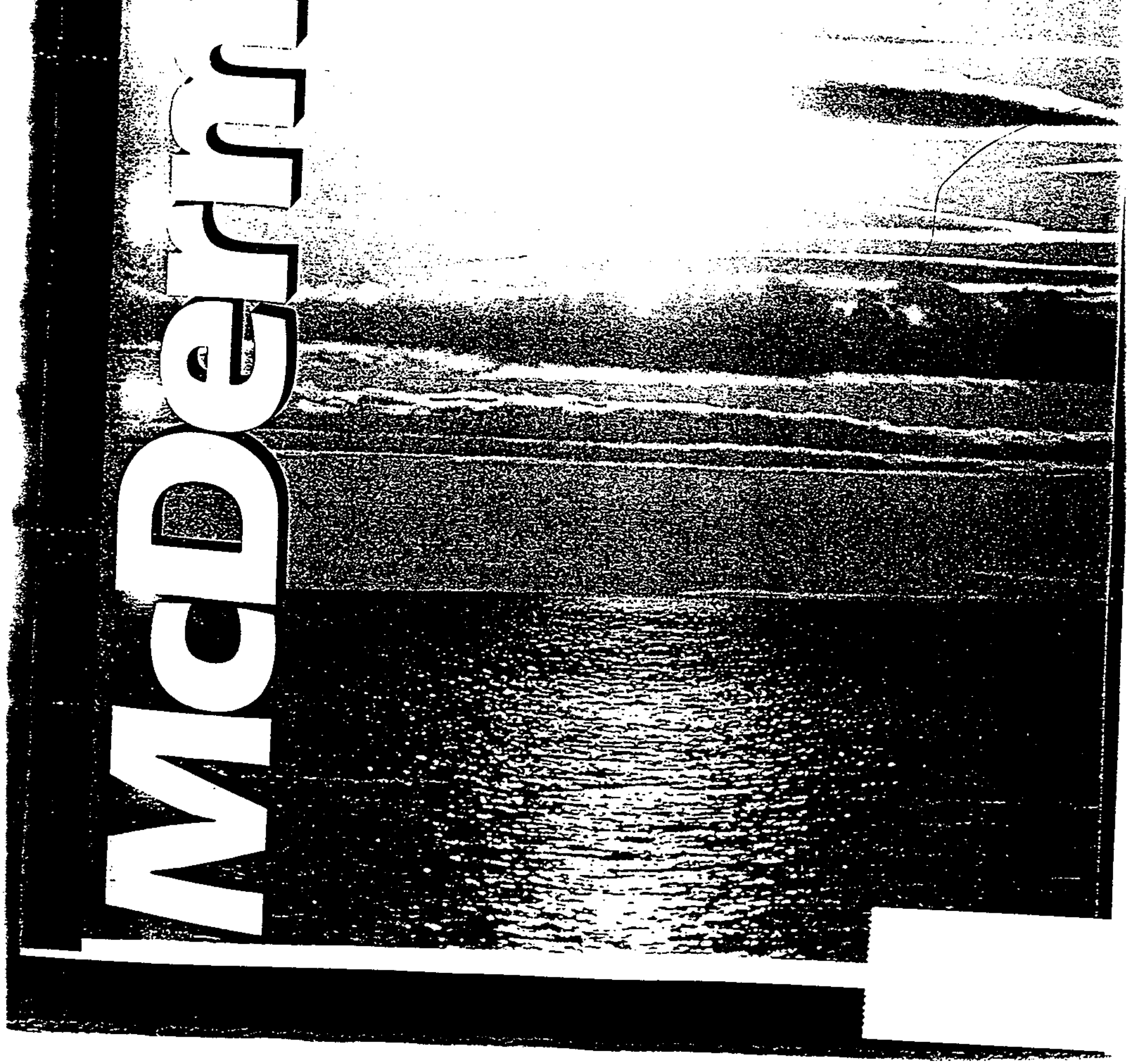
J. Ray McDermott & Co., Inc.

Annual Report For The Fiscal Year Ended March 31, 1980

McDermott



On the cover and throughout this year's Annual Report are examples of the visual and textual materials in our long-range corporate advertising program. The initial phase began in January 1980, and will run for fifteen months in selected national business magazines, newspapers, and trade journals.

Response to date has been excellent. Readership has been measured by independent research organizations, and our ads have consistently ranked in the top 25 percent or better of all ads read in any given publication. Our objectives are to increase awareness of our Company's name, stress the variety and quality of our engineering skills, and reinforce our position as a comprehensive energy services company because – **no matter how the world solves its energy problems, McDermott is involved.**

Any problem as widespread and severe as the energy shortage, calls for a lot of solutions. Today, the McDermott companies are working around the world to find them.

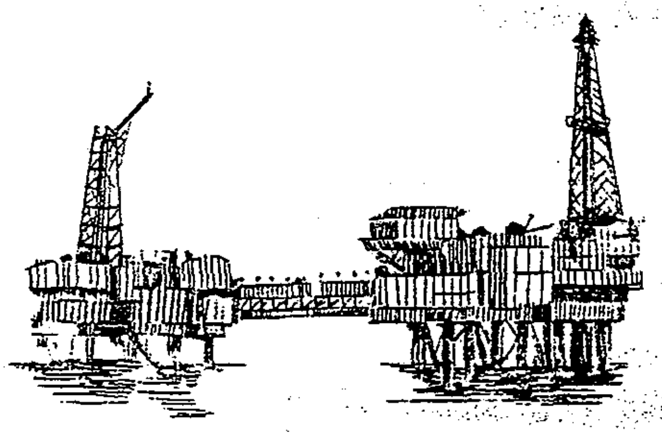
Offshore, we're helping recover the oil and gas locked deep beneath the seas. Onshore, our rugged steel tubing withstands punishing pressures and corrosion as it brings up oil and gas from deep within the earth.

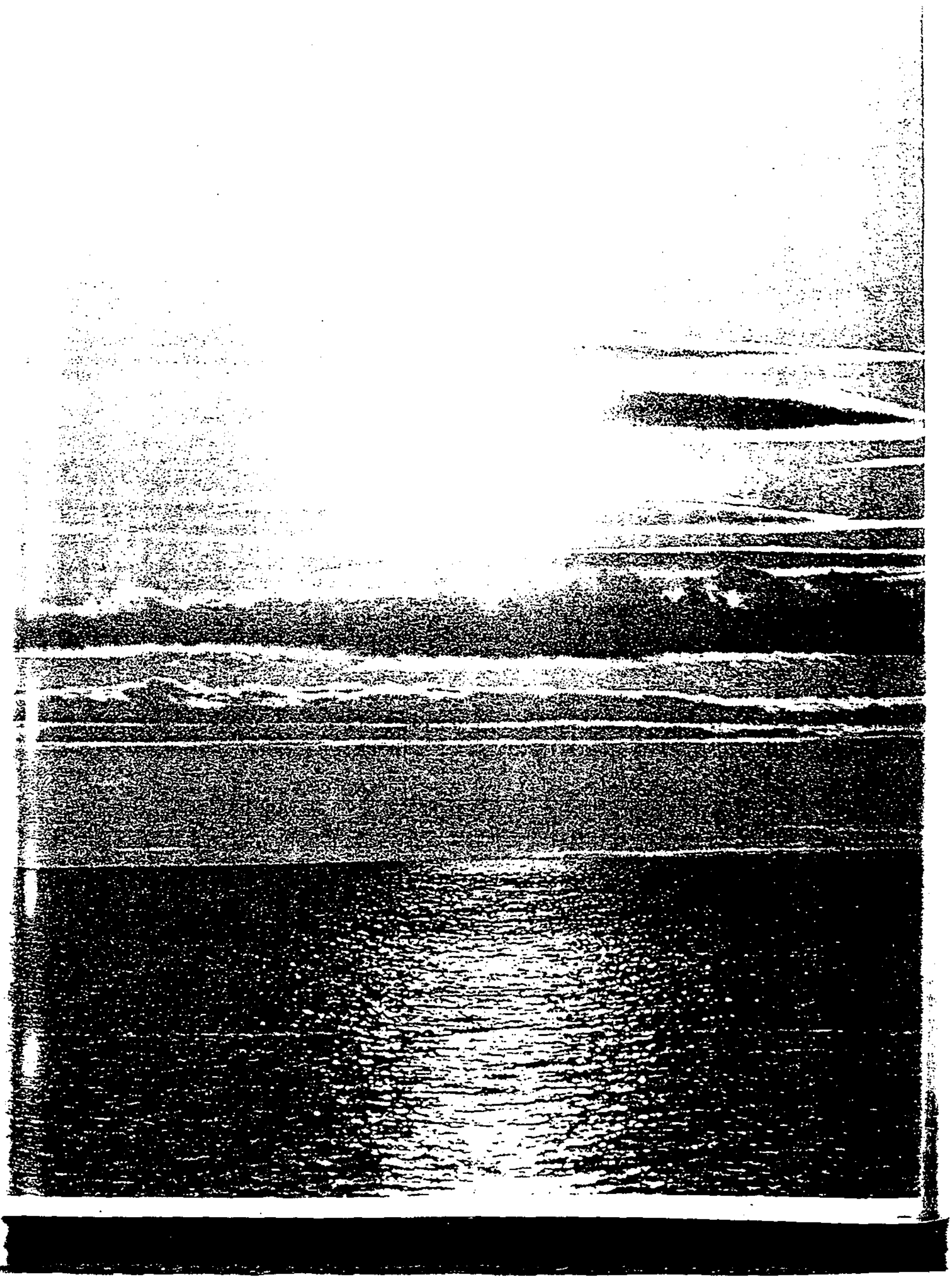
We've designed and built some of the most efficient utility boilers ever produced and the related equipment to help make the best use of the world's fossil fuel. Our nuclear generating plants are helping meet the energy needs of present and future generations.

J. Ray McDermott & Co., Inc. and Subsidiaries for the Fiscal Years Ended March 31, 1980 and 1979

Results at a Glance

In thousands of dollars except per share amounts and number of employees	1980	1979
Revenues	$ 3,282,510	$ 3,144,564
Operating income	105,651	182,050
Net income	88,366	92,957
Earnings per common and common equivalent share:		
Primary	1.77	1.94
Fully diluted	1.76	1.92
Stockholders' equity per common share	27.90	27.09
Cash dividends	70,684	62,427
Cash dividends per common share	1.25	1.00
Working capital	883,010	871,829
Capital expenditures	257,005	131,026
Backlog	4,934,000	4,900,000
Number of employees including subcontract labor	58,000	61,000





To Our Stockholders:

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

During fiscal year 1980, we experienced disappointing operating results. While worldwide competition was intense, it was not the only factor affecting the results. Quite frankly, operating performance was not up to our expectations.

Additional provisions were made during fiscal 1980 with respect to the final settlement on steam generator repairs in Canada, as well as for repairs under certain export contracts. These provisions amounted to approximately $19.5 million. During the year-end closing in May 1980, it came to our attention that we faced substantial additional losses on certain major marine construction contracts. A provision of approximately $19 million for these losses was reflected in the fourth quarter results. Without this latter provision we would have reported approximately $2.35 per share (primary) for the year rather than $1.77 per share.

Because of these problems, and to provide better direction and control for the business activities of the Corporation, we have realigned management responsibilities throughout the Company.

McDermott Operating Unit

Fiscal 1980 began with generally depressed conditions for the marine construction industry worldwide. But as the world begins to search seriously for answers to its energy problems, the offshore industry appears to be on the verge of a considerable upswing. Many business analysts now view the marine construction sector as *the* growth industry of the 1980s.

We agree for two reasons. First, it has been projected that world offshore production will grow well over twice as fast as total world production. In 1970, about 10 percent of our oil came from offshore sites. This year, it will run about 16 percent. And by the year 2000, it is estimated that more than 25 percent of our oil supplies will be derived from offshore locations.

The second reason is that more than 90 percent of the areas favorable to resource recovery lie at water depths of 1,000 feet or less. This means that we have the technology right now to get at that oil and get it out.

Anticipating this, we've supplemented our equipment line. We've added Derrick Barge 100, one of the largest in the world. Through the acquisition of the marine assets of the Netherlands Offshore Company, we've added four other major pieces of construction equipment. And we are building the Intermac 650 – the world's largest launch barge.

The cost of this new equipment – along with the upgrading of our existing fleet – is substantial. Until this equipment achieves a higher utilization rate, it will penalize our short-term financial results. But it will give us a solid base from which to participate in the growth of the offshore sector during the coming decade.

We're also preparing for the future by continuing our engineering leadership in offshore technology. We've pioneered in designing, building, and installing platforms in such hostile environments as the North Sea and Cook Inlet, Alaska. In 1978, we installed for Shell Oil the three-piece Cognac platform – the tallest ever constructed. Now we're building the tallest one-piece platform in the world for Union Oil – to be installed in 937 feet of water off the Texas coast in the summer of 1981.

To keep us in the lead, our research and development unit is studying new methods of securing offshore platforms to the sea floor, ocean wave energy, geothermal energy from beneath the sea, and ocean thermal energy conversion (OTEC).

Reflective of the intense worldwide competition, both revenues and operating income were down compared to last year. However, if the current upswing in offshore activity continues, we're hopeful for improvement in financial results this fiscal year.

Babcock & Wilcox Operating Unit

Since Three Mile Island, we're often asked if we're still pleased about our merger with B&W. This is a complex question, but it can be answered with one simple word – yes!

The merger looked good in fiscal 1978. It looks even better today. The combination of our two companies has made a bigger and a better corporation than either alone ever could have become. It balanced our business cycles. It increased our capacity to penetrate the international market. And it broadened our base to include all major forms of energy services.

The United States must become increasingly reliant on coal and nuclear power to survive the coming decades. This was the conclusion reached by the National Academy of Sciences in a four-year study. B&W is well positioned to participate in both these vital areas.

Despite the fact that the boiler business has been flat, B&W has been able to maintain a strong market share. B&W has received more than 45 percent of the new U.S. fossil boiler orders over the last five years. Additionally, B&W has designed and built all eleven of the coal-fired systems now operating in the U.S. with a capacity of greater than 1,000 megawatts.

B&W and its subsidiaries are involved in all phases of developing more effective ways to use coal. We're a leading supplier of accessory equipment. And we maintain an extensive support organization to improve the efficiency of existing systems.

President Carter recently proposed a $10 billion coal conversion program. With our long tradition of providing the best and most efficient coal-fired boilers, B&W will obviously stand to benefit significantly from any increased use of coal.

Although many utilities evaluate the economics of nuclear power favorably, the political risks and uncertainties associated with siting and licensing, and slow progress on the waste disposal issue, continue to make it a controversial power source. These are very real and very immediate concerns. But we believe, along with the National Academy of Sciences, that nuclear power will play an important role as electrical energy usage increases in the 1980s. And we intend to be there when we are needed.

B&W was again this year the major contributor to the Company's revenues and operating income. These results were achieved in spite of lowered demands for electric power. Because of its strength in customer services and environmental equipment, we expect B&W to be able to generate good profit levels despite a depressed boiler market.

Three Mile Island

During the past year, various lawsuits were brought by persons living in the vicinity of the Three Mile Island nuclear power plant against the Company and others as a result of the nuclear incident which occurred at that plant on March 28, 1979. The Company believes that it is fully protected against any financial liability to these plaintiffs by the provisions of the Price-Anderson Act and the provisions of its contracts with the utility.

In March of this year, General Public Utilities and its affiliated utilities filed a lawsuit against the Company, which also arises out of the March 28, 1979, nuclear incident at Three Mile Island. Based upon the facts developed during the investigations of that incident and the Company's review of its contracts for furnishing equipment and services, the Company feels it has no material legal liability and will vigorously defend its position in the lawsuit.

Antitrust

A number of civil suits claiming treble damages have been instituted against the Company, arising out of the Government's charges of antitrust violations, to which the Company pleaded nolo contendere. The Company intends to attempt to settle any claims which may be found to have sufficient merit to warrant settlement in the best interests of the Company; however, any claims which are without merit or cannot be equitably resolved will be vigorously defended.

Financial Events

In March 1980, we sold 4 million shares of common stock. The proceeds, which amounted to $121.5 million, were used to repay outstanding indebtedness to banks under a revolving credit and term loan agreement, and for working capital and other general corporate purposes.

In fiscal 1980, dividends totalled $2.20 a share for the Series A Cumulative Convertible Preferred Stock and $2.60 a share for the Series B Cumulative Preferred Stock. During the year, we declared Common Stock dividends amounting to $1.25 per share, a 25 percent increase over the $1.00 per share declared in fiscal 1979. At its February meeting, the Board of Directors voted to increase the regular quarterly Common Stock cash dividend 16 ⅔ percent to $0.35 per share. This is equivalent to an annual rate of $1.40 per share.

Management Changes

J. E. Cunningham, Chief Executive Officer of McDermott, was elected Chairman of the Board. He replaced J. D. Ritchie, who resigned as Chairman, but remains a member of the Board.

