have the benefit of the indemnity and limitation of liability provisions of the Act, pursuant to agreements entered into with the U.S. Government. In addition, contracts to manufacture and supply nuclear fuel or nuclear components to the U.S. Government generally contain contractual indemnity clauses, which become effective at the time of shipment, whereby the U.S. Government has assumed the risks of public liability claims.

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

The insurance coverage of McDermott International for product liability and employers' liability claims is subject to varying insurance limits which are dependent upon the year involved. B&W has an agreement with its principal insurers concerning the method of allocation of products liability asbestos claim payments to the years of coverage, which operates to reduce B&W's liability for such claim payments. Litigation has recently been commenced against product liability excess insurers regarding coverage in one year in order to fix McDermott International's exposure in that year. Amounts not otherwise recoverable from insurers will be borne by McDermott International. Based upon information currently available, management believes that its future liability for claim payments will not have a material adverse effect upon the consolidated financial statements of McDermott International.

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

G. EMPLOYEES

At March 31, 1991, McDermott International employed, under its direct supervision in continuing operations, approximately 34,000 persons compared with 30,000 at March 31, 1990. Approximately 7,300 employees were members of labor unions at March 31, 1991 and 1990. The majority of B&W's primary facilities operate under union contracts which customarily are renewed every two to three years. During the next twelve months, two contracts covering approximately 420 of B&W's hourly workers will expire. B&W has renegotiated one of these contracts and expects to renew the other contract successfully, without incident. McDermott International considers its relationships with its employees to be satisfactory.

H. GOVERNMENT REGULATIONS

McDermott International's compliance with U.S. federal, state and local environmental protection regulations necessitated capital expenditures of $832,000 in fiscal 1991, and it expects to spend another $6,201,000 on capital expenditures over the next five years. However, McDermott International cannot predict all the environmental requirements or circumstances which will exist in the future. The cost of complying with environmental regulations was a charge against income before taxes of approximately $5,787,000 in fiscal 1991.

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

During fiscal 1989, federal regulations were promulgated which require licensees of nuclear facilities to provide certain financial assurances relating to environmental clean-up costs. The most significant of these regulations will require B&W, at the time of the next renewal of each of its licenses in 1992 through 1997, to fund (or provide other financial assurances for) the then estimated future environmental clean-up costs for the facility being licensed. The amount of such estimated costs at each license renewal date will depend largely upon characterization of the facility being licensed and upon the current regulations relating to methods of, and standards for, disposal of contaminated material.

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

I. INTERCOMPANY AGREEMENT

Pursuant to a Stock Purchase and Sale Agreement (the "Intercompany Agreement"), the Delaware Company has the right to sell to International and International has the right to buy from the Delaware Company, 100,000 units, each unit consisting of one share of International Common Stock and one share of International Series A Participating Preferred Stock, at a price based primarily upon the stockholders' equity of McDermott International at the close of the fiscal year preceding the date at which the right to sell or buy, as the case may be, is exercised, and, to a limited extent, upon the price-to-book value of the Dow Jones Industrial Average. If a unit is sold to International upon the Delaware Company's exercise of its right to sell under the Intercompany Agreement, the purchase price of such unit will be 90% of the then current value of the unit (the "current unit value"). If a unit is sold to International pursuant to an exercise by International of its right to purchase under the Intercompany Agreement, the purchase price of such unit will be 110% of the current unit value. At April 1, 1991, the current unit value was $2,784 and the aggregate current unit value of the Delaware Company's 100,000 units was $278,433,000. At April 1, 1991, the price at which the units could be sold to International upon the exercise by the Delaware Company of its right to sell, calculated in accordance with the terms of the Intercompany Agreement, was approximately $250,590,000. The net proceeds to the Delaware Company of such sales would be subject to U.S. federal, state and other applicable taxes for which no provisions have been made.

J. DISCONTINUED OPERATIONS

On October 5, 1990, McDermott International sold substantially all the assets of its seamless tubular line of business in Ambridge, Koppel and Beaver Falls, Pennsylvania, and Bryan, Texas to PMAC Limited, a Texas limited partnership and Koppel Steel Corporation, a Pennsylvania corporation. The seamless product line was discontinued in fiscal 1987. The facilities had previously produced seamless mechanical and pressure tubings, and steel solids.

During fiscal 1990, McDermott International sold its Bailey Controls ("Bailey") operations to Elsag, S.p.A., a subsidiary of Finmeccanica Societa Finanziaria per Azioni, a manufacturing holding company of IRI, an Italian industrial group. Bailey is a supplier of instrumentation, automation, diagnostic, control and computer systems.

During fiscal 1989, McDermott International completed the sale of its Trading segment to Raulino Treuhand-Und Verwaltungs AG, a subsidiary of York Hanover Holding AG, a Swiss corporation.

During fiscal 1988, McDermott International completed the sale of its Insulating Products Group to Thermal Ceramics, Inc., a subsidiary of the Morgan Crucible Company Plc, a company headquartered in the United Kingdom.

Item 3. LEGAL PROCEEDINGS AND PROPOSED TAX DEFICIENCY

In the quarter ended March 31, 1990, decisions were entered in the United States Tax Court concerning the Delaware Company's U.S. federal income tax liability for the fiscal years ended March 31, 1981 and March 31, 1982.

The Internal Revenue Service (the "IRS") has issued a statutory notice which asserts additions to the U.S. federal income tax liability of the Delaware Company for its fiscal year ended March 31, 1983. That notice treated the reorganization in that fiscal year as a taxable event, asserting a deficiency of approximately $300,000,000 in U.S. federal income taxes. The notice also asserted substantial additional deficiencies in U.S. federal income taxes on other grounds. The Delaware company contested in Tax Court all the deficiencies asserted for that fiscal year. The Delaware Company and the IRS have reached an agreement which reflects a concession of the reorganization issue by the IRS and disposes of all but one of the other issues for the year. This agreement is to become effective only if and when approved by the Joint Committee of the Congress on Taxation. In view of decisions in test cases in the United States Tax Court and in the Courts of Appeals for two Federal circuits that determined the effect of the reorganization on former shareholders of the Delaware Company, McDermott International believes that the Joint Committee will approve the agreement. The issue for the fiscal year ended March 31, 1983 not subject to the agreement is being litigated in Tax Court.

The IRS has issued notices for the fiscal years ended March 31, 1984, 1985 and 1986 which reduced net operating losses incurred in those years. The losses were carried back to earlier years, including the fiscal years ended March 31, 1981 through 1983, resulting in refunds. The Delaware Company is contesting the proposed reduction of these net operating losses which would result in substantial additional taxes for the earlier years.

McDermott International believes that any U.S. federal income taxes ultimately assessed on the basis of the notices to the Delaware Company for its fiscal years ended March 31, 1983 through 1986 will not exceed reserves established with respect thereto.

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

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

PART II

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

International's Common Stock is traded on the New York Stock Exchange. High and low stock prices and dividends declared for the years ended March 31, 1990 and 1991 follow:

FISCAL 1990

QUARTER ENDED	SALES PRICE HIGH	SALES PRICE LOW	CASH DIVIDENDS DECLARED
June 30, 1989	24-1/8	17-3/8	$0.25
September 30, 1989	26-1/4	21-1/4	$0.25
December 31, 1989	24-3/8	19	$0.25
March 31, 1990	27-3/8	21-5/8	$0.25

FISCAL 1991

QUARTER ENDED	SALES PRICE HIGH	SALES PRICE LOW	CASH DIVIDENDS DECLARED
June 30, 1990	32-1/2	25-1/8	$0.25
September 30, 1990	34-1/2	25	$0.25
December 31, 1990	29-1/4	22-3/8	$0.25
March 31, 1991	28-1/4	20-1/2	$0.25

As of March 31, 1991, the approximate number of record holders of Common Stock was 7,658.

Item 6. SELECTED FINANCIAL DATA

FOR THE FISCAL YEARS ENDED MARCH 31,

(In thousands except for per share amounts)

	1991	1990	1989	1988	1987
Revenues	$3,135,954	$2,644,690	$2,166,806	$2,118,810	$2,213,856
Income (Loss) From Continuing Operations Before Cumulative Effect Of Accounting Change	$ (86,349)	$ (100,552)	$ (122,610)	$ (236,859)	$ 113,236
Earnings (Loss) Per Common Share:					
Primary - From Continuing Operations	$ (1.97)	$ (2.68)	$ (3.29)	$ (6.38)	$ 3.06
Fully Diluted - From Continuing Operations	$ (1.97)	$ (2.68)	$ (3.29)	$ (6.38)	$ 2.95
Total Assets	$3,314,017	$3,244,822	$3,285,022	$3,824,817	$4,383,259

	FOR THE FISCAL YEARS ENDED MARCH 31, 1991	1990	1989	1988	1987
	(In thousands except for per share amounts)				
Long-Term Obligations	$ 639,645	$ 873,321	$ 932,759	$ 840,225	$ 781,124
Subsidiary's Redeemable Preferred Stocks	204,482	204,487	204,487	204,637	204,693
Total	$ 844,127	$1,077,808	$1,137,246	$1,044,862	$ 985,817
Cash Dividends Per Common Share	$ 1.00	$ 1.00	$ 1.40	$ 1.80	$ 1.80

See Note 2 to the consolidated financial statements regarding discontinued operations and Note 6 regarding the adoption of Statement of Financial Accounting Standards (SFAS) No. 96 in fiscal 1989.

Included in income (loss) from continuing operations for the fiscal years ended 1988 and 1987 were pre-tax gains (losses) on the sale of government obligations of $(283,725,000) and $237,340,000, respectively. In addition, $128,610,000 was included in income for the 1988 fiscal year resulting from the reversal of accrued interest payable and accrued income taxes. Also included in income in fiscal year 1987 was a pre-tax pension settlement gain of $110,585,000.

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

Results of Operations

1991 VS 1990

Power Generation Systems and Equipment's revenues of $1,756,566,000 were $9,456,000 higher than last year. This was principally due to higher revenues from nuclear fuel assemblies and reactor components for the U.S. Government, plant enhancements, repair and alteration of existing fossil steam systems, replacement parts, air-cooled heat exchangers, other defense and space-related products, fabrication of industrial boilers, managing the operations of small power plant and refuse-to-energy facilities, and welded tubular products. These higher revenues were partially offset by lower revenues from the fabrication and erection of fossil steam systems, and the extended scope of supply for refuse, industrial, and fluid-bed boilers, as well as lower revenues from the fabrication of fluid-bed and refuse boilers, and commercial nuclear fuel assemblies including a contract termination settlement last year. Additionally, as principally all commercial nuclear service activities are now accounted for on the equity method due to the formation of a joint venture on November 1, 1989, revenues from these activities are no longer included in the Power Generation Systems and Equipment segment's revenues.

