J.RAY McDERMOTT & Co., Inc. / Annual Report for the Fiscal Year Ended March 31, 1978

J. Ray McDermott & Co., Inc.

A Leading Energy Services Company

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

Serving Electrical Power Generating Companies
McDermott's Babcock & Wilcox Company provides a range of engineered and highly technical

Contents

manufactured products and construction services which enable utilities to produce steam to generate electricity from nuclear and fossil-fueled power plants. Principal products and services include building steam generating systems, along with automated control systems and pollution control equipment, such as precipitators, sulfur dioxide removal systems, air heaters and fans.

Serving Other Industries
Other McDermott and B&W operations include the manufacture of specialty steel tubing for the oil and gas, automotive and other industries; the building of medium sized and small boilers for a wide range of industries; and the engineering and construction of processing plants, largely for the oil and chemical industries.

Results at a Glance

J. Ray McDermott & Co., Inc. and Subsidiaries/for the Fiscal Years Ended March 31, 1978 and 1977

In thousands of dollars except per share figures* and number of employees	1978	1977
Revenues	$1,293,711	$1,223,841
Operating income	197,768	259,631
Income before extraordinary gain	159,092	191,510
Net income	159,092	191,642
Earnings per common share:		
Primary	5.02	6.11
Fully diluted	4.92	5.93
Stockholders' equity per common share	26.15	22.12
Cash dividends	28,571	18,038
Cash dividends per common share	0.90	0.575
Working capital	514,970	462,945
Capital expenditures	84,975	63,657
Backlog	5,253,000**	1,291,000
Number of employees including subcontract labor	58,730**	19,364

*Per share amounts adjusted for two-for-one stock split of December 15, 1977
**Includes data relative to B & W at March 31, 1978

The Babcock & Wilcox Company/for the Fiscal Years Ended December 31, 1977 and 1976

In thousands of dollars	1977	1976
Revenues	$1,877,200	$1,691,800
Net income	61,800	53,100
Orders received	2,056,800	1,589,600
Capital expenditures	61,700	62,000

For pro forma combined results of operations see Note 2 of Notes to Consolidated Financial Statements.

To Our Shareholders

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

Fiscal 1978 was an exciting year for J. Ray McDermott & Co., Inc., its Board of Directors, its management, its employees, and, I am quite certain, its shareholders. As most of you are aware, events which had been developing throughout the fiscal year culminated on March 31 with the merger of The Babcock & Wilcox Company into McDermott.

The enlargement of the scope of our operations represents the successful beginning of our planned expansion from a traditional role as a service company to the oil and gas industry into a new role as an almost total energy services company.

I want to make use of this letter to discuss with all shareholders the key factors that lie behind the results of both McDermott and B & W, the planned developments that brought us together, and some important policy matters that will affect our future as a unified company.

Marine Construction Grew Less Rapidly

The Results at a Glance section will show you that McDermott operations continued to expand during fiscal 1978, with the posting of record revenues. You will notice, however, that our profit margins have declined. Many complex developments around the world contributed to this apparently contradictory result, yet they add up to one relatively simple factor: The capacity of the industry in which we participate has grown more rapidly than the demand for its services.

Marine Construction Will Continue to Grow

The best indication of the future prospects for the marine construction industry is today's record-setting level of offshore exploration for oil and gas. As the spring drilling season got under way this year some 360 mobile rigs were under contract and drilling under the waters of the world. More than 90 percent of these rigs were concentrating on exploration — looking for new fields or testing the extent of newly discovered deposits by "stepping out" with wells to determine the perimeter.

The 360 rigs represent an increase of 30 percent over the number of mobile rigs drilling two years ago, a record number for the spring season at the time. And offshore exploration continues to grow.

New exploration successes are announced almost weekly. The sites of recent new field discoveries include the widely separated coastal waters of Chile, the Philippines, Malaysia, Greece, Tunisia and India.

Although the average water depth of exploration has started to increase year by year, most of the significant new discoveries have occurred in water depths of 1,000 feet or less. Thus, the next generation of new fields appears virtually certain to develop in water depths where platforms can economically be installed and in which pipelines can readily be laid.

Increased exploratory drilling and a wave of new discoveries are normally followed, after about two years, by a surge of new field development, but we are facing at least another year of continuing excess capacity and pressure on prices. I am confident, from past experience, that an upturn will follow and we at McDermott are ready for that growth of demand for platforms and pipelines when it resumes.

We are Implementing Our Diversification Plan

More than two years ago, at the height of the boom in marine construction, your management began a reassessment of the offshore service industry, the Company's position in the industry, and its future prospects. We correctly identified the high probability of the slowdown we are now experiencing, in which, essentially, we are paying today for the very high growth rates of the past few years. We further concluded — and we feel more strongly about this now than ever — that McDermott is still part of an interesting growth business.

As a result of these studies it was obvious that we would be generating more cash in the short-term than we could put to work in our traditional business. Thus, management decided upon a principal strategy to broaden the Company's operating base.

In last year's Annual Report, I commented that we believed attractive investment opportunities were going to develop in industries associated with power generation. Consumption of electricity in the United States and throughout the world has, for the past century, grown half again faster than either the economy or the demand for basic energy.

We expect that the growth in demand for electricity will continue to grow considerably faster than the long-term growth rates of the United States economy and for energy consumption generally.

Babcock & Wilcox Makes a "Good Fit"

These important strategic assumptions were in our minds when we identified Babcock & Wilcox as a company that would fit well with McDermott.

In 1977, 52 percent of B & W's sales was to the electric utility industry. B & W has been a leader in the design and manufacture of steam generating and associated equipment. It is particularly strong in the field of coal-fired boilers, which have significant growth potential in the immediate future. During the past year more than half the new orders for coal-fired boiler systems in the United States were placed with B & W. It is also a leader in nuclear powered generators, so that B & W will benefit whether coal or the atom becomes the primary fuel source behind electric power growth.

McDermott traditionally has provided services to oil and gas companies needing engineering, construction and installation of complex heavy steel platforms and pipelines to start producing energy from a newly discovered offshore field. B & W provides services, in much the same manner, to utility companies needing the engineering, manufacturing, construction and installation of complex heavy steel boiler systems to produce electricity. With the addition of B & W, McDermott has now become a provider of services to a wider range of energy companies.

In short, your management believes that B & W is a logical extension of the business of J. Ray McDermott & Co., Inc. The companies are non-competitive with each other. They operate on different cycles; the growth phase of one often offsets the consolidation phase of the other.

There are numerous possibilities for constructive interaction between the two companies. Because both companies are capital intensive, there is potential for the joint planning and coordination of capital allocations. B & W, with its more predictable and consistent earnings growth in the United States, will add stability to McDermott's earnings from its traditional operations. And of great significance to both shareholders and employees, the combination will bring together two successful management teams that are highly qualified to capitalize on the many opportunities that lie ahead.

We Have Plans for the Future

We believe that we still have a long way to go in broadening the base of McDermott's operations and securing the consistent growth of earnings. In particular, we can identify other segments of the energy business which we believe have high growth potential and which we could profitably serve. Even after making the investment in B & W shares, our cash position and our balance sheet remain strong. We expect to continue to explore new opportunities to acquire profitable companies with solid positions in expanding fields of operations that are compatible but non-competitive with our own.

We Have Realigned Management Responsibilities

It is clear that we cannot expect to manage what is now a $3 billion enterprise in exactly the same manner that proved so effective in managing McDermott when, as recently as four years ago, it had revenues of less than $500 million. We have undertaken a carefully designed program, building on our past successes, to expand our capability to direct and control what has become a very large and complex worldwide network of operations.

In order to facilitate our program of diversification, to deal with the rapid growth of our basic business, and to promote the most efficient use of our human resources, we have realigned our top management responsibilities. The key positions and recent changes are as follows:

I will continue as Chairman of the Board and Chief Executive Officer.

J. E. Cunningham, who has been Executive Vice President and Chief Financial and Administrative Officer, has been elected Vice Chairman — Finance and Administration. Cunningham will also continue to direct the Company's strategic business planning and diversification program.

R. K. Richie, formerly President of Oceanic Contractors, Inc., our international operating subsidiary, has been named President and Chief Operating Officer of the traditional McDermott marine engineering and construction activities.

George G. Zipf, formerly Chairman and President of Babcock & Wilcox, has been elected Vice Chairman, J. Ray McDermott & Co., Inc., and President and Chief Operating Officer of The Babcock & Wilcox Company subsidiary.

Other Important Developments

The affairs of our broadened enterprise will require continued astute direction. For this purpose the Board of Directors has been enlarged from 12 to 17. Elected to fill the new positions were Zipf; W. O. Baker, President of Bell Telephone Laboratories, Inc.; R. J. Cantwell, Senior Executive Vice President of B & W; Walter B. Shaw, Chairman and President of Turner Construction Company; and William L. Wearly, Chairman and Chief Executive Officer of Ingersoll-Rand Company; all of whom were members of the B & W Board. Messrs. Zipf and Shaw will serve as Directors until the 1978 Annual Meeting of Stockholders, Mr. Baker will serve until 1979, and Messrs. Cantwell and Wearly will serve until 1980.

W. O. Baker, President of Bell Telephone Laboratories, Inc., resigned from the Board of Directors because of prior business commitments which did not permit him to attend scheduled Board Meetings. William T. Seawell, Chairman and Chief Executive Officer of Pan American World Airways, has been appointed to fill Mr. Baker's term.

Another member elected to the Board at last year's Annual Meeting of Stockholders is John D. Ritchie. Mr. Ritchie, a consultant, is former President and Chief Executive Officer of Asiatic Petroleum Corporation, a member company of the Royal Dutch/Shell Group.

I regret to report the death in February of George D. Aldrich who had been a Director of the Company since it became publicly held in 1955. Mr. Aldrich in his long years of service as a Director contributed greatly to the growth of McDermott to its present international stature, and his sage counsel will be missed. This vacancy was filled by the election of John B. Tweedy, Executive Vice President and a Director of Tosco Corporation, to fill the unexpired term that extends until the 1978 Annual Meeting.

The Board at its November meeting authorized a two-for-one stock split of the Common Stock of McDermott. The additional shares were distributed in January to stockholders of record on December 15. And for the fourth consecutive year, reflecting its enthusiasm for the prospects of growth, the Board voted a 25 percent increase in the regular quarterly Common Stock dividend to 25¢ per share from 20¢ per share. The total Common Stock cash dividend declared in fiscal 1978 was 90¢ per share as compared to 57.5¢ per share in fiscal 1977. The current annual cash dividend rate is $1 per share.

An important step enabling the merger with B & W to take place was the approval by McDermott stockholders at their special March meeting of the issuance of 6,317,545 shares of Series A $2.20 Cumulative Convertible Preferred Stock and the same number of shares of Series B $2.60 Cumulative Preferred Stock. Holders of B & W Common Stock as of the date of the merger received, for each B & W share, one share each of the two new McDermott series Preferred Stock. Dividends on each of the two Preferred Stocks will be paid quarterly on the first day of January, April, July and October, commencing July 1, 1978. The Preferred Stocks, like the Common Stock, are traded on the New York Stock Exchange. The holder of a share of Preferred Stock of either series is entitled to one-half of a vote on matters coming before McDermott shareholders.

A Word to Shareholders and Employees

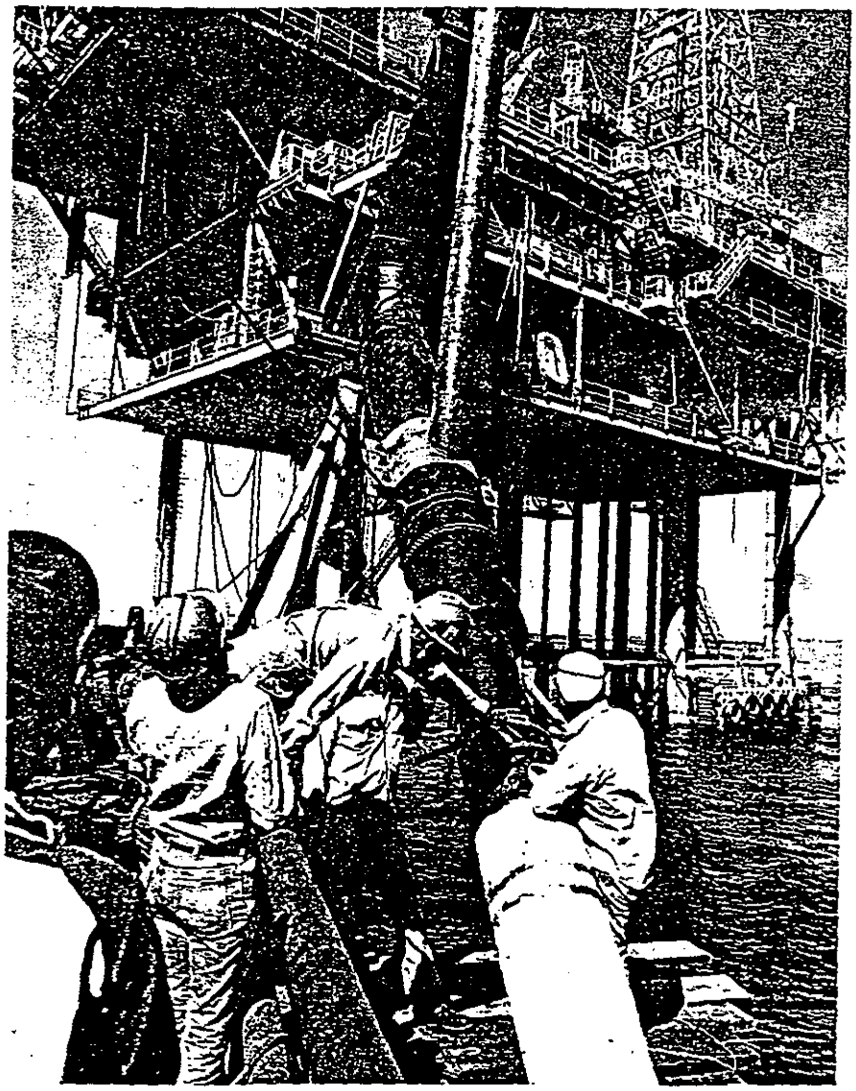
I want to take this opportunity to welcome our new McDermott shareholders, and particularly those who exchanged B & W shares for our new preferred shares. We hope that this 1978 Annual Report will inform you about the activities and the prospects of your new Company, while at the same time add to the knowledge of the traditional McDermott shareholders about the operations and potential growth of B & W.