C. L. Graves, Chairman and Chief Executive Officer of McDermott from 1972 to 1979, has retired as an employee of the Company after 34 years of service. He continues as a member of the Board of Directors.

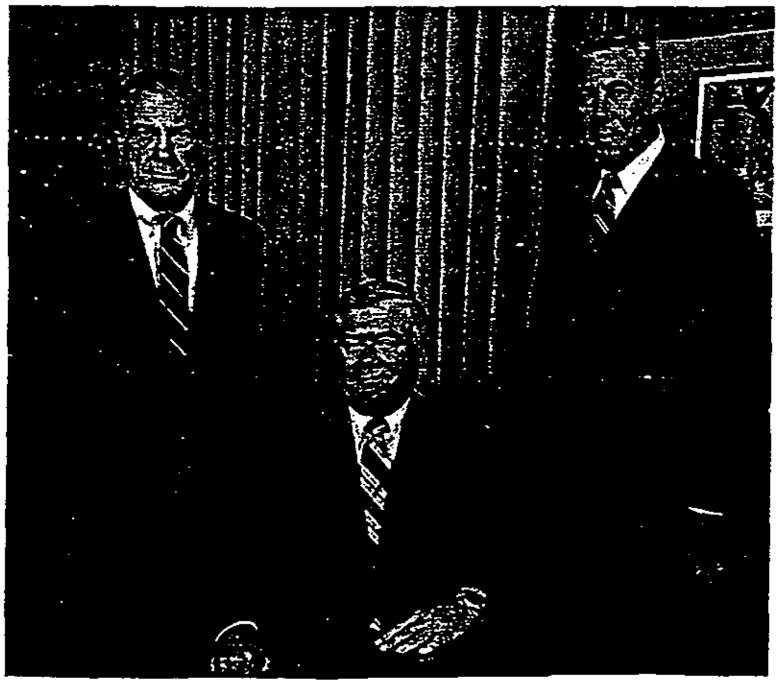
George G. Zipf, Vice Chairman of the Board, and President and Chief Operating Officer of the B&W Operating Unit has retired. He has also resigned from the Board. Other resignations from the Board include: Graham D. Mattison; William L. Wearly; C. L. Davis; and W. E. Earles. Mr. Earles continues as an officer of the Company.

Walter O. Spencer, Dean of the Graduate School of Business at Tulane University of Louisiana, Russell L. Wagner, Chairman and Chief Executive Officer of the NLT Corporation. Walter M. Vannoy, the new President and Chief Operating Officer of the B&W Operating Unit, and John A. Lynott, Executive Vice President and Chief Financial Officer, have been elected to the Board.

H. W. Bailey was elected Executive Vice President and Chief Administrative Officer. He had been Executive Vice President, North American Operations. Edmund A. Robidoux was elected Vice President and Controller. And Charles F. Kraus was elected Vice President-Tax Administration.

The Outlook

A new decade has begun. With it has come the usual variety of predictions about what is likely to happen during the next ten years. Prognostication is a difficult art at best. But one thing seems certain – no matter what happens, energy will remain a dominant concern.



Left to right:
K. J. Gilly, Vice President, General Counsel, and Corporate Secretary,
H. W. Bailey, Executive Vice President and Chief Administrative Officer,
J. A. Lynott, Executive Vice President and Chief Financial Officer

To Our Stockholders:

As a comprehensive energy services company, we have a product that is not only desirable, it is needed. Inflation, environmental constraints, and regulatory red tape may slow energy development. But if we are to maintain our standard of living, if our economy is to remain competitive, healthy, and growing, we will have to solve our energy problems. McDermott can – and will – participate in this process.

We certainly don't mean to minimize the competition we face in all our market sectors. Once we forget that the competition is waiting in the wings to take over our role of serving the customer, we're in trouble. At McDermott, the customer is paramount in our minds.

The world is changing so fast these days that unless we can keep our sights on tomorrow, we cannot expect to remain in touch with today. The trick is not only to learn to live with change, but to learn how to capitalize on it by planning ahead. The winners of this game will be those who can best interpret future trends and shape their plans accordingly.

If it's true that history does repeat itself, then it also seems true that every time it happens, the price doubles. To avoid this, we must plan carefully. A large nuclear power plant or an oil field requires about ten-to-twelve years to get from the drawing board to the commercial production stage. Hence, planning for the distant future can't be isolated from that immediately ahead.

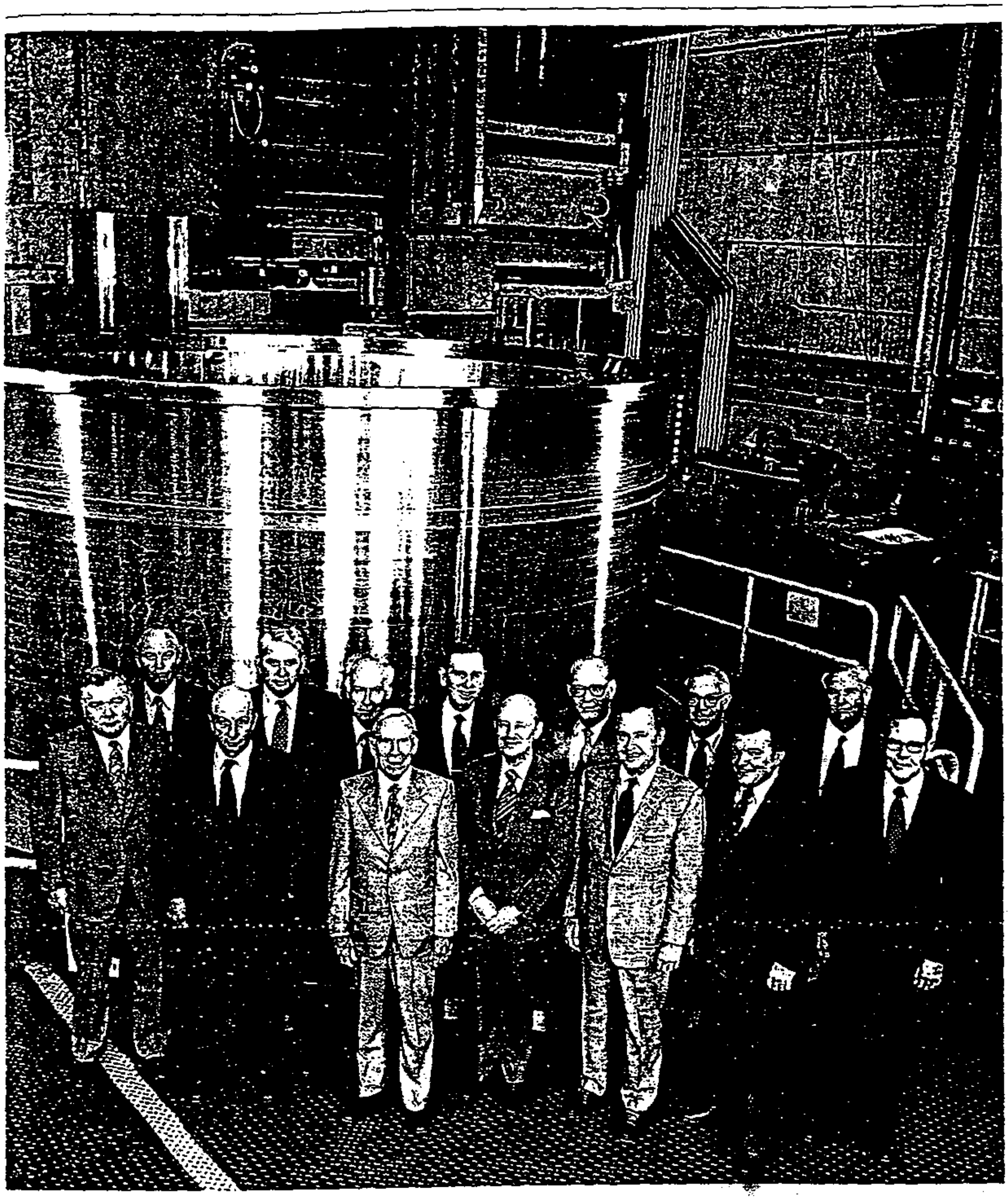
Gone forever are the days when the analysis of energy problems was limited to academicians. Energy now is the stuff of headlines.

Solutions to our energy problems are not likely to come from doctrinaire prescriptions or traditional dogmas. Just as the energy problem itself is linked politically and economically, so too are the solutions. Only those people who can recognize this linkage will contribute to the effective management of the problem. And that, quite simply, is why we've stressed the quality of our people in our reorganization.

During the coming decade, we expect the basic energy questions to change very little. But we expect the answers – such as increased use of coal and the development of synthetic fuels – to be profoundly different. Our new team gives us the capability of providing those answers quickly, efficiently, and with maximum benefit to our stockholders. We're ready to commit whatever corporate resources are required to strengthen our position as a comprehensive energy services company on the worldwide scene.

Our goal is simple – to make a profit in every area. We have the products. We have the technologies. We have the resources. And most importantly, we have the people. We can truthfully say, as our new corporate advertising proclaims: *No matter how the world solves its energy problems, McDermott is involved.*

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



McDermott's Board of Directors

(back row, left to right) Robert K. Richie, William T. Seawell, James E. Cunningham, Walter B. Shaw, Walter O. Spencer, John B. Tweedy, Walter M. Vannoy; *(front row, left to right)* H. W. Bailey, John A. Morgan, Russell L. Wagner, John D. Ritchie, G. W. Douglas Carver, James A. Hunt, and Charles L. Graves, John A. Lynott *(not pictured)*.

The Year In Review

Marine Construction Services

The Marine Construction Services segment provides a range of engineering and construction services. It enables 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.

Engineered Materials

The Engineered Materials segment includes the manufacture of specialty steel tubing for the electrical power generation, oil-and-gas production, chemical processing, automotive and farm equipment, and metalworking industries. Specialty refractories and ceramic fibers are produced for the primary metals, furnace building, glass and ceramics, chemical and petroleum, and electric utility industries.

Other Products and Services

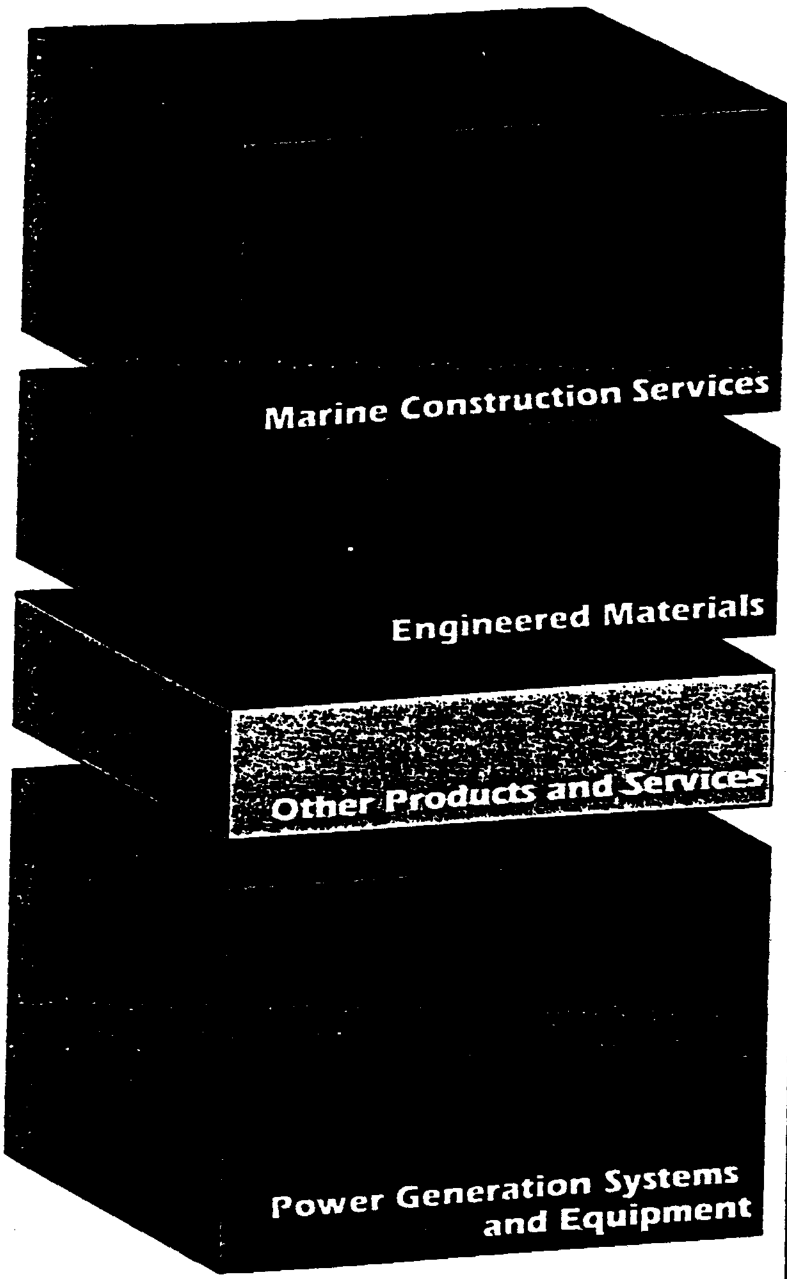
The Other Products and Services segment includes the design and manufacture of control valves, automated machines and machine tools, and air-cooled heat exchangers.

Power Generation Systems and Equipment

The Power Generation Systems and Equipment segment provides a range of engineered and highly technical manufactured products and construction services. It allows utilities to produce steam to generate electricity from fossil fuel and nuclear power plants. Principal products and services include building steam generating systems, pollution control equipment – such as precipitators and sulfur-dioxide removal systems – air heaters and fans, automated control systems, and maintenance and repair services.

Revenues

FOR THE FISCAL YEAR ENDED
MARCH 31, 1980



982 Million (30%)

581 Million (18%)

262 Million (8%)

1.458 Billion (44%)

TOTAL
3.283 Billion (100%)

McDermott Operating Unit

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

In February 1980, Robert K. Richie, President and Chief Operating Officer of the McDermott Operating Unit, announced the restructuring of the unit into five major areas of responsibility. The changes more accurately reflect present and future conditions in the offshore industry, and will allow the unit to serve its customers better at home and abroad.

E. R. H. Selley ***became Senior Vice President and Group Executive, responsible for Middle East; Southeast Asia, and West Africa Areas.***

During fiscal 1980, we completed the "Dugas" onshore/offshore gas gathering and processing facility at Dubai. This is the largest project we've yet undertaken in the Middle East.

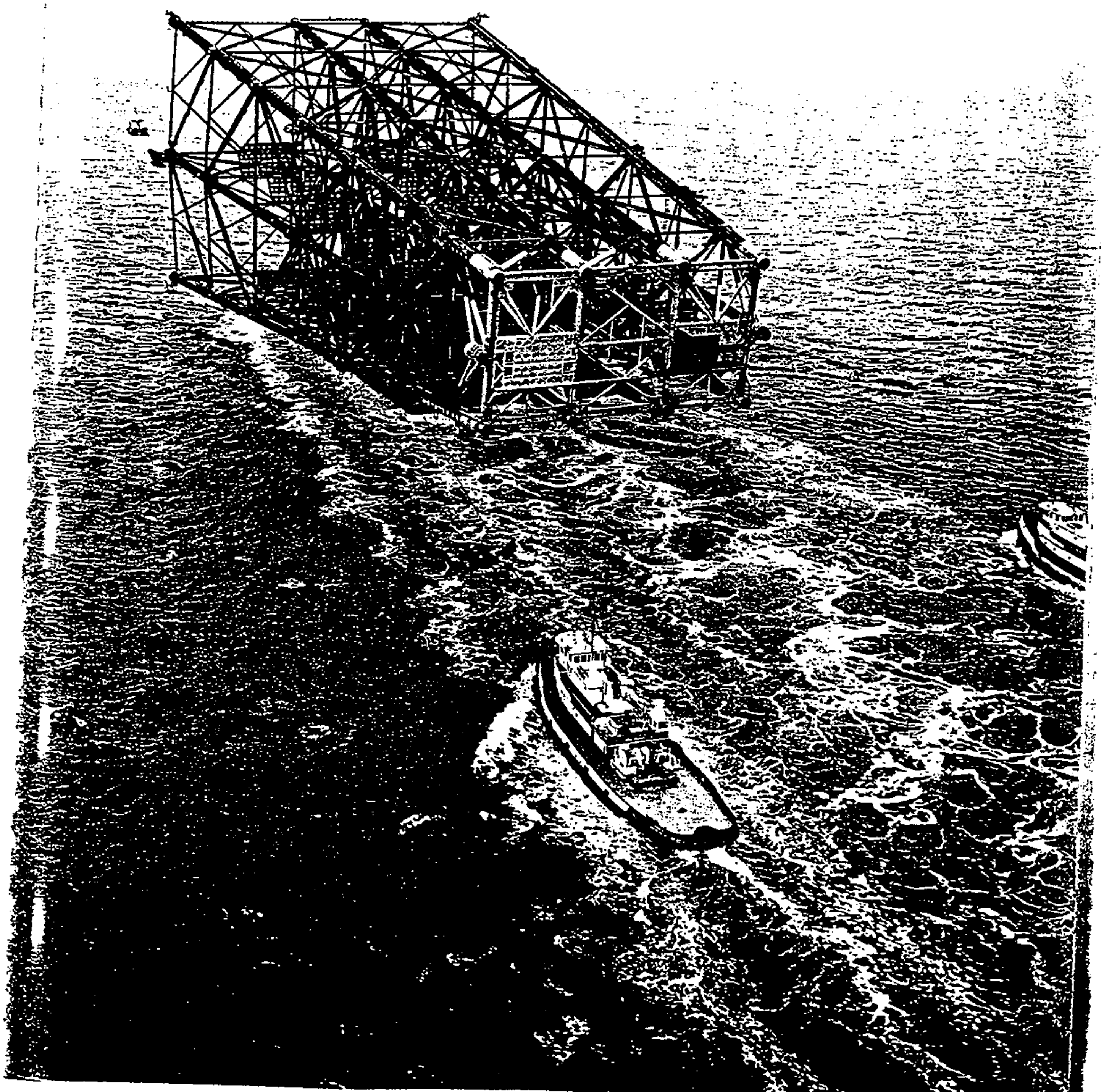
In current projects, the Ju'Aymah LPG loading island system is near completion. Ju'Aymah will be the loading island terminal for a $6 billion Saudi Arabian gas program.