Power Generation Systems and Equipment segment reported operating income of $88,217,000, which was $60,309,000 higher than the same period last year. A substantial portion of this increase is attributable to a provision last year for corrective action in regard to internal corrosion in certain utility and industrial installations of a first-of-a-kind heat pipe heat exchanger. In the current period a portion of this reserve was reduced based on the anticipated recovery of certain costs from the Company's insurance. In addition, there was recovery of certain insurance claims related to previously expensed product liability costs, lower workers' compensation expenses, and lower employee benefits costs. Operating results also improved due to the higher volume and gross margins from nuclear fuel assemblies and reactor components for the U.S. Government, and the higher revenues from replacement parts and plant enhancements, fabrication of industrial boilers, air-cooled heat exchangers, repair and alteration of existing fossil steam systems, and other defense and space related products. Operating income was further improved by lower environmental cleanup accruals. In addition, last year this segment sustained a loss provision on an industrial cogeneration project. These improvements were partially offset by the lower volume and gross margins from the fabrication and erection of fossil steam systems, commercial nuclear fuel assemblies including a contract termination settlement last year, fabrication of refuse and fluid bed boilers, and because of the equity accounting of the joint venture to conduct commercial nuclear service activities. Also, last year there was a reversal of a prior period provision as a decision to consolidate certain manufacturing facilities was rescinded. In addition, there were lower margins on welded tubular products and higher administrative and research and development expenses.

Results of the Power Generation Systems and Equipment segment include provisions of approximately $1,587,000 and $17,621,000, respectively, for fiscal years 1991 and 1990 for future environmental clean-up costs at its nuclear facilities. Results for future years will include provisions for this purpose, the amount of which will depend upon the then current information and regulatory requirements.

Increased demand for supply of new base load electric power plants is not expected to occur in the near term; and as a consequence, no significant increase in revenues from this source is expected before the mid-1990's. The current recession and uncertainties created by passage of the Clean Air Act have caused utilities to defer repair and refurbishments in the short-term. Ultimately, the Clean Air Act should create significant demand for pollution control equipment and related plant enhancements.

Marine Construction Services' revenues increased $487,824,000 to $1,397,759,000. The improved revenues resulted from an increase in activity in this segment's fabrication facilities and engineering operations, both domestic and foreign, as well as incremental revenues from a majority-owned foreign joint venture. The improved revenues were offset in part by reduced utilization of offshore equipment, both domestic and foreign.

Marine Construction Services' operating loss decreased $9,138,000 to a loss of $52,062,000. The decreased operating loss was principally due to significantly increased activity and margins in both the domestic and foreign fabrication and foreign engineering operations. Offshore operations recognized higher domestic margins, while foreign margins were lower. Operating results were further unfavorably impacted by the recognition of losses on certain initial contracts of a majority-owned foreign joint venture, increased workers' compensation expense and as a result of the Iraqi crisis in the Middle East. Operating results were further decreased by reduced utilization of offshore equipment, both foreign and domestic.

Backlog for this segment at March 31, 1991 exceeded $2,300,000,000 and includes substantially more offshore work than this time last year. The Marine Construction backlog is expected to decline from this extremely high level during fiscal year 1992, but will remain significantly above the levels experienced during the 1980's.

Interest expense decreased $24,182,000 for fiscal year 1991 compared with fiscal 1990. This decrease resulted from the exchange of the Delaware Company's 10% Subordinated Debentures due 2003 with a book value of $107,022,000 (face value of $122,666,000) during March and April, 1990 for shares of International's common stock under the terms of International's warrant agreement, and changes in other debt obligations and the interest rates prevailing thereon in the respective periods.

Equity in loss of investees increased $20,263,000 from the prior fiscal year principally due to increased losses in a certain Marine Construction Service segment joint venture primarily due to lower activity and margins.

Minority interest expense for fiscal 1991 was $1,220,000, compared with $14,726,000 for fiscal 1990. The decrease between years was principally due to minority interest participation in higher losses of a majority-owned foreign joint venture.

Other-net income decreased $42,661,000 to $9,433,000 in fiscal 1991, due primarily to a marine asset casualty gain and a gain resulting from the sale of assets to Framatome Services Company, Inc. (See Note 12 to the consolidated financial statements), which were recognized in fiscal 1990. Management fees in fiscal 1991 from the nuclear service joint venture were mostly offset by bank fees and discount expenses on the additional sale of certain accounts receivable.

The provision for income taxes increased $37,344,000 while the loss from continuing operations before provision for income taxes decreased $51,547,000. The increase in provision for income taxes is primarily due to a decrease in losses from continuing operations, continued losses in jurisdictions which provide little or no income tax benefits and increased taxes attributable to operations in other high tax jurisdictions.

1990 VS 1989

Power Generation Systems and Equipment's revenues of $1,747,110,000 were $170,182,000 higher than fiscal 1989. This was principally due to higher revenues from fabrication and extended scope of supply for industrial and refuse boilers and erection of industrial and utility fossil steam systems. In addition, there were higher revenues from nuclear fuel assemblies for the U.S. Government, plant enhancements, replacement parts, repair and alteration of existing fossil steam systems, boiler-cleaning equipment and commercial nuclear fuel assemblies, including a contract termination settlement. These higher revenues were partially offset by lower nuclear service activity through October 31, 1989, and lower revenues resulting from the incorporation of a new joint venture at November 1, 1989 which is accounted for on the equity method. Also, there were lower revenues from fabrication of utility fossil fuel steam systems and the fabrication and extended scope of supply for fluid-bed boilers and tubular products.

This segment reported operating income of $27,908,000 which was $20,753,000 lower than fiscal 1989's operating income of $48,661,000. The lower operating results were primarily due to a provision of $27,150,000 for corrective action in regard to internal corrosion in certain utility and industrial installations of a first-of-a-kind heat pipe heat exchanger. Operating income was further reduced by the lower nuclear services revenues and gross margins and lower gross margins on reactor components to the U.S. Government. Also contributing to the lower operating results were higher selling, marketing and administrative expenses, higher workers' compensation and general liability costs and higher provisions for environmental clean-up costs. In addition, this segment sustained a loss provision on an industrial cogeneration project, provided for costs to downsize certain data processing operations, and experienced lower margins on revenues from external sales of computer services. Also, in fiscal 1989 a reduction in warranty reserve requirements was recorded. These were partially offset by the higher volume and gross margins from the fabrication and extended scope of supply for industrial and refuse boilers, commercial nuclear fuel assemblies, replacement parts, plant enhancements, repair and alterations of existing fossil steam systems, nuclear fuel assemblies for the U.S. Government and boiler-cleaning equipment, as well as improved margins from fluid-bed boiler projects. Other items partially offsetting the lower fiscal 1990 operating results were the reversal of a prior period provision (as a decision to consolidate certain manufacturing facilities was rescinded due to changes in the business environment), lower employee benefits costs and a gain on the termination of a commercial nuclear fuel assembly contract.

Results of the Power Generation Systems and Equipment segment include provisions of approximately $17,621,000 and $15,748,000, respectively, for fiscal years 1990 and 1989 for future environmental clean-up costs at its nuclear facilities. Results for future years will include provisions for this purpose, the amount of which will depend upon the then current information and regulatory requirements.

Marine Construction Services' revenues increased $316,769,000 to $909,935,000. The improved revenues resulted from a significant increase in utilization of this segment's domestic and foreign marine equipment. There was also increased activity, both domestic and foreign, in this segment's fabrication facilities and engineering operations.

Marine Construction Services' operating loss increased $252,000 to a loss of $61,200,000. The increased operating loss was due to the recognition of increased bid and general and administrative costs, principally in foreign marine operations, costs associated with the pursuit of new and expanded markets, increased employee benefit costs, and favorable claims related to certain foreign contracts in fiscal 1989. These increased costs were largely offset by improved operating results, both domestic and foreign, in this segment's marine and engineering operations, as well as improved operating results in foreign fabrication activities.

Backlog for this segment at March 31, 1990 was $1,619,236,000. A significant part of this backlog was for fabrication activities and related engineering operations. Lagging demand and overcapacity continued in marine operations.

Interest expense increased $6,661,000 for fiscal year 1990 compared with fiscal 1989. This increase was consistent with changes in McDermott International's debt and the interest rates prevailing thereon in the respective periods, and included an increase in accrued interest on estimated income taxes.

Equity in loss of investees decreased $6,122,000 from the prior fiscal year, due primarily to equity income in the newly-formed B&W Nuclear Service Company (See Note 12 to the consolidated financial statements), and lower net equity losses on marine operations joint ventures.

Other-net income and minority interest increased $40,811,000 to $37,368,000 in fiscal 1990, due primarily to the gain on the sale of assets to Framatome Services Company, Inc., recognition of a marine asset casualty gain, and foreign currency transaction gains, partially offset by bank fees and discount expenses on the additional sale of certain accounts receivable.

The benefit from income taxes increased $12,340,000 while the loss from continuing operations before benefit from income taxes decreased $9,718,000. The increase in benefit from income taxes from the prior year is due primarily to increased losses in jurisdictions where tax benefits are available and to a decrease in tax attributable to activities in high tax jurisdictions.

Effect of Inflation and Changing Prices

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

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

Liquidity and Capital Resources

During fiscal 1991, McDermott International's cash and cash equivalents increased $7,102,000 to $139,639,000 and total debt increased $83,082,000 to $1,085,612,000. During the same period, McDermott International provided net cash of $5,580,000 from operating activities and expended $139,335,000 for additions to property, plant and equipment, $42,358,000 for cash dividends on International's Common Stock, and $33,200,000 for repayment of long-term debt.

In December 1988, a subsidiary of McDermott Incorporated entered into a three-year agreement with a certain U.S. bank whereby the subsidiary can sell, up to a maximum of $100,000,000, with limited recourse, an undivided interest in a designated pool of qualified accounts receivable. Effective December 1989 and November 1990, the maximum sales limit was increased to $200,000,000 and $250,000,000, respectively. At March 31, 1991, the designated pool included substantially all of the Delaware Company's domestic trade accounts receivable. At March 31, 1991, approximately $225,000,000 of receivables had been sold for cash under this agreement and the proceeds were used to repay long-term debt obligations and to fund operations. The subsidiary expects to extend the agreement with the bank, which is currently scheduled to expire at December 31, 1991.

During the March quarter of fiscal 1990, International amended the terms of its outstanding warrants such that, from March 2, 1990 to April 2, 1990, the number of shares of its Common Stock issuable upon exercise of one warrant, either by payment per share of $25 cash or $25 principal amount of the Delaware Company's 10% Subordinated Debentures due 2003, increased from one share to 1.075 shares. In April 1990, cash of $20,084,000 and debentures with a book value of $16,222,000 (face value of $18,593,000) were received from the exercise of 1,547,084 warrants in exchange for 1,663,090 shares of Common Stock.

A partnership formed by two wholly-owned subsidiaries of B&W has available to it $87,000,000 of proceeds from the issuance of certain tax-exempt energy development revenue bonds and a $23,000,000 project financing line of credit issued by a foreign bank. During fiscal 1991, the project financing line of credit with the foreign bank was reduced to $11,500,000 pursuant to the terms of the agreement. The proceeds from the issuance of the energy development revenue bonds and the project financing line of credit are to be used only for qualified expenditures made in connection with the construction by the partnership of a small power plant in Pennsylvania. At March 31, 1991, borrowings against these lines of credit were $82,450,000, excluding an established reserve of $5,200,000 required to satisfy future sinking fund requirements, and the partnership anticipates additional qualified expenditures of approximately $10,850,000 during fiscal 1992.

At March 31, 1991 and 1990, International and the Delaware Company had available to them jointly various uncommitted short-term lines of credit of $94,000,000 and $186,500,000, respectively. Borrowings by McDermott International against these lines of credit at March 31, 1991 and March 31, 1990 were $20,000,000 and $40,000,000, respectively.