I want also, on behalf of the Board, to express my appreciation to all employees of J. Ray McDermott, both old and new, for the spirit they have shown during the difficult and sometimes rather trying days of the merger period through which we have just passed. I look forward to an extended period of growth as these 60,000 skilled, loyal men and women now move forward as one McDermott.

C. L. GRAVES
Chairman of the Board

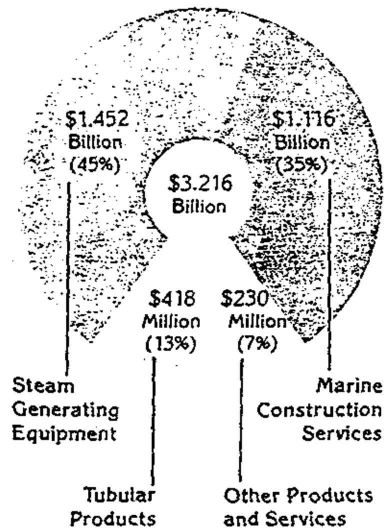
The Year In Review

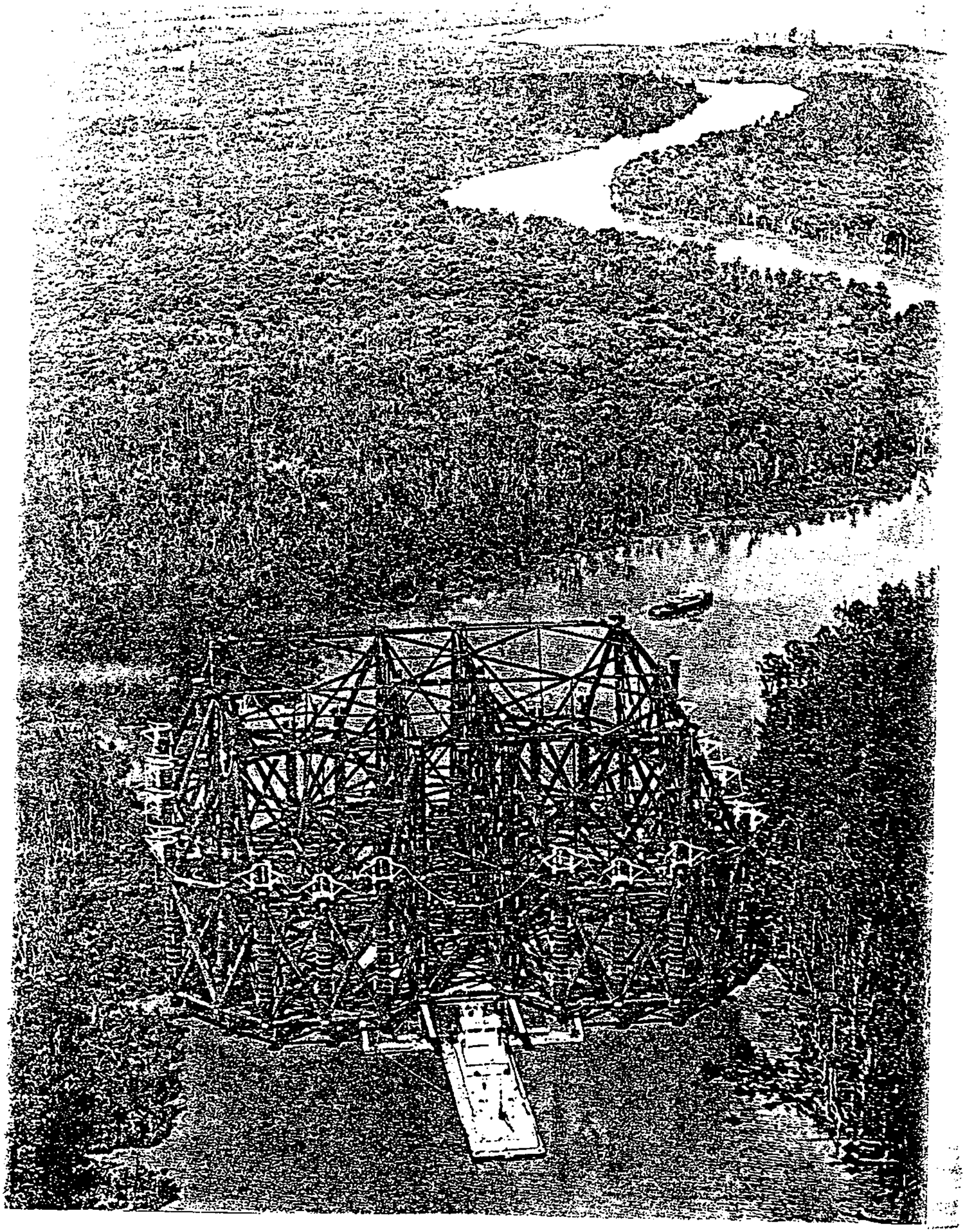
To connect a platform with the marine pipeline, McDermott installs a riser.



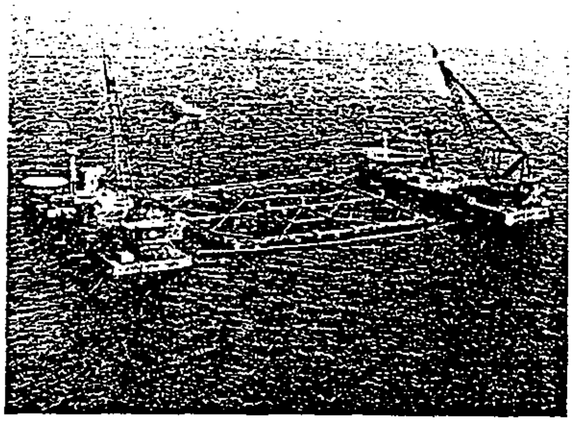
Operations of the enlarged J. Ray McDermott & Co., Inc., can now be categorized under four general headings, as shown in the chart below: Marine Construction Services; Steam Generating Equipment; Tubular Products; and Other Products and Services. From an operating point of view fiscal 1978 was a year of growth for each of these segments and revenues from each segment were at record high levels.

PRO FORMA COMBINED REVENUES
For Fiscal Year Ended March 31, 1978





The 14,000-ton base section of the Cognac structure was moved from the McDermott fabrication yard through the Louisiana bayous to its Gulf of Mexico launch site.



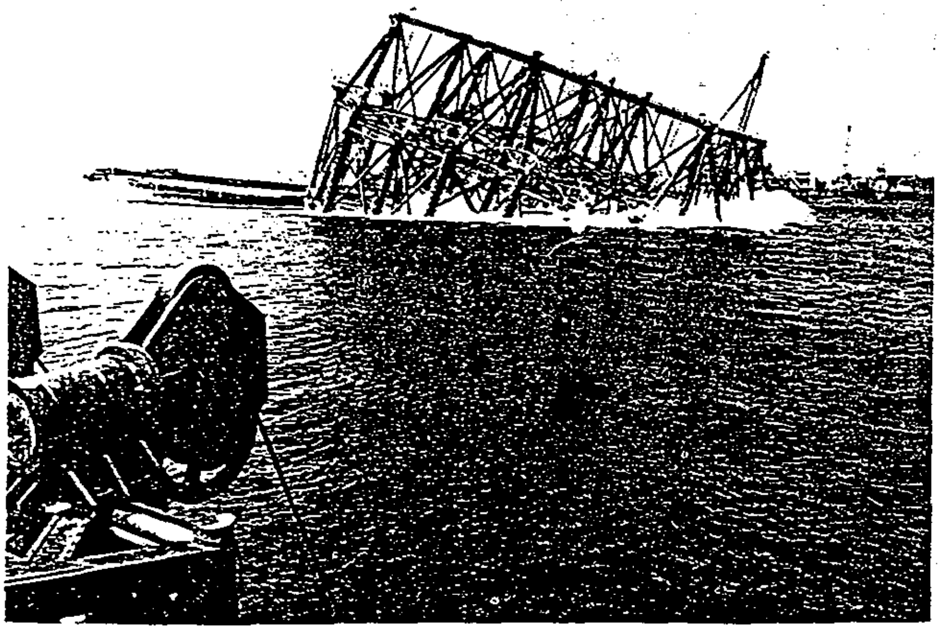
After launch, the base section floated while derrick barges readied to begin controlled flooding that would lower the base to the sea floor 1,025 feet below.

MARINE CONSTRUCTION SERVICES

The Company's traditional expertise has been in the building of offshore fixed steel platforms and the laying of subsea pipelines, to be used for development drilling, production, and transportation of oil and gas. The platforms, pinned to the ocean floor by piling driven through their legs, are permanently in place, in contrast to the mobile floating and jack-up rigs that are used mainly for exploratory drilling.

Since its beginning, building drilling rigs in the East Texas oilfields in 1923, McDermott has evolved into concentration of its efforts on work offshore, in marshlands and along the ocean shores. It now has eight fabrication yards around the world in which it assembles structural steel pipe and shapes into platforms, some as tall as the highest skyscrapers. The Company has 32 barges equipped with cranes, pipe-laying facilities, pipe-burying jet sleds, or combinations of this equipment. It also has a large supporting fleet of work and supply vessels.

The overall volume of the Company's Marine Construction operations in fiscal 1978 was at a high level during the year. Sales were generally strong in the Gulf of Mexico but less so in other key offshore oil and gas provinces.



The mammoth base for the Cognac structure slides from the launch barge at the installation site.

One of McDermott's major fabrication yards is located on 1,500 acres at Morgan City, Louisiana.

The United States

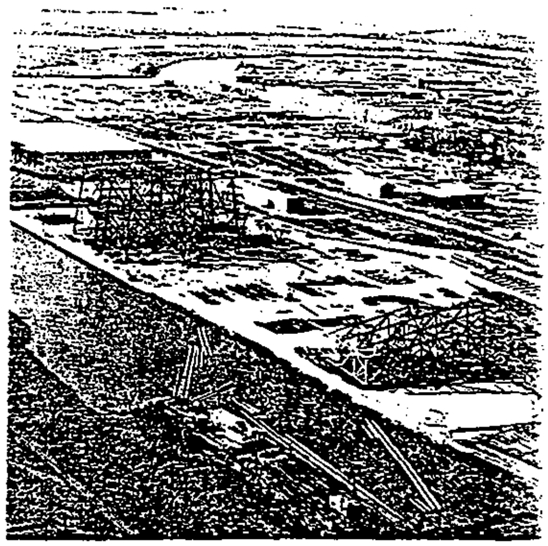
McDermott has two principal fabrication yards in the United States. The larger is located on Bayou Boeuf near Morgan City, Louisiana. The smaller is at Harvey, Louisiana, just outside New Orleans. At Morgan City the Company has pipe-rolling facilities for the production of large-diameter, heavy walled pipe used in platform fabrication, and buildings where deck sections can be built under one roof, as well as a wide variety of heavy lifting equipment and machine tools.

McDermott's dredging operations are carried out all over the world.

Both of these United States yards worked at highly satisfactory rates through fiscal 1978 and on into the spring and summer this year. The most notable symbols of their activity have been giant sections of a platform being fabricated for the Cognac field in the Gulf of Mexico. These sections have grown and towered over the Bayou Boeuf Yard during most of the year. The Cognac platform, which McDermott is building in three stages, is being installed in more than 1,000 feet of water, a new world record depth for the installation of a fixed platform. When installed, Cognac will be taller than the Empire State Building.

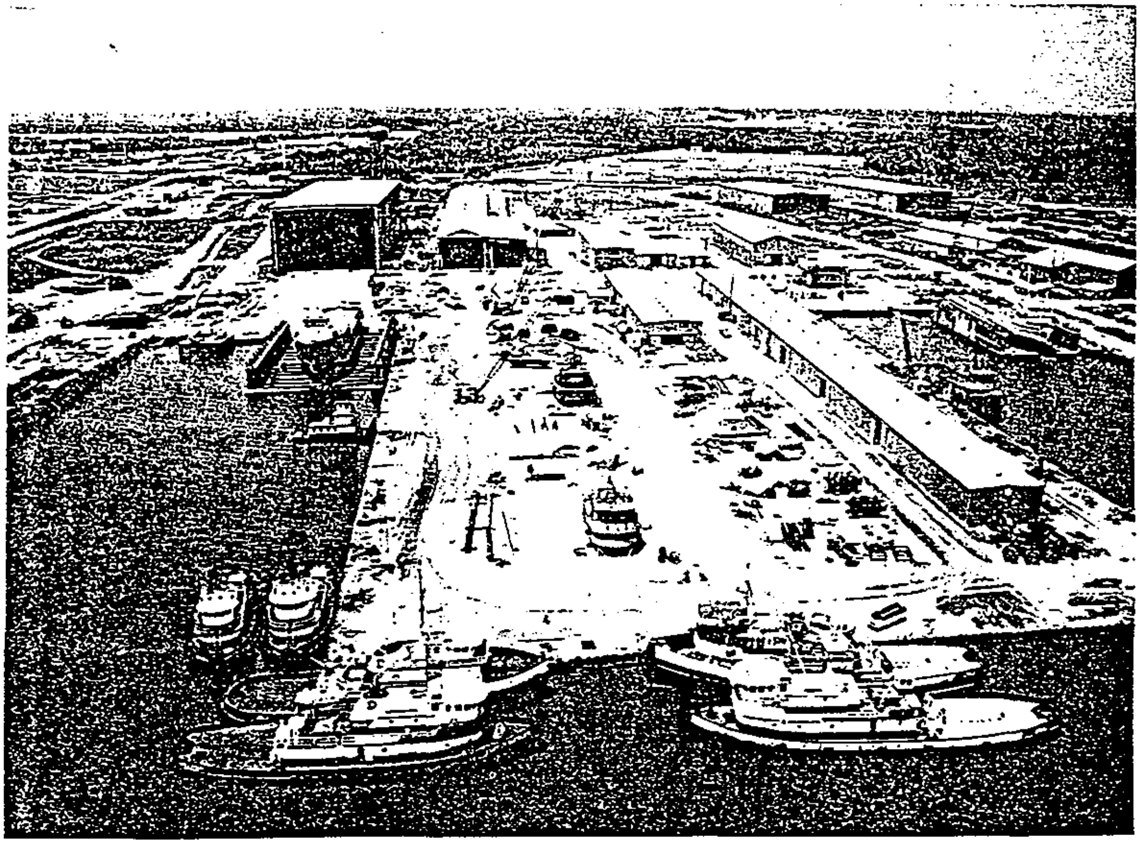
In offshore construction and in marine pipelaying, derrick and lay barges in the Gulf of Mexico maintained high utilization rates, close to the record levels of the previous year.