The Company is continuing work in India's Bombay High Field. This summer, Derrick Barge 101, formerly the Narwhal, will be relocating to this sector along with related support equipment.

One of America's few remaining undeveloped territories for oil and gas reserves is in the Gulf of Mexico, where the water is more than 1,000 feet deep. Recovery wasn't practical until we built and installed "Cognac", the world's tallest offshore drilling and production platform.

Towering 1,265 feet above the sea floor and weighing 118 million pounds, the Cognac platform was the first ever built and installed in three sections. Each had to be towed to the site, lowered into place, and mated.

Drilling has already begun. At full production, Cognac's 62 wells will produce 50,000 barrels of oil and 150 million cubic feet of gas every day.

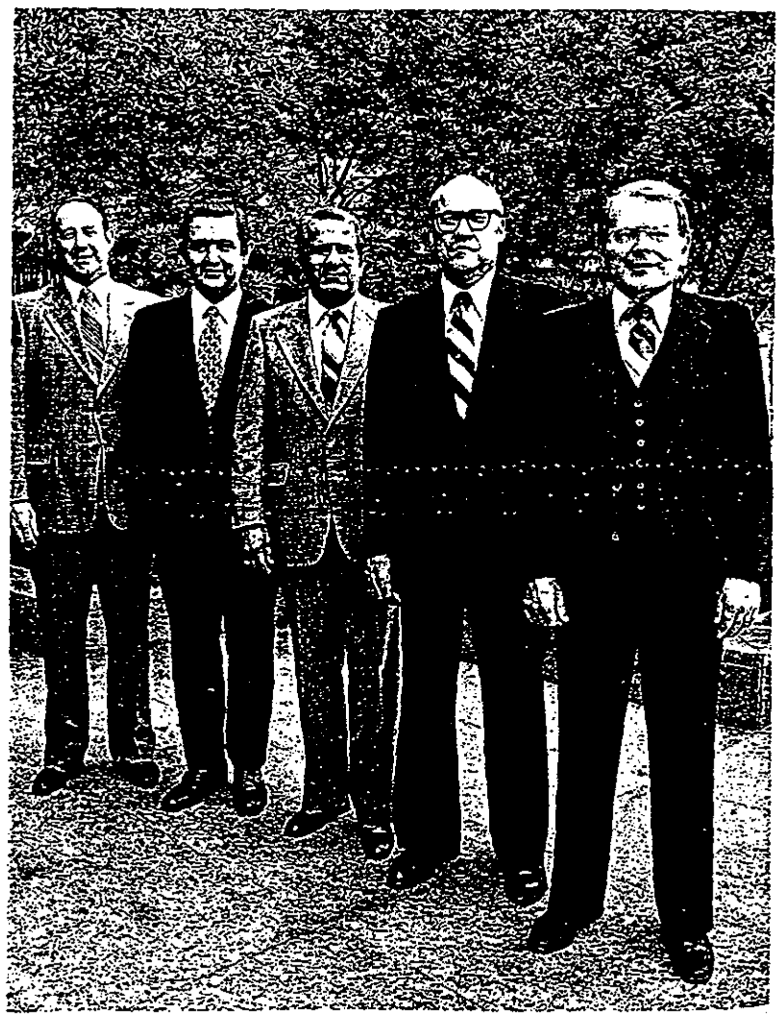


The Company is also continuing work on fabrication, installation, and pipelaying in Dubai and the Gulf of Suez. In January 1980, we were awarded a $16 million contract for the construction and installation of 14 jackets in the Upper Zakum Field in Abu Dhabi.

The political unrest in the Middle East has obviously impacted our operations in this area. But future business prospects still look bright. Total peak capacity of exportable crude oil has not yet been achieved. Vast natural gas fields are still virtually untapped. Reservoir maintenance projects will become more common as the fields age. And countries such as India, Pakistan, and Oman, which have promising offshore potential, will be pushing to develop their resources to obtain energy self-sufficiency. In this area, well-established companies will be the ones to survive and prosper.

Southeast Asia is probably the area with the best growth prospects. Nearly all of the enormous potential of the Southeast Asia Shelf lies in water depths shallower than 600 feet. This factor, plus the presence of local governments in favor of continued brisk resource development, indicates it will be an

Left to right:
R. E. Howson
E. R. H. Selley
W. E. Earles
E. J. Dressel
I. R. Foster
H. R. Reeves
(not pictured)



active area for the rest of this century.

Our operations in the area are very large. We are registered to do business in Singapore, Indonesia, Malaysia, Brunei, Papua New Guinea, the Philippines, Thailand, and Australia.

During fiscal 1980, we experienced a high level of utilization of our heavy marine construction equipment in Southeast Asia. We installed nine platforms, layed over 140 miles of pipe, and relocated two pipelines.

We also completed work in the Bass Strait of Australia, consisting of the installation of the Snapper platform and the laying of 22 miles of pipeline.

Recently, we were awarded a variety of new contracts totalling $60 million. They include offshore work in Thailand, Indonesia, and Brunei.

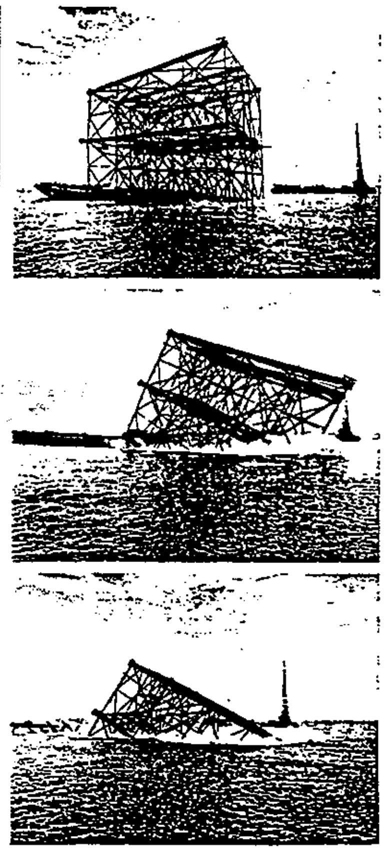
Onshore, we established a process-vessel shop on Batam Island, Indonesia. We are constructing a barge wharf in East Kalimantan, Indonesia. We received an additional contract for further development of geothermal facilities in the Philippines. And Singapore International Airlines awarded us an $8.9 million subcontract to build a column-free roof at Singapore's Changi International Airport.

In West Africa, we were awarded a $68 million contract for gas facilities off the coast of Cabinda. We also received a $21 million contract to lay 55 miles of pipeline in Nigeria. Additional work is now on hand for Texaco, Gulf, Shell, and Petrofina in the countries of Zaire, Nigeria, and Angola.

I. R. Foster *became Senior Vice President and Group Executive, North, Central, and South America Areas.*

Our shipyards had one of their busiest years. We constructed seven tugs, two tug/supply vessels, two posted drilling barges, and two self-contained package drilling rigs. Current projects include five tugs, four supply vessels, and seven posted drilling barges. To prepare for this work, we doubled our underroof module construction capacity. We added a new 5,000-ton dry dock at Morgan City, giving us the capability to lift most large offshore barges, or to accommodate as many as four vessels simultaneously. And we purchased a shipyard in Gulfport, Mississippi, to meet our contracts in fabrication and repair services.

Our expanding operations also include Mexico. Our joint-venture company, Lan-Dermott, received an order to fabricate six package drilling rigs for Petroleos Mexicanos (PEMEX), the national petroleum company of Mexico. Most of these rigs will be built at our 125-acre facility near Tampico.



To reach new deposits, we built a platform taller than the Empire State Building and placed it in the Gulf of Mexico.

In November 1979, we formed a new joint-venture with PROTEXA, the leading offshore construction company in Mexico. The new company is called Construcciones Maritimas Mexicanas, S.A. de C.V. (CMM). The three large combination derrick-and-lay barges owned by the new venture are now performing offshore work for PEMEX.

Our Inland Service Division's volume of business is almost double its normal level. Major work totals approximately $20 million. It includes heightening levees, installing pilings, building a shipping dock, and constructing new oil-and-gas production facilities.

Our Pipeline Division had an active year, laying 196 miles of pipe. The year was highlighted by the laying of 23 miles of 12-inch pipe in 1,025 feet of water from the Cognac platform, by far the deepest from a platform to the shore. This was achieved using conventional equipment. It proved our leadership in the development of deep-water fields. And it showed that we haven't yet reached the limits in the development of those fields using conventional equipment.

We expect an equally active year in fiscal 1981. Two new projects include: a contract to lay 30 miles of pipe in the Gulf of Mexico for Michigan Wisconsin Gas Company; and a contract from Gulf Oil to lay 26 miles of pipe in over 600 feet of water. The deepwater experience we gained on the Cognac project was one of the primary reasons we were chosen for this installation.

W. E. Earles ***became Senior Vice President and Group Executive, Fabrication and Structural, Gulf of Mexico.***

In recognition of McDermott's long tradition of technological expertise, during fiscal 1980 we were awarded a contract from Union Oil to fabricate what will be the tallest one-piece jacket in the world. Scheduled to be installed in the Gulf of Mexico next year, the East Breaks jacket will weigh more than 20,000 tons, have 40 well slots, and measure 968 feet from top to bottom – or about the height of the Eiffel Tower.

To facilitate the transportation of this huge structure to its permanent site, our Equipment and Materials unit designed and is having built the world's largest launch barge. This 650-foot vessel will have the capability to launch jackets weighing up to 40,000 tons. It keeps us in a leadership position to install the giant platforms that are becoming necessary to develop deep-water fields.

During the year, we produced about 120,000 tons of more conventional structures as well. Our customers included all of the major energy companies operating in the Gulf of Mexico. We anticipate that the tonnage of platforms built in fiscal 1981 could be as much as 10 percent greater than in fiscal 1980.

Despite intense competition in the Gulf of Mexico, we experienced good fleet utilization. During the year, one of the largest lease-sales occurred in the history of the Gulf. In anticipation of new work to be derived from these sales, we've upgraded our fleet.

H. R. Reeves *became Senior Vice President and Group Executive, North Sea Area.*

Activity in the North Sea has increased substantially. In December 1979, we were awarded a $120 million contract for the construction and installation of the Amoco platform for the United Kingdom's Northwest Hutton Field. This 14,000-ton structure will be installed in 474 feet of water in the summer of 1981. Fabrication is being done at our 800-acre facility at Ardersier, Scotland.

In January 1980, we received a $125 million contract from Amoco Norway Oil Company for the construction of production facilities in the Valhall Field of the Norwegian Sector. Included in the project is the hookup of operating and life-support systems, and the commissioning of the facilities, scheduled for July 1981.

Other hookup work awarded this year includes British National Oil Corporation's Beatrice platform and Chevron's Ninian Southern facilities.

Also in January 1980, McDermott Scotland received a $23 million contract to build three topside facility modules for the North Cormorant Field.

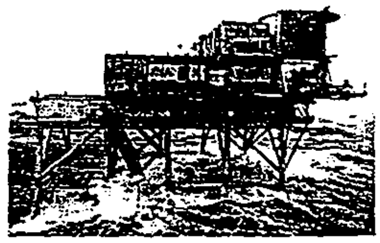
In August 1979, McDermott Scotland completed the fabrication of the $70 million Murchison jacket and piles for Conoco. This 545-foot structure is the tallest ever fabricated in one-section for the North Sea.

McDermott Scotland also completed an $18 million contract for the construction of decks and production modules for Mesa Petroleum's Beatrice Field.

R. E. Howson *became Senior Vice President and Group Executive, McDermott Engineering.*

McDermott Engineering has worldwide responsibility for engineering operations in London and Aberdeen, Singapore, New Orleans, and Houston, where additional facilities are being built. This also includes the activities of our Research & Development and Technical Services wherever needed.

This operation better enables us to serve all our customers. We have the capability to provide single-contractor responsibility for the design, engineering, fabrication, installation, and servicing of complete onshore/offshore facilities. We also have the capability of providing conventional engineering services on projects when the customer desires split responsibility. In today's competitive business climate, this combination of



We've found ways to beat 110' waves and hurricane force winds.

worldwide engineering offices with centralized control is the best and most efficient way of serving customers with international operations, as well as those operating on a regional basis.

E. J. Dressel *became Vice President and General Manager, Equipment and Materials Operations, reporting to McDermott Engineering.*

Equipment and Materials Operations functions in several areas. We provide total procurement service in support of operations at home and overseas. This includes purchasing, inspecting, expediting, and transporting materials. We service Gulf Coast industries in the sale of such materials as steel, valves,and fittings, lumber, and electrical equipment. We design, build, and maintain marine and associated equipment for both foreign and domestic operations. We assist field operations in the selection and use of specialized equipment. And we develop new tools, processes and procedures.

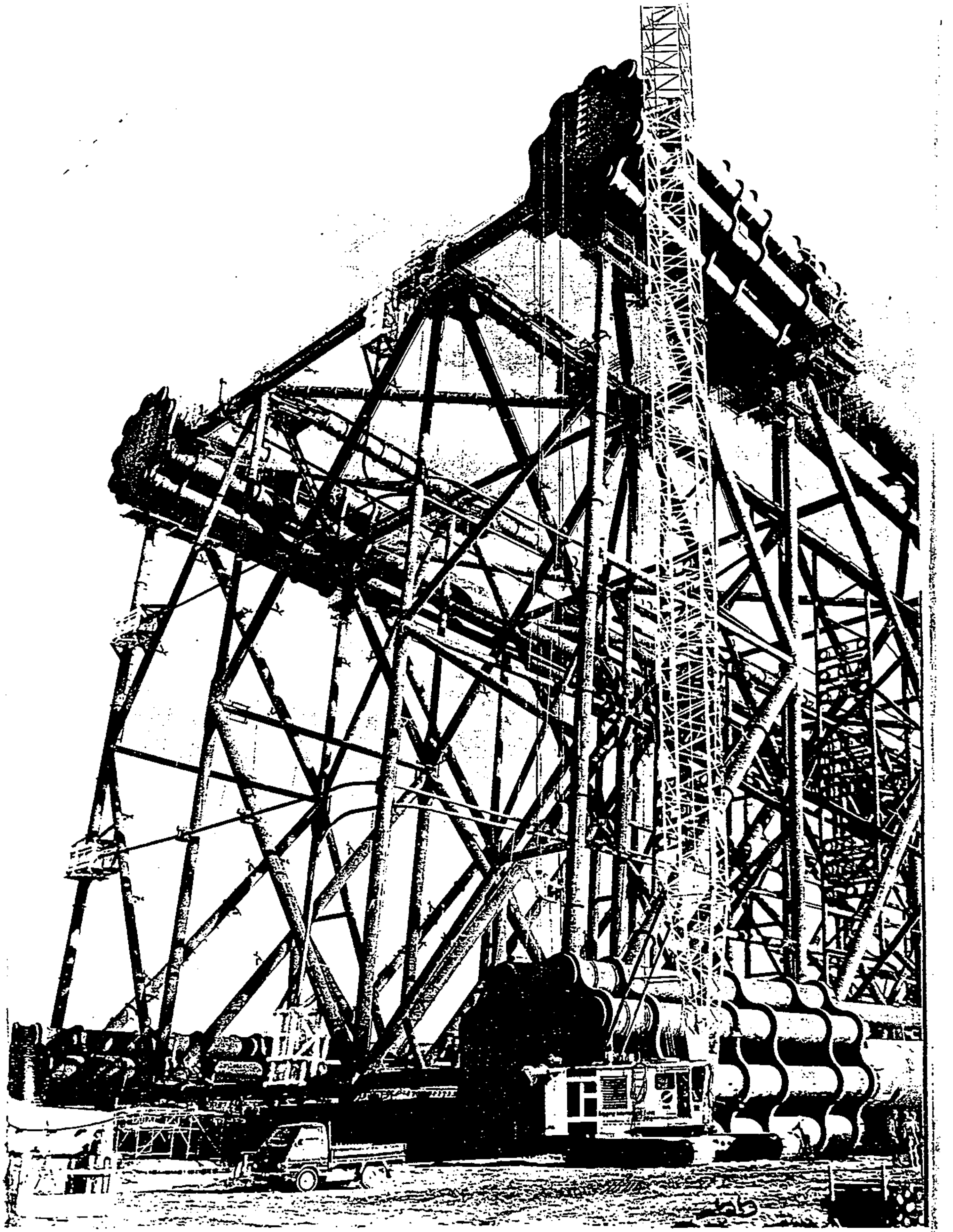
To serve our customers better, for example, we're utilizing two new welding systems. The first is a conventional automatic marine welding system. Under development since 1976, the system will increase the speed and quality with which large-diameter pipe can be welded aboard pipe lay barges.