At March 31, 1991, McDermott International had obligations under short-term repurchase agreements totaling $140,988,000 secured by short-term investments and $105,515,000 face value of its long-term portfolio of government obligations, compared with obligations under short-term repurchase agreements totaling $24,420,000 secured by $24,300,000 face value of its portfolio of government obligations at March 31, 1990.

McDermott International maintains an investment portfolio of government obligations and Eurodollar time deposits which is held for long-term investment purposes. The amortized cost of the long-term portfolio at March 31, 1991 was $676,463,000 (market value of $678,003,000). At March 31, 1991, approximately $209,238,000 amortized cost (market value of $210,006,000) of these obligations were pledged to secure a letter of credit in connection with a long-term loan and certain reinsurance agreements.

The Delaware Company is restricted, as a result of covenants in certain credit agreements, in its ability to transfer funds to International and its subsidiaries through cash dividends or through unsecured loans or investments. At March 31, 1991, approximately $649,181,000 of the net assets of the Delaware Company were subject to such restrictions. It is not expected that these restrictions will have any significant effect on International's liquidity.

McDermott International has committed to make capital expenditures, excluding the small power plant in Pennsylvania, of approximately $39,496,000 during fiscal 1992. These proposed expenditures are principally to maintain McDermott International's existing facilities.

During fiscal 1991, working capital decreased from $19,368,000 at March 31, 1990 to a deficit of $285,867,000 at March 31, 1991, reflecting an increase in notes payable and current maturities of long-term debt from $129,209,000 at March 31, 1990 to $445,967,000 at March 31, 1991. During fiscal 1992, McDermott International expects to obtain funds to meet scheduled maturities of long-term debt of $245,491,000, and capital expenditure (except for specially financed projects) and working capital requirements from operating activities, liquidation of short-term investments and additional debt financings or public stock offerings. Leasing agreements for equipment, which are short-term in nature, are not expected to impact McDermott International's liquidity nor capital resources.

During January 1989 the quarterly dividend rate on the common stock of International decreased from $0.45 per share to $0.25 per share, resulting from McDermott International's decision to conserve cash. The rate, currently in effect at March 31, 1991, results in an annual payment of $1.00 per common share.

The Delaware Company's quarterly dividends of $0.55 per share on the Series A $2.20 Cumulative Convertible Preferred Stock and $0.65 per share on the Series B $2.60 Cumulative Preferred Stock have been maintained at the same rates as in fiscal years 1990 and 1989.

At March 31, 1991, the ratio of long-term debt to total common stock and other stockholders' equity was 1.13 as compared with 1.36 at March 31, 1990.

In December 1990, the Financial Accounting Standards Board issued SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," effective for fiscal years beginning after December 15, 1992 which mandates a new approach in accounting for postretirement benefits other than pensions. SFAS No. 106 will require McDermott International to adopt the accrual method of accounting for the costs of providing life insurance and health care benefits to employees retiring under McDermott International's health and welfare plans. These new requirements, which will have no impact on the cash costs for these retiree benefits, must be implemented no later than fiscal 1994. McDermott International has not yet finalized its review of the impact of this statement.

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

COMPANY REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

June 5, 1991

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
MARCH 31, 1991 and 1990

ASSETS

	1991	1990
	(In thousands)	
Current Assets:		
Cash and cash equivalents	$ 139,639	$ 132,537
Short-term investments, at amortized cost which approximates market	63,894	2,350
Accounts receivable - trade	432,244	384,466
Accounts receivable - other	132,363	174,244
Contracts in progress	288,806	245,265
Inventories	113,540	107,783
Deferred income taxes	35,897	50,715
Other current assets	10,936	44,306
Total Current Assets	1,217,319	1,141,666
Property, Plant and Equipment, at Cost:		
Land	19,631	19,406
Buildings	227,503	217,162
Machinery and equipment	1,918,899	1,904,279
Property under construction	170,163	98,151
	2,336,196	2,238,998
Less accumulated depreciation	1,367,143	1,315,143
Net Property, Plant and Equipment	969,053	923,855
Investments:		
Government obligations	403,832	453,067
Eurodollar time deposits	272,631	287,595
Total Investments	676,463	740,662
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Accumulated Amortization of $66,861,000 at March 31, 1991 and $61,499,000 at March 31, 1990	143,203	148,565
Prepaid Pension Costs	213,584	189,269
Other Assets	94,395	100,805
TOTAL	$3,314,017	$3,244,822

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1991	1990
	(In thousands)	
Current Liabilities:		
Notes payable and current maturities of long-term debt	$ 445,967	$ 129,209
Accounts payable	252,106	198,492
Accrued employee benefits	82,055	75,404
Accrued interest payable	99,698	94,308
Accrued liabilities - other	308,527	283,155
Advance billings on contracts	213,786	220,307
U.S. and foreign income taxes	101,047	121,423
Total Current Liabilities	1,503,186	1,122,298
Deferred Income Taxes	154,155	147,596
Long-Term Debt	639,645	873,321
Other Liabilities	237,263	232,001
Contingencies		
Minority Interest:		
Subsidiary's Redeemable Preferred Stocks:		
Series A $2.20 cumulative convertible, $1.00 par value; at redemption value	88,089	88,094
Series B $2.60 cumulative, $1.00 par value; at redemption value	116,393	116,393
Other minority interest	7,809	22,343
Total Minority Interest	212,291	226,830
Preferred Stock	-	-
Common Stock and Other Stockholders' Equity:		
Common stock, par value $1.00 per share, authorized 150,000,000 shares; outstanding 44,069,349 at March 31, 1991 and 42,164,394 at March 31, 1990	44,069	42,164
Capital in excess of par value	451,935	412,051
Retained earnings	82,919	196,415
Minimum pension liability	(2,577)	-
Cumulative foreign exchange translation adjustments	(8,869)	(7,854)
Total Common Stock and Other Stockholders' Equity	567,477	642,776
TOTAL	$3,314,017	$3,244,822

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF INCOME (LOSS) AND RETAINED EARNINGS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1991

	1991	1990	1989
		(In thousands)	
Revenues	$3,135,954	$2,644,690	$2,166,806
Costs and Expenses:			
Cost of operations	2,815,112	2,399,947	1,928,875
Depreciation and amortization	103,398	112,966	107,658
Selling, general and administrative expenses	228,410	221,183	187,453
	3,146,920	2,734,096	2,223,986
Operating Loss	(10,966)	(89,406)	(57,180)
Other Income (Expense):			
Interest income	73,094	74,751	73,079
Interest expense	(111,683)	(135,865)	(129,204)
Equity in loss of investees	(29,685)	(9,422)	(15,544)
Minority interest	(1,220)	(14,726)	(14,528)
Other-net	9,433	52,094	11,085
	(60,061)	(33,168)	(75,112)
Loss from Continuing Operations before Provision for (Benefit from) Income Taxes and Cumulative Effect of Accounting Change	(71,027)	(122,574)	(132,292)
Provision for (Benefit from) Income Taxes	15,322	(22,022)	(9,682)
Loss from Continuing Operations before Cumulative Effect of Accounting Change	(86,349)	(100,552)	(122,610)
Income (Loss) from Discontinued Operations	16,824	90,351	(21,645)
Loss before Cumulative Effect of Accounting Change	(69,525)	(10,201)	(144,255)
Cumulative Effect of Accounting Change	-	-	52,580
Net Loss	(69,525)	(10,201)	(91,675)
Retained Earnings - Beginning of Year	196,415	244,031	387,825
Deduct Cash Dividends - Common (per share, $1.00 in 1991 and 1990; $1.40 in 1989)	43,971	37,415	52,119
Retained Earnings - End of Year	$ 82,919	$ 196,415	$ 244,031

	1991	1990	1989
PRIMARY AND FULLY DILUTED:			
Earnings (Loss) Per Common and Common Equivalent Share:			
Continuing operations	$ (1.97)	$ (2.68)	$ (3.29)
Discontinued operations	0.39	2.41	(0.59)
Accounting change	-	-	1.42
Net loss	$ (1.58)	$ (0.27)	$ (2.46)
Cash Dividends Per Common Share	$ 1.00	$ 1.00	$ 1.40

See accompanying notes to consolidated financial statements.

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1991

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1991	1990	1989
CASH FLOWS FROM OPERATING ACTIVITIES:		(In thousands)	
Net Loss	$ (69,525)	$ (10,201)	$ (91,675)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	103,398	112,966	107,658
Equity in loss of investees, including dividends	39,570	13,262	16,188
(Gain) loss on sale and disposal of assets	(2,713)	(53,826)	4,895
Cumulative effect of accounting change	-	-	(52,580)
(Gain) loss on disposal of discontinued operations, net of applicable income taxes	(16,824)	(90,669)	29,322
Net (increase) decrease in contracts in progress and advance billings on contracts	(51,152)	39,191	(11,776)
(Increase) decrease in accounts receivable	(65,028)	(91,981)	74,112
Increase (decrease) in accounts payable	53,341	34,991	(12,285)
(Increase) decrease in inventories	(5,250)	(12,994)	19,660
Net decrease in current, non-current and deferred income taxes payable	(14,117)	(13,579)	(38,629)
Net increase (decrease) in other net liabilities	34,931	(43,769)	(96,676)
Other	(1,051)	(9,477)	(12,705)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 5,580	$(126,086)	$ (64,491)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale and disposal of assets	$ 5,564	$ 70,361	$ 12,843
Purchases of property, plant and equipment	(139,335)	(127,370)	(59,864)
Sale of minority interest	-	13,730	-
Proceeds from sale of discontinued operations	51,337	303,750	12,855
Purchases of short-term investments, government obligations and Eurodollar time deposits	(1,866,886)	(2,662,190)	(1,158,850)
Sales of short-term investments, government obligations and Eurodollar time deposits	1,870,322	2,706,826	1,184,934
Investments in equity investees	(3,213)	(14,050)	(6,286)
Other	2,916	11,773	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	$ (79,295)	$ 302,830	$ (14,368)

CONTINUED

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	1991	1990	1989
		(In thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of long-term debt	$ (33,200)	$ (86,590)	$(337,662)
Issuance of long-term debt	26,530	58,824	372,871
Increase (decrease) in short-term borrowing	106,619	(60,362)	35,295
Issuance of common stock	24,069	6,378	90
Dividends paid	(42,358)	(37,340)	(59,507)
Other	(2,304)	(1,419)	(1,596)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ 79,356	$(120,509)	$ 9,491
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	1,461	178	1,839
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,102	56,413	(67,529)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	132,537	76,124	143,653
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 139,639	$ 132,537	$ 76,124
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amount capitalized)	$ 106,304	$ 125,445	$ 110,134
Income taxes	$ 27,568	$ 45,009	$ 25,565
SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES:			
Exchange of 10% subordinated debentures	$ 16,222	$ 90,800	$ -

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements are presented in U.S. Dollars in accordance with accounting principles generally accepted in the United States and include the accounts of McDermott International, Inc. and all subsidiaries and controlled joint ventures and partnerships. Investments in joint venture and other entities in which McDermott International has a 20% to 50% interest are accounted for on the equity method. Differences between the cost of these investments and the amount of underlying equity in net assets of the investees are amortized systematically to income. All significant intercompany transactions and accounts have been eliminated.