A program important to McDermott because of its size and comprehensiveness has been the development of the High Island gas fields discovered off the Texas coast.



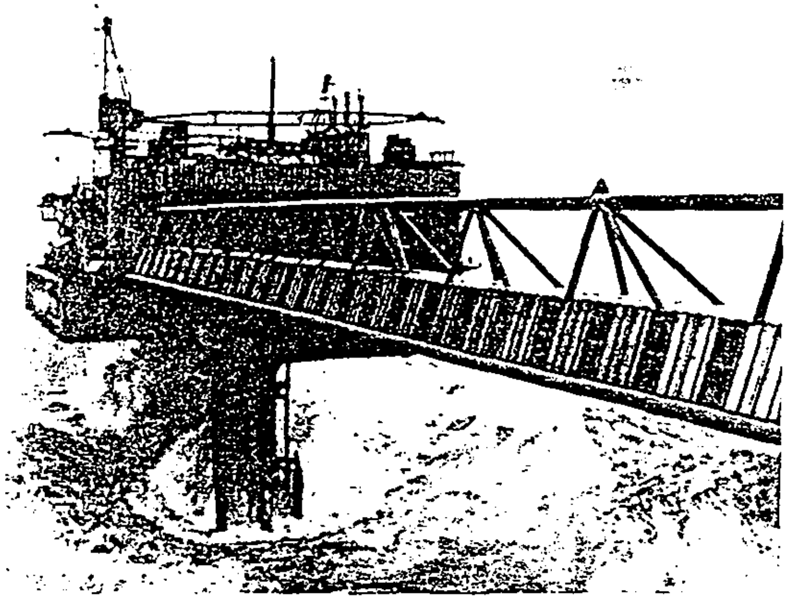
McDermott was awarded integrated contracts which involved the fabrication and the installation of a series of platforms, and the laying of the network of interconnecting pipelines to transport the gas to processing facilities on key platforms and to shore.

Exploratory and in-field drilling off the Texas and Louisiana coasts continues at a high level of activity. The Federal Government this spring held another highly ermott Shipyards, such as this one at Morgan City, Louisiana, fabricate large horsepower tugs and offshore vessels.



successful round of lease sales in the Gulf. These developments give promise of continuing strength in the demand for platforms and pipelines in this area. And, naturally, McDermott's engineers are carefully watching the drilling reports from the East Coast where the first Baltimore Canyon wells will be approaching their objectives this summer. Discovery of oil or gas so near to the high-energy-consumption industrial Northeast would bring a surge of demand for permanent drilling and production facilities and pipelines. McDermott is well prepared to help supply such a demand.

The McDermott Shipyard Group, with yards at Morgan City and New Iberia, Louisiana, produced nine new tugboats and supply boats during the year for customers with fleets operating from Hawaii to the North Sea. Modularized drilling rigs for platform use also comprise an important part of output. McDermott has developed advanced production methods for new classes of larger, more powerful vessels such as 3000-horsepower harbor tugs and 210-foot supply vessels. These designs have met with rapid acceptance from the nation's principal tugboat fleet operators and offshore supply contractors. A newly installed series of automated devices enable the shipmakers, for example, to cut patterns and shapes for parts from metal sheets using computerized machines that optimize the use of metal, reduce waste, and speed up the fabrication, assembly and welding processes. Because of the backlog of work on order, an expansion is planned this summer at Morgan City for a third assembly building.



McDermott engineers must design structures to withstand the forces of wind and waves. The deck section of this platform is 95 feet above the normal water level of the North Sea, but still not above the waves' reach.

The North Sea

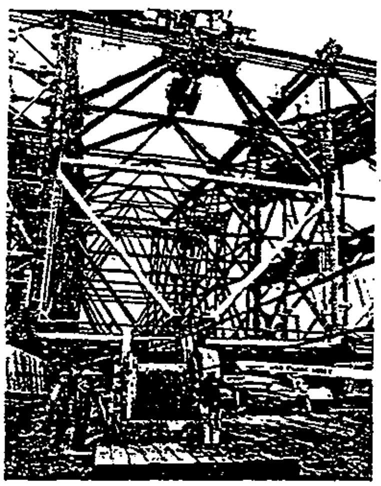
At Ardersier, near Inverness in Scotland, McDermott owns and operates the most modern fabrication facility in the North Sea area. Its North Sea barge fleet is based in Antwerp, with a secondary operating port at Great Yarmouth, on the English East Coast.

Development activity in the North Sea has slowed down. Exploratory drilling continues at a high level with 55 mobile rigs at work this spring, some 20 more than most observers had been forecasting a year ago. But the marginal size of most of the new discoveries, the impact of new governmental regulations and pressures, the recognition that oil is at least temporarily in long supply in comparison to demand in Europe, and the increased recognition of the costliness of full-scale production facilities have led most companies to hesitate before committing their resources to the development of new North Sea finds.

Consequently, utilization rates of the industry's offshore equipment in the North Sea have been lowered. A number of barges have been transferred to the Gulf of Mexico or to other regions where more work appears to be available. McDermott has not been exempt from this industry-wide trend.

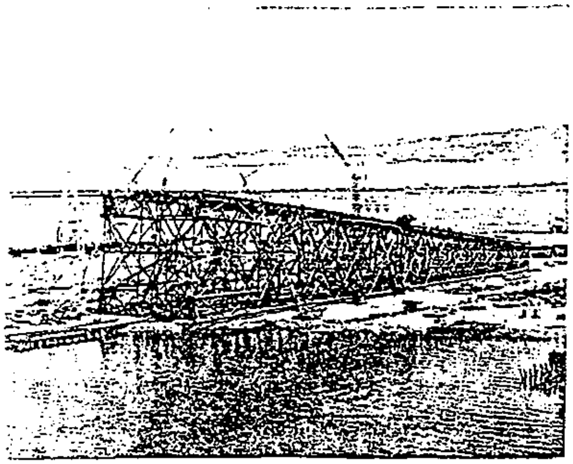
There are encouraging signs that activity is picking up. The Company has recently been awarded a contract for hook-up work for a platform in the Cormorant field. McDermott barges will be laying 42 miles of 18-inch pipe this summer connecting the Frigg field to the pipeline systems of the Piper and Tartan fields.

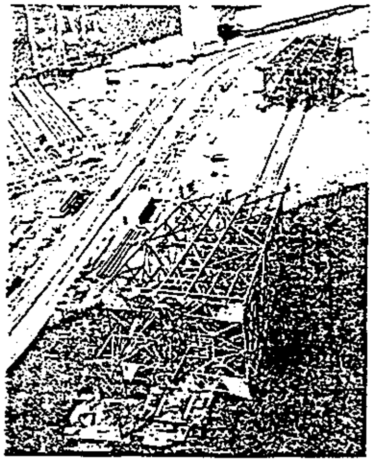
With the flow of North Sea oil approaching 1.5 million barrels per day, with the completion of an infrastructure of pipelines with a capacity for interconnection with new fields, and with the steady succession of announcements of new discoveries, observers remain confident of a revival of development activity in the North Sea over the next several years. The concrete platforms, which some companies installed in North Sea fields, have proved costlier to build and maintain than their promoters had anticipated. McDermott will be in a strong

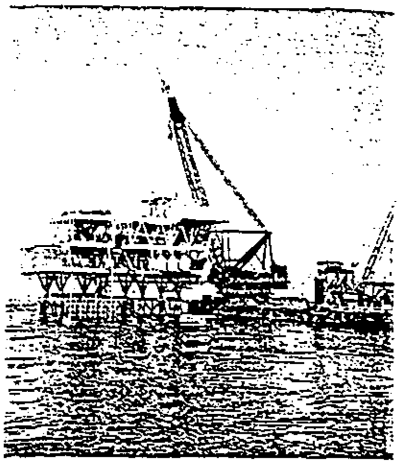


When fabrication is complete, jackets are pulled from the shore onto launch barges.

After being secured to the launch barge, jackets begin their sea-journey to the installation site that may be hundreds of miles away.







To facilitate launch of this structure for 850-ft. water depth, after fabrication was completed it was cut in half. Each section was launched separately then rejoined as it floated off the southern California coast.

Middle East

For its Middle East operations McDermott operates out of Dubai, United Arab Emirates, where it has a fabriation yard and an offshore base.

New oil production from Alaska and the North Sea has tended to cut back OPEC production and temporarily to increase the margin of spare production capacity in the Middle East. Consequently, the pressure is off most of the producing governments there to bring new production onto line. Demand for facilities has leveled off, but the Company continues to fabricate and install a variety of platforms and other equipment throughout the region.

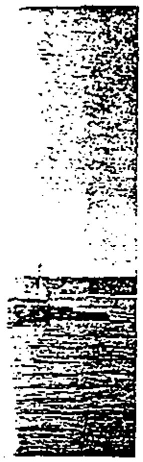
In one important development, McDermott late last year signed a $130 million contract to build extensive gas production and storage facilities in Dubai, both offshore and onshore. Work is underway on this "Dugas" program and Company teams have been leveling sand dunes where storage tanks will stand, stabilizing the desert surface, and doing foundation work. The program involves, among other projects, the laying of one 60-mile, 16-inch pipeline as well as other shorter lines.

Another project is McDermott's undertaking the laying of the shore approaches of the pipeline linking the Indian National Oil Company's steadily growing Bombay High field to shore facilities.

Other International Regions

Demand for marine construction in the rest of the world has been at relatively moderate levels for the past year.

With production levels cut back by a third in Nigeria, most of the work in the West African Region has involved fabrication of jackets and other equipment at the Company's Warri Yard for towing elsewhere along the African



After structures are pinned to the sea floor and their deck section secured in place, McDermott derrick barges will position the modules that include equipment and quarters facilities.

coast. Work on a water-flood station, for example, was completed this spring and the equipment is scheduled to be towed to Cabinda during the summer.

In Latin America, activity continues to be strong off the coast of Brazil. The Company has transferred a barge from the Red Sea to Brazilian waters to install well protection jackets.

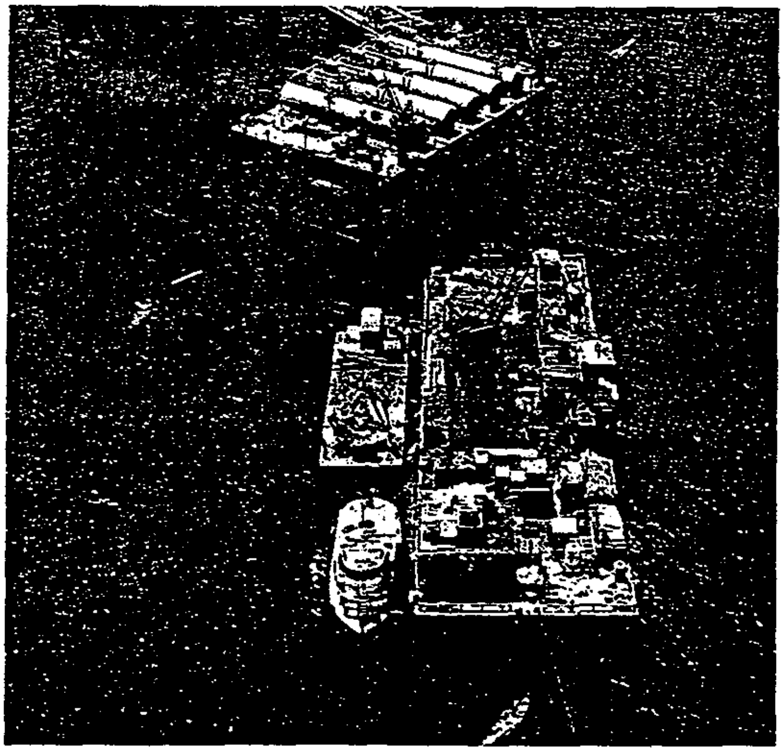
Another developing center of activity is Trinidad and Tobago where the Company is laying a subsea gas pipeline which will enable the National Gas Board to supply energy to a developing industrial district.

In South East Asia,the Company completed the engineering for an eight-pile platform to be installed in 300 feet of water off the island of Java, in Indonesia. Just as the fiscal year ended McDermott was awarded the contract for fabrication and installation of the platform, along with the installation of a single buoy mooring system and the laying of associated pipelines.

In other parts of Indonesia the Company laid a pipeline in the Java Sea and designed and built a crude oil loading facility on Sadawati Island off West Irian, the Indonesia portion of New Guinea.

Another contract last year involved the laying of five miles of pipeline of various sizes off Brunei and the fabrication and installation of four jackets.