We also signed a systems acceptance agreement with the Paton Welding Institute of the Soviet Union for a Flash Butt Welding System. McDermott, with exclusive marine application rights outside the U.S.S.R., will be the first to use the system for marine pipeline construction. The prototype machine is scheduled to arrive in New Orleans in January 1981.

Despite relentless storms, the North Sea is yielding its treasures to the experience, resources, and skills of McDermott International, Inc., a McDermott company.

Near Ardersier, Scotland, this McDermott-owned company builds all types of offshore structures.

From its headquarters in Brussels, it directs a fleet of marine construction vessels that includes some of the largest and most sophisticated equipment in the world.



Babcock & Wilcox Operating Unit

W. M. VANNOY
President and
Chief Operating Officer,
Babcock & Wilcox
Operating Unit

In February 1980, Walter M. Vannoy was elected President and Chief Operating Officer of the Babcock & Wilcox Operating Unit and a member of the Board of Directors. He replaced George G. Zipf, who retired after 38 years with B&W.

In March 1980, Mr. Vannoy announced the restructuring of B&W into six operating units reporting directly to him. These changes will provide a more balanced distribution of management responsibilities and a better focus for those responsibilities.

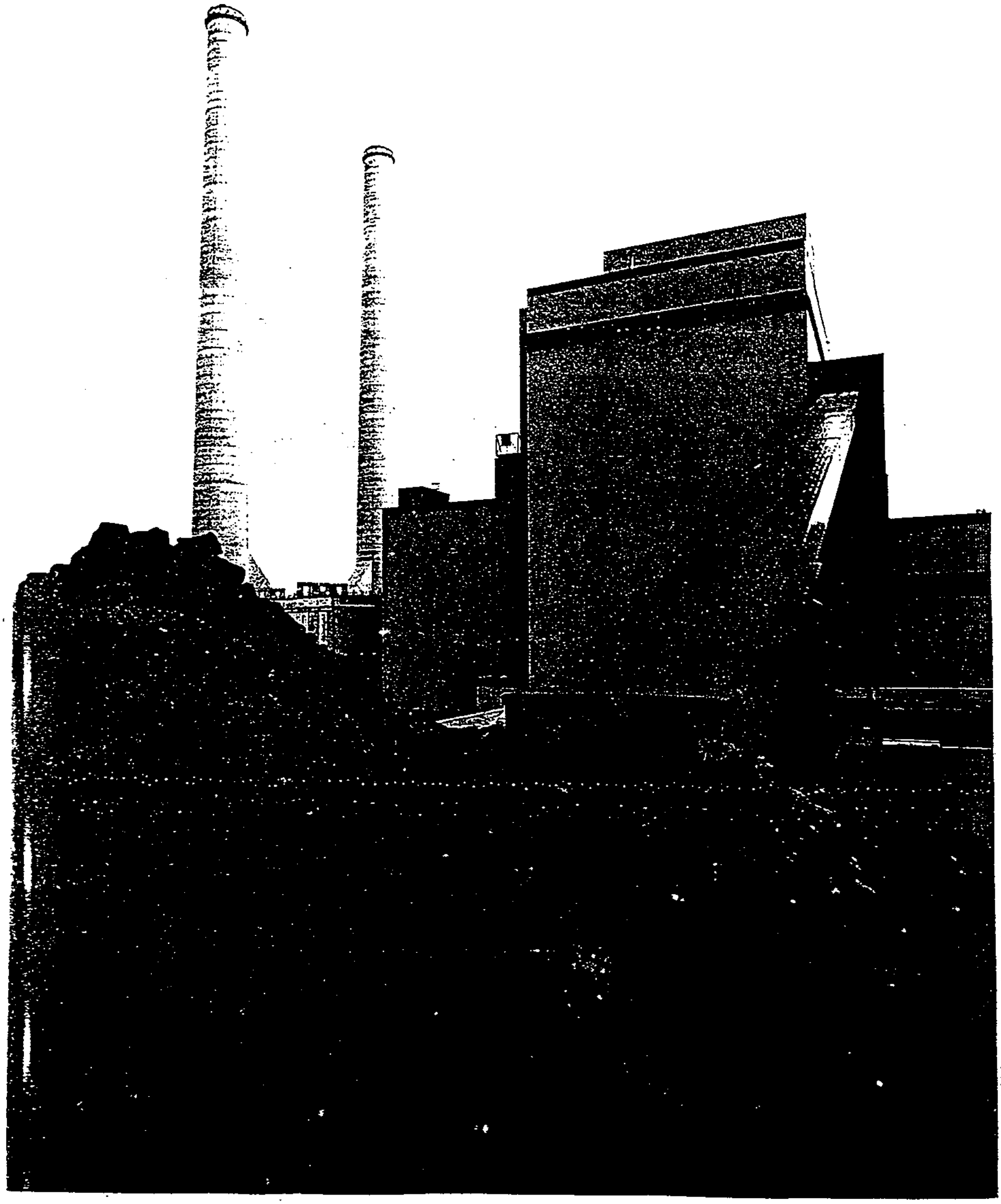
L. M. Favret ***became Executive Vice President and Group Executive, Business Integration Group.***

The Business Integration Group will concentrate on the technical excellence of all B&W products, growth in international markets, the advancement of technology, and the future development of the business. This Group will provide direction and coordination of the business activities of the B&W Operating Unit.

Our new national energy policy has made coal the favored fuel for the foreseeable future. With reserves estimated at 300 billion tons, America has enough coal to keep up with its energy demands for generations.

Duke Power Company's Belews Creek Steam Station proves coal can be burned cleanly and efficiently. With huge boilers designed and built by Babcock & Wilcox, a McDermott company, this plant is regularly named among the most efficient generating stations in the nation.

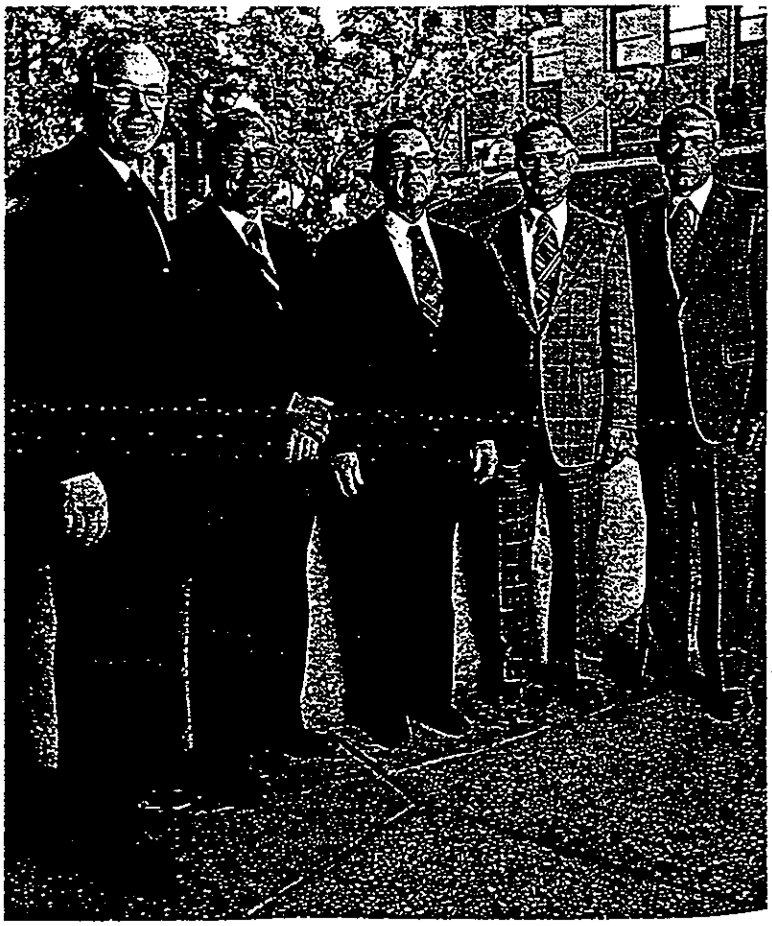
Babcock & Wilcox is also a major supplier to the world's utilities of everything from giant-sized pulverizers that grind coal for easier burning...to air heaters and fans that aid combustion...to soot blowers that clean up boilers...to pollution control equipment that protects the environment.



During fiscal 1980, we were awarded more than $150 million in new boiler orders from overseas customers. Included in this was a $72 million contract for five radiant boilers to be installed in the Al Khobar Phase II desalinization plant in Saudi Arabia in 1982. In conjunction with this contract, TLT-Babcock received an order for ten centrifugal forced draft fans. The Comisión Federal de Electricidad of Mexico placed an order for electromagnetic filters and associated equipment to be used at the Laguna Verde nuclear power plant. Bailey Controls received contracts to produce instrumentation and equipment in Spain, Korea, and Saudi Arabia. B&W and our Korean licensee – Hyundai Heavy Industries Company – signed a contract to manufacture components for two radiant boilers for Korea Electric Company. Shortly after the close of the fiscal year, we received a $25 million contract from the Taiwan Power Company for an oil-fired, radiant boiler with a 500-megawatt capacity.

B&W Canada had an active year. We received a $50 million contract to provide three oil-fired, 150-megawatt, steam generators to a regional electric utility company in Venezuela. We were awarded a $4 million project to supply F. F. Soucy, Inc., of Quebec with two boilers and related equipment for Soucy's newsprint mill. In March, we installed North America's

Left to right:
L. M. Favret
J. H. MacMillan
G. W. Kross
D. E. Heyburn
E. M. Griffin



largest wood-waste burning boiler at Crown Zellerbach's Elk Falls Mill in British Columbia.

In the past year, we have received more than $75 million in new orders for contract research. This will help keep us in the forefront of energy conversion technology. Our R&D unit is working on the commercialization of a fluidized-bed combustion system, an advanced water/steam solar receiver, and a more efficient coal-fired electric utility plant utilizing magnetohydrodynamics (MHD).

G. W. Kross *became Executive Vice President and Group Executive, Materials Group.*

The Materials Group will concentrate on maintaining market leadership with high-quality, high-technology products, and capitalizing on the growth in products related to energy production and energy conservation.

This Group is the nation's leading supplier of specialty steel tubing. After a strong first half, demand for mechanical tubing, which is used in the automotive, farm equipment, rail transportation, and metalworking industries, weakened and distributors stopped building inventories. The combination of a recession and inventory liquidation is expected to continue to impact the results of this market sector during fiscal 1981.

Sales of our pressure tubing are tied to the electric utility, process, and oil-and-gas production industries. Record-high interest rates and reduced demand for electrical power are expected to reduce capital expenditures drastically by the utility, chemical, and refinery industries. However, demand from the oil-and-gas production segment has been strong and will continue to be strong as the industrialized world mobilizes to solve its energy problems.

To serve the oil and gas markets better, we began construction of a tube finishing plant during fiscal 1980 near College Station, Texas. This $14 million facility will increase our total finishing capacity by about 40 percent.

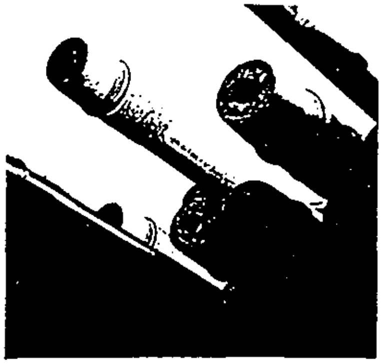
As new construction is postponed because of the recession, older facilities must be maintained. We look for continued strength in the maintenance and repair markets.

During fiscal 1980, the economy's problems unfavorably impacted our Insulating Products Division. However, the Division remained profitable. While slack conditions will probably persist through fiscal 1981, all industries are actively searching for new ways to save fuel and maximize heat-transfer exchange. Maintenance and plant improvement contracts should continue to provide a full range of active projects for the Division.

E. M. Griffin *became Senior Vice President and Group Executive, Fossil Power and Construction Group.*

The Fossil Power and Construction Group will concentrate on developing the opportunities inherent in the increased use of coal.

New orders for fossil steam generating systems continued at a low level. During 1979, it was reported to the American Boiler Manufacturers Association that 5,467 megawatts of new fossil-fired boiler systems were ordered in the U.S., compared with total industry capacity of approximately 30,000 megawatts. Our Fossil Power and Construction Group received orders for 1,642 megawatts—30 percent of the total new orders placed during the year. This is lower than our last five-year average



We're turning out tubing tough enough to get it out.

market share of 45 percent and reflects the severe price competition in the marketplace.

We were awarded a $50 million project for a 450-megawatt radiant boiler for the Colorado-Ute Electric Association. We were also awarded a $45 million contract for the dry sulphur-dioxide removal system for this boiler. Both awards included field construction. The Tennessee Valley Authority (TVA) awarded us a $35 million contract for the design, fabrication, and construction of a coal-fired prototype boiler employing advanced atmospheric fluidized-bed combustion technology. Also, Florida Power Corporation awarded us a $35 million contract with an option for field construction for a 640-megawatt, coal-fired radiant boiler.

We have expanded our scope for fossil systems to include all of the equipment from coal pulverizers through stack gas clean-up systems, including new products such as fans, air heaters, precipitators, and scrubbers. During the year, we developed a bottom ash handling system for the removal of coal ash from furnaces. Customer acceptance of these new systems has been very good.

We've also targeted operating plants with in-use B&W equipment as a primary market opportunity for replacement parts and maintenance. The size of this market is evident from the number of B&W units in active service: more than 750 utility boilers; more than 15,000 industrial boilers; and about 1,500 marine boilers. Our customers have a strong interest in keeping existing plants in operation and upgrading them to improve performance and reliability. We expect excellent growth of this market.

D. E. Heyburn *became Senior Vice President and Group Executive, Industrial Products and Services Group.*

The Industrial Products and Services Group will concentrate on maintaining a leading position in utility-related markets and exploiting growth opportunities in industrial markets.

During the year, our Bailey Controls Company developed a new advanced-technology flame detector for use in B&W's low nitrogen-oxides, coal-fired boilers that should greatly enhance reliability and performance.

Bailey Controls has been awarded contracts valued at $1 million or more from Houston Lighting and Power, Western Farmers Electric Cooperative, and Aramco. Sales of Bailey's Conserver Systems, which optimize fuel-burning efficiency in industrial boilers and process heaters, continued strong.

During the year, the Mirror Insulation Unit of Diamond Power Specialty Company received its largest contract ever – $5 million. It will supply all-metal reflective insulation for piping and equipment at TVA's Bellefonte nuclear plant. Diamond Power is also a leading supplier of boiler cleaning equipment.

The Industrial and Marine Division manufactures steam generating equipment. It also provides associated services for industrial and specialized electric utility applications, as well as for marine use. We received an order for two process recovery boilers and two large power boilers for the International Paper Company's new mill in De Soto Parish, Louisiana. The Division also supplied three boilers for Akron, Ohio's new recycle energy plant. Similar B&W-manufactured incinerator boilers are being used in Nashville, Tennessee, and Hamilton, Ontario.

The Automated Machine Division was awarded contracts valued at $20 million to supply machinery for the new Chevrolet V-8 diesel truck engine program. All segments of the Division will supply equipment for the program. The equipment will be used in manufacturing components for the 1982-models.

Effective April 1, 1980, operational responsibility for Hudson Products Corporation was transferred from the McDermott Operating Unit to the Industrial Products & Services Group of B&W. This change was effected to take better advantage of the actual specialty markets this organization serves as a producer of advanced-technology heat exchangers. The first air-cooled steam condenser designed to Hudson's specifications was installed during the year at the University of Alaska. This unit is unique in the industry because of its ability to operate in temperatures as low as −60°F. Similar units will be installed during this fiscal year at a Rock Island Refining Company facility in Indianapolis and for El Paso Natural Gas at Farmington, New Mexico.