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

Certain amounts previously reported have been reclassified to conform with the presentation at March 31, 1991. The notes to consolidated financial statements are presented on the basis of continuing operations, unless otherwise stated.

Contracts and Revenue Recognition

Contract revenues and related costs are principally recognized on a percentage of completion method for individual contracts or components thereof based upon work performed or a cost to cost method, as applicable to the product or activity involved. Revenues and related costs so recorded, plus accumulated contract cost that exceeds amounts invoiced to customers under the terms of the contract, are included in Contracts in Progress. Billings that exceed accumulated contract costs and revenues and costs recognized under percentage of completion are included in Advance Billings on Contracts. Most long-term contracts have provisions for progress payments. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in income in the period when such estimates are revised. There are no unbilled revenues which will not be billed. Provisions are made currently for all known or anticipated losses. Claims for extra work or changes in scope of work are included in contract revenues when collection is probable. Included in Accounts Receivable and Contracts in Progress are approximately $48,555,000 and $34,900,000 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, 1991 and 1990, respectively. International and certain of its subsidiaries keep books and file tax returns on the completed contract method of accounting.

	1991	1990
	(In thousands)	
Included in Contracts in Progress are:		
Costs incurred less costs of revenue recognized	$ 161,282	$ 125,011
Revenues recognized less billings to customers	127,524	120,254
Contracts in Progress	$ 288,806	$ 245,265
Included in Advance Billings on Contracts are:		
Billings to customers less revenues recognized	$ 349,015	$ 236,829
Costs of revenues recognized less costs incurred	(135,229)	(16,522)
Advance Billings on Contracts	$ 213,786	$ 220,307

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:

	1991	1990
	(In thousands)	
Retainages	$ 117,571	$ 95,772
Retainages expected to be collected after one year	$ 78,252	$ 84,031

Of its long-term retainages at March 31, 1991, McDermott International anticipates collection as follows: $49,404,000 in fiscal 1993, $15,060,000 in fiscal 1994 and $13,788,000 in fiscal 1995.

Depreciation, Maintenance and Repairs and Drydocking Expenses

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

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 25% of annual straight-line depreciation, nor less than 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.

Cash Equivalents

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

Investments

At March 31, 1991, McDermott International held $403,832,000 (amortized cost) and $272,631,000 (amortized cost) of government securities and Eurodollar time deposits, respectively, as a long-term investment, compared with $453,067,000 and $287,595,000, respectively, at March 31, 1990. The market and face values of the government securities and Eurodollar time deposits were $404,681,000 and $404,722,000, and $273,322,000 and $272,543,000, respectively, at March 31, 1991.

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

Excess of the cost over fair value of net assets of purchased businesses primarily pertains to The Babcock & Wilcox Company ("B&W"), which is being amortized on a straight-line basis over forty years. During fiscal 1990, $14,799,000 of excess cost was written off in connection with discontinued operations.

Warranty Expense

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

Environmental Clean-up Costs

McDermott International provides for future environmental clean-up for its nuclear facilities that will permit the release of these facilities to unrestricted use at the end of each facility's life, which is a condition of its licenses from the Nuclear Regulatory Commission. McDermott International is accruing the current estimated cost of those clean-up activities over the economic useful life of each of these facilities, which is estimated at 40 years. In addition, a specific provision of approximately $12,800,000 was made at March 31, 1990 to reflect changes in the current estimate of clean-up costs for these facilities and changes in the economic lives of certain of these facilities.

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 $23,100,000, $19,400,000 and $23,400,000 in fiscal years 1991, 1990 and 1989, respectively. In addition, expenditures on research and development activities of approximately $40,200,000, $33,600,000 and $48,700,000 in fiscal years 1991, 1990 and 1989, respectively, were paid for by customers of McDermott International.

Capitalization of Interest Cost

In fiscal years 1991, 1990 and 1989, total interest cost incurred, including discontinued operations, was $119,478,000, $139,415,000 and $129,582,000, respectively, of which $7,795,000, $3,498,000 and $24,000, respectively, was capitalized.

Foreign Currency Translation

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

	(In thousands)
Balance March 31, 1988	$ (1,188)
Divestiture of foreign investments	(57)
Translation adjustments for fiscal 1989	(1,147)
Balance March 31, 1989	(2,392)
Divestiture of foreign investments	(4,649)
Translation adjustments for fiscal 1990	(813)
Balance March 31, 1990	(7,854)
Translation adjustments for fiscal 1991	(1,015)
Balance March 31, 1991	$ (8,869)

Foreign currency transaction adjustments are reported in income. Included in Other Income (Expense) are transaction gains of $9,788,000, $4,022,000 and $371,000 for fiscal years 1991, 1990 and 1989, respectively.

Forward Exchange Contracts

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

At March 31, 1991, McDermott International had forward exchange contracts to purchase $157,180,000 in foreign currencies (primarily Deutschmarks and French Francs), and to sell $150,931,000 in foreign currencies (primarily British

Pounds, Malay Ringgits and Dutch Guilders), at varying maturities, most of which occur during fiscal year 1992.

Earnings Per Share

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

NOTE 2 - DISCONTINUED OPERATIONS

Bailey Controls Group

In fiscal 1990, McDermott International sold its Bailey Controls ("Bailey") operations to Elsag, S.p.A., a subsidiary of Finmeccanica Societa Finanziaria per Azioni, a manufacturing holding company of IRI, an Italian industrial group and accounted for it as a discontinued operation. The purchase price paid at closing was $295,000,000. During fiscal 1991, purchase price and other income adjustments of $1,718,000 were recognized in income from discontinued operations. Proceeds collected in fiscal 1991 were $3,931,000. Condensed financial information for Bailey follows:

	1991	1990	1989
		(In thousands)	
Revenues	$ -	$ 170,996	$ 255,850
Income (loss) from operations, net of applicable income taxes of $423,000 and $3,509,000, respectively, in fiscal 1990 and 1989	-	(318)	7,677
Gain on disposal, net of applicable income taxes of $550,000 and $52,457,000, respectively, in fiscal 1991 and 1990	1,718	88,314	-

The gain of $88,314,000 in fiscal 1990 included income from operations of $2,474,000 during the phase out period.

Trading

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

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

Included in Loss from Discontinued Operations for fiscal 1989 is a loss of $27,506,000 (including income taxes of $1,676,000) which resulted from additional operating losses during the phase-out period and losses on the sale of certain assets.

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

Insulating Products Group

In fiscal 1988, McDermott International sold its Insulating Products Group to Thermal Ceramics, Inc., a subsidiary of Morgan Crucible Company Plc, a company headquartered in the United Kingdom, for approximately $76,000,000 and accounted for it as a discontinued operation.

Included in Income (Loss) from Discontinued Operations are gains (losses) on disposal of $2,355,000 and $(1,816,000), in fiscal 1990 and 1989; net of applicable income taxes (benefit) of $53,000 and $(137,000), respectively.

Seamless Tubular Line of Business

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

In July 1990, McDermott International sold certain assets of the seamless tubular line of business. Proceeds from the sale were $2,635,000. In October 1990, McDermott International sold substantially all the assets of its seamless tubular line of business to PMAC Limited, a Texas limited partnership and Koppel Steel Corporation, a Pennsylvania corporation. Proceeds from the sale were $44,771,000, excluding $5,000,000 collected during fiscal 1990. These proceeds are subject to final purchase price adjustments that have not yet been determined, but are not expected to have a material effect on the consolidated financial statements. Gain on disposal of $15,106,000, net of applicable income taxes of $17,081,000, is included in Income from Discontinued Operations for fiscal 1991.

NOTE 3 - SALE OF ACCOUNTS RECEIVABLE

In December 1988, a subsidiary of McDermott Incorporated entered into a three-year agreement with a certain U.S. bank, whereby the subsidiary can sell, up to a maximum of $100,000,000, with limited recourse, an undivided interest in a designated pool of qualified accounts receivable. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously sold accounts receivable. Effective December 1989, and November 1990 the maximum sales limit was increased to $200,000,000 and $250,000,000, respectively. At March 31, 1991, the designated pool included substantially all of the Delaware Company's domestic trade accounts receivable. At March 31, 1991, approximately $225,000,000 of receivables had been sold for cash under this agreement. Included in Other-net income were expenses recorded on the sale of receivables which represent bank fees and discounts of $17,498,000, $13,087,000 and $1,350,000 for the fiscal years ended March 31, 1991, 1990 and 1989, respectively. The subsidiary expects to extend the agreement with the bank, which is currently scheduled to expire at December 31, 1991.

NOTE 4 - INVENTORIES

Inventories are carried at the lower of cost or market. Cost is determined on an average cost basis except for certain materials inventories, for which the last-in first-out (LIFO) method is used. The cost of approximately 40% and 37% of total inventories was determined using the LIFO method at March 31, 1991 and March 31, 1990, respectively. Consolidated inventories at March 31, 1991 and 1990 are summarized below:

	1991	1990
	(In thousands)	
Raw Materials and Supplies	$ 63,734	$ 60,647
Work in Progress	31,114	28,145
Finished Goods	18,692	18,991
	$ 113,540	$ 107,783

NOTE 5 - PENSION PLANS AND POSTRETIREMENT BENEFITS

Pension Plans - McDermott International provides retirement benefits, primarily through non-contributory pension plans, for substantially all of its regular full-time employees, except certain non-resident alien employees of foreign subsidiaries who are not citizens of a European Common Market country or who do not earn income in the United States, Canada, or the United Kingdom. Salaried plan benefits are based on final average compensation and years of service, while hourly plan benefits are based on a flat benefit rate and years of service. McDermott International's funding policy is to fund applicable pension plans to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, generally, to fund other pension plans as recommended by the respective plan actuary and in accordance with applicable law. At January 1, 1991 and 1990, approximately one-half of total plan assets were held in U.S. Government securities. The remaining assets were invested in listed stocks and bonds and investments of a short-term nature.

Net periodic pension cost for fiscal years 1991, 1990 and 1989 included the following components:

	1991	1990	1989
		(In thousands)	
Service cost - benefits earned during the period	$ 21,147	$ 18,431	$ 17,695
Interest cost on projected benefit obligation	57,651	47,452	42,140
Actual return on plan assets	(5,201)	(161,548)	(77,276)
Net amortization and deferral	(96,183)	80,286	7,205
Net periodic pension cost	$ (22,586)	$ (15,379)	$ (10,236)

Due to the sale of its Bailey operations on October 31, 1989, McDermott International curtailed certain related salaried pension plans in the United States and Canada. Consequently, income from discontinued operations in fiscal year 1990 includes a net after-tax gain of $3,118,000 resulting from the curtailments. Accordingly, net periodic pension cost relating to these pension plans was remeasured at October 31, 1989. The impact on net periodic pension cost for fiscal year 1990 was to reduce the pre-tax loss from continuing operations by $3,523,000.