Although there was little growth in the market during fiscal 1978 and sharp competition, McDermott is poised and ready for an expected surge of development in Southeast Asia in the wake of the recent step-up of exploration activity.



McDermott Crane Barge 14 installs an oil and water treatment plant in the Ardjuna Field, Java Sea, Indonesia.

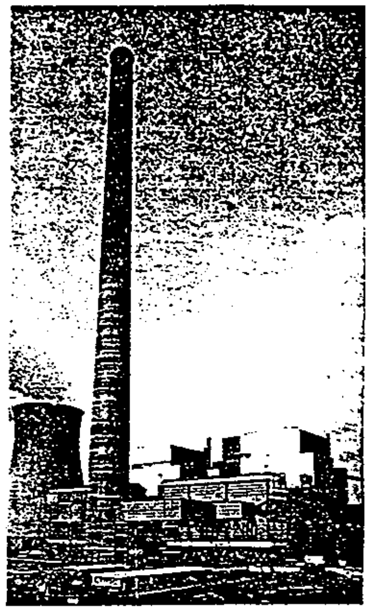
STEAM GENERATING EQUIPMENT

McDermott's newest acquisition, Babcock & Wilcox, has been building boilers to produce steam for 110 years. In 1882 four of the company's boilers produced the steam that powered the first commercial electric generating plant in the world, the Pearl Street Station of the Edison Electric Illuminating Company in New York City. Much of B & W's history has been linked with the growth of the electric utility industry ever since.

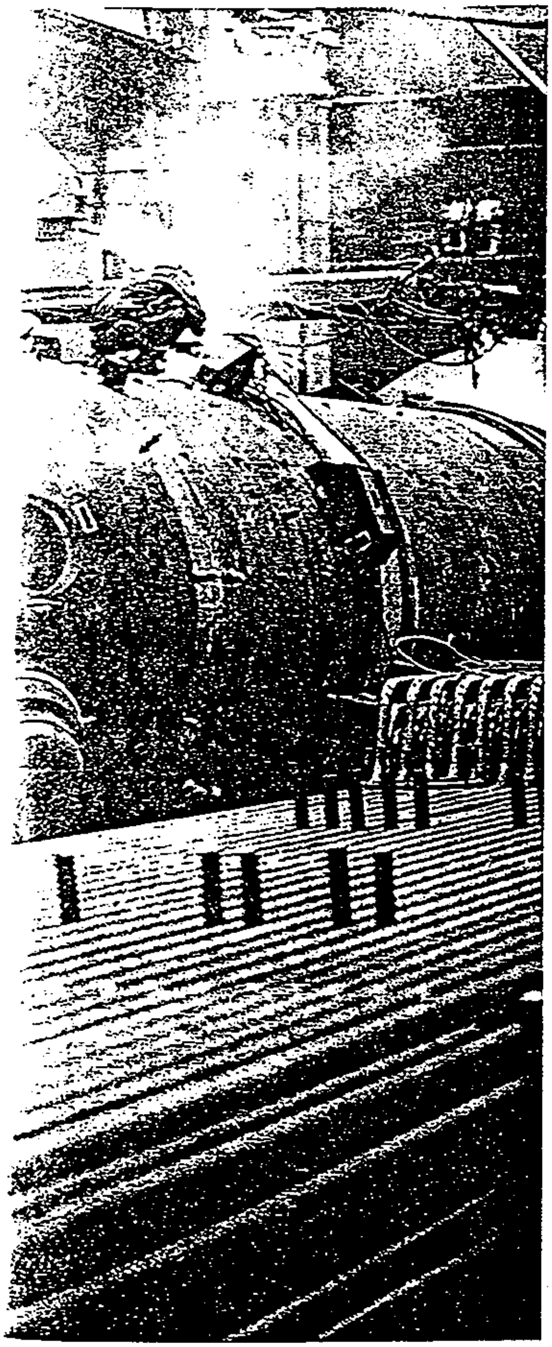
Boilers today have become highly complex, sophisticated mechanisms for producing steam efficiently. The small chamber in which steam is produced in a nuclear power plant, for instance, is a far cry from the traditional concept of a boiler, with its large fire-box and tall smokestack. To describe this range of products, B & W employs the term "steam generating systems."

Sales of steam generating products and services to the electric utility industry represent about half of B & W's total revenues. Success in this field of operations must be measured not only by current revenues, but also by the volume of new orders received, which imply future revenues. Viewed from both perspectives, calendar 1977 (which was B & W's fiscal year prior to the merger) was a record-breaking year for those operations dealing in coal-fired boilers and their auxiliary equipment. In the field of nuclear power generation, B & W shared with the industry the effects of the current pause in the nation's expansion of nuclear power. No new orders for nuclear steam generating systems were expected or received during the year.

More than a century of experience has given B&W an outstanding reputation in the building of fossil-fuel boilers. This steam drum being fabricated at the Barberton, Ohio, plant will be part of one of these boilers.



Two 1,300-Megawatt B&W coal-fired boilers were installed at this major power generation plant at Cheshire, Ohio.



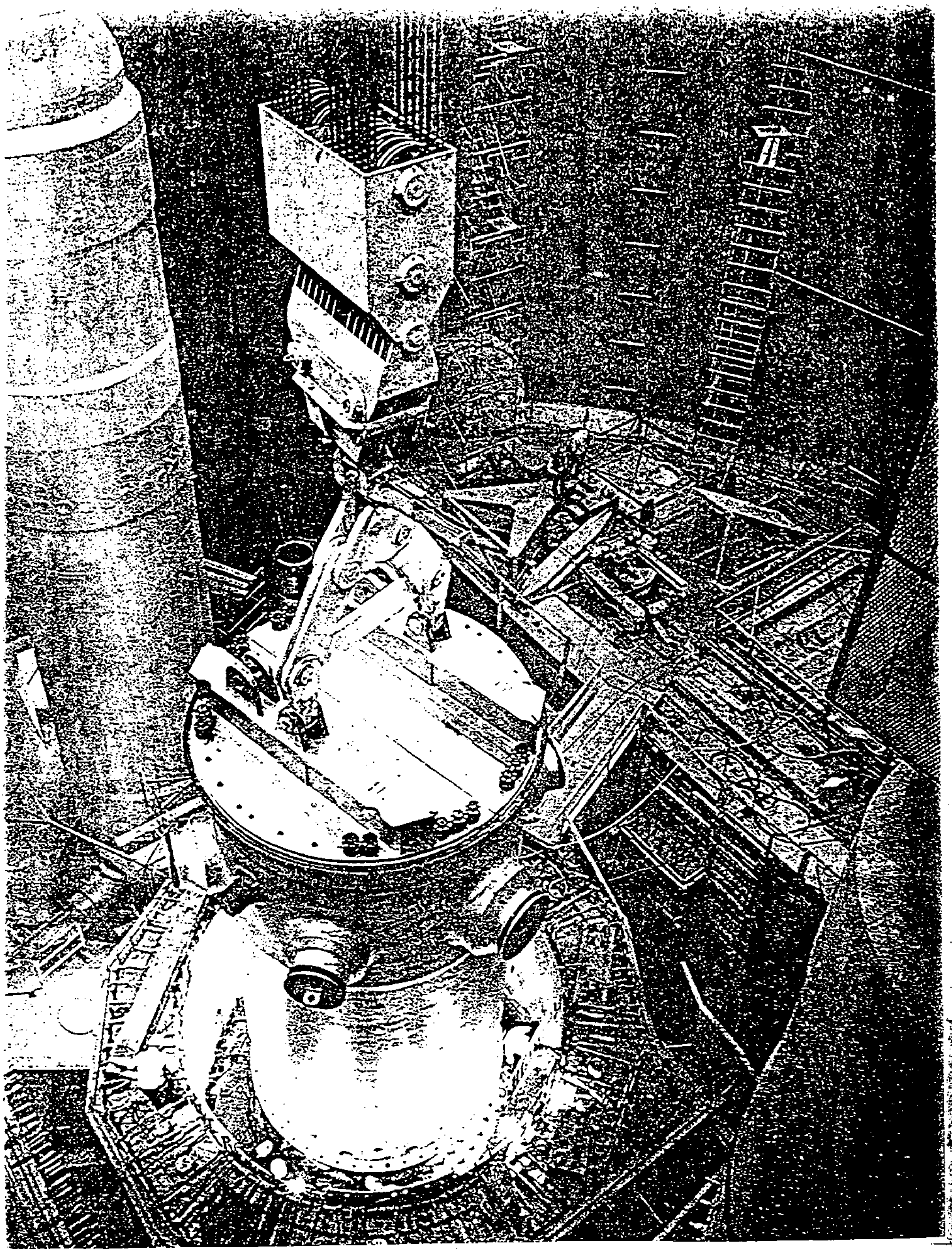
Fossil-Fueled Power Generating Equipment

B & W has long been the recognized industry leader in the design and manufacture of boiler systems for use with fossil fuels — oil, gas and coal. B & W's plants involved in the making, assembling and construction of fossil-fueled steam generating equipment, are located in Ohio, Georgia, Texas, Mississippi, North Carolina, and a number of foreign locations.

During the 1950's and 1960's the utility industry in the United States significantly increased its dependence on oil and gas, and the bulk of B & W's orders were for boilers fired by those versatile — and, in that era, low-cost — fuels. The oil embargo of 1973-74 and the steep increase that followed in the world price of oil sharply altered the economics of power generation, as well as the rules and regulations established by Federal and State authorities.

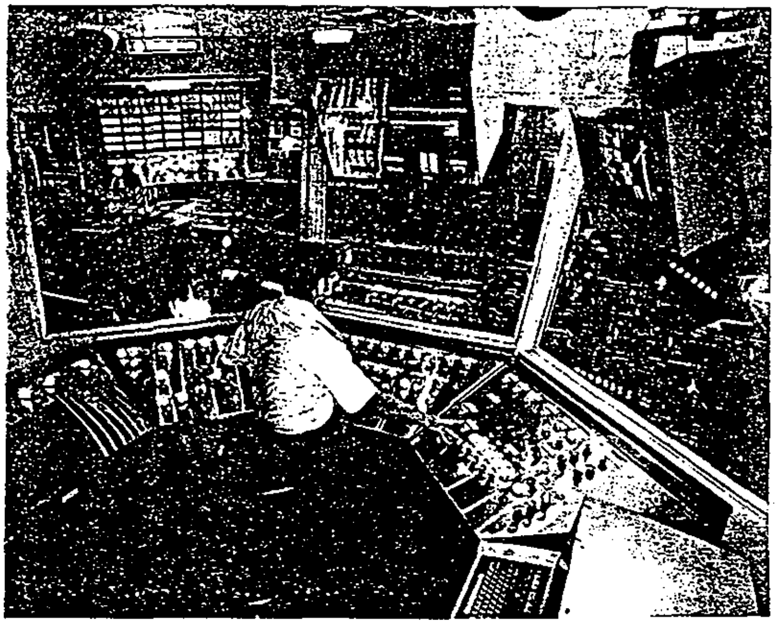
Today, coal has once again become the predominant choice of utilities adding new facilities. Furthermore, many utilties and many companies in other industries are under constraints requiring them to "retrofit" their boilers so that they will be able to substitute coal as a fuel for the gas and oil for which the boilers were originally designed. Fortunately for B & W, it had through earlier lean years maintained and expanded its coal technology so that it was ready to step in and meet the need of utilities for efficient coal-fired steam generating systems. B & W engineers had also developed the types of high-technology pollution control equipment that are now a necessary supplement to the burning of coal.

The years immediately following the world increase in the price of oil were unsettled ones for the utility industry, as the nation for the first time in a century tempered its voracious thirst for electricity. Particularly in 1974 and 1975, companies in



Computerized controls at the Ambridge mill make possible improved productivity and higher quality for specialty steel products.

A reactor vessel, being lowered into position, is a key element in our pressurized water nuclear reactor system.



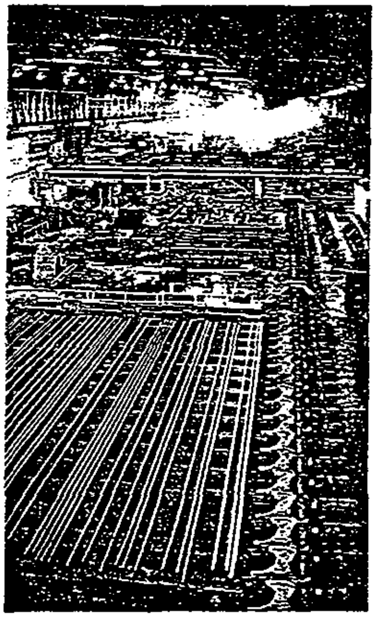
The Division continued work on contracts obtained in earlier years. Two nuclear units built by B & W were started up in 1977, one in Florida and one in Ohio.

B & W Canada is the leading supplier of nuclear steam generators to Ontario Hydro, Canada's largest utility. Current contracts include 80 steam boiler systems for Hydro reactors. The first nuclear steam boiler systems manufactured by B & W Canada to be utilized in South America were shipped during the year to a power station in Argentina.

The Nuclear Equipment Division, which supplies components for the nuclear Navy, booked a major share of available naval business during the year. The Naval Nuclear Fuel Division also achieved record results.