TLT-Babcock, a primary supplier of heavy-duty fans and noise abatement equipment for the utility industry, has diversified its product line. During the year, we received a number of contracts to supply fans for mining and industrial purposes.

J. H. MacMillan *became Senior Vice President and Group Executive, Nuclear Power Group.*

The Nuclear Power Group will concentrate on maintaining the necessary critical skills during a period of depressed domestic markets, and preparing for the revitalization of our nuclear industry.

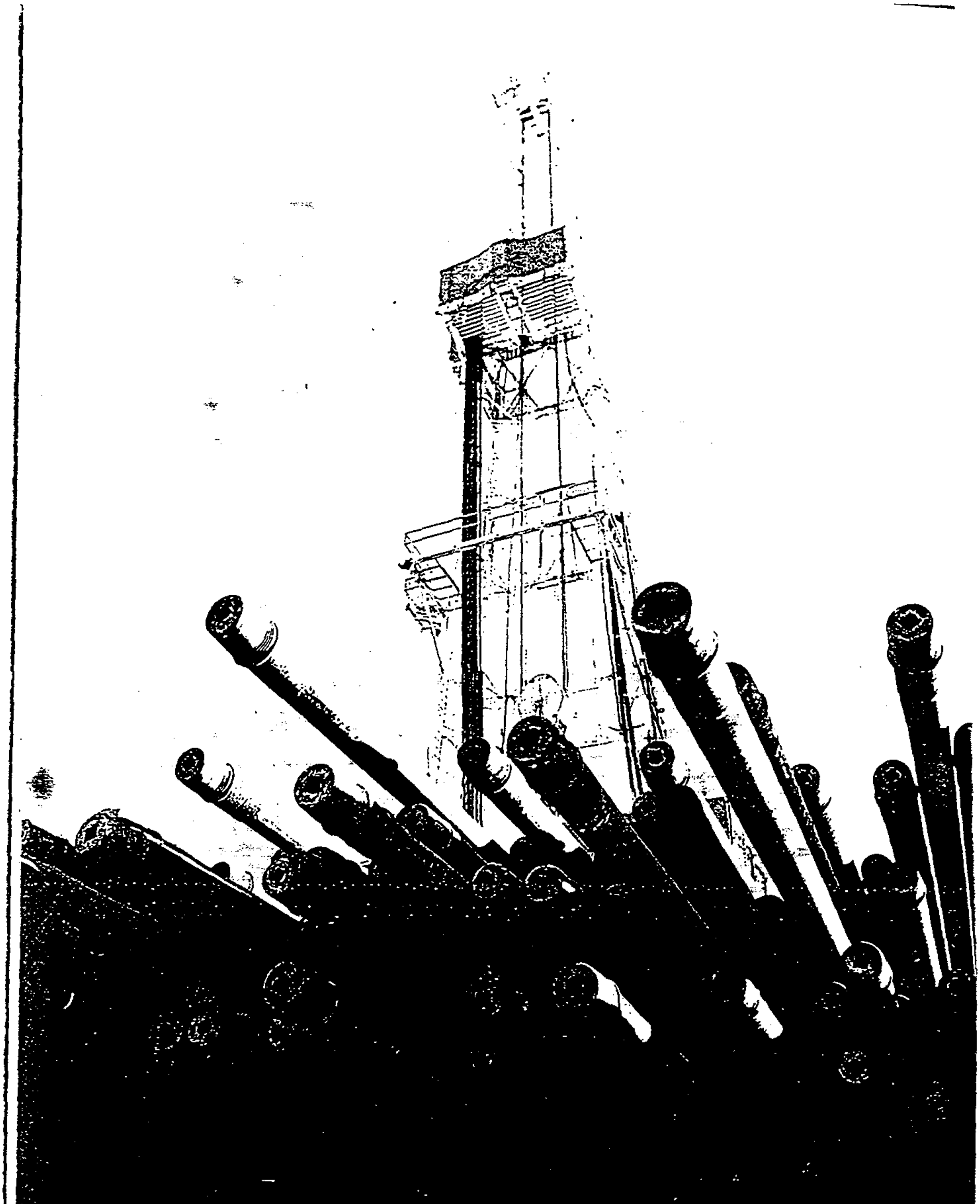
There have been no new domestic orders for nuclear steam systems for the past two years, and there has been a net reduction in backlog due to cancellations.

We have prepared for the reduced market by phasing down our Mount Vernon, Indiana, facility and consolidating our nuclear hardware manufacturing in Barberton, Ohio. Our commercial nuclear fuel and service businesses are expanding and are profitable today. We expect them to remain so in the future.

During fiscal 1980, our Nuclear Equipment Division received several important new orders. Westinghouse and General Electric awarded us contracts for $18 million to build nuclear components. The Duke Power Company purchased six electromagnetic filters to be used at the Cherokee and Perkins nuclear power plants in North Carolina. We received a $24 million contract from General Dynamics to produce missile tubes and hatch covers for the U.S. Navy's nuclear submarines. Additionally, we have a number of contracts to supply components for the Clinch River Breeder Reactor.

J. P. Eckert *became Vice President and General Manager, Naval Nuclear Fuel Division.*

The Naval Nuclear Fuel Division is the principal supplier of high-quality nuclear components for the Navy. This continues to be a profitable and significant activity for the Company. And with a good backlog, the Division is well positioned to supply advanced-technology components for the 1980s.



[illegible]ket Price of Voting Stock

[illegible]ter	Fiscal 1980	Fiscal 1979
[illegible]mon Stock		
[illegible] – Ended June 30	[illegible]	31[illegible]
	18[illegible]	2[illegible]
[illegible] – Ended Sept. 30	[illegible]	[illegible]
	1[illegible]	22[illegible]
[illegible] – Ended Dec. 31	27[illegible]	3[illegible]
	20	20¼
[illegible] – Ended March 31	36¾	22¾
	17[illegible]	18¾
[illegible]ries A Preferred Stock		
[illegible] – Ended June 30	25¾	35¾
	22½	29¾
[illegible] – Ended Sept. 30	27¾	35
	24¾	29
[illegible]d – Ended Dec. 31	29½	33⅝
	23¾	25¾
[illegible]h – Ended March 31	38¾	28
	21¼	25½
[illegible]eries B Preferred Stock		
[illegible] – Ended June 30	29½	30¾
	25	28¾
[illegible]d – Ended Sept. 30	29¼	32⅛
	27¼	28⅞
[illegible]d – Ended Dec. 31	27	31
	23	28¼
[illegible]h – Ended March 31	24¾	30⅝
	17¼	28⅜

High Low

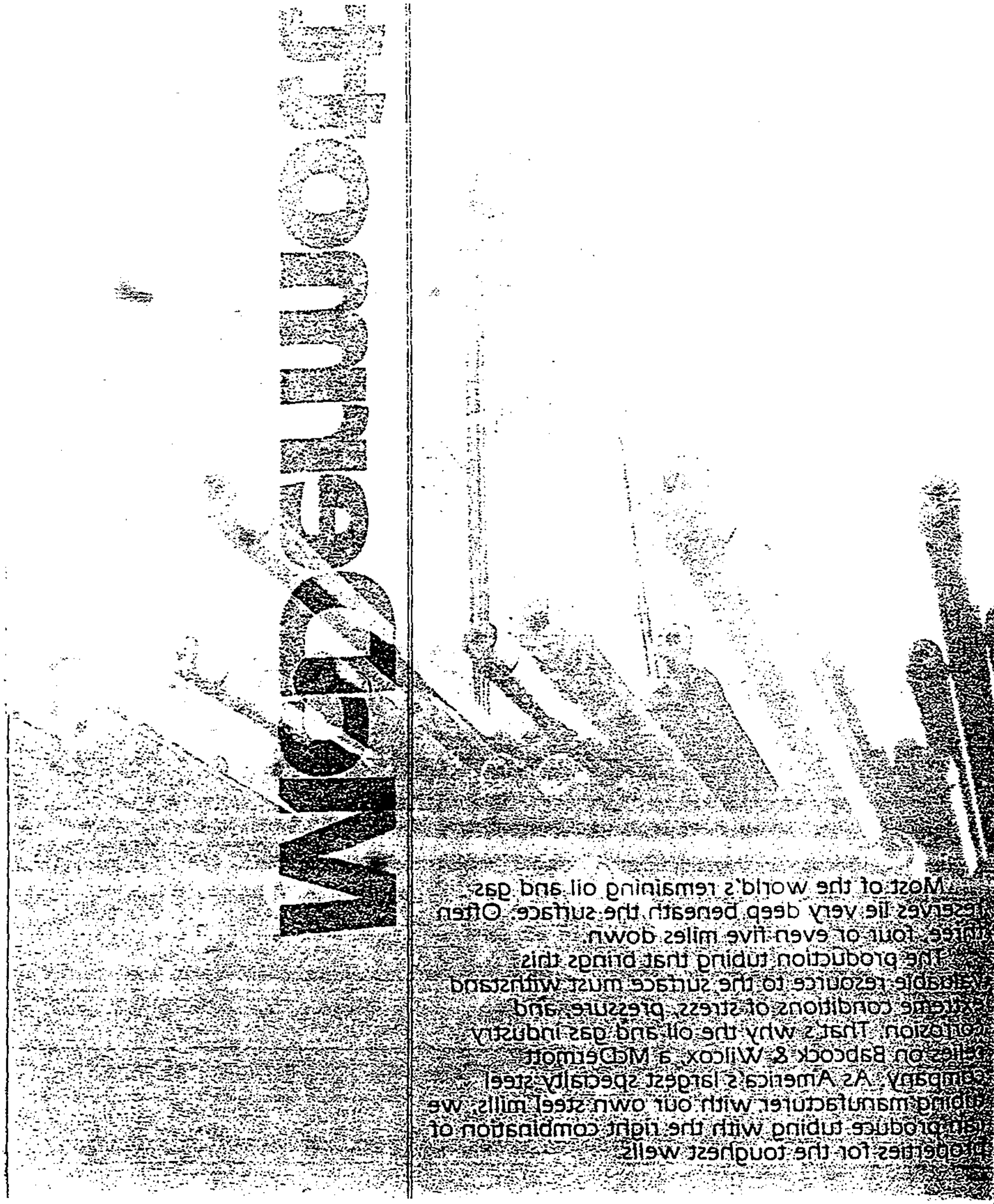
Most of the world's remaining oil and gas reserves lie very deep beneath the surface. Often three, four or even five miles down.

The production tubing that brings this valuable resource to the surface must withstand extreme conditions of stress, pressure, and corrosion. That's why the oil and gas industry relies on Babcock & Wilcox, a McDermott company. As America's largest specialty steel tubing manufacturer with our own steel mills, we can produce tubing with the right combination of properties for the toughest wells.

Voting Stock

[illegible] listed on the New York Stock Exchange [illegible] McDermott [illegible] reported and [illegible] of [illegible] in the [illegible] a quarterly [illegible] years ended March 31, [illegible] as reported [illegible] The W[illegible] Journal.

McDermott



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Market Price of Voting Stock

Quarter		Fiscal 1980	Fiscal 1979
Common Stock			
1st – Ended June 30	High	19⅝	31½
	Low	15⅞	23¼
2nd – Ended Sept. 30	High	24¾	29¼
	Low	18⅜	22⅝
3rd – Ended Dec. 31	High	26⅛	28½
	Low	20	20⅜
4th – Ended March 31	High	36½	22¾
	Low	19⅛	18¾
Series A Preferred Stock			
1st – Ended June 30	High	25⅞	35¾
	Low	22½	29⅛
2nd – Ended Sept. 30	High	27¾	35
	Low	24¾	29
3rd – Ended Dec. 31	High	29¼	33⅝
	Low	23⅝	25¾
4th – Ended March 31	High	38¾	28
	Low	21¼	25½
Series B Preferred Stock			
1st – Ended June 30	High	29¼	30¾
	Low	25	28¾
2nd – Ended Sept. 30	High	29⅛	32⅛
	Low	27⅛	28⅞
3rd – Ended Dec. 31	High	27	31
	Low	23	28¼
4th – Ended March 31	High	24¾	30⅝
	Low	17½	28½

High Low

Voting Stock

The Voting Stock of the Company is listed on the New York Stock Exchange (symbols MDE, MDEA, MDEB). The following table shows the reported high and low sales price of these securities on the composite tape on a quarterly basis in fiscal years ended March 31, 1980 and 1979, as reported by The Wall Street Journal.

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

1980 Versus 1979

Marine construction services revenues decreased by $28,778,000, as a result of decreases in domestic operations, partially offset by increases in foreign operations. Because of intense competition, low utilization of the Company's equipment and depressed profit margins (particularly in foreign operations) and after providing for losses on contracts, costs and expenses for this segment increased by $78,970,000. The Company experienced in this segment an operating loss of $46,737,000 for the twelve months ended March 31, 1980, as compared with an operating profit of $61,011,000 for the twelve months ended March 31, 1979.

Power generation systems and equipment revenues decreased by $6,403,000 primarily due to the impact of extended strikes at several plants. Costs and expenses decreased by $31,520,000 due to the lower volume and a substantially lower provision in fiscal 1980 related to warranty and other related design and fabrication problems experienced in certain nuclear contracts. In fiscal 1980 $11,285,000 of expenses in connection with the settlement relating to these same problems was provided. In addition,

Dividends

The Company has declared a quarterly dividend on its Common Stock for 101 consecutive quarters, and on its Series A and Series B preferred stock for eight consecutive quarters. A quarterly comparison of dividends declared in fiscal years ended March 31, 1980 and 1979 on a per share basis is as follows:

Quarter	Fiscal 1980	Fiscal 1979
Common Stock		
1st – Ended June 30	$ .30	$ .25
2nd – Ended Sept. 30	.30	.25
3rd – Ended Dec. 31	.30	.25
4th – Ended March 31	.35	.25
	$1.25	$1.00
Series A Preferred Stock		
1st – Ended June 30	$ .55	$ .55
2nd – Ended Sept. 30	.55	.55
3rd – Ended Dec. 31	.55	.55
4th – Ended March 31	.55	.55
	$2.20	$2.20
Series B Preferred Stock		
1st – Ended June 30	$ .65	$ .65
2nd – Ended Sept. 30	.65	.65
3rd – Ended Dec. 31	.65	.65
4th – Ended March 31	.65	.65
	$2.60	$2.60

$8,200,000 was provided for repair of certain export contracts. Extended strikes at several plants also reduced operating profit for this segment by approximately $27,000,000. Revenues and operating profits for fiscal 1980 benefited by the amount of $42,300,000 from the recognition of a termination claim on the cancellation of a nuclear steam system contract and the related sale of nuclear fuel scheduled for delivery pursuant to such contract. This, together with the lower provision in fiscal 1980 relating to the warranty and other related design and fabrication problems, were primary contributors to the increase in operating profit of $25,117,000, despite the impact of the strikes. The operating profit of this segment was $142,839,000 for the twelve months ended March 31, 1980, as compared with $117,722,000 for the twelve months ended March 31, 1979.

Engineered materials revenues increased by $72,189,000, reflecting increased shipments of both tubular and refractory products. Costs and expenses increased by $60,277,000 due to the higher volume and increased scrap raw material and other costs. The increased revenues for engineered materials, together with a more profitable product mix, resulted in the increase in operating profit of $11,912,000 for fiscal 1980 over fiscal 1979. For the twelve months ended March 31, 1980 operating profit was $62,901,000, as compared with an operating profit of $50,989,000 for the twelve months ended March 31, 1979.

Other products and services revenues increased $94,433,000. Costs and expenses increased by $99,700,000. These increases are due principally to the completion of major projects in both the domestic and foreign onshore construction operations. Costs and expenses also increased due to an incurred loss of approximately $10,500,000 on a project in the domestic operations. This segment had an operating loss of $6,160,000 for the twelve months ended March 31, 1980, as compared with an operating loss of $893,000 for the twelve months ended March 31, 1979. Increased losses in the onshore construction operations were offset by improvement in the valve business.

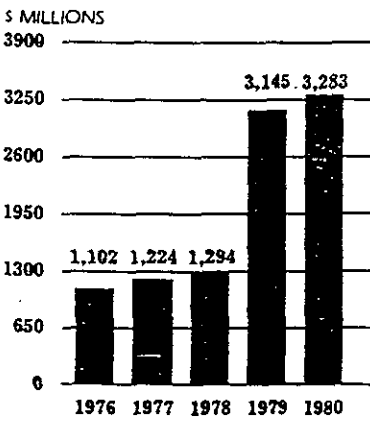
Interest income decreased by $5,621,000 for the comparative periods. The interest income is consistent with changes in the Company's investments and the interest rates thereon prevailing in the respective periods.