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

	Plans for Which Assets Exceed Accumulated Benefits		Plans for Which Accumulated Benefits Exceed Assets	
	1991	1990	1991	1990
	(In thousands)			
Actuarial present value of benefit obligations:				
Vested benefit obligation	$ 485,540	$ 423,988	$ 77,297	$ 66,969
Accumulated benefit obligation	$ 532,121	$ 484,730	$ 96,379	$ 85,144
Projected benefit obligation	$ 657,947	$ 581,097	$ 98,266	$ 85,893
Plan assets at fair value	941,197	956,425	59,822	57,890
Projected benefit obligation (in excess of) or less than plan assets	283,250	375,328	(38,444)	(28,003)
Unrecognized net (gain) or loss	35,269	(74,203)	4,840	(5,387)
Prior service cost not yet recognized in net periodic pension cost	11,563	11,293	5,043	5,079
Unrecognized transition (asset) obligation	(116,498)	(123,149)	306	530
Adjustment required to recognize minimum liability	-	-	(8,205)	(1,854)
Prepaid pension cost (pension liability) recognized in the consolidated financial statements	$ 213,584	$ 189,269	$ (36,460)	$ (29,635)

At January 1, 1991, 1990 and 1989, the weighted-average discount rate for active and retired employees and the expected long-term rate of return on assets were both 8-1/2% and 8-1/2%, respectively. The rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations was 5%, 5% and 4-1/2%, for fiscal 1991, 1990 and 1989, respectively.

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 87, "Employers' Accounting for Pensions," McDermott International recorded during fiscal 1991 and 1990, an additional minimum liability for certain of its plans of $8,205,000 and $1,854,000, respectively. These liabilities were offset by a $5,628,000 intangible asset and a $2,577,000 direct reduction of stockholders' equity in fiscal 1991, and an intangible asset of $1,854,000 in fiscal 1990.

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

Multiemployer Plans - One of McDermott International's subsidiaries contributes to various multiemployer plans. The plans generally provide defined benefits to substantially all unionized workers in this subsidiary. Amounts charged to pension cost and contributed to the plans were $6,407,000, $9,059,000 and $8,691,000 in fiscal years 1991, 1990 and 1989, respectively.

Postretirement Health Care and Life Insurance Benefits - McDermott International offers postretirement health care and life insurance benefits to substantially all of its retired regular full-time employees, including those associated with discontinued operations, except certain non-resident alien retired employees who are not citizens of a European Common Market country or who, while employed, did not earn income in the United States, Canada or the United Kingdom. McDermott International shares the cost of providing these benefits with all affected retirees. McDermott International's cost of providing such benefits is recognized by expensing the insurance programs' premiums, the self-insured program's claims paid, and the estimated unpaid liability for claims incurred by plan participants. The aggregate cost, including discontinued operations, totaled $22,750,000, $21,611,000 and $21,689,000 in fiscal years 1991, 1990 and 1989, respectively. McDermott International has made no provision for recognizing the cost of postretirement benefits which may eventually be paid to employees who have not yet retired.

See Management's Discussion and Analysis of Financial Conditions and Results of Operations regarding future adoption of FASB Statement No. 106, "Employer's Accounting for Postretirement Benefits Other Than Pensions."

NOTE 6 - INCOME TAXES

Effective April 1, 1988, McDermott International adopted SFAS No. 96, "Accounting for Income Taxes." The Statement provides for a liability approach under which deferred income taxes are provided based upon enacted tax laws and rates applicable to the periods in which the taxes become payable. For periods prior to April 1, 1988, deferred income taxes were provided based upon tax laws and rates applicable to the current year without adjustment for subsequent changes. The cumulative effect of the accounting change at April 1, 1988 was $52,580,000 ($1.42 per share). The effect of the change, excluding the cumulative effect, was to decrease the loss from continuing operations by $2,863,000 ($0.08 per share) and the loss before cumulative effect of accounting change by $4,142,000 ($0.11 per share) and to decrease the net loss by $1,146,000 ($0.03 per share) for the fiscal year ended March 31, 1989.

Income taxes have been provided based upon the tax laws and rates in the countries in which operations are conducted. All income has been earned outside of

Panama and McDermott International is not subject to income tax in Panama on income earned outside of Panama. Therefore, there is no expected relationship between the provision for, or benefit from, income taxes and income, or loss, before income taxes. The major reason for the variations in such relationships is that income is earned within and subject to the taxation laws of various countries, each of which has a regime of taxation which varies from that of any other country (not only with respect to nominal rate but also with respect to the allowability of deductions, credits and other benefits) and because the proportional extent to which income is earned in, and subject to tax by, any particular country or countries varies from year to year.

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

	1991		1990		1989	
	Current	Deferred	Current	Deferred	Current	Deferred
			(In thousands)			
U.S. - Federal	$ (6,675)	$ 7,237	$ 25,951	$ (56,709)	$ 6,771	$ (31,057)
U.S. - State & Local	1,945	141	10,001	(10,125)	9,882	(10,926)
Other than U.S.	13,139	(465)	9,365	(505)	18,954	(3,306)
	$ 8,409	$ 6,913	$ 45,317	$ (67,339)	$ 35,607	$ (45,289)

Loss from continuing operations before provision for or benefit from income taxes was as follows:

	1991	1990	1989
		(In thousands)	
U.S.	$ 22,115	$ 92,510	$ 77,653
Other than U.S.	48,912	30,064	54,639
	$ 71,027	$ 122,574	$ 132,292

Deferred income taxes result from the tax effect of temporary differences in the financial and tax bases of assets and liabilities. Significant components of deferred income taxes and their related impact on the provision for (benefit from) deferred income taxes were:

	1991	1990	1989
		(In thousands)	
Excess tax over financial depreciation	$ (1,276)	$ (10,309)	$ (1,257)
Long-term contracts	27,355	(42,321)	(40,902)
Warranty expense	(1,718)	(340)	6,573
Provision for cost of certain facility closings, relocations and dispositions and environmental clean-up	1,502	(3,499)	(6,374)
Interest on proposed tax deficiencies	(4,392)	(3,992)	(2,764)
Self-insurance	1,548	2,948	1,517
Pension expense	(9,950)	(7,278)	1,904
Purchased tax benefits	-	(1,151)	(2,899)
Deferred financial gain	-	545	471
Tax loss carryforwards	(575)	(3,772)	(2,221)
Tax credits	-	4,262	(518)
Supplemental compensation	1,357	(1,740)	1,660
Bad debt expense	(1,134)	(1,208)	(2,528)
Vacation pay expense	(3,840)	(638)	(1,285)
Equity income of investees	(2,251)	658	2,309
Other	287	496	1,025
	$ 6,913	$ (67,339)	$ (45,289)

During the fiscal year ended March 31, 1990, decisions were entered in the United States Tax Court concerning the Delaware Company's U.S. income tax liability for the fiscal years ended March 31, 1981 and March 31, 1982. The Delaware Company has reached an overall agreement on all but one of the issues raised by the Internal Revenue Service (the "IRS"), pending approval from the Joint Committee of Congress on Taxation, for its fiscal year ended March 31, 1983. The remaining issue for that year is being litigated in Tax Court. The IRS has issued notices for fiscal 1984, 1985 and 1986 which propose substantial additional taxes for earlier years by reducing net operating losses incurred in fiscal 1984 through 1986. McDermott International believes that the outcome of any income taxes ultimately assessed will not have a material adverse effect on its consolidated financial statements.

NOTE 7 - LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt consists of:	1991	1990
	(In thousands)	
Unsecured Debt:		
10.25% Notes due 1995	$ 150,000	$ 150,000
Floating rate notes ($150,000,000 face value) interest at three month LIBOR plus 0.125% (6.4375% inclusive at March 31, 1991) due 1992	149,924	149,843
6.50% DM 100,000,000 Bearer-bonds due 1991	58,473	59,135
8.27% Note due 1991 (paid April 1, 1991)	15,000	15,000
10.20% Sinking fund debentures due 1999 with annual sinking fund installments of $2,500,000	24,426	27,003
Other notes payable through 2009 (interest at various rates ranging from 6.80% to 9.625%)	38,028	43,302
12.25% Senior subordinated notes due 1998	200,000	200,000
10.00% Subordinated debentures ($27,255,000 face value at March 31, 1991) due 2003 with annual sinking fund installments beginning 2002	23,907	40,000
Secured Debt:		
10.375% Note payable due 1998	131,300	142,400
Project financing notes	82,450	68,268
Other notes payable through 2011 and capitalized lease obligations	11,628	13,720
	885,136	908,671
Less: Amounts due within one year	245,491	35,350
	$ 639,645	$ 873,321

The 12.25% Senior Subordinated Notes due 1998 (the "Subordinated Notes") are redeemable at face plus a premium (as defined in the Indenture) at the option of the Delaware Company, in whole or in part, on or after June 1, 1993. Mandatory annual sinking fund payments in the amount of $50,000,000, commencing June 1, 1996, are required to retire 50% of the Subordinated Notes prior to maturity on June 1, 1998. As defined in the Indentures, both the 10.25% Notes due 1995 and the Subordinated Notes may be redeemed at the option of the holders upon a change of control of International. The Indentures contain certain covenants which restrict the amount of funded indebtedness that the Delaware Company may incur, and place limitations on certain restricted payments, certain transactions between affiliates, the creation of certain liens and the amendment of a certain intercompany agreement.

Project financing notes of $82,450,000 result from withdrawals of funds available from the issuances, by a governmental authority, of approximately $87,000,000 of tax-exempt energy development revenue bonds and a $23,000,000 project financing line of credit issued by a foreign bank. During fiscal 1991, the project financing line of credit with the foreign bank was reduced to $11,500,000 pursuant to the terms of the agreement. The revenue bonds bear interest at variable interest rates (5.27% at March 31, 1991) and the project financing line of credit bears interest at 30 day LIBOR plus 1-1/4% (7.81% at March 31, 1991). The project financing notes are secured solely by the assets of the project.

McDermott International's $131,300,000 long-term loan at an interest rate of 10.375% is secured by a letter of credit issued by a U.S. bank. The letter of credit was secured by approximately $146,585,000 amortized cost (market value of $147,267,000) of McDermott International's long-term portfolio at March 31, 1991. The outstanding principal is repayable in semi-annual payments with the final installment due June 20, 1998. The letter of credit and collateral amounts decline as the loan principal is repaid.

Maturities of long-term debt during the five fiscal years subsequent to March 31, 1991 are as follows: 1992 - $245,491,000; 1993 - $25,505,000; 1994 - $23,166,000; 1995 - $24,351,000; 1996 - $175,763,000.

The Delaware Company is restricted, as a result of covenants in certain credit agreements, in its ability to transfer funds to International and its subsidiaries through cash dividends or through unsecured loans or investments. At March 31, 1991, approximately $649,181,000 of the net assets of the Delaware Company were subject to such restrictions. It is not expected that these restrictions will have any significant effect on International's liquidity.

International and the Delaware Company at March 31, 1991 had available unused short-term lines of credit from various banks totaling approximately $74,000,000.

Current notes payable to banks at March 31, 1991 and 1990 were $59,488,000 and $69,439,000, respectively. At March 31, 1991, other current notes payable of $140,988,000 were secured by short-term investments and by $105,515,000 face value of government obligations. At March 31, 1990, other current notes payable were $24,420,000.

NOTE 8 - CONTINGENCIES AND COMMITMENTS

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

Operating Leases - Future minimum payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year at March 31, 1991 are as follows: 1992 - $18,549,000; 1993 - $16,097,000; 1994 - $15,346,000; 1995 - $7,035,000; 1996 - $3,725,000; and thereafter - $32,243,000. Future minimum lease payments and leased property under capital leases are not material. Total rental expense for fiscal 1991, 1990 and 1989 was $109,284,000, $92,120,000 and $69,753,000, 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. McDermott International recently commenced litigation against product liability excess insurers regarding the method of allocating claim payments to one year of coverage. Based upon information currently available, management and general counsel believe that the outcome of these proceedings will not have a material adverse effect upon the consolidated financial statements.