TUBULAR PRODUCTS

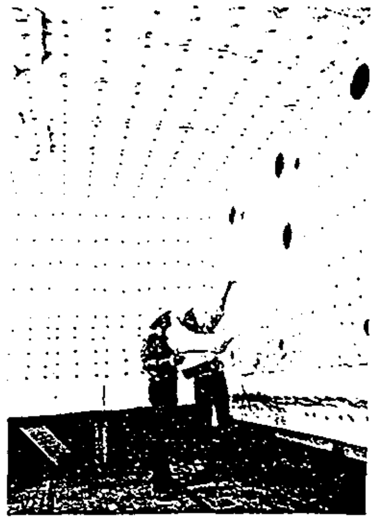
B & W originally began manufacturing tubing in order to assure for its boiler manufacturing operation a supply of heat-resistant, pressure-resistant tubes so necessary to the functioning of a boiler. B & W also established its own steel mill in Beaver Falls, Pennsylvania, to make sure of supplies of quality steel. From this base the Tubular Products Division expanded into other specialty markets for products made from comparable tubing and shapes made from high-quality stainless, alloy and carbon steel. B & W is now a major supplier of specialty tubing for deep oil and gas wells, as well as a supplier to the automotive, bearing and heavy machinery industries.



The $60 million Ambridge, Pennsylvania, mill produces oil well and other specialty tubing.

The year 1977 was marked by the opening of operations at B & W's modern new tubing mill at Ambridge, Pennsylvania. The first new mill in the industry in many years, it was built at a cost of more than $60 million. Replacement and modernization of major components in one of B & W's two seamless tube mills in Milwaukee, Wisconsin, and modernization of facilities at the welded tube plant in Alliance, Ohio, are now under way.

Our ceramic fiber, Kaowool®, insulation is an important energy saver in heat treating furnaces, chemical process and refinery heating units, as well as a variety of consumer products.



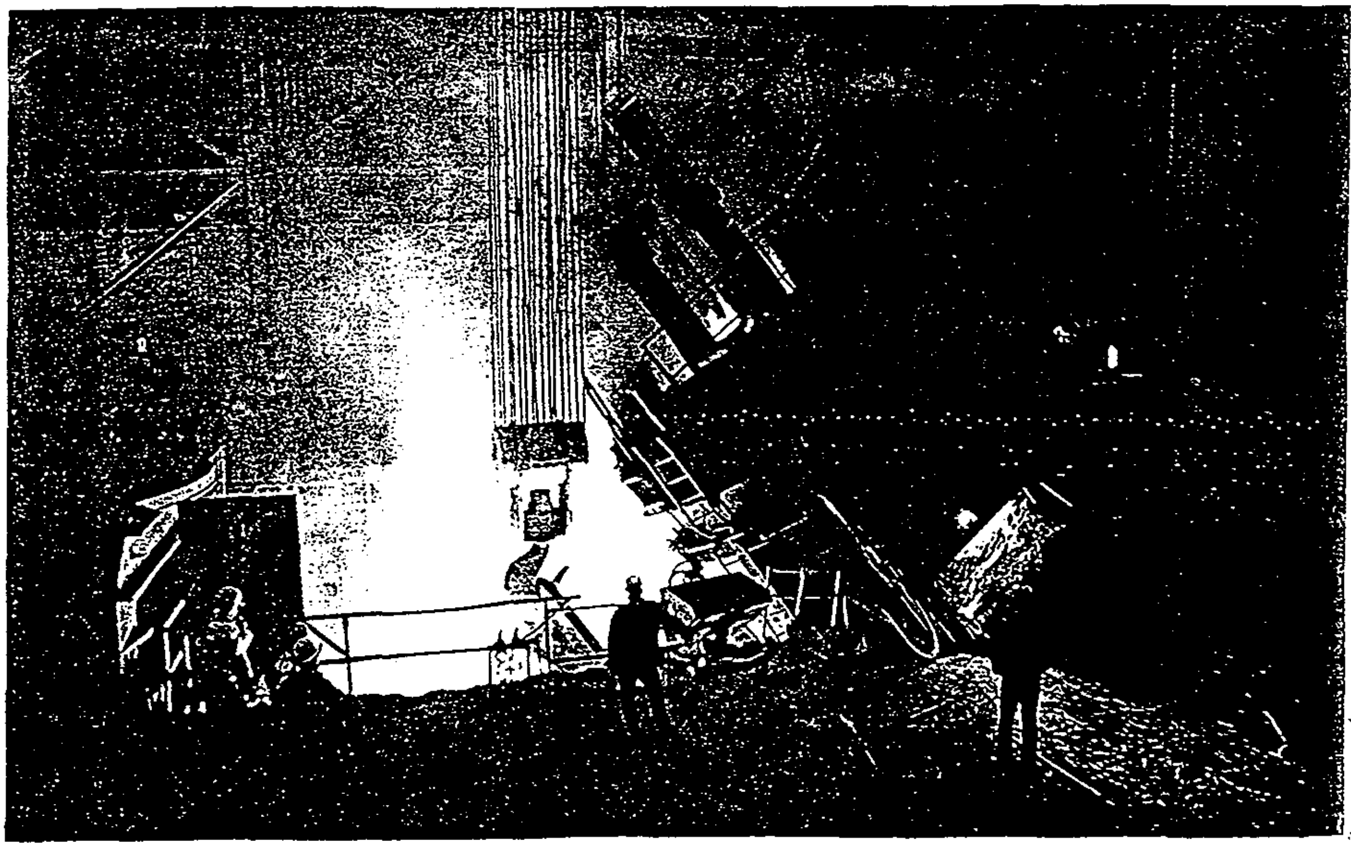
Although shipments by the division were higher than they had been in 1976, earnings were lower. The reason was a combination of a less favorable product mix and generally depressed prices. While costs keep rising, tubing is subject to severe price competition from imports, in the same manner as much of the rest of the steel industry. Results for the division improved, however, as 1977 went along.

OTHER PRODUCTS AND SERVICES

Onshore Construction Services and Products

The Company is engaged in the engineering and construction of processing plants for the oil, gas, chem-

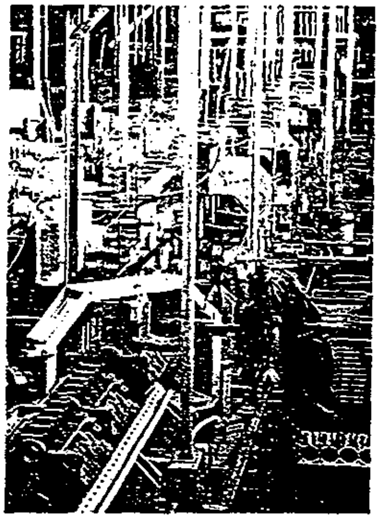
Our steel mill at Koppel, Pennsylvania, provides the basic material for the Tubular Products Division.

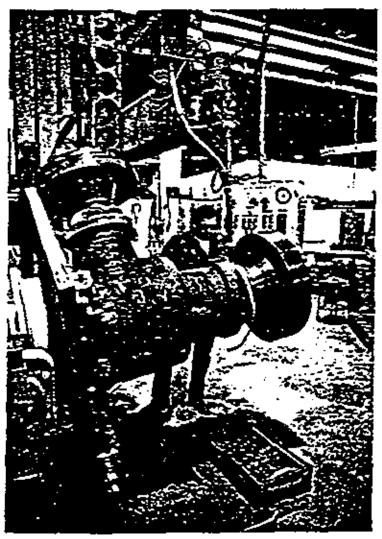


ical and mineral industries, principally in the United States. A major project completed in fiscal 1978 was the construction of a petrochemical plant on the Houston Ship Channel. A new major project involves the modernization of an oil refinery near New Orleans to increase its production of lead-free gasoline.

Hudson Products Company manufactures heat exchangers at a facility in Beasley, Texas. High export shipments during fiscal 1978 produced a volume of revenues second only to the record 1977 year. A new round of orders from the Middle East is maintaining operations at a satisfactory level.

Automated Machine Division's automatically-controlled transfer lines are key production tools for the automotive industry.





Designed to solve noise, vibration and erosion problems, Control Components valves are widely used in high velocity fluid transmission.

Refractories

The Refractories Division of B & W manufactures products for use in high-temperature furnaces and in other process equipment in which demanding rates of combustion or of chemical reactions are involved. The continuing worldwide pressure on industry to conserve energy has increased the demand for the division's insulating materials and heat resistant products. Shipments of insulating firebrick, firebrick, and koalin clay were at high levels during the year. Sales of Kaowool®, a ceramic fiber developed by B & W, have been particularly strong.

Automated Machinery

Among the wide variety of equipment produced by B & W's Automated Machine Division are precision boring machines, broaching machines and broaches, large grinders, cutting tools, specialized lathes and numerical control machines. All are designed for use in manufacturing processes, and most notably in highly engineered, multi-station production lines.

The strong bookings achieved by the division in 1977 are expected to continue at a high level for 1978. This is primarily the result of the continuing re-design of automobiles to meet new emission and styling standards.

Management's Discussion and Analysis of the Consolidated Statement of Income

1978 VERSUS 1977

Revenues for the fiscal year ended March 31, 1978 increased $69,870,000 (6%) as compared to the fiscal year ended March 31, 1977. This increase marks the culmination of five years of extraordinary growth of world-wide hydrocarbon development in offshore areas, peaking in the third quarter of this fiscal year. Compared with the prior fiscal year, domestic revenues increased to an all-time high, while foreign revenues decreased.

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

Interest income has increased $12,300,000 (56%), consistent with changes in interest bearing investments, as well as interest rates thereon, prevailing in the respective periods.

Interest expense has increased $10,730,000 (66%), principally as a result of the additional borrowings related to the investment in The Babcock & Wilcox Company (B&W).

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

Other income increased by $17,111,000 for the fiscal year ended March 31, 1978 over the fiscal year ended March 31, 1977. The principal reason for this increase is a net gain on foreign currency exchange translation of $12,374,000. Among items making up the remaining increase were workmen's com-

Market Price of Common Stock

The Common Stock of the Company is listed on the New York Stock Exchange (symbol: MDE). The following table shows the reported high and low sales price of these securities on a quarterly basis in fiscal years ended March 31, 1978 and 1977 and reflect the two-for-one stock split of December 15, 1977.

	FISCAL 1978 High	FISCAL 1978 Low	FISCAL 1977 High	FISCAL 1977 Low
First Quarter Ended June 30, 1977	29⅞	25⅛	26¼	21⅛
Second Quarter Ended Sept. 30, 1977	29⅝	22⅛	27⅝	22⅞
Third Quarter Ended Dec. 31, 1977	29¾	22⅞	26⅝	22⅝
Fourth Quarter Ended March 31, 1978	28½	21½	25¾	21⅝

pensation premium adjustments, gains and losses on disposal, royalty income, bad debt recoveries and inventory adjustments.

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

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

1977 VERSUS 1976

Revenues remained at a high level during 1977, increasing 11.0% over the prior year. Operating income was maintained at a corresponding level, increasing 12.7% over 1976. It is obvious from this that the Company was able to maintain its gross profit margins despite increases in costs of operations, depreciation and selling, general and administrative expenses.

Depreciation expense increased to 5.1% of sales for 1977 versus 4.8% of sales for 1976. Similary, selling, general and administrative expenses increased as a percent of income from operations to 8.1% in 1977 versus 7.0% in 1976. The increase in depreciation represents the recognition in 1977 of a full year's amortization of equipment cost which came into use during the 1976 year. The percentage increase in selling, general and administrative expense is principally due to the expenditure of $1.9 million in connection with the SEC special investigation and $2.3 million of increased research and development expense.

Other net income in 1977 was $10.6 million greater than in 1976. The reasons for such increase were due principally from greater interest income earned on a larger investment base, as well as decreased interest expense incurred on a reduced debt level. While income from equity in earnings of affiliated companies increased and losses arising out of currency translations decreased, minority interests' share in net loss (income) of subsidiaries increased.

Investment tax credits in 1977 were $4.9 million less than in 1976. However, net taxes were at a lower effective rate in 1977 versus 1976 due to the variety of taxation applicable to the Company's operations in a multitude of geographic areas of the world.

Net income after taxes in 1977 and 1976 was increased by an extraordinary item of $0.1 and $4.9 millions, respectively, resulting from utilization of foreign tax benefit from an operating loss carryforward.

Dividends

The Company has declared a quarterly dividend for 93 consecutive quarters. A quarterly comparison of dividends declared in fiscal years ended March 31, 1978 and 1977 on a per-share basis, and reflecting the two-for-one stock split of December 15, 1977, is as follows:

	FISCAL 1978	FISCAL 1977
First Quarter Ended June 30, 1977	$ .20	$ .125
Second Quarter Ended Sept. 30, 1977	.20	.125
Third Quarter Ended Dec. 31, 1977	.25	.125
Fourth Quarter Ended March 31, 1978	.25	.200
	$ .90	$ .575

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

Ten Year Summary of Operations

In Thousands of Dollars Except Shares and Per Share Amounts

FOR THE FISCAL YEARS ENDED MARCH 31,	1978	1977	1976
Revenues	$ 1,293,711	$ 1,223,841	$ 1,102,078
Cost and expenses	1,095,943	964,210	871,797
Operating income	197,768	259,631	230,281
Other income (expense):			
Interest expense	(26,887)	(16,157)	(22,067)
Other	69,206	18,152	13,487
Income before provision for income taxes	240,087	261,626	221,701
Provision for income taxes	80,995	70,116	66,427
Income before extraordinary items and cumulative effect of accounting change	159,092	191,510	155,274
Extraordinary items (net of taxes on income)	—	132	4,910
Cumulative effect of accounting change (net of taxes on income)	—	—	—
Net income	$ 159,092	$ 191,642	$ 160,184
Earnings per common share:			
Primary earnings:			
Before extraordinary items and cumulative effect of accounting change	$ 5.02	$ 6.11	$ 4.97
Extraordinary items (net of taxes on income)	—	—	.16
Cumulative effect of accounting change (net of taxes on income)	—	—	—
Net income	$ 5.02	$ 6.11	$ 5.13
Fully diluted earnings:			
Before extraordinary items and cumulative effect of accounting change	$ 4.92	$ 5.93	$ 4.80
Extraordinary items (net of taxes on income)	—	—	.15
Cumulative effect of accounting change (net of taxes on income)	—	—	—
Net income	$ 4.92	$ 5.93	$ 4.95
Cash dividends:			
Per common share	$ .90	$ .575	$ .425
Total amount	28,571	18,038	13,283
Average number of common shares outstanding	31,670,923	31,342,492	31,247,192
Stockholders' equity per common share at March 31	$ 26.15	$ 22.12	$ 16.54