Interest expense for the twelve months ended March 31, 1980 decreased by $3,590,000 over that of the twelve months ended March 31, 1979, consistent with changes in the Company's debt and the interest rates thereon prevailing in the respective periods, net of interest cost capitalized. Beginning with fiscal 1980, in accordance with Statement of Financial Accounting Standards No. 34, interest cost was capitalized on qualifying assets. In fiscal 1980, $10,632,000 of interest cost was capitalized.

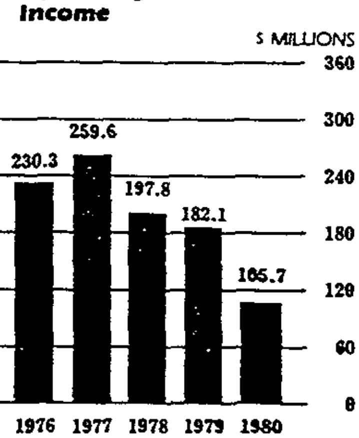
Equity in earnings of joint venture companies decreased by $1,387,000 for the twelve months ended March 31, 1980 over that of the twelve months ended March 31, 1979. This decrease relates to a decrease in income reported by those equity ventures in which the Company participates.

Other income increased by $31,859,000 for the twelve months ended March 31, 1980 over that for the twelve months ended March 31, 1979. Of this increase $16,921,000 was attributable to premium income from forward contracts for the

Revenues



Operating Income



sale of foreign currency. Other items contributing to the increase were gains on translation of foreign currencies, gains on sale of assets and recovery of bad debts combined with reduced bad debt expense.

Provision for income taxes decreased by $43,367,000 for the twelve months ended March 31, 1980 from that provided for the twelve months ended March 31, 1979. This decrease is due to the decrease in income before provision for income taxes, higher investment tax credits, a lower effective foreign tax rate, and lower domestic tax rates, resulting in an effective annual tax rate of 42% for fiscal 1980 compared to 54% for fiscal 1979.

1979 Versus 1978

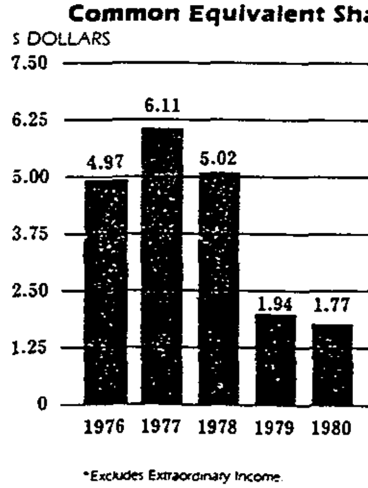
Marine construction services revenues decreased by $105,303,000 largely as a result of decreases in revenues from foreign operations. Costs and expenses for this segment increased by $39,245,000 after providing $14,400,000 for the relocation of certain operations of one of the Company's foreign areas. The continuation of the slowdown in worldwide hydrocarbon development in offshore areas has resulted in lower profit margins, both in domestic and foreign areas, reflecting intense competition and a lower rate of utilization of the Company's equipment in substantially all of the Company's markets. As a result of the above factors, operating income was $61,011,000 for fiscal 1979 as compared with $205,559,000 for fiscal 1978, a net decrease of $144,548,000.

The power generation systems and equipment revenues were $1,464,964,000 and costs and expenses were $1,347,242,000 producing an operating income of $117,722,000. This segment of the operations of B&W was fully consolidated for the first time in the twelve months ended March 31, 1979. Included in the costs and expenses of the power generation and equipment segment was a provision of $34,000,000 in connection with related design and fabrication problems experienced in certain nuclear contracts.

Revenues and costs and expenses of the engineered materials segment of B&W were $588,589,000 and $537,600,000, respectively, producing an operating profit of $50,989,000 which was fully consolidated for the first time for the twelve months ended March 31, 1979.

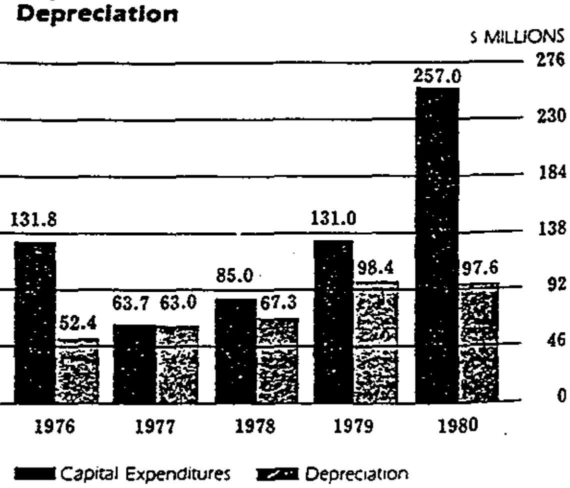
Other products and services revenues decreased by $6,827,000, while costs and expenses increased by $9,430,000. B&W operations contributed to this segment's revenues by $84,042,000, and to its costs and expenses by $85,754,000, producing an operating loss of $1,712,000. B&W's operations in this segment were fully consolidated for the first time in the

Primary Earnings* Per Common & Common Equivalent Share



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

Capital Expenditures & Depreciation



twelve months ended March 31, 1979. Revenues of the onshore operations included in this segment decreased by $90,869,000, and costs and expenses decreased $76,324,000. These decreases were principally due to a major onshore project which was completed in fiscal 1978.

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

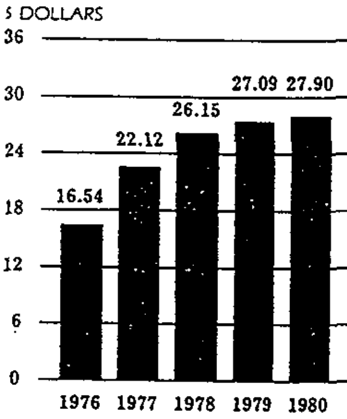
Interest expense for the twelve months ended March 31, 1979 increased $25,336,000 over that of the twelve months ended March 31, 1978. Approximately one-half of this increase is attributable to the consolidation of interest expense on debt carried by the power generation systems and equipment, engineered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

Additional changes in other income (expense) were attributable to a decrease in equity in earnings of affiliated companies for the twelve months ended March 31, 1979 of $15,240,000 from that of the twelve months ended March 31, 1978. For the twelve months ended March 31,1978, the Company reported its share of its equity in the net income of B&W in the amount of $20,364,000. The principal increase in the current twelve month period, other than the equity income of the power generation systems and equipment, engineered materials and industrial products operations, was that of the equity in an unconsolidated joint venture company which began operations early in fiscal 1978.

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

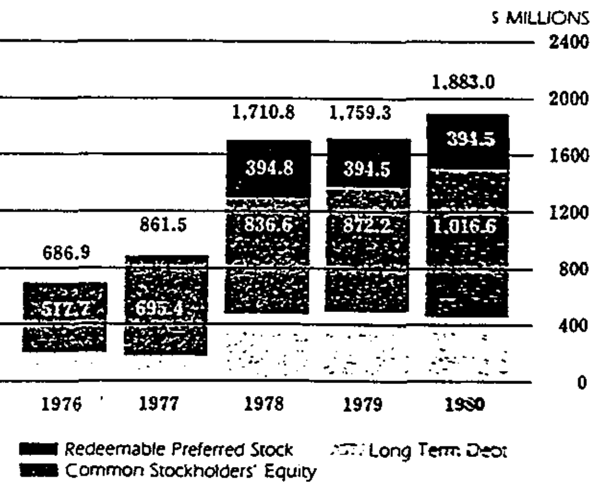
The provision for income taxes for the twelve months ended March 31, 1979, increased by $27,475,000 over that provided for the twelve months ended March 31, 1978. This increase is primarily due to the fact that a greater percentage of consolidated earnings were from domestic rather than foreign sources,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

Book Value Per Common Share*



*Adjusted for two-for-one stock splits.

Total Capitalization



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,	1980	1979	1978
Revenues	$ 3,282,510	$ 3,144,564	$ 1,293,711
Costs and expenses	3,176,859	2,962,514	1,095,943
Operating income	105,651	182,050	197,768
Other income (expense):			
Interest expense	(48,633)	(52,223)	(26,887)
Other	96,451	71,600	69,206
Income before provision for income taxes	153,469	201,427	240,087
Provision for income taxes	65,103	108,470	80,995
Income before extraordinary items and cumulative effect of accounting change	88,366	92,957	159,092
Extraordinary items (net of taxes on income)	–	–	–
Cumulative effect of accounting change (net of taxes on income)	–	–	–
Net income	$ 88,366	$ 92,957	$ 159,092
Earnings per common and common equivalent share:			
Primary earnings:			
Before extraordinary items and cumulative effect of accounting change	$ 1.77	$ 1.94	$ 5.02
Extraordinary items (net of taxes on income)	–	–	–
Cumulative effect of accounting change (net of taxes on income)	–	–	–
Net income	$ 1.77	$ 1.94	$ 5.02
Fully diluted earnings:			
Before extraordinary items and cumulative effect of accounting change	$ 1.76	$ 1.92	$ 4.92
Extraordinary items (net of taxes on income)	–	–	–
Cumulative effect of accounting change (net of taxes on income)	–	–	–
Net income	$ 1.76	$ 1.92	$ 4.92
Cash dividends per common share	$ 1.25	$ 1.00	$ .90
Cash dividends paid on common stock	40,388	32,132	28,571
Cash dividends paid on preferred stock	30,296	30,295	–
Total amount	$ 70,684	$ 62,427	$ 28,571
Weighted average number of common shares outstanding	32,745,544	32,366,019	31,670,923
Stockholders' equity per common share	$ 27.90	$ 27.09	$ 26.15

	1977	1976	1975	1974	1973	1972	1971
11	$ 1,223,841	$ 1,102,078	$ 742,825	$ 425,756	$ 358,399	$ 321,509	$ 238,158
43	964,210	871,797	649,543	379,339	331,145	313,949	231,052
68	259,631	230,281	93,282	46,417	27,254	7,560	7,106
87)	(16,157)	(22,067)	(15,972)	(8,679)	(5,974)	(4,146)	(3,888)
06	18,152	13,487	13,354	9,461	8,179	6,867	4,762
87	261,626	221,701	90,664	47,199	29,459	10,281	7,980
95	70,116	66,427	14,217	12,178	12,554	2,128	1,188
92	191,510	155,274	76,447	35,021	16,905	8,153	6,792
	132	4,910	–	–	270	10,962	–
	–	–	–	(3,023)	–	–	–
92	$ 191,642	$ 160,184	$ 76,447	$ 31,998	$ 17,175	$ 19,115	$ 6,792
02	$ 6.11	$ 4.97	$ 2.47	$ 1.26	$ .63	$ .30	$ .25
	–	.16	–	–	.01	.41	–
	–	–	–	(.11)	–	–	–
02	$ 6.11	$ 5.13	$ 2.47	$ 1.15	$ .64	$ .71	$ .25
92	$ 5.93	$ 4.80	$ 2.39	$ 1.13	$ .61	$ .30	$ .25
	–	.15	–	–	.01	.41	–
	–	–	–	(.09)	–	–	–
92	$ 5.93	$ 4.95	$ 2.39	$ 1.04	$ .62	$ .71	$ .25
90	$ .575	$ .425	$ .30	$ .2625	$ .25	$ .25	$ .25
71	18,038	13,283	9,289	7,380	6,733	6,724	6,715
	–	–	–	–	–	–	
71	$ 18,038	$ 13,283	$ 9,289	$ 7,380	$ 6,733	$ 6,724	$ 6,715
23	31,342,492	31,247,192	30,891,736	27,852,508	26,928,184	26,884,332	26,859,712
15	$ 22.12	$ 16.54	$ 11.79	$ 9.74	$ 7.66	$ 7.22	$ 6.75

Revenues and Operating Income by Lines of Business

REVENUES	Fiscal Years Ended March 31,				
	1980	1979	1978	1977	1976
	(In thousands of dollars)				
Marine Construction Services	$ 982,038	$1,010,816	$1,116,119	$1,089,455	$1,010,105
Power Generation Systems and Equipment	1,457,462	1,463,793			
Engineered Materials	580,958	508,546			
Other Products & Services	262,052	161,409	177,592	134,386	91,973
Total	$3,282,510	$3,144,564	$1,293,711	$1,223,841	$1,102,078

PERCENT OF REVENUES	Fiscal Years Ended March 31,				
	1980	1979	1978	1977	1976
Marine Construction Services	30%	32%	86%	89%	92%
Power Generation Systems and Equipment	44%	47%			
Engineered Materials	18%	16%			
Other Products & Services	8%	5%	14%	11%	8%
Total	100%	100%	100%	100%	100%

OPERATING INCOME	Fiscal Years Ended March 31,				
	1980	1979	1978	1977	1976
	(In thousands of dollars)				
Marine Construction Services	$ (46,737)	$ 61,011	$ 205,559	$ 247,644	$ 219,752
Power Generation Systems and Equipment	142,839	117,722			
Engineered Materials	62,901	50,989			
Other Products & Services	(6,160)	(893)	15,364	11,987	10,529
Total	$ 152,843	$ 228,829	$ 220,923	$ 259,631	$ 230,281

PERCENT OF OPERATING INCOME	Fiscal Years Ended March 31,				
	1980	1979	1978	1977	1976
Marine Construction Services	(30%)	27%	93%	95%	95%
Power Generation Systems and Equipment	93%	51%			
Engineered Materials	41%	22%			
Other Products & Services	(4%)	–	7%	5%	5%
Total	100%	100%	100%	100%	100%

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

For fiscal 1980, 1979 and 1978, industry segments have been determined on a basis different from prior years to conform with FASB 14 on segment reporting, and operating income is before allocation of general corporate expenses. For the prior fiscal years 1977 and 1976, Onshore Construction Services (now categorized as a part of "Other Products and Services") consisted of amounts attributable to Hudson Engineering Corporation and its subsidiaries, and Marine Construction Services represented all other. Operating income for these prior years was after allocation of general corporate expenses.

Report of Certified Public Accountants

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

We have examined the accompanying consolidated balance sheets of J. Ray McDermott & Co., Inc. and subsidiaries at March 31, 1980 and 1979 and the related consolidated statements of income and retained earnings and changes in financial position for the years then ended. Our examinations were 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 discussed in Note 7 to the financial statements, the Company has been named as a defendant in pending actions alleging violations of Sections 1 and 2 of the Sherman Act and various state laws. Additional similar claims may also be asserted. The ultimate amount of any liability that might result from such actions is not presently determinable and no provision for any liability that might result has been made in the financial statements.

In our report dated June 8, 1979, our opinion on the 1979 financial statements was qualified as being subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to above been known. In October 1979 the Auditing Standards Division of the American Institute of Certified Public Accountants issued an interpretation under which we may now appropriately express an unqualified opinion on the Company's 1979 consolidated results of operations and changes in financial position.

In our opinion, the financial statements mentioned above present fairly the consolidated results of operations and changes in financial position of J. Ray McDermott & Co., Inc. and subsidiaries for the year ended March 31, 1980 and 1979 and, subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainty referred to in the second preceding paragraph been known, the consolidated financial position at March 31, 1980 and 1979, in conformity with generally accepted accounting principles applied on a consistent basis during the period, except for the change, with which we concur, in the method of accounting for interest as described in Note 1 to the financial statements.