Commitments for capital expenditures, including specially-financed projects, amounted to approximately $54,735,000 at March 31, 1991, of which approximately $45,770,000 relates to fiscal 1992.

McDermott International is contingently liable under standby letters of credit totaling $375,849,000 at March 31, 1991, issued in the normal course of business. McDermott International also guarantees approximately $6,120,000 of loans issued to certain unconsolidated foreign joint ventures at March 31, 1991. These guarantees are limited to McDermott International's equity interest in these entities.

At March 31, 1991, McDermott International had pledged approximately $62,653,000 amortized cost (market value of $62,739,000) of government obligations to secure payments under and in connection with certain reinsurance agreements.

NOTE 9 - FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

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

McDermott International believes that its provision for possible losses on uncollectible accounts receivable is adequate for its credit loss exposure. At March 31, 1991 and 1990, the allowance for possible losses deducted from Accounts Receivable-trade on the balance sheet was $4,226,000 and $5,379,000, respectively.

NOTE 10 - SUBSIDIARY'S REDEEMABLE PREFERRED STOCKS

At March 31, 1991 and 1990, 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 and 2,818,941 shares of Series A Preferred Stock were outstanding at March 31, 1991 and 1990, respectively; and 3,724,629 shares of Series B Preferred Stock were outstanding at March 31, 1991 and 1990. The outstanding shares are entitled to $31.25 per share in liquidation. Preferred dividends of approximately $15,900,000 are classified as minority interest in Other Income (Expense) in each of the fiscal years 1991, 1990 and 1989.

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

Each share of the outstanding Series A Preferred Stock is convertible into one share of Common Stock of International plus $0.10 cash. The shares are redeemable at the option of the Delaware Company through March 31, 2008 at $31.25 per share, plus accrued dividends. On March 31, 1992 and each subsequent year through March 31, 2008, the Delaware Company is obligated to redeem, at a redemption price of $31.25 plus accrued dividends, 313,878 shares of Series A Preferred Stock. The obligation to redeem Series A Preferred Stock is $9,809,000 for each of the fiscal years 1992 through 1996. The Delaware Company applied 313,878 shares of Series A Preferred Stock that it owned to satisfy the March 31, 1991 mandatory sinking fund obligation.

Series B Preferred Stock is redeemable at the option of the Delaware Company at $31.25 per share plus accrued dividends. On March 31 of each of the fiscal years 1992 through 1995, March 31 of each of the fiscal years 1996 through 2006, and March 31 of each of the fiscal years 2007 and 2008, the Delaware Company is obligated to redeem 315,877, 252,702 and 189,526 shares of Series B Preferred Stock, respectively. The obligation to redeem Series B Preferred Stock is $9,871,000 for each of the fiscal years 1992 through 1995 and $7,897,000 for 1996. The Delaware Company applied 315,877 shares of Series B Preferred Stock that it owned to satisfy the March 31, 1991 mandatory sinking fund obligation.

Additional shares of Series A or Series B Preferred Stock, equal to the number of shares the Delaware Company is obligated to redeem, may be redeemed on each mandatory redemption date by the Delaware Company, on a non-cumulative basis. The Delaware Company may apply to the mandatory sinking fund obligations any Series A or B Preferred Stock owned, previously redeemed or surrendered for conversion which have not been previously credited against the mandatory sinking fund obligations. At March 31, 1991, 49,637 shares of Series A Preferred Stock have been converted to date and the Delaware Company owned 2,517,139 and 697,654 shares of Series A and Series B Preferred Stock, respectively.

NOTE 11 - CAPITAL STOCK

Common Stock - Changes in Common Stock during the three years ended March 31, 1991 are summarized below:

	SHARES	PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE
	(In thousands except for share data)		
Balance, March 31, 1988	37,144,203	$ 37,144	$ 317,389
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	4,808	5	145
Shares issued upon exercise of stock options	750	1	14
Stock plan restricted stock purchases (net of forfeitures)	170,450	170	-
Deferred career executive stock plan expense	-	-	604
Balance, March 31, 1989	37,320,211	37,320	318,152
Shares issued upon exercise of stock options	94,094	94	2,028
Stock plan restricted stock purchases (net of forfeitures)	62,750	63	-
Shares issued upon exercise of warrants	4,687,339	4,687	91,047
Deferred career executive stock plan expense	-	-	824
Balance, March 31, 1990	42,164,394	42,164	412,051
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	161	-	5
Shares issued upon exercise of stock options	159,934	160	3,589
Stock plan restricted stock purchases (net of forfeitures)	81,770	82	-
Shares issued upon exercise of warrants	1,663,090	1,663	34,642
Deferred career executive stock plan expense	-	-	1,648
Balance, March 31, 1991	44,069,349	$ 44,069	$ 451,935

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

At March 31, 1991 and 1990, 56,363,253 and 58,043,374 shares of Common Stock, respectively, were reserved for issuance in connection with exercise of warrants, exercise of rights, the 1974 Career Executive Stock Plan, exercise of stock options, the 1983 and 1987 Long-Term Performance Incentive Compensation Programs and conversion of Series A Preferred Stock.

International Rights - On December 30, 1985, each holder of Common Stock received a dividend distribution of one Right for each outstanding share of Common Stock. The Rights currently trade with the Common Stock and at March 31, 1991 and 1990, International had outstanding Rights to purchase 44,169,349 and 42,264,394 shares, respectively, of its Common Stock at a price of $50 per share subject to anti-dilution adjustments. The rights will become exercisable and will detach from the Common Stock 10 days after a person or a group either becomes the beneficial owner of 20 percent or more of the outstanding Common Stock, or commences or announces an intention to commence a tender or exchange offer for 30 percent or more of the outstanding Common Stock. If thereafter the acquiring person or group engages in certain self-dealing transactions, holders of Rights may purchase at the exercise price that number of shares of Common Stock having a market value equal to twice the exercise price. In the event International merges with or transfers 50 percent or more of its assets or earnings to any person after the Rights become exercisable, holders of Rights may purchase at the exercise price that number of shares of Common Stock of the acquiring entity having a market value equal to twice the exercise price. The Rights are redeemable by International and expire on December 30, 1995.

International Warrants - During the March quarter of fiscal 1990, International amended the terms of its outstanding warrants such that from March 2, 1990 to April 2, 1990 the number of shares of its Common Stock issuable upon exercise of one warrant, either by payment per share of $25 cash or $25 principal amount of the Delaware Company's 10% Subordinated Debentures due 2003, increased from one share to 1.075 shares.

At March 31, 1990, International had outstanding warrants to purchase 1,635,364 shares of its Common Stock. In April 1990, cash of $20,084,000 and debentures with a book value of $16,222,000 (face value of $18,593,000) were received from the exercise of 1,547,084 warrants in exchange for 1,663,090 shares of Common Stock, which resulted in an increase in Common Stock of $1,663,000 and Capital in Excess of Par of $34,642,000. Unexercised International warrants totaling 88,280 expired on April 2, 1990. During March 1990, cash of $4,935,000 and debentures with a book value of $90,800,000 (face value of $104,073,000) were received from the exercise of 4,360,331 warrants in exchange for 4,687,339 shares of Common Stock, which resulted in an increase in Common Stock of $4,687,000 and Capital in Excess of Par of $91,047,000.

1983 Long-Term Performance Incentive Compensation Program - Under the program which was adopted February 8, 1983, the Compensation Committee, formerly the Career Executive Stock Plan Committee (the "Committee"), may grant to the officers and key employees options to purchase in the aggregate up to 2,000,000 shares of Common Stock at 100% of the fair market value on the date of grant. Options become exercisable on or before the third anniversary of the date of grant, and remain exercisable not more than ten years after the date of grant. The Committee, until August 1987, was permitted to grant stock appreciation rights in connection with the granting of options under the program. Such stock appreciation rights permit the holders thereof to surrender exercisable options in exchange for shares of Common Stock having a fair market value on the date of such surrender equal to the excess (up to, but not greater than, the fair market value of the underlying shares on the date of grant) of the fair market value on such date of the shares to which such surrendered option relates over the aggregate option price under the related options. The Committee may, at its discretion, grant holders of stock appreciation rights the right to receive up to 50% of such excess in cash in lieu of shares of Common Stock. The program also authorizes the Committee to grant performance unit awards which are earned by the achievement of performance standards established by the Committee. Performance units are paid in cash or shares of Common Stock or both at the discretion of the Committee.

At March 31, 1991, 1990 and 1989, stock option and stock appreciation rights awards of 1,283,005, 1,402,468 and 1,544,283, respectively, were awarded and outstanding at an average price of $21.2481, $20.7188 and $20.6122 per share, respectively. At March 31, 1991, 1990 and 1989, 2,713, 42,917 and 6,747 shares were available for award under the program and 159,667, 105,645 and 750 options were exercised or surrendered for stock appreciation rights during the year ended on each such date. During fiscal 1991 and 1989, respectively, 86,770 and 627,330 stock options, without stock appreciation rights, were awarded. During fiscal 1990, no stock options were awarded. Awards relating to 46,566, 36,170 and 38,812 shares were forfeited during fiscal 1991, 1990 and 1989, respectively. Charges to income with respect to stock appreciation rights, performance units and dividend equivalency expense were $1,061,000, $1,693,000 and $1,390,000 during fiscal 1991, 1990 and 1989, respectively.

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

At March 31, 1991, 1990 and 1989, 1,627,192, 1,339,809 and 1,034,120 stock options were awarded and outstanding at an average price of $20.1247, $18.7582 and $16.3961 per share, respectively. During fiscal 1991 and 1990, 21,160 and 28,020 options were forfeited, respectively. During fiscal 1991 and 1990, 36,887 and 34,111 options were exercised, respectively. During fiscal 1991, 1990 and 1989, 345,430, 367,820 and 1,034,120 options were awarded, respectively. Rights to purchase 81,770, 67,980 and 174,110 shares were granted during fiscal years 1991, 1990 and 1989, respectively; however, 5,230 and 3,660 of such shares were subsequently forfeited to McDermott International during fiscal 1990 and 1989, respectively. Charges to income were $2,109,000, $1,222,000 and $594,000 during fiscal 1991, 1990 and 1989, respectively. At March 31, 1991, 1990 and 1989, 427,630, 833,670 and 1,236,220 shares, respectively, were available for awards or grants under the program.

Career Executive Stock Plan - This plan, which was adopted as a plan of International effective March 15, 1983, originally authorized 600,000 shares of Common Stock to be issued to eligible employees in consideration of their services. Employees granted stock under the plan pay $1.00 per share as the option purchase price. Restrictions with respect to issued shares lapse in approximately equal amounts on the second through tenth anniversary dates of the date of issuance. The cost of the plan, based on fair market value on the date of issuance of Common Stock, is amortized over a ten year period following the date of issuance. Upon forfeiture of stock by employees, previous expense attributable to unvested stock is credited to income. During fiscal 1991, 1990 and 1989, no shares were forfeited under the plan. As of June 30, 1984, no further awards could be made under the plan. Charges to income under the plan were $95,000, $149,000 and $152,000 during fiscal 1991, 1990 and 1989, respectively.