1975	1974	1973	1972	1971	1970	1969
$ 742,825	$ 425,756	$ 358,399	$ 321,509	$ 238,158	$ 284,547	$ 194,928
649,543	379,339	331,145	313,949	231,052	259,234	163,906
93,282	46,417	27,254	7,560	7,106	25,313	31,022
(15,972)	(8,679)	(5,974)	(4,146)	(3,888)	(3,842)	(1,943)
13,354	9,461	8,179	6,867	4,762	3,409	2,418
90,664	47,199	29,459	10,281	7,980	24,880	31,497
14,217	12,178	12,554	2,128	1,188	8,801	6,417
76,447	35,021	16,905	8,153	6,792	16,079	25,080
—	—	270	10,962	—	8,109	1,106
—	(3,023)	—	—	—	—	—
$ 76,447	$ 31,998	$ 17,175	$ 19,115	$ 6,792	$ 24,188	$ 26,186
$ 2.47	$ 1.26	$ .63	$ .30	$ .25	$ .61	$ 1.00
—	—	.01	.41	—	.31	.04
—	(.11)	—	—	—	—	—
$ 2.47	$ 1.15	$ .64	$ .71	$ .25	$ .92	$ 1.04
$ 2.39	$ 1.13	$ .61	$ .30	$ .25	$ .61	$ 1.00
—	—	.01	.41	—	.31	.04
—	(.09)	—	—	—	—	—
$ 2.39	$ 1.04	$ .62	$ .71	$ .25	$ .92	$ 1.04
$ .30	$ .2625	$ .25	$ .25	$ .25	$ .25	$ .25
9,289	7,380	6,733	6,724	6,715	6,604	6,289
30,891,736	27,852,508	26,928,184	26,884,332	26,859,712	26,404,928	25,068,844
$ 11.79	$ 9.74	$ 7.66	$ 7.22	$ 6.75	$ 6.91	$ 6.35

Revenues and Operating Income by Lines of Business

The Company's revenues and operating income for the last five fiscal years for its Marine Construction Services and for Onshore Construction Services were as follows:

REVENUES

	Fiscal Year Ended March 31, (In thousands of dollars)				
	1978	1977	1976	1975	1974
Marine Construction Services	$1,116,119	$1,089,455	$1,010,105	$ 684,309	$ 379,311
Onshore Construction Services	177,592	134,386	91,973	58,516	46,445
TOTAL	$1,293,711	$1,223,841	$1,102,078	$ 742,825	$ 425,756

PERCENT OF REVENUES

	Fiscal Year Ended March 31,				
	1978	1977	1976	1975	1974
Marine Construction Services	86%	89%	92%	92%	89%
Onshore Construction Services	14%	11%	8%	8%	11%
TOTAL	100%	100%	100%	100%	100%

OPERATING INCOME

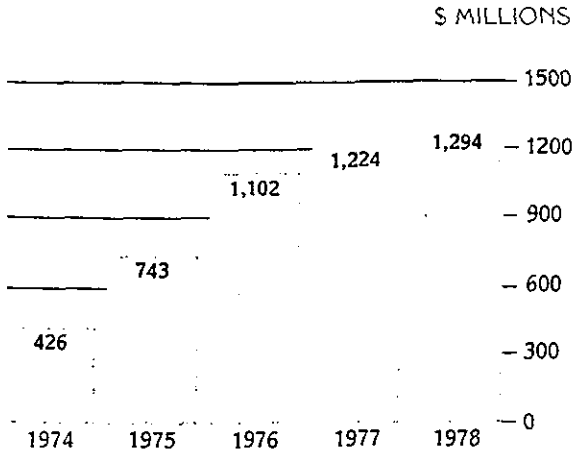
	Fiscal Year Ended March 31, (In thousands of dollars)				
	1978	1977	1976	1975	1974
Marine Construction Services	$ 205,559	$ 247,644	$ 219,752	$ 95,893	$ 44,966
Onshore Construction Services	15,364	11,987	10,529	(2,611)	1,451
TOTAL	$ 220,923	$ 259,631	$ 230,281	$ 93,282	$ 46,417

PERCENT OF OPERATING INCOME

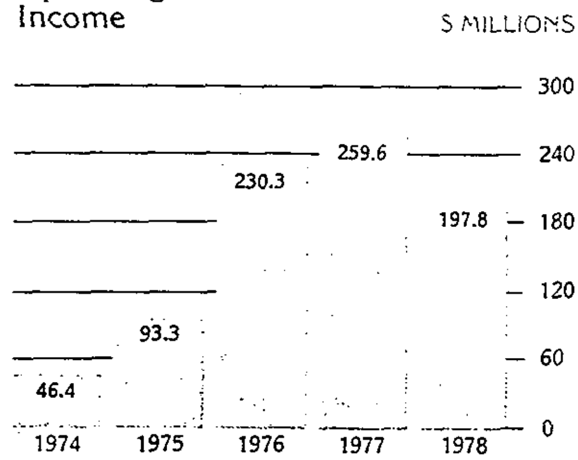
	Fiscal Year Ended March 31,				
	1978	1977	1976	1975	1974
Marine Construction Services	93%	95%	95%	100%	97%
Onshore Construction Services	7%	5%	5%	–	3%
TOTAL	100%	100%	100%	100%	100%

For the current fiscal year, Marine Construction Services and Onshore Construction Services *have been determined on a basis different than in prior years to conform with FASB 14 on* Segment Reporting, and operating income is before allocation of general corporate expenses of $23,155,000. For the prior years, Onshore Construction Services consisted of amounts attributable principally to Hudson Engineering Corporation and its subsidiaries, and Marine Construction Services represented all other. Operating Income for these prior years was after allocation of general corporate expenses.

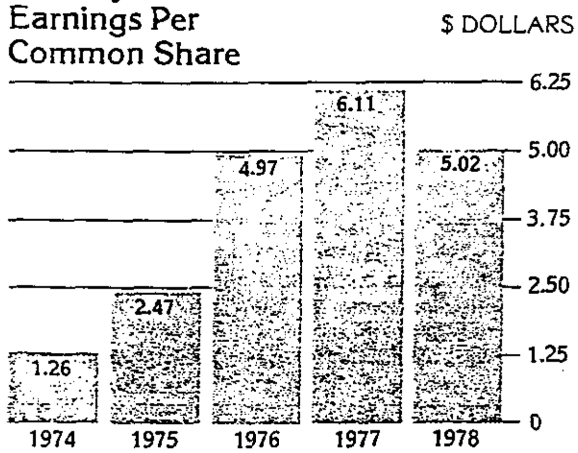
Revenues



Operating Income

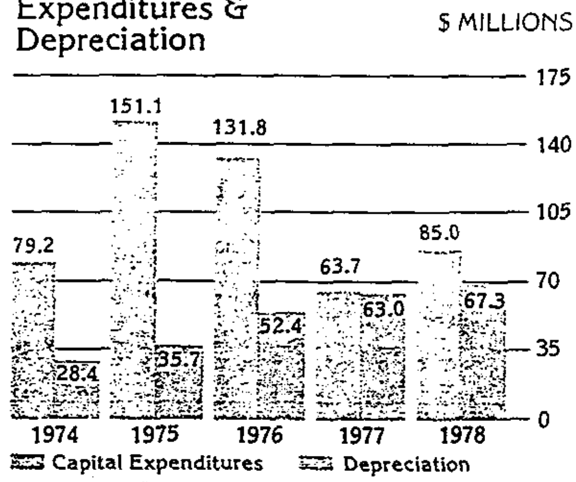


Primary* Earnings Per Common Share

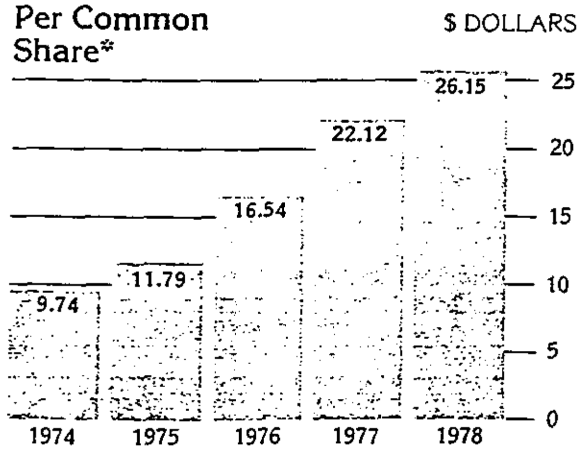


*Excludes Extraordinary Income. Adjusted for two-for-one stock splits.

Capital Expenditures & Depreciation

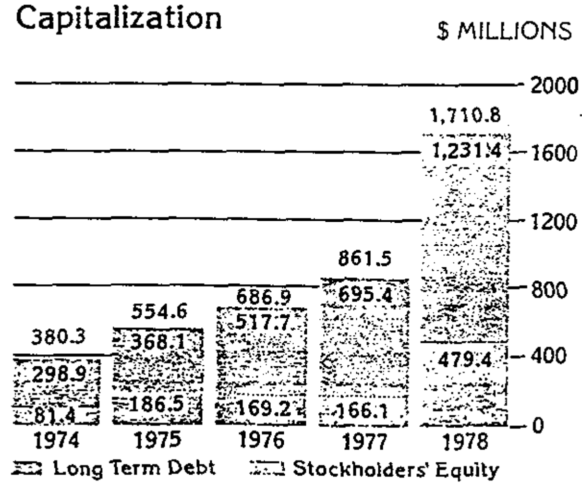


Book Value Per Common Share*



* Adjusted for two-for-one stock splits.

Total Capitalization



Reports of Certified Public Accountants

The Board of Directors and Stockholders
J. Ray McDermott & Co., Inc.

We have examined the accompanying consolidated balance sheet of J. Ray McDermott & Co., Inc. and subsidiaries at March 31, 1978 and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements of J. Ray McDermott & Co., Inc. and subsidiaries for the year ended March 31, 1977 were examined by other auditors whose opinion, as reissued and dated May 31, 1977 and November 10, 1977, was qualified as being subject to the effects of such adjustments, if any, as might have been required had the outcome of the grand jury investigation discussed in Note 8 to the financial statements been known.

As discussed in Note 8 to the financial statements, the Company is the subject of a grand jury investigation which appears to be focused on possible antitrust violations. The ultimate outcome of this investigation is not presently known, and no provision for liability, if any, that might result from such investigation has been made in the financial statements.

In our opinion, subject to the effects, if any, on the financial statements of the ultimate resolution of the matter discussed in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of J. Ray McDermott & Co., Inc. and subsidiaries at March 31, 1978 and the consolidated results of operations and changes in consolidated financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

New Orleans, Louisiana
May 31, 1978

To the Shareholders and Board of Directors of
J. Ray McDermott & Co., Inc.

We have examined the consolidated balance sheet of J. Ray McDermott & Co., Inc. and subsidiaries as of March 31, 1977 and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As more fully described in the first paragraph of Note 8 to the Consolidated Financial Statements, J. Ray McDermott & Co., Inc. is the subject of a grand jury investigation which appears to be focused on possible antitrust violations. Since the outcome of this investigation is not presently known, no provision for liability, if any, which may result has been made in the financial statements.

In our opinion, subject to the effects, if any, of the ultimate resolution of the matter discussed in the preceding paragraph, the accompanying consolidated financial statements referred to above present fairly the financial position of J. Ray McDermott & Co., Inc. and subsidiaries at March 31, 1977 and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mattison and Riquelmy

Houston, Texas
May 31, 1977 except as to the first paragraph of Note 8 as to which the date is November 10, 1977.

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

Consolidated Statement of Income and Retained Earnings

for the Fiscal Years Ended March 31, 1978 and 1977

	1978	1977
	(In thousands of dollars except per share amounts)	
Revenues	$1,293,711	$1,223,841
Costs and Expenses:		
Cost of operations	901,696	793,928
Depreciation	67,342	63,004
Selling, general and administrative expenses	126,905	107,278
	1,095,943	964,210
Operating Income	197,768	259,631
Other Income (Expense):		
Interest income	34,124	21,824
Interest expense	(26,887)	(16,157)
Equity in earnings of affiliated companies—B&W (Note 2)	20,364	—
—Other	3,554	2,275
Other	11,164	(5,947)
	42,319	1,995
Income Before Provision for Income Taxes and Extraordinary Gain	240,087	261,626
Provision for Income Taxes (Note 6):		
Current	68,290	51,544
Deferred	12,705	18,572
	80,995	70,116
Income Before Extraordinary Gain	159,092	191,510
Extraordinary Gain (Foreign tax benefit from operating loss carryforward)	—	132
Net Income	159,092	191,642
Retained Earnings, Beginning of Year	553,832	380,228
Deduct:		
Cash dividends ($0.90 in 1978 and $0.575 in 1977, per share)	28,571	18,038
Retained Earnings, End of Year (Note 7)	$ 684,353	$ 553,832
Earnings Per Common Share:		
Primary	$5.02	$6.11
Fully diluted	$4.92	$5.93

See accompanying notes to consolidated financial statements

J. Ray McDermott & Co., Inc. and Subsidiaries
Consolidated Balance Sheet

March 31, 1978 and 1977

ASSETS	1978	1977
	(In thousands of dollars)	
Current Assets:		
Cash	$ 22,842	$ 5,231
Temporary investments, at cost which approximates market	595,150	527,291
Accounts and notes receivable (Note 3)	535,281	257,652
Marketable securities, at cost (market $17,056 in 1978 and $14,277 in 1977)	9,231	9,231
Contracts in progress (Note 3)	324,126	32,250
Inventories (Note 4)	332,030	50,969
Prepaid expenses	12,354	5,789
Total Current Assets	1,831,014	888,413
Investments in Affiliated Companies, at Equity	18,689	11,912
Property, Plant and Equipment, at Cost:		
Land	36,077	11,544
Buildings	174,390	57,582
Machinery and equipment	931,226	664,223
Property under construction	97,114	21,440
	1,238,807	754,789
Less accumulated depreciation and amortization	347,226	288,640
Net Property, Plant and Equipment	891,581	466,149
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses less Amortization (Note 2)	403,320	6,252
Other Assets	38,203	3,279
Total	$3,182,807	$1,376,005