Arthur Young & Company

New Orleans, Louisiana
June 4, 1980

J. Ray McDermott & Co., Inc. and Subsidiaries for the Fiscal Years Ended March 31, 1980 and 1979

Consolidated Balance Sheet

ASSETS

	1980	1979
	(In thousands of dollars)	
Current Assets:		
Cash	$ 38,280	$ 19,752
Short-term investments, at cost which approximates market	485,867	621,112
Accounts and notes receivable (Note 2)	725,066	604,059
Marketable securities, at cost (market $40,972,000 in 1980 and $18,302,000 in 1979)	13,788	9,231
Contracts in progress (Note 2)	361,125	280,420
Inventories (Note 3)	422,349	392,093
Prepaid expenses	14,889	10,083
Total Current Assets	2,061,364	1,936,750
Long-Term Note Receivable–Unconsolidated Joint Venture Company	29,669	–
Investments in Joint Venture Companies, at Equity	17,830	12,398
Property, Plant and Equipment, at Cost:		
Land	36,034	36,579
Buildings	204,543	194,535
Machinery and equipment	1,222,167	1,021,738
Property under construction	91,030	108,238
	1,553,774	1,361,090
Less accumulated depreciation and amortization	527,933	440,346
Net Property, Plant and Equipment	1,025,841	920,744
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Amortization	357,253	379,404
Other Assets	58,691	51,646
Total	$3,550,648	$3,300,942

See accompanying notes to consolidated financial statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	1980	1979
	(In thousands of dollars)	
Current Liabilities:		
Notes payable to banks and current maturities of long-term debt (Note 6)	$ 29,840	$ 20,425
Accounts payable	191,167	186,718
Accrued liabilities	357,318	345,864
Advance billings on contracts (Note 2)	313,116	262,518
Provision for warranty expense	106,903	106,934
U.S. and foreign income taxes	161,087	126,839
Dividends payable	18,923	15,623
Total Current Liabilities	1,178,354	1,064,921
Deferred and Non-Current Income Taxes (Note 5)	382,502	381,523
Long-Term Debt (Note 6)	471,853	492,647
Other Liabilities	106,812	95,189
Contingencies and Commitments (Note 7)		
Redeemable Preferred Stocks (Note 8)	394,468	394,507
Common Stock and Other Stockholders' Equity (Note 9):		
Common stock	36,768	32,523
Capital in excess of par value	254,521	133,038
Retained earnings (Notes 5 and 6)	732,565	714,883
	1,023,854	880,444
Less: Cost of common stock in treasury	2,871	2,871
Unamortized deferred career executive stock plan expense	4,324	5,418
Total Common Stock and Other Stockholders' Equity	1,016,659	872,155
Total	$3,550,648	$3,300,942

Consolidated Statement of Income and Retained Earnings

	1980	1979
	(In thousands of dollars except per share amounts)	
Revenues	$3,282,510	$3,144,564
Costs and Expenses:		
Cost of operations	2,803,872	2,600,274
Depreciation and amortization	111,803	111,365
Selling, general and administrative expenses	261,184	250,875
	3,176,859	2,962,514
Operating Income	105,651	182,050
Other Income (Expense):		
Interest income	49,205	54,826
Interest expense (Note 1)	(48,633)	(52,223)
Equity in earnings of joint venture companies	7,291	8,678
Other	39,955	8,096
	47,818	19,377
Income Before Provision for Income Taxes	153,469	201,427
Provision for Income Taxes (Note 5):		
Current	17,847	25,756
Deferred	47,256	82,714
	65,103	108,470
Net Income	88,366	92,957
Retained Earnings, Beginning of Year	714,883	684,353
Deduct:		
Cash dividends – common ($1.25 in 1980 and $1.00 in 1979 per share)	40,388	32,132
– preferred (Series A, $2.20 and Series B, $2.60 per share in 1980 and 1979)	30,296	30,295
Retained Earnings, End of Year (Note 6)	$ 732,565	$ 714,883
Earnings Per Common and Common Equivalent Share:		
Primary	$ 1.77	$ 1.94
Fully diluted	$ 1.76	$ 1.92

See accompanying notes to consolidated financial statements

J. Ray McDermott & Co., Inc. and Subsidiaries for the Fiscal Years Ended March 31, 1980 and 1979

Consolidated Statement of Changes in Financial Position

	1980	1979
	(In thousands of dollars)	
SOURCE OF FUNDS:		
Operations:		
Net income	$ 88,366	$ 92,957
Charges (credits) not affecting working capital:		
Depreciation and amortization	111,803	111,365
Deferred income taxes	64,900	100,205
Equity in earnings of joint venture companies net of dividends received of $8,051,000 in 1980 and $17,922,000 in 1979	(732)	7,952
Other	8,623	8,712
Working capital provided from operations	272,960	321,191
Issuance of common stock	125,728	3,749
Proceeds from sale and exchange of property, plant and equipment	58,320	3,412
Decrease in excess of cost over fair value of net assets of B&W	12,685	14,352
Long-term borrowing (including fluctuations under the revolving credit agreement)	189,976	405,318
	659,669	748,022
APPLICATION OF FUNDS:		
Additions to property, plant and equipment	257,005	131,026
Reduction of long-term debt (including fluctuations under the revolving credit agreement)	210,770	392,103
Reduction of deferred and non- current income taxes	63,921	91,480
Cash dividends	70,684	62,427
Increase in note receivable – unconsolidated joint venture company	29,669	–
Other – net	16,439	18,875
	648,488	695,911
NET INCREASE IN WORKING CAPITAL	$ 11,181	$ 52,111
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash and short-term investments	$ (112,160)	$ 22,872
Accounts and notes receivable	121,007	68,778
Contracts in progress	80,705	(3,601)
Inventories	30,256	19,958
Prepaid expenses	4,806	(2,271)
	124,614	105,736
Increase (decrease) in current liabilities:		
Notes and accounts payable and accrued liabilities	25,318	28,621
Advance billings on contracts	50,598	(16,012)
Provision for warranty expense	(31)	27,544
U.S. & foreign income taxes	34,248	5,848
Dividends payable	3,300	7,624
	113,433	53,625
NET INCREASE IN WORKING CAPITAL	$ 11,181	$ 52,111

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

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

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

Certain amounts previously reported in the consolidated financial statements at March 31, 1979 have been reclassified to conform with the presentation at March 31, 1980.

Contracts and Revenue Recognition

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

Power generation systems and equipment contract revenues and related costs are principally recognized on a percentage of completion method for individual contracts or components thereof based upon work performed or the ratio of costs incurred to total estimated costs, as applicable to the product or activity involved. Revenues so recorded are included in unbilled revenues until invoiced to customers under the terms of the contracts. Contract price and cost estimates are reviewed periodically as the work progresses and adjustments proportionate to the percentage of completion are reflected in income in the period when such estimates are revised.

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

Foreign Currency Translation

The accounts of foreign subsidiaries maintained in foreign currencies are translated into U.S. Dollars based on current exchange rates at the end of the fiscal year for assets and liabilities except for inventories, prepaid expenses, property, plant and equipment, and stockholders' equity for which historical exchange rates are used. Average exchange rates prevailing during the fiscal years are used for revenues and expenses other than depreciation and prepaid expenses. Exchange gains and losses are recognized in the year of occurrence. Included in other income are gains of $3,178,000 for fiscal 1980, and losses of $4,739,000 for fiscal 1979.

Depreciation, Maintenance and Repairs

Property, plant and equipment is depreciated by the straight-line method, using estimated useful lives of 8 to 40 years for buildings and 2 to 28 years for machinery and equipment.

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

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

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 40 years. Excess cost arising from business combinations prior to 1971 is not being amortized because, in the opinion of management, there has been no diminution in value.

Warranty Expense

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

Research and Development

The cost of research and development which is not performed on specific contracts is charged to operations as incurred. Such expense was $31,389,000 and $28,464,000 in fiscal 1980 and 1979, respectively.

Capitalization of Interest Cost

Beginning with fiscal 1980, in accordance with Statement of Financial Accounting Standard No. 34, interest cost was capitalized on qualifying assets. In fiscal 1980, total interest cost incurred was $59,265,000, of which $10,632,000 was capitalized. The effect of the changes was to increase income by $6,153,000 ($0.19 per share).

Earnings Per Share

Primary earnings per common share are computed after preferred dividend requirements and are based on the weighted average number of common and common equivalent shares (stock options) outstanding during the year. Fully diluted earnings per common share assume the conversion of the convertible subordinated debentures and convertible preferred stock, except when anti-dilutive. The Company sold 4,000,000 shares on March 5, 1980. The net proceeds of the sale were $121,500,000, which were used to retire certain debt and for working capital and general corporate purposes. Assuming that the sale had taken place at the beginning of the fiscal year, and assuming that the entire net proceeds were used to only retire that certain debt to the extent that the debt was repayable, the primary earnings per common and common equivalent share would have been $1.70, and fully diluted earnings per common and common equivalent share would have been $1.69.

NOTE 2 – CONTRACTS IN PROGRESS

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

	Contracts in Progress		Advance Billings on Contracts	
	1980	1979	1980	1979
	(In thousands of dollars)			
Marine and onshore construction contracts:				
Cost of uncompleted contracts	$165,766	$144,459	$113,782	$206,889
Billings to customers	114,780	116,135	179,779	258,080
	50,986	28,324	65,997	51,191
Power generation systems and equipment and other contracts:				
Unbilled revenues	256,935	213,009		
Cost of work in progress	219,871	177,232		
	476,806	390,241		
Billings to customers in excess of revenues recognized	166,667	138,145	247,119	211,327
	310,139	252,096	247,119	211,327
	$361,125	$280,420	$313,116	$262,518

The amounts of general and administrative expenses remaining in the cost of uncompleted marine and onshore construction contracts at March 31, 1980 and 1979 were $34,334,000 and $48,384,000, respectively. Cost of work in progress of power generation systems and equipment and other contracts is based upon accumulated production costs less estimated costs associated with revenues recognized.

Unbilled revenues on contracts include $83,111,000 and $54,137,000 at March 31, 1980 and 1979, respectively, expected to be collected after one year.

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

	1980	1979
	(In thousands of dollars)	
Retainages	$ 39,177	$ 27,377
Retainages expected to be collected after one year	$ 11,632	$ 7,179

NOTE 3 – INVENTORIES

Inventories are carried at the lower of cost or market. Cost is determined on an average cost basis except for certain domestic and foreign construction materials inventories, for which the last-in, first-out (LIFO) method is used. The cost of approximately 12% of total inventories was determined using the LIFO method at March 31, 1980 and 1979.

Consolidated inventories at March 31, 1980 and 1979 are summarized below:

	1980	1979
	(In thousands of dollars)	
Raw Materials and Supplies	$195,769	$180,003
Work in Progress	166,450	156,843
Finished Goods	60,130	55,247
	$422,349	$392,093

Inventories used in the computation of costs and expenses were $422,349,000, $392,093,000 and $372,135,000 at March 31, 1980, 1979 and 1978, respectively.

NOTE 4 - PENSION AND SUPPLEMENTAL COMPENSATION PLANS

Pension Plans - The Company has several non-contributory pension plans covering substantially all employees except certain 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 $350,000,000. The Company's policy has been to fund pension cost accrued. The total value of the pension funds and balance sheet accruals was in excess of the actuarially computed value of vested benefits for all plans. Total pension expense included in costs and expenses was $62,137,000 in fiscal 1980 and $56,562,000 in fiscal 1979, and includes amortization of prior service costs over periods of 30 and 40 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. On February 13, 1979 the Plan was amended to make certain future awards payable in their entirety within 30 days of determination. Amounts charged to income under the Plan amounted to $621,931 and $3,254,000 in fiscal 1980 and 1979, respectively.

Thrift Savings Plans - Effective April 1, 1978, the Company established a Thrift Savings Plan in which substantially all employees, except non-resident alien employees of foreign subsidiaries who do not earn income in the United States, and employees of B&W and its subsidiaries, are eligible to participate. B&W has its own established Thrift Incentive Plan in which substantially all salaried employees, except non-resident alien employees of foreign subsidiaries who do not earn income in the United States, are eligible to participate. Participation in the Plans is voluntary, and an employee may elect to contribute 2%, 4% or 6% of his compensation as basic contributions and if the maximum 6% is elected, the employee may make an additional 2%, 4% or 6% supplemental contribution. The Company contributes an amount equal to 50% of the participants' basic contributions. Company contributions fully vest and are nonforfeitable after five years of participation in the Plans or upon retirement, death, or approved disability. The amounts charged to income under the Plans were $7,264,000, and $7,322,000 in fiscal 1980 and 1979, respectively.

NOTE 5 - INCOME TAXES

The provision for income taxes consists of:

	1980		1979	
	Current	Deferred	Current	Deferred
	(In thousands of dollars)			
Federal	$ 17,252	$ 48,545	$ 12,694	$ 71,012
Foreign	(8,785)	(4,633)	11,042	4,572
State and local	9,380	3,344	2,020	7,130
	$ 17,847	$ 47,256	$ 25,756	$ 82,714

Tax benefits of $12,696,000 in 1980 and $14,882,000 in 1979 arising from the use of net operating loss and investment tax credit carryforwards available from the B&W acquisition, have been credited to excess of cost over fair value of net assets of purchased business.

Investment tax credits, accounted for on the flow-through method, utilized in fiscal 1980 and fiscal 1979, were $13,278,000 and $6,456,000, respectively.

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

	1980 Percent	1979 Percent
Statutory federal tax rate	46.0	47.5
Increases (reductions) in income tax rate resulting from:		
Foreign operations	(5.0)	5.1
Earnings of joint venture companies reported net of taxes	(2.1)	(2.0)
Investment tax credits	(8.7)	(3.2)
Amortization of excess of cost over fair value of net assets of B&W	2.9	2.3
State income taxes net of federal benefit	4.5	2.4
Net U.S. tax on foreign dividends	2.8	–
Other	2.0	1.8
Effective tax rate	42.4	53.9

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

	1980	1979
	(In thousands of dollars)	
Excess tax over financial depreciation	$ 6,884	$ 10,190
Interest capitalized on assets constructed	4,418	–
Long-term contracts, primarily on the completed contract method for tax purposes	54,084	86,127
Warranty expense	(7,624)	(7,627)
Other	(10,506)	(5,976)
	$ 47,256	$ 82,714

Undistributed income of foreign subsidiaries included in consolidated retained earnings at March 31, 1980, amounted to approximately $483,800,000. Under present law, such amount would be subject to United States income taxes at prevailing tax rates less foreign tax credits if remitted to the parent company; no provision for such taxes has been made in the consolidated financial statements as it is the Company's intention to indefinitely reinvest said undistributed earnings in the foreign subsidiaries.

NOTE 6 – LONG AND SHORT-TERM DEBT

Long-term debt consists of:

	March 31, 1980	March 31, 1979
	(In thousands of dollars)	
Unsecured Debt:		
Notes payable to banks under a revolving credit and term loan agreement	$ –	$ 14,000
7.30% Note payable $3,000,000 annually to 1998	57,000	60,000
10.20% Sinking fund debentures due 1999 with annual sinking fund installments of $2,500,000 beginning 1981	50,000	50.000
9.40% Notes due 1984	35,000	35,000
4 ¾% Convertible (at $16.75 per share) subordinated debentures due 1987	3,743	5,524
9 ½% Note due 1981	20,000	20,000
9 ⅝% Sinking fund debentures due 2004 with annual sinking fund installments of $9,850,000 beginning 1990	150,000	150,000
6.80% Pollution control revenue bonds due 2009 with annual sinking fund installments of $4,250,000 beginning 2006	17,000	17,000
8 ½% Note payable $3,960,000 annually to 1997 beginning 1983	60,000	60,000
9% Note payable $3,300,000 annually to 1991	40,100	43,400
9% Note payable $1,650,000 annually to 1996 beginning 1982	25,000	25,000
Other:		
Other notes payable through 1999 and capitalized lease obligations	25,110	23,647
	482,953	503,571
Less due within one year	11,100	10,924
	$471,853	$492,647

During the year ended March 31, 1980, the Company renegotiated its revolving credit and term loan agreement, decreasing the borrowing limit from $285,000,000 to $150,000,000, at the prime interest rate until March 31, 1981 and then 104% of prime until March 31, 1983, at which time all outstanding borrowings will convert to a term loan payable in sixteen equal quarterly installments to maturity at March 31, 1987 at an interest rate of 108% of prime. The Company pays a commitment fee at the rate of ½ of 1% and a fee of 7.5% of prime per annum on the unused portion.

Maturities of long-term debt during the five fiscal years subsequent to March 31, 1980 are as follows: 1981 - $11,100,000; 1982 - $33,934,000; 1983 - $19,296,000; 1984 - $16,791,000; 1985 - $50,797,000.

Certain of the Company's debt agreements contain, among other things, requirements as to maintenance of working capital and limitations on the payment of dividends and incurrence of future borrowings. Under the most restrictive covenants of these agreements at March 31, 1980, dividends were restricted to approximately $152,000,000.

At March 31, 1980 and 1979 the Company had borrowings outstanding of $18,740,000 and $9,501,000 under short-term lines of credit. The maximum available under the short-term lines of credit aggregated $118,798,000, and $65,153,000 at March 31, 1980 and 1979, respectively. Interest rates on the lines of credit ranged from 8.4% to 16.44% at March 31, 1980 and 6% to 14¾% at March 31, 1979. Informal arrangements with the banks require maintenance of compensating balances which are not legally restricted by such banks. For the fiscal years ended March 31, 1980 and March 31, 1979, the maximum amounts of borrowings under these lines of credit were $37,012,000 and $38,550,000, respectively. The weighted average interest rate was 13.47% for the 1980 fiscal year and 9.96% for the 1979 fiscal year on weighted average borrowings of $20,516,000 and $11,605,000, respectively. The weighted average interest rates were computed by dividing the actual interest incurred on the short-term borrowings by the average short-term borrowings.

On March 31, 1980, the Company amended the J. Ray McDermott & Co., Inc., 9.70% sinking fund debentures due December 1, 1999, and 8.90% notes due December 1, 1984. Effective April 1, 1980, the amendments increased the annual interest rates on the debentures and notes to 10.20% and 9.40%, respectively, and modified convenants relating to the incurrence of funded debt and other matters to make them less restrictive.

NOTE 7 – CONTINGENCIES AND COMMITMENTS

Litigation – On December 14, 1978 a Federal grand jury in New Orleans, Louisiana, indicted the Company, Brown & Root, Inc. ("Brown & Root") and certain of their officers on charges of conspiring to allocate contracts and to fix prices and contract terms for marine construction projects in violation of Section 1 of the Sherman Act. In 1978 the Company and Brown & Root each pleaded nolo contendere to the charges and were each fined $1,000,000. In March and April, 1979, three executive officers and a former chief executive officer of the Company (all but one of whom are directors of the Company) pleaded nolo contendere to the Sherman Act charges and certain related charges of mail fraud and wire fraud. The Company and Brown & Root (and in some cases, Oceanic Contractors, Inc. (now McDermott International, Inc.), a wholly owned subsidiary of the Company, and certain officers of the Company) have been named as defendants in 68 pending actions (67 of which have thus far been transferred to the United States District Court for the Eastern District of Louisiana) instituted by or on behalf of customers in the United States and abroad and in an action by a competitor, alleging a conspiracy to restrain or eliminate competition in marine construction in violation of Sections 1 and 2 of the Sherman Act and various state laws through a conspiracy to allocate contracts, fix prices and contract terms and other means. Plaintiffs seek treble damages and other relief for injuries allegedly sustained, in some cases as early as the mid-1950s. From contacts with potential claimants, it appears that additional private parties may assert treble damage claims against the Company similar to those described above, and a number of these potential claimants have received temporary waivers of the statute of limitations from the Company. The outcome of these actions could have a material adverse effect on the Company.

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

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, 1980:

Years Ending March 31:

	(In thousands of dollars)
1981	$ 10,173
1982	8,313
1983	6,833
1984	4,284
1985	1,548
After 1985	15,005
Total minimum payments required	$ 46,156

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

Total rental expense for fiscal 1980 and 1979 was $98,519,000 and $83,315,000, respectively. These expense figures include contingent rentals and are net of sublease income, both of which are not material.

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

Firm and contemplated commitments for capital expenditures amounted to $185,309,000 at March 31, 1980.

The Company and certain subsidiaries are contingently liable under letters of credit totalling $80,153,000 issued in connection with contract performance guarantees and under indemnity agreements for performance bonds on contracts.

NOTE 8 – REDEEMABLE PREFERRED STOCKS

At March 31, 1980 and 1979, 25,000,000 shares of $1 par value preferred stock were authorized, 6,600,000 shares were designated Series A $2.20 Cumulative Convertible Preferred Stock and 6,600,000 shares were designated Series B $2.60 Cumulative Preferred Stock. Of the authorized Series A and Series B Preferred Stock, 6,305,420 and 6,317,545 shares, respectively, were issued and outstanding at March 31, 1980, and 6,306,692 and 6,317,545 shares, respectively, were issued and outstanding at March 31, 1979. The issued and outstanding shares were entitled to $31.25 per share in liquidation. The outstanding shares were issued in connection with the acquisition of B&W and are stated at the mandatory redemption value which approximated market value at the time the shares were issued. Both series of preferred stock are entitled to general voting rights of one-half vote for each share. The Board of Directors may authorize additional series of preferred stock and may set terms of each new series except that the Company cannot create any series of stock senior to the existing Series A and Series B Preferred Stock without the consent of the holders of at least 50% of the shares of such preferred stock.

Each share of the outstanding Series A Preferred Stock is convertible into one share of common stock. The shares are redeemable at the option of the Company on or after March 31 of each of the following years, at the following prices, plus accrued dividends: 1983 - $33.45; 1984 - $33.09; 1985 - $32.72; 1986 - $32.35; 1987 - $31.97; 1988 - $31.62; and 1989 through 2008 - $31.25. On March 31, 1989 and each subsequent year through March 31, 2008, the Company is obligated to redeem, at a redemption price of $31.25 plus accrued dividends, 5% of the number of shares which are outstanding at December 31, 1988.

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

Additional shares of Series A or Series B Preferred Stock, equal to the number of shares the Company is obligated to redeem, may be redeemed on each mandatory redemption date by the Company, on a non-cumulative basis. The Company may apply to the mandatory sinking fund obligations any Series A or B Preferred Stock owned, previously redeemed or surrendered for conversion which have not been previously credited against the mandatory sinking fund obligations.

NOTE 9 – COMMON STOCK

At March 31, 1980 and 1979, 60,000,000 shares of $1 par value common stock were authorized. Changes in common stock during the two years ended March 31, 1980 are summarized as follows:

	Shares	Par Value	Capital in Excess of Par Value
	(In thousands of dollars except share data)		
Balance, March 31, 1978	32,306,972	$ 32,307	$ 129,505
Conversion of 4¾% convertible subordinated debentures	85,723	86	1,323
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	10,853	11	328
Shares issued upon exercise of stock options	115,222	115	1,720
Shares issued under the Career Executive Stock Plan (net of forfeitures)	4,000	4	162
Balance, March 31, 1979	32,522,770	$ 32,523	$ 133,038
Conversion of 4¾% convertible subordinated debentures	106,323	106	1,658
Shares issued upon conversion of Series A $2.20 cumulative convertible preferred stock	1,272	1	38
Shares issued upon exercise of stock options	138,040	138	2,287
Additional shares sold	4,000,000	4,000	117,500
Balance, March 31, 1980	36,768,405	$ 36,768	$ 254,521

At March 31, 1980 and 1979, 326,132 shares were in treasury. At March 31, 1980, 6,835,503 shares were reserved for issuance in connection with the 1974 Career Executive Stock Plan, exercise of stock options, and conversion of the 4¾% convertible subordinated debentures and Series A cumulative convertible preferred stock.

Stock Options – In connection with the acquisition of B&W, options granted under a B&W stock option plan became options to purchase two shares of the Company's common stock. All options outstanding under this plan are non-qualified stock options and no additional options will be granted under the plan. Options were granted at an option price equal to at least 100% of the fair market value on the date of grant (adjusted to October 31, 1974 closing price for options issued prior to that date).

Changes in the number of shares covered by the stock option plan during the two years ended March 31, 1980 are as follows:

Outstanding and Exercisable	Number of Shares	Option Price Per Share	Option Price Total
Balance, March 31, 1978	470,482	$6.813 - $9.688	$4,087,000
Exercised	115,222	6.813 - 9.688	904,000
Expired	5,650	9.688	55,000
Balance, March 31, 1979	349,610		$3,128,000
Exercised	138,040	$6.813 - $9.688	$1,176,000
Expired	13,350	9.688	129,000
Balance, March 31, 1980	198,220		$1,823,000

e aggregate market value of the shares issued upon the exercise of stock options was $3,716,000 and :4,000 in fiscal 1980 and 1979, respectively.

ıreer Executive Stock Plan – The Plan, which was adopted in 1974, authorized 600,000 shares of non stock to be issued to eligible employees in consideration of their services. Employees granted k under the Plan pay $1.00 per share as the option price. Shares may be issued pursuant to the Plan June 30, 1984. Restrictions with respect to issued shares lapse in approximately equal amounts on second through tenth anniversary dates of the date of issuance. The cost of the Plan, based on fair ket value on the date of issuance of common stock, is amortized over a ten year period following the of issuance. Upon forfeiture of stock by employees, previous expense attributable to unvested stock is ited to income. Forfeited shares under the Plan returned to the Company amounted to 9,460 shares ng 1979. There were no forfeitures during 1980. As of March 31, 1980, 135,516 shares of common k are available for grant to eligible employees pursuant to the terms of the Plan. Amounts charged to me under the Plan and its predecessor Plan amounted to $1,093,112 and $1,518,000 in fiscal 1980 and ıl 1979, respectively.

TE 10 – FOREIGN SUBSIDIARIES

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

	March 31, 1980	March 31, 1979
	(In thousands of dollars)	
sets (including cash and short-term investments of $383,335,000 ınd $594,052,000 at March 31, 1980 and 1979, respectively)	$ 979,930	$1,019,802
ıbilities	454,533	423,478
ːt assets	$ 525,397	$ 596,324
ːt income (loss)	$ 146	$ (5,005)

)TE 11 - SEGMENT REPORTING

The Company operates primarily in three industry segments – marine construction services, power neration systems and equipment and engineered materials.

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

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

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

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

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

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

Revenues attributable to transactions with unconsolidated joint venture companies were $112,500,000 in fiscal 1980 ($51,978,000 in fiscal 1979).

Segment Information For the Fiscal Years Ended March 31, 1980 and 1979

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

	Revenues		Intersegment Transfers		Total Revenues	
	1980	1979	1980	1979	1980	1979
Marine Construction Services	$ 982,038	$1,010,816	$ –	$ –	$ 982,038	$1,010,816
Power Generation Systems and Equipment	1,457,462	1,463,793	1,099	1,171	1,458,561	1,464,964
Engineered Materials	580,958	508,546	79,820	80,043	660,778	588,589
Other Products & Services	262,052	161,409	3,146	9,356	265,198	170,765
Eliminations	–	–	(84,065)	(90,570)	(84,065)	(90,570)
Total	$3,282,510	$3,144,564	$ –	$ –	$3,282,510	$3,144,564

	Operating Income (1)		Equity In Earnings of Joint Venture Companies	
	1980	1979	1980	1979
Marine Construction Services	$ (46,737)	$ 61,011	$ 4,897	$ 6,290
Power Generation Systems and Equipment	142,839	117,722	820	877
Engineered Materials	62,901	50,989	1,574	1,511
Other Products & Services	(6,160)	(893)	–	–
Total	$ 152,843	$ 228,829	$ 7,291	$ 8,678

	Capital Expenditures		Depreciation and Amortization	
	1980	1979	1980	1979
Marine Construction Services	$ 155,647	$ 72,136	$ 61,751	$ 66,346
Power Generation Systems and Equipment	36,972	29,063	27,774	23,809
Engineered Materials	28,367	20,648	14,809	14,104
Other Products & Services	5,236	1,934	3,889	5,658
Corporate	30,783	7,245	3,580	1,448
Total	$ 257,005	$ 131,026	$ 111,803	$ 111,365

	Identifiable Assets		Investments In Net Assets of Joint Venture Companies		Total Assets	
	1980	1979	1980	1979	1980	1979
·ine Construction Services	$ 908,996	$ 742,369	$ 9,937	$ 6,139	$ 918,933	$ 748,508
ver Generation Systems and Equipment	1,258,221	1,120,087	2,663	1,899	1,260,884	1,121,986
·ineered Materials	667,019	644,023	5,230	4,360	672,249	648,383
er Products & Services	158,967	173,261	–	–	158,967	173,261
porate	539,615	608,804	–	–	539,615	608,804
›tal	$3,532,818	$3,288,544	$ 17,830	$ 12,398	$3,550,648	$3,300,942

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

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

	Domestic		Foreign		Consolidated	
	1980	1979	1980	1979	1980	1979
·enues (1)	$2,497,880	$2,533,048	$ 784,630	$ 611,516	$3,282,510	$3,144,564
·rating Income by ·eographic Areas (2)	$ 220,642	$ 267,300	$ (67,799)	$ (38,471)	$ 152,843	$ 228,829
·uity in Earnings of oint Venture Companies	$ –	$ –	$ 7,291	$ 8,678	$ 7,291	$ 8,678
·ntifiable Assets	$2,404,183	$2,029,353	$ 589,020	$ 650,387	$2,993,203	$2,679,740
·estments in Net Assets of oint Venture Companies	–	–	17,830	12,398	17,830	12,398
·porate Assets					539,615	608,804
·al Assets					$3,550,648	$3,300,942

Transfers between geographic areas are immaterial and not separately presented.

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

NOTE 12 – QUARTERLY FINANCIAL DATA

The following tables set forth selected unaudited quarterly financial information for the years ended March 31, 1980 and 1979:

	1980 Quarter Ended			
	June 30, 1979	Sept. 30, 1979	Dec. 31, 1979	March 31, 1980
	(In thousands of dollars except per share amounts)			
	(Restated)	(Restated)	(Restated)	
Revenues	$710,037	$752,216	$940,851	$879,406
Operating income	16,118	2,314	75,618	11,601
Net income	19,810	12,386	50,870	5,300
Earnings per common and common equivalent share:				
Primary	0.38	0.15	1.33	(0.07)
Fully diluted	0.38	0.15	1.20	(0.07)

In fiscal 1980, $10,632,000 of interest cost was capitalized. The first three quarters of this fiscal year have been restated to reflect the capitalized interest. The restatement increased net income by $1,387,000, ($0.04 per share); $1,405,000, ($0.05 per share); and $1,592,000, ($0.04 per share) for the quarters ending June 30, 1979, September 30, 1979 and December 31, 1979, respectively.

Operating income benefited during the quarters ended December 31, 1979 and March 31, 1980 by approximately $17,800,000 and $24,500,000, respectively, from the recognition of a termination claim on the cancellation of a nuclear steam system contract and the related sale of nuclear fuel scheduled for delivery pursuant to such contract.

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

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

'E 13 - EFFECTS OF GENERAL INFLATION (Unaudited)

compliance with FASB Statement No. 33 "Financial Reporting and Changing Prices", certain lementary information relating to the effects of general inflation and changes in specific prices is ented below. The information adjusted for general inflation is calculated by adjusting cost of sales and eciation expense to a unit of common purchasing power determined by the Consumer Price Index for Jrban Consumers. The information adjusted for changes in specific prices is calculated by adjusting of sales and depreciation expense for changes in those prices that relate to property, plant and pment, and inventory being used in the activities of the business. No other items of revenue or nse in the Condensed Consolidated Statement of Income are adjusted.

preciation expense included in income adjusted for changes in general inflation and adjusted for ges in specific prices is computed using the same depreciation methods and depreciable lives as are for conventional financial statements. Property, plant and equipment which was acquired as part of icquisition of B&W has been included in information presented for changes in general inflation and in ific prices based on the fair market values assigned at the time of acquisition, March 31, 1978.

ıy comparison between the conventional financial statements and the required supplemental osures must be viewed with caution. The amounts shown adjusted for general inflation only correct listortions caused by recording transactions in dollars of varying purchasing power. The amounts vn adjusted for changes in specific prices include the use of estimates and assumptions. Changes in vidual prices are caused in part by changes in the general purchasing power of the dollar and in part ther supply and demand factors including technological change.

ıe provision for income taxes remains unchanged because income tax laws do not allow the Company 'aim tax deductions related to these adjustments. These disclosures highlight an important view of the ıpany's annual effective tax rate: 42% as presented in the conventional financial statements, 76% as sted for the effects of general inflation, and 82% as adjusted for the effects of specific inflation.

ıe gain from the decline in purchasing power of net amounts owed reflects the fact that total liabilities ng a future fixed cash settlement exceeded total assets with similar characteristics. This unrealized theoretically represents the fact that net liabilities can be repaid with dollars having a lesser value ı at the beginning of the year due to inflation.

'he increase in specific prices of inventories and property, plant and equipment represents the erence between the current cost amounts at the beginning of the year and the end of the year. Part of difference is attributable to inflation in general and part is attributable to economic factors affecting individual prices of the particular assets owned. To the extent that the difference has been realized by le during the year, it is included in income from operations on a current cost basis. The unrealized pordoes not represent receipt of cash and should not be considered as providing funds for reinvestment ividend distribution in the current period.

ıe net assets shown under changes in general inflation and under changes in specific prices are sted only for changes in inventory and property, plant and equipment.

Condensed Consolidated Statement of Income
Adjusted for Inflation
Fiscal Year Ended March 31, 1980

	As Reported in the Conventional Financial Statements	Adjusted for General Inflation (Constant Dollars)	Adjusted for Changes in Specific Prices (Current Costs)
	(In thousands of dollars except for per share amounts)		
Revenues	$3,282,510	$3,282,510	$3,282,510
Cost and Expenses			
Cost of operations	2,803,872	2,846,585	2,831,959
Depreciation and amortization	111,803	137,158	157,823
Selling, general and administrative expenses	261,184	261,184	261,184
Other Income (Expense)	47,818	47,818	47,818
Income Before Provision for Income Taxes	153,469	85,401	79,362
Provision for Income Taxes	65,103	65,103	65,103
Net Income	$ 88,366	$ 20,298	$ 14,259
Income (loss) per common and common equivalent share (Primary) (After providing preferred dividends)	$ 1.77	$ (0.31)	$ (0.49)
Gain from decline in purchasing power or net amounts owed		$ 47,269	$ 47,269
Increase in current cost of inventory and property, plant and equipment held during the year (based on specific price changes)			$ 319,409
Effects in increase in general price level			226,532
Increase in current cost of inventory and property, plant and equipment held during the year (based on specific price changes)* net of changes in the general price level			$ 92,877
Net assets at year end	$1,411,127	$1,617,741	$1,669,208

*At March 31, 1980, current cost of inventory was $440,616 and current cost of property, plant, and equipment, net of accumulative depreciation was $1,379,506.

Five-Year Comparison of Selected Supplementary Financial Data
Adjusted for Effects of Inflation (In average fiscal 1980 dollars)

	For Fiscal Years Ended March 31,				
	1980	1979	1978	1977	1976
Revenues (In thousands of dollars)	$3,282,510	$3,532,724	$1,577,149	$1,591,206	$1,512,498
Cash dividends per common share	$ 1