International Preferred Stock - At March 31, 1991 and 1990, 25,000,000 shares of Preferred Stock were authorized and International has issued 100,000 shares of Series A Participating Preferred Stock (the "Participating Preferred Stock") and 100,000 shares of Series B Non-Voting Preferred Stock (the "Non-Voting Preferred Stock"), all of which are owned by the Delaware Company. The annual per share dividend rates for the Participating Preferred Stock and the Non-Voting Preferred Stock are $10 (but no more than ten times the amount of the per share dividend on International Common Shares) and $20, respectively, payable quarterly, and dividends on such shares are cumulative to the extent not paid. In addition, shares of Participating Preferred Stock are entitled to receive additional dividends whenever dividends in excess of $3.00 per International Share are declared (or deemed to have been declared) in any fiscal year. In 1987, the voting rights of the Participating Preferred Stock were eliminated. The issuance of additional International Preferred Stock in the future and the specific terms thereof, such as the dividend rights, conversion rights, voting rights, redemption prices and similar matters, may be authorized by the Board of Directors of International without stockholder approval, except to the extent such approval may be required by applicable rules of the New York Stock Exchange or applicable law. If additional Preferred Stock is issued, such additional shares will rank senior to International Common Stock as to dividends and upon liquidation.

NOTE 12 - SEGMENT REPORTING

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

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

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

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

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

In the fiscal years 1991, 1990 and 1989, the U.S. Government accounted for approximately 20%, 19% and 20%, respectively, of McDermott International's total revenues. These revenues are principally included in the Power Generation Systems and Equipment segment.

Included in Accounts Receivable-other are receivables of $3,371,000 due from minority owners, primarily ETPM S.A., in McDermott International's majority-owned joint ventures. Included in costs and expenses in fiscal 1991 are expenses of $25,728,000 relating to equipment charters and overhead expenses charged to the McDermott-ETPM joint venture by ETPM S.A. In fiscal 1990, overhead expenses of $8,638,000 were charged by ETPM S.A. to the joint venture.

Segment Information For the Three Fiscal Years Ended March 31, 1991.

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

REVENUES [1][3]	1991	1990	1989
		(In thousands)	
Power Generation Systems & Equipment	$1,756,566	$1,747,110	$1,576,928
Marine Construction Services	1,397,759	909,935	593,166
Intersegment Transfer Eliminations	(18,371)	(12,355)	(3,288)
Total Revenues	$3,135,954	$2,644,690	$2,166,806

OPERATING INCOME (LOSS) [2][3]	1991	1990	1989
Power Generation Systems & Equipment	$ 88,217	$ 27,908	$ 48,661
Marine Construction Services	(52,062)	(61,200)	(60,948)
Total Operating Income (Loss)	$ 36,155	$ (33,292)	$ (12,287)

EQUITY IN EARNINGS (LOSS) OF INVESTEES [3]	1991	1990	1989
Power Generation Systems & Equipment	$ 2,840	$ 3,654	$ (91)
Marine Construction Services	(32,525)	(13,076)	(15,453)
Total Equity in Loss of Investees	$ (29,685)	$ (9,422)	$ (15,544)

(1) Segment revenues include intersegment transfers as follows:

	1991	1990	1989
Power Generation Systems & Equipment	$ 10,969	$ -	$ 18
Marine Construction Services	7,402	12,355	3,270
Total	$ 18,371	$ 12,355	$ 3,288

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

(3) On November 1, 1989, McDermott International sold net assets representing 50% of its commercial nuclear services business to Framatome Services Company, Inc. ("Framatome"). Also, on November 1, 1989, McDermott International and Framatome formed B&W Nuclear Service Company ("NSC") by contributing their respective net assets of the business for an equal ownership interest in the new company, which carries on the nuclear services business formerly provided by McDermott International's Nuclear Power Division. This segment's share of earnings after formation of NSC of $1,137,000 and $2,452,000 is included in Equity in Loss of Investees for fiscal 1991 and 1990, respectively. Included in Other-net income in the Consolidated Statement of Income (Loss) and Retained Earnings is income relating to management fees and service billings to NSC of approximately $10,049,000 and $435,000 in fiscal years 1991 and 1990, respectively. Prior to November 1, 1989, revenues and operating results of this business were included in the consolidated financial statements and in the Power Generation Systems & Equipment segment.

	1991	1990	1989
		(In thousands)	
CAPITAL EXPENDITURES			
Power Generation Systems & Equipment	$ 82,284	$ 92,408	$ 35,571
Marine Construction Services	56,511	15,008	34,894
Corporate	540	1,332	524
Discontinued Operations	-	4,892	4,398
Total Capital Expenditures	$ 139,335	$ 113,640	$ 75,387
DEPRECIATION AND AMORTIZATION (1)			
Power Generation Systems & Equipment	$ 36,896	$ 42,316	$ 44,567
Marine Construction Services	63,995	69,330	61,506
Corporate	2,507	1,320	1,585
	103,398	112,966	107,658
Discontinued Operations	-	3,046	6,425
Total Depreciation and Amortization	$ 103,398	$ 116,012	$ 114,083
IDENTIFIABLE ASSETS			
Power Generation Systems & Equipment	$1,245,351	$1,167,601	$1,063,695
Marine Construction Services	1,108,160	1,039,128	1,020,875
Corporate	960,506	1,025,953	985,528
Discontinued Operations	-	12,140	214,924
Total Identifiable Assets	$3,314,017	$3,244,822	$3,285,022

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

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

		1991	1990	1989
			(In thousands)	
Revenues (1)	- United States	$2,027,707	$1,905,180	$1,686,187
	- Europe and West Africa	488,556	216,020	127,737
	- Middle and Far East	364,742	355,475	217,474
	- Other Foreign	254,949	168,015	135,408
	- Total	$3,135,954	$2,644,690	$2,166,806
Operating Income (Loss) by Geographic Area (2)	- United States	$ 68,678	$ (16,164)	$ 12,833
	- Europe and West Africa	(944)	(12,278)	(22,260)
	- Middle and Far East	(34,394)	399	(1,845)
	- Other Foreign	2,815	(5,249)	(1,015)
	- Total	$ 36,155	$ (33,292)	$ (12,287)
Identifiable Assets	- United States	$1,394,791	$1,295,412	$1,240,938
	- Europe and West Africa	390,560	343,026	340,539
	- Middle and Far East	260,172	245,409	200,242
	- Other Foreign	307,988	322,882	302,851
	- Corporate	960,506	1,025,953	985,528
	- Discontinued Operations	-	12,140	214,924
	- Total	$3,314,017	$3,244,822	$3,285,022

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

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

NOTE 13 - QUARTERLY FINANCIAL DATA

The following tables set forth selected unaudited quarterly financial information for the fiscal years ended March 31, 1991 and 1990:

	1991 QUARTER ENDED			
	JUNE 30, 1990	SEPT. 30, 1990	DEC. 31, 1990	MARCH 31, 1991
	(In thousands except for per share amounts)			
Revenues	$ 684,525	$ 816,095	$ 825,820	$ 809,514
Operating income (loss)	(34,299)	22,837	13,908	(13,412)
Income (loss) from continuing operations	(44,327)	11,632	(12,112)	(41,542)
Net income (loss)	(44,327)	14,842	1,502	(41,542)
Earnings (loss) per share:				
Primary and Fully Diluted				
From continuing operations	(1.01)	0.26	(0.27)	(0.94)
Net earnings (loss)	(1.01)	0.33	0.03	(0.94)

Results for the September 30 and December 31, 1990 quarters include gains from discontinued operations of $3,210,000 and $13,614,000, respectively.

Results for the quarter ended September 30, 1990 include recovery of certain insurance claims related to previously expensed product liability costs of approximately $8,952,000. Results for the quarter ended December 31, 1990 include a reduction in a reserve for corrective action in regard to internal corrosion in certain utility and industrial installations of a first-of-a-kind heat pipe heat exchanger, based upon the anticipated recovery of certain costs from the company's insurance in the amount of $12,600,000, and provisions of approximately $12,507,000 for workers' compensation and general liability costs resulting from a change in actuarial estimate.

Continued

	1990 QUARTER ENDED			
	JUNE 30, 1989	SEPT. 30, 1989	DEC. 31, 1989	MARCH 31, 1990
	(In thousands except for per share amounts)			
Revenues	$ 658,774	$ 696,131	$ 623,124	$ 666,661
Operating loss	(15,705)	(4,505)	(44,883)	(24,313)
Loss from continuing operations	(19,352)	(13,157)	(29,184)	(38,859)
Net income (loss)	(19,670)	(10,802)	49,994	(29,723)
Earnings (loss) per share:				
Primary				
From continuing operations	(0.52)	(0.35)	(0.78)	(1.03)
Net earnings (loss)	(0.53)	(0.29)	1.33	(0.79)
Fully Diluted				
From continuing operations	(0.52)	(0.35)	(0.69)	(1.03)
Net earnings (loss)	(0.53)	(0.29)	1.28	(0.79)

Results for the June 30, September 30 and December 31, 1989 quarters and for the quarter ended March 31, 1990 include gains (losses) from discontinued operations of $(318,000), $2,355,000, $79,178,000 and $9,136,000, respectively.

Results for the quarter ended December 31, 1989 include provisions of approximately $13,100,000 for workers' compensation and general liability costs resulting from a change in actuarial estimate and a provision of $27,150,000 for corrective action associated with internal corrosion in certain utility and industrial installations of a first-of-a-kind heat pipe heat exchanger. Results for the quarter ended March 31, 1990 include a specific provision for environmental clean-up costs of approximately $12,800,000.

NOTE 14 - INVESTMENTS IN JOINT VENTURES AND OTHER ENTITIES

McDermott International's investments in joint ventures and other entities, which are accounted for on the equity method, was $41,120,000 and $45,416,000 at March 31, 1991 and 1990, respectively. Revenues attributable to transactions with entities for which investments are accounted for by the equity method were $84,051,000, $90,338,000 and $72,099,000 in fiscal years 1991, 1990 and 1989, respectively, including approximately $38,890,000, $30,579,000 and $11,200,000 attributable to leasing activities in fiscal years 1991, 1990 and 1989, respectively. Included in accounts receivable-trade at March 31, 1991 and 1990 are $44,221,000 and $61,426,000 of receivables with unconsolidated investees. During fiscal 1991, an additional investment of $55,988,000 was made to the HeereMac joint venture. HeereMac subsequently used these funds to settle amounts owed to McDermott International for equipment charters. At March 31, 1991 and March 31, 1990, property, plant and equipment included $246,964,000 and $246,964,000, respectively, and accumulated depreciation included $75,958,000 and $64,221,000, respectively, of marine equipment that is leased to unconsolidated investees. Dividends received from unconsolidated investees were $9,885,000, $3,840,000 and $644,000, in fiscal years 1991, 1990 and 1989, respectively.