See accompanying notes to consolidated financial statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	1978	1977
	(In thousands of dollars)	
Current Liabilities:		
Notes payable to banks and current maturities of long-term debt (Note 7)	$ 12,108	$ 2,328
Accounts payable	255,534	60,149
Accrued liabilities	256,744	93,705
Advance billings on contracts (Note 3)	278,530	173,991
Provision for warranty expense	79,390	—
U.S. and foreign income taxes	425,739	89,006
Dividends payable	7,999	6,289
Total Current Liablities	1,316,044	425,468
Deferred Income Taxes	68,050	57,586
Long-Term Debt (Note 7)	479,432	166,078
Other Liabilities	87,842	31,431
Contingencies and Commitments (Note 8)		
Stockholders' Equity (Note 9):		
Preferred stock	394,847	—
Common stock	32,307	15,878
Capital in excess of par value	129,505	136,762
Retained earnings (Notes 6 and 7)	684,353	553,832
	1,241,012	706,472
Less: Cost of common stock in treasury	2,681	2,517
Unamortized deferred career executive stock plan expense	6,892	8,513
Total Stockholders' Equity	1,231,439	695,442
Total	$3,182,807	$1,376,005

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

Consolidated Statement of Changes in Financial Position

for the Fiscal Years Ended March 31, 1978 and 1977

	1978	1977
	(In thousands of dollars)	
Source of Funds:		
Operations:		
Income before extraordinary gain	$ 159,092	$191,510
Charges not requiring current outlays of working capital:		
Depreciation of property, plant and equipment	67,342	63,004
Deferred income taxes—noncurrent	10,464	21,812
Equity in earnings of affiliated companies	(23,918)	(2,275)
Other	14,440	12,680
Working capital provided from operations exclusive of extraordinary gain	227,420	286,731
Extraordinary gain	—	132
Issuance of common stock	9,172	2,833
Issuance of preferred stock	394,847	—
Noncurrent liabilities of B&W, principally long-term debt	190,610	—
Long-term borrowing (including fluctuations under the revolving credit agreement)	275,000	23,522
Other—net	3,563	(956)
	1,100,612	312,262
Application of Funds:		
Noncurrent assets of B&W:		
Property, plant and equipment	410,412	—
Investments	2,390	—
Other assets	34,890	—
Equity in earnings of B&W prior to merger	(21,017)	—
Excess of cost over fair value of net assets of B&W	399,764	—
Additions to property, plant and equipment	84,975	63,657
Payments of long-term debt (including fluctuation under the revolving credit agreement)	108,602	26,704
Cash dividends	28,571	18,038
	1,048,587	108,399
Net increase in working capital	$ 52,025	$203,863
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash and temporary investments	$ 85,470	$315,126
Accounts and notes receivable	277,629	(28,368)
Contracts in progress	291,876	(8,246)
Inventories	281,061	(26,035)
Prepaid expenses	6,565	(59)
	942,601	252,418
Increase (decrease) in current liabilities:		
Notes and accounts payable and accrued liabilities	368,204	(766)
Advance billings on contracts	104,539	21,664
Provision for warranty expense	79,390	—
Accrued income taxes	336,733	25,279
Dividends payable	1,710	2,378
	890,576	48,555
Net increase in working capital	$ 52,025	$203,863

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

MARCH 31, 1978 and 1977

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiaries. The assets and liabilities of B & W have been consolidated with the Company's at March 31, 1978. The Company's share of B & W's earnings for 1978 is reflected on an equity basis in the consolidated statement of income. Investments in affiliated (20% to 50% owned) companies are accounted for on the equity method. All significant intercompany transactions and accounts have been eliminated.

Certain amounts previously reported in the consolidated financial statements of March 31, 1977 have been reclassified to conform with the presentation at March 31, 1978.

Marine and Onshore Construction Contracts

Revenues from marine and onshore construction contracts are generally recognized as contractual obligations are completed. Revenues are recognized on certain contracts containing identifiable separate projects when such projects are completed and accepted by the customer. Revenues from time or day rate basis contracts are recognized as earned. General and administrative costs are included in contract costs. Contract costs in excess of related billings are classified as current assets under contracts in progress. Billings in excess of related costs are classified as current liabilities under advance billings on contracts. Current provisions are made for all known or anticipated losses on contracts which have not been completed.

Foreign Currency Translation

The accounts of foreign subsidiaries maintained in foreign currencies are translated into U.S. Dollars based on current exchange rates at the end of the fiscal year for assets and liabilities except for inventories, prepaid expenses, property, plant and equipment, and stockholders' equity for which historical exchange rates are used. Average exchange rates prevailing during the fiscal years are used for revenues and expenses other than depreciation and prepaid expenses. Exchange gains and losses are recognized in the year of occurrence. Included in other income are gains of $3,460,000 for the fiscal year ended March 31, 1978 and losses of $8,914,000 for the fiscal year ended March 31, 1977.

Depreciation, Maintenance and Repairs

Property, plant and equipment is depreciated by the straight line method, using estimated useful lives of 8 to 30 years for buildings and 2 to 20 years for machinery and equipment.

Maintenance, repairs and renewals which do not materially prolong the useful life of an asset, are expensed as incurred except for drydocking costs for the Company's marine fleet. Under the accounting method for accrual of drydocking costs, estimated costs are provided and charged to operations currently. When expenditures are made for these costs, the reserve for drydocking is charged with the amounts paid.

Gains or losses on disposition of property, plant and equipment are included in income as realized.

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

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

Earnings Per Share

Primary earnings per share are based on the weighted average number of common shares outstanding during the year. Fully diluted earnings per share are computed assuming the conversion of the convertible subordinated debentures. All per share data have been restated to give effect to the two-for-one common stock split effective December 15, 1977.

B & W contract revenues and related costs are recognized principally by a percentage of completion method related principally to physical shipments and direct labor or cost incurred, as applicable to the product or the activity involved. Revenues so recorded are included in unbilled revenues until invoiced to customers under terms of the contracts. Costs of contract revenues on uncompleted contracts are based upon estimates to complete. Revisions to contract price and cost estimates are recognized in the period in which they are determined.

Unbilled revenues on contracts include $39,000,000 not expected to be collected until after one year.

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

	1978	1977
	(In thousands of dollars)	
Retainages	$31,839	$20,781
Retainages not expected to be collected until after one year	$ 2,015	$ —

NOTE 4 — INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined on an average cost basis for raw materials and supplies except for certain domestic and foreign construction materials inventories, for which the last-in, first-out (LIFO) method is used. Work in progress and the majority of finished goods inventories were acquired in connection with the acquisition of B & W and are stated at fair market value at the date thereof. Approximately 11% and 63% of total inventories were valued using the LIFO method at March 31, 1978 and 1977, respectively.

Consolidated inventories at March 31, 1978 and 1977 are summarized below:

	1978	1977
	(In thousands of dollars)	
Raw Materials and Supplies	$179,631	$41,592
Work in Progress	104,365	—
Finished Goods	48,034	9,377
	$332,030	$50,969

Inventories used in the computation of costs and expenses were $54,920,000, $50,969,000 and $77,004,000 at March 31, 1978, 1977 and 1976, respectively.

NOTE 5 — PENSION AND SUPPLEMENTAL COMPENSATION PLANS

Pension Plans — The Company has several pension plans covering substantially all employees except non-resident alien employees of foreign subsidiaries who do not earn income in the United States. Unfunded prior service costs based on the latest actuarial valuation was approximately $275,000,000 including amounts attributable to B & W pension plans. The Company's policy has been to fund pension cost accrued. The total value of the pension funds and balance sheet accruals less deferred charges was in excess of the actuarially computed value of vested benefits for all plans. Total pension expense included in costs and expenses was $8,709,000 in fiscal 1978 and $8,061,000 in fiscal 1977, and includes amortization of prior service costs over thirty years.

Supplemental Compensation Plan — The Company accrues annually an amount equal to 4% of the amount by which consolidated income (as defined in the plan) exceeds an amount equal to 10% of capital employed in the business (as defined in the plan) from which supplemental compensation awards may be made to eligible managerial and other key employees. The aggregate amount of an award may not exceed 50% of the recipient's aggregate compensation for the year for which the award is made. Awards are payable in equal amounts over a five year period. Amounts charged to income under the plan amounted to $6,919,000 and $8,637,000 in 1978 and 1977, respectively.

NOTE 8 — CONTINGENCIES AND COMMITMENTS

Anti-Trust Investigation — In December 1976, the Company, among others, received a grand jury subpoena to produce certain documents pertaining to its domestic offshore pipeline and domestic structure, fabrications and installation activities during the period from January 1, 1968 to the date of the subpoena. The grand jury's investigation appeared to be focused on possible antitrust violations, including possible price fixing and collusive bidding during the period covered by the subpoena. It now appears that the grand jury's investigation has been expanded to include foreign activities, and that it encompasses a substantial portion of the Company's activities. In connection with the investigation, substantial document production has been made and a number of individuals has been interviewed and called to testify, some, including past and present officers and employees of the Company, under grant of immunity from prosecution. As a result of the investigation, criminal or civil proceedings may be brought against the Company, which is a target of the investigation, or against certain of its present or former officers and employees, some of whom are also targets of the investigation. The institution of any such action by the government could lead to private antitrust treble damage actions, which could have a material adverse effect upon the Company.

Litigation — The Company and certain of its officers, directors and subsidiaries are defendants in several legal proceedings claiming amounts significant in the aggregate, alleging, among other things, violations of federal securities laws in the acquisition of B & W. It is the opinion of management and of general counsel that the outcome of these litigations will not materially affect the financial position or operations of the Company.

During 1978, the Company entered into a settlement with respect to charges brought by the government arising out of a special investigation into questionable payments and accounting practices. Pursuant to the settlement, the Company paid $1,000,000 in fines and penalties.

Operating Leases — The following is a schedule of future minimum rental payments required under operating leases that have initial or remaining noncancellable lease terms in excess of one year at March 31, 1978:

Years ending March 31:	(In thousands of dollars)
1979	$15,246
1980	9,773
1981	6,963
1982	5,309
1983	4,354
After 1984	13,142
Total minimum payments required	$54,787

Total rental expense attributable to operating leases for fiscal 1978 and 1977, was $84,619,000 and $71,793,000, respectively. These expense figures include contingent rentals and are net of sublease income, both of which are not material.

Firm and contemplated commitments for capital expenditures amounted to $162,000,000 at March 31, 1978.

NOTE 9 — CAPITAL STOCK

Preferred Stock — At March 31, 1978, 25,000,000 shares of $1 par value preferred stock were authorized, 6,600,000 shares were designated Series A $2.20 Cumulative Convertible Preferred Stock and 6,600,000 shares were designated Series B $2.60 Cumulative Preferred Stock. Each series had 6,317,545 shares issued and outstanding and is entitled to $31.25 per share in liquidation. The outstanding shares were issued in connection with the acquisition of B & W and are stated at the mandatory redemption value which approximated market value of the shares issued. Both series of preferred stock are entitled to general voting rights of one-half vote for each share. The Board of Directors may authorize additional series of preferred stock and may set the terms of each new series except that the Company cannot create any series of stock senior to the existing Series A and Series B Preferred Stock without the consent of the holders of at least 50% of the shares of such preferred stock.

Career Executive Stock Plan — The plan, which was adopted in 1974, authorized 600,000 shares of common stock to be issued to eligible employees in consideration of their services. Employees granted stock under the plan pay $1.00 per share as the option price. Shares may be issued pursuant to the plan until June 30, 1984. Restrictions with respect to issued shares lapse in approximately equal amounts on the second through tenth anniversary dates of the date of issuance. The cost of the plan, based on fair market value on the date of issuance of common stock, is amortized over a ten year period following the date of issuance. Upon forfeiture of stock by employees, previous expense attributable to unvested stock is credited to income. Forfeited shares under the plan returned to the Company amounted to 6,716 shares during 1978, and 5,280 shares during 1977. As of March 31, 1978, 131,596 shares of common stock are available for grant to eligible employees pursuant to the terms of the plan. Amounts charged to income under the plan and its predecessor plan amounted to $1,541,000 and $1,535,000 in fiscal 1978 and fiscal 1977, respectively.

NOTE 10 — FOREIGN SUBSIDIARIES

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

	March 31,	
	1978	1977
	(In thousands of dollars)	
Assets (including cash and temporary investments of $537,456,000 and $467,597,000 at March 31, 1978 and 1977, respectively)	$923,602	$765,940
Liabilities	338,985	307,033
Net Assets	$584,617	$458,907
Net income	$ 89,392	$147,333

NOTE 11 — FACILITATING PAYMENTS

During fiscal 1978 and 1977, the Company made facilitating payments from regular corporate funds, minor in amount, to low level foreign government officials to expedite necessary action to which the Company was otherwise entitled. Commissions to foreign sales agents pursuant to written agreements were made during 1978 and 1977. The Company continued its practice of making modest seasonal gifts to governmental officials and employees of customers.

NOTE 12 — SEGMENT REPORTING

The Company has operated, prior to the acquisition of B & W, principally in two industry segments, Marine Construction Services and Onshore Construction Services. Marine Construction Services primarily involve construction of specialized offshore platforms and marine pipelines used for development drilling, production and transportation of oil and gas. Onshore Construction Services primarily involve construction of land based oil, gas, chemical, petrochemical and mineral processing plants and manufacture of air-cooled heat exchangers.