Summarized, combined balance sheet information based on the most recent financial information for these entities at March 31, 1991 and 1990, respectively, is presented below:

	1991	1990
	(In thousands)	
Current Assets	$ 216,567	$ 279,876
Non-Current Assets	283,608	285,364
Total Assets	$ 500,175	$ 565,240
Current Liabilities	$ 208,053	$ 263,988
Non-Current Liabilities	129,939	145,252
Owners' Equity	162,183	156,000
Total Liabilities and Owners' Equity	$ 500,175	$ 565,240

Summarized, combined income statement information based on the most recent financial information for these entities for the fiscal years ended 1991, 1990 and 1989, respectively, is presented below:

	1991	1990	1989
		(In thousands)	
Revenues	$ 505,535	$ 446,508	$ 220,059
Gross Profit	$ 120,607	$ 64,088	$ 32,889
Loss Before Provision for Income Taxes	$ (60,631)	$ (22,692)	$ (45,285)
Provision for Income Taxes	132	2,732	284
Net Loss	$ (60,763)	$ (25,424)	$ (45,569)

Item 9. DISAGREEMENTS WITH AUDITORS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

Information required by this item with respect to directors and executive officers is incorporated by reference to the material appearing under the headings "Election of Directors" in the Proxy Statement for the 1991 Annual Meeting of Shareholders.

Item 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to the material appearing under the heading "Cash Compensation of Executive Officers and Certain Relationships and Related Transactions" in the Proxy Statement for the 1991 Annual Meeting of Shareholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is incorporated by reference to the material appearing under the heading "Election of Directors" in the Proxy Statement for the 1991 Annual Meeting of Shareholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is incorporated by reference to the material appearing under the heading "Cash Compensation of Executive Officers and Certain Relationships and Related Transactions" in the Proxy Statement for the 1991 Annual Meeting of Shareholders.

PART IV

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

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL SCHEDULES

All required schedules and financial statements of 50% or less owned persons will be filed by amendment to this Form 10-K on Form 8.

EXHIBIT INDEX

3 Articles of Incorporation and By-Laws (Item 3(a) and 3(b) are incorporated by reference to Exhibit 3 to the Company's annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983).
  (a) The Company's Restated Articles of Incorporation
  (b) The Company's By-Laws will be filed by amendment to this Form 10-K on Form 8.

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

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

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

EXHIBIT 11

McDERMOTT INTERNATIONAL, INC.
STATEMENT RE COMPUTATION OF PER SHARE EARNINGS (LOSS)
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1991
(In thousands, except shares and per share amounts)

PRIMARY AND FULLY DILUTED

	1991	1990	1989
Loss from continuing operations	$ (86,349)	$ (100,552)	$ (122,610)
Income (loss) from discontinued operations	16,824	90,351	(21,645)
Cumulative effect of accounting change	-	-	52,580
Net loss for primary computation	$ (69,525)	$ (10,201)	$ (91,675)
Weighted average number of common shares outstanding during the year	43,939,768	37,458,528	37,216,057
Earnings (loss) per common and common equivalent share: (1)			
Continuing operations	$ (1.97)	$ (2.68)	$ (3.29)
Discontinued operations	.39	2.41	(0.59)
Accounting change	-	-	1.42
Net loss	$ (1.58)	$ (0.27)	$ (2.46)

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

EXHIBIT 22

McDERMOTT INTERNATIONAL, INC.
SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT
FISCAL YEAR ENDED MARCH 31, 1991

NAME OF COMPANY	ORGANIZED UNDER THE LAWS OF	PERCENTAGE OF VOTING SHARES OWNED
Creole Insurance Company, Ltd.	Bermuda	100
McDermott - ETPM, Inc.	Panama	57
McDermott International Investments Co., Inc.	Panama	100
Hydro Marine Services, Inc.	Panama	100
Varsy International N.V.	Netherlands Antilles	100
McDermott (Holland) B.V.	Netherlands Antilles	100
McDermott - ETPM V.O.F.	Netherlands	57
McDermott Incorporated	Delaware	92
Hudson Engineering and Project Management Corporation	Texas	100
Babcock & Wilcox Investment Company	Delaware	100
The Babcock & Wilcox Company	Delaware	100
McDermott Scotland Limited	United Kingdom	75

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

SIGNATURES OF THE REGISTRANT

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on June 5, 1991.

McDERMOTT INTERNATIONAL, INC.
(REGISTRANT)

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

By: s/Brock A. Hattox
Brock A. Hattox
Senior Vice President and
Chief Financial Officer

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

SIGNATURES OF DIRECTORS

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on June 5, 1991.

s/Thomas D. Barrow
Thomas D. Barrow
Director

s/John F. Bookout
John F. Bookout
Director

s/Philip J. Burguieres
Philip J. Burguieres
Director

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

s/James L. Dutt
James L. Dutt
Director

s/John P. Eckert
John P. Eckert
President and Chief Operating Officer, and Director

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

s/James A. Hunt
James A. Hunt
Director

s/John A. Lynott
John A. Lynott
Executive Vice President, Corporate, and Director

s/J. Howard Macdonald
J. Howard Macdonald
Director

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

s/John A. Morgan
John A. Morgan
Director

s/William T. Seawell
William T. Seawell
Director

s/Walter B. Shaw
Walter B. Shaw
Director

s/John B. Tweedy
John B. Tweedy
Director

Common Stock Transfer Agent and Registrar
First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007-2192

Preferred Stock Transfer Agent and Registrar
First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007-2192
- Series A $2.20 Cumulative Convertible Preferred Stock of McDermott Incorporated
- Series B $2.60 Cumulative Preferred Stock of McDermott Incorporated

Trustees and Agents
United States Trust Company
of New York
Attention: Corporate Trust Department
45 Wall Street
New York, New York 10005
- 10.25% Notes Due June 1, 1995
- 9.625% Debentures Due March 15, 2004
- 10.20% Sinking Fund Debentures Due December 1, 1999
- Floating Rate Notes Due March 1992

The Bank of New York
Attention: Corporate Trust
Trustee Administration
21 West Street
New York, New York 10286
- 12.25% Senior Subordinated Notes Due June 1, 1998

Bankers Trust Company
Post Office Box 318
Church Street Station
New York, New York 10015
- 10.00% Subordinated Debentures Due April 1, 2003

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, New York 10015
- Rights to purchase Common Stock of McDermott International, Inc.

Pittsburgh National Bank
Post Office Box 340747
Pittsburgh, Pennsylvania 15230
- 6.80% Pollution Control Revenue Bonds, Series A Due February 1, 2009

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

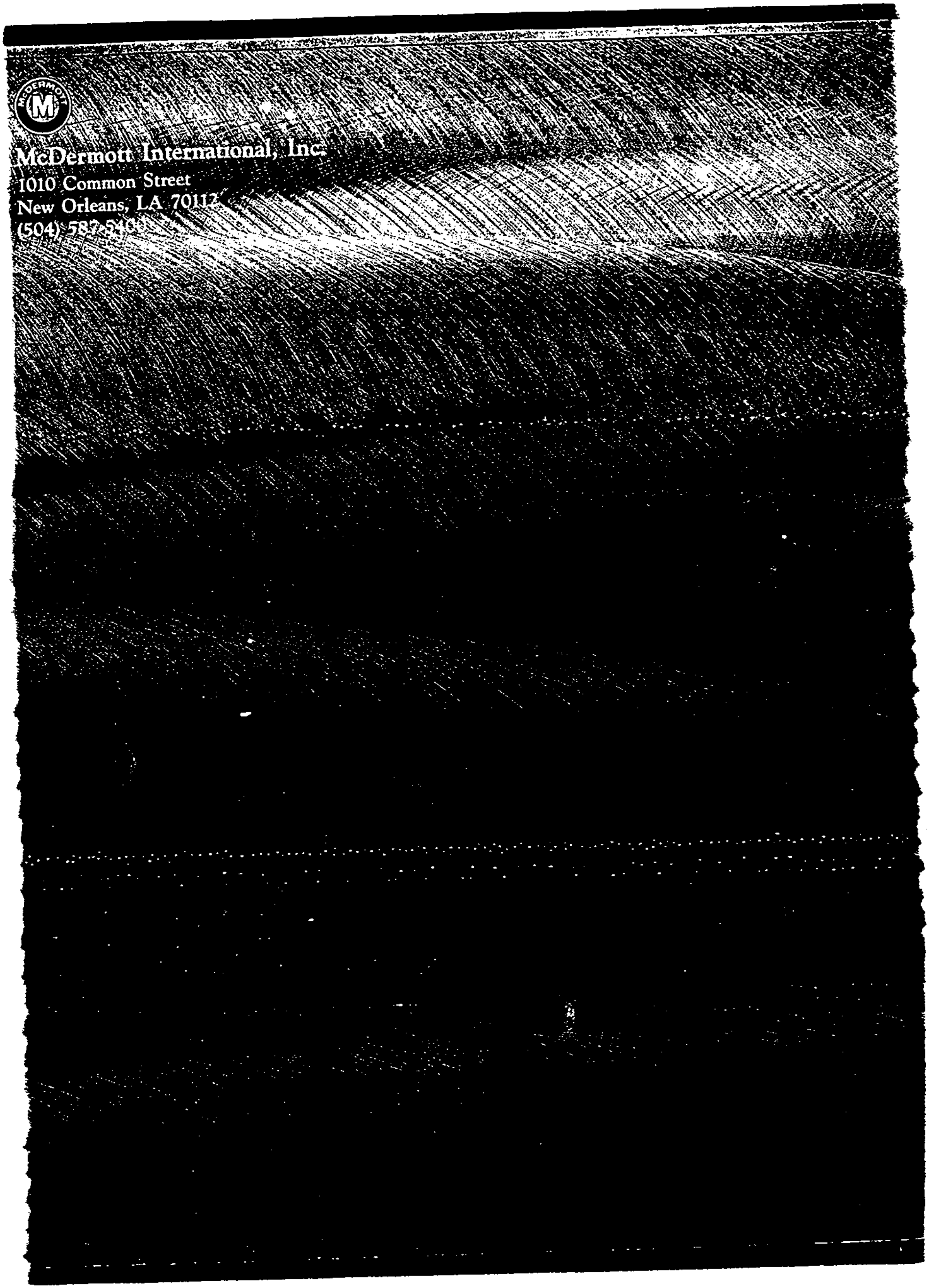
Annual Meeting
The Annual Meeting of the Stockholders of McDermott International, Inc. for the fiscal year ended March 31, 1991, will be held at the Hotel Inter • Continental, New Orleans, Louisiana, on Tuesday, August 13, 1991, at 9:30 a.m. local time.

Information
Additional information about the Company, including financial statement schedules and exhibits to the Annual Report to shareholders on Form 10-K for the fiscal year ended March 31, 1991, may be obtained, without charge, by writing:
Corporate Secretary
McDermott International, Inc.
1010 Common Street
New Orleans, Louisiana 70112-2401
(504) 587-5400

Inquiries regarding stockholder account matters should be addressed to:
First Chicago Trust Company
of New York
30 West Broadway
New York, New York 10007-2192
1-800-446-2617

The use in this Report of the term International refers solely to McDermott International, Inc., a Panama corporation. Unless the context otherwise requires, the use of the term Delaware Company refers to McDermott Incorporated, a Delaware corporation, and its consolidated subsidiaries. The use of such terms as McDermott International, company, division, organization, joint venture, we, us, our and its, when referring either to McDermott International, Inc. and its consolidated subsidiaries or to subsidiaries and non-subsidiaries either individually or collectively, is only for convenience and is not intended to describe legal relationships. Significant subsidiaries of McDermott International, Inc. are listed as an exhibit to the Annual Report on Form 10-K of McDermott International, Inc. for the fiscal year ended March 31, 1991, 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.
1010 Common Street
New Orleans, LA 70112
(504) 587-5400