Operating income is revenues less costs and expenses exclusive of general corporate expenses.

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

The Company's share of B & W's earnings for fiscal 1978 is reflected on an equity basis in the consolidated statement of income. B & W's operations are principally in the United States and are not vertically integrated into the Company's industrial segments. The assets of B & W are included in the accompanying industry segment schedule as steam generating equipment, tubular products and other products.

Steam generating equipment includes individually engineered complete fossil fuel boilers, nuclear steam systems, nuclear fuel and nuclear fuel assemblies, and associated equipment for electric utility and marine applications as well as fossil fuel boilers for industrial processes and power generation.

Tubular products include stainless, alloy and carbon steel, seamless and welded tubes and pipe, tubular and solid shapes, extrusions, special metal tubes, welding fittings and flanges, and seamless rolled rings.

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

Revenues attributable to Foreign governments were $211,945,000 and to an individual Company were $175,037,000. Revenues attributable to affiliated companies were $104,338,000 ($46,652,000 in fiscal 1977).

SEGMENT INFORMATION FOR THE FISCAL YEAR ENDED MARCH 31, 1978

1. Information about the Company's Operations in Different Industry Segments

	Marine Construction Services	Onshore Construction Services	Consolidated
	(In thousands of dollars)		
Revenues	$1,116,119	$177,592	$1,293,711
Operating income	$ 205,559	$ 15,364	$ 220,923
Equity in earnings of affiliated companies—B & W			20,364
—Other	$ 3,554		3,554
General corporate expenses			(23,155)
Interest expense			(26,887)
Interest income			34,124
Other income (expense)			11,164
Income before provision for income taxes			$ 240,087
Capital expenditures	$ 61,642	$ 22,660	$ 84,302
Corporate Capital Expenditures			673
Total capital expenditures			$ 84,975
Depreciation expense	$ 57,528	$ 8,954	$ 66,482
Corporate depreciation expense			860
Total depreciation expense			$67,342
Identifiable Assets at March 31, 1978 —McDermott	$ 777,147	$ 91,484	$ 868,631
—B & W			
Steam generating equipment			$ 800,400
Tubular equipment			379,600
Other products			146,458
—Excess of cost over fair value of net assets of B & W not yet allocated			397,068
Total B & W			$1,723,526
Total identifiable assets			$2,592,157
Investment in net assets of vertically integrated affiliated companies —McDermott	$ 16,299		16,299
—B & W			2,390
Corporate assets			571,961
Total assets at March 31, 1978			$3,182,807

2. Information about the Company's Operations in Different Geographic Areas

	United States	Foreign	Consolidated
	(In thousands of dollars)		
Revenues	$ 638,556	$655,155	$1,293,711
Transfers between geographic areas	28,560	(28,560)	—
Total revenues	$ 667,116	$626,595	$1,293,711
Operating income	$ 128,260	$ 92,663	$ 220,923
Equity in earnings of affiliated companies	$ 20,364	$ 3,554	23,918
General corporate expenses			(23,155)
Interest expense			(26,887)
Interest income			34,124
Other income (expense)			11,164
Income before provision for income taxes			$ 240,087
Identifiable assets at March 31, 1978			
—McDermott	$ 340,026	$528,605	$ 868,631
—B & W	1,237,607	88,851	1,326,458
	$1,577,633	$617,456	$2,195,089
—Excess of cost over fair value of net assets of B & W not yet allocated			$ 397,068
Total identifiable assets			$2,592,157
Investment in net assets of vertically integrated affiliated companies		$ 18,689	18,689
Corporate assets			571,961
Total assets at March 31, 1978			$3,182,807

NOTE 13 — QUARTERLY FINANCIAL DATA (Unaudited)

The following tables set forth selected quarterly financial information for the years ended March 31, 1978 and 1977:

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

	1977 Quarter Ended			
	June 30, 1976	Sept. 30, 1976	Dec. 31, 1976	March 31, 1977
	(In thousands of dollars except per share amounts)			
Revenues	$267,735	$396,658	$301,676	$257,772
Operating income	53,881	78,023	72,989	54,738
Net income	37,097	56,249	58,049	40,247
Earnings per common share:				
Primary	1.19	1.79	1.85	1.28
Fully diluted	1.15	1.74	1.79	1.24

NOTE 14 — REPLACEMENT COST INFORMATION (Unaudited)

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

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

Although, when replacing productive capacity, the Company has been subject to higher replacement cost and increased operating cost as a result of inflation, it has generally been able to compensate for such increases by increasing prices for its products and services.

Board of Directors

H. W. BAILEY
Executive Vice President

R. J. CANTWELL
Senior Executive Vice President
The Babcock & Wilcox Company

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

J..E. CUNNINGHAM
Vice Chairman of the Board—Finance
and Administration

C. L. DAVIS
President
Oceanic Contractors, Inc.

W. E. EARLES
Group Vice President

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

*JAMES A. HUNT
Partner
Kalb Voorhis & Co.,
Securities Brokers

GRAHAM D. MATTISON
Director of various corporations

*JOHN A. MORGAN
Vice Chairman of the Board
Smith Barney, Harris Upham
& Co., Incorporated,
Investment Bankers

R. K. RICHIE
President and Chief Operating Officer
J. Ray McDermott & Co., Inc.—
Operating Unit

JOHN D. RITCHIE
Consultant and Director of various
corporations

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

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

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

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

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

*Member of the Audit Committee

Officers

J. Ray McDermott & Co., Inc.

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

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

GEORGE G. ZIPF
Vice Chairman of the Board,
B & W Operating Unit

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

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

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

I. R. FOSTER, JR.
Group Vice President,
Administration—Coordination

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

GRIFF C. LEE
Group Vice President, McDermott
Hudson Engineering—New Orleans

H. ROGERS REEVES
Group Vice President,
Harvey Division Group

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

J. LEON BATES
Senior Vice President, McDermott
Hudson Engineering—New Orleans

PHILIP BREITMEYER, II
Vice President,
Corporate Planning and Development

E. J. DRESSEL
Vice President, Equipment
and Machinery Development

JOHN D DUPY
Vice President,
Administration

CHARLES E. YOUNG
Vice President, McDermott
Hudson Engineering—New Orleans

KENNEDY J. GILLY
Vice President and
General Counsel

ROY R. STRIEKERT, JR.
Vice President, Sales

JOHN A. LYNOTT
Treasurer

LOUIS V. SIERRA
Secretary

The Babcock & Wilcox Company

GEORGE G. ZIPF
President and Chief Operating Officer

R. J. CANTWELL
Senior Executive Vice President,
Finance and Accounting

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

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

W. M. VANNOY
Executive Vice President,
Power Generation Group

R. C. BASSETT
Vice President,
Purchasing and Traffic

S. W. BOONE
Vice President,
Public Affairs

W. P. CATTERSON
Vice President and Treasurer

L. M. FAVRET
Vice President,
Nuclear Divisions, Power Generation

W. H. JACKSON
Vice President,
Marketing, Power Generation

H. D. KENNEY
Vice President and Controller

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

H. H. POOR
Vice President,
Contract Research

A. C. TENDLER
Vice President,
International

M. VICTOR
Vice President and Secretary

L. B. WOHLGEMUTH
Vice President,
Sales, Tubular Products

R. E. WOOLBERT
Vice President,
Employee Relations

Power Generation Group

W. M. VANNOY
Executive Vice President

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

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

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

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

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

Nuclear Divisions
L. M. FAVRET
Vice President

Nuclear Equipment Division
W. B. BEISEL
Division Vice President

Nuclear Materials Division
J. S. DZIEWISZ
Division Vice President

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

Industrial Products Group

H. D. KURT
Executive Vice President

Automated Machine Division
S. W. BARANYK
Division Vice President

Bailey Controls Company
R. J. CAMPBELL
President

Control Components International
L. W. SMITH
President

Diamond Power Specialty Corporation
J. L. MENSON
President

Materials Group

G. W. KROSS, JR.
Executive Vice President

Refractories Division
R. P. STUNTZ
Division Vice President

Tubular Products Division
T. M. KREBS
Division Vice President

Other Divisions

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

Hudson Engineering Corporation

E. J. KOEHL, JR.
Senior Vice President, Construction

W. E. WHITE
Vice President, McDermott Hudson Engineering—Houston

S. P. VICTORY
Vice President, Construction

Hudson Products Corporation
E. C. SMITH
President

M. W. LARINOFF
Vice President

Oceanic Contractors, Inc.

C. L. DAVIS
President

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

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

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

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

E. R. H. SELLEY
Group Vice President, McDermott Hudson Engineering—London

J. C. ANDREWS
Vice President, New Orleans Group

D. D. BATTERSHELL
Vice President, Onshore Coordination

R. E. CURTIS
Vice President, South East Asia Group

W. M. DOUGLAS
Vice President, North Sea Group

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

R. J. MACHEN
Vice President, McDermott Scotland

R. J. MAXSON
Vice President, Middle East Group

J. M. SMITH
Vice President, Middle East Group

R. P. STAGG
Vice President, McDermott Hudson Engineering—London

Common Stock

Transfer Agents And Registrars

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

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

- Common Stock
- Series A $2.20 Cumulative Convertible Preferred Stock
- Series B $2.60 Cumulative Preferred Stock

Debenture Trustee and Paying Agent

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

- 9.70% Sinking Fund/Debentures Due December 1, 1999
- 8.90% Notes Due December 1, 1984

Debenture Trustee, Paying Agent and Conversion Agent

Citibank, N.A./111 Wall Street/New York, New York 10015

- 4-3/4% Convertible Subordinated Debentures Due October, 1987

Certified Public Accountants

Arthur Young & Company
New Orleans, Louisiana

Annual Meeting

The Annual Meeting of the Stockholders of J. Ray McDermott & Co., Inc., for the fiscal year ended March 31, 1978, will be held at the University Room of the Fairmont Hotel, University Place, New Orleans, Louisiana, on Tuesday, August 8, 1978, at 9:30 a.m. local time.

Offices

Corporate Office

1010 Common Street, New Orleans, Louisiana 70112

Principal Offices

Aberdeen, Scotland
Abu Dhabi, United Arab Emirates
Akron, Ohio
Alliance, Ohio
Ambridge, Pennsylvania
Amelia, Louisiana
Amsterdam, Holland
Antwerp, Belgium
Apollo, Pennsylvania
Atlanta, Georgia
Augusta, Georgia
Baltimore, Maryland
Bangkok, Thailand
Barberton, Ohio
Batam Island, Indonesia
Baton Rouge, Louisiana
Beaver Falls, Pennsylvania
Bedford, New Hampshire
Beirut, Lebanon
Birmingham, Alabama
Bismark, North Dakota
Bombay, India
Boston, Massachusetts
Bowling Green, Ohio
Bromma, Sweden
Brunswick, Georgia
Brussels, Belgium
Buffalo, New York
Burlington, Ontario
Cairo, Egypt
Calgary, Alberta
Cambridge, Ontario
Canton, Ohio
Charlotte, North Carolina
Chicago, Illinois
Cincinnati, Ohio
Clarksville, Indiana
Cleveland, Ohio
Copley, Ohio
Dallas, Texas
Daytona Beach, Florida
Denver, Colorado
Detroit, Michigan
Dhahran, Saudi Arabia
Doha, Qatar
Dubai, United Arab Emirates
Dumbarton, Scotland
East Flat Rock, North Carolina
Edmonton, Alberta
Elkhart, Indiana
Fredericton, New Brunswick
Gibson, Louisiana
Great Yarmouth, England
Greer, South Carolina
Harvey, Louisiana
Hendersonville, North Carolina
Hephzibah, Georgia
Honolulu, Hawaii
Houston, Texas
Illzach, France
Indianapolis, Indiana
Inverness, Scotland
Irvine, California
Jakarta, Indonesia
Kansas City, Missouri
Kenner, Louisiana
Kuala Lumpur, Malaysia
Lafayette, Louisiana
Lagos, Nigeria
La Mirada, California
Lancashire, England
Lancaster, Ohio
London, England
Los Angeles, California
Lynchburg, Virginia
Mannheim, West Germany
Medina, Ohio
Melbourne, Australia
Milwaukee, Wisconsin
Minneapolis, Minnesota
Montreal, Quebec
Morgan City, Louisiana
Mount Vernon, Indiana
New Iberia, Louisiana
New Orleans, Louisiana
New York, New York
North Canton, Ohio
Oberhausen, West Germany
Osaka, Japan
Ottawa, Ontario
Paris, Texas
Parks Township, Pennsylvania
Perth, Australia
Philadelphia, Pennsylvania
Pittsburgh, Pennsylvania
Pointe-Claire, Quebec
Ponce, Puerto Rico
Portland, Oregon
Port of Spain, Trinidad-Tabago
Ras Al Khaimah, United Arab Emirates
Regents Park, New South Wales, Australia
Richmond, Virginia
Rio de Janeiro, Brazil
Rochester, Michigan
Rochester, New York
Rockford, Illinois
Roseland, New Jersey
St. Louis, Missouri
St. Paul, Minnesota
St. Petersburg, Florida
San Francisco, California
Sao Paulo, Brazil
Sarnia, Ontario
Scranton, Pennsylvania
Seattle, Washington
Shizuoka, Japan
Singapore
Solmiya, Kuwait
Stavanger, Norway
Stockholm, Sweden
Syracuse, New York
Tampa, Florida
Tehran, Iran
Tokyo, Japan
Toronto, Ontario
Troy, Michigan
Tulsa, Oklahoma
Vancouver, British Columbia
Venice, Louisiana
Warri, Nigeria
Wembley, England
West Point, Mississippi
Wickliffe, Ohio
Williamsport, Pennsylvania
Wilmington, California
Wilmington, North Carolina
Windsor, Connecticut
Winnipeg, Manitoba
Wirral, England

Form 10-K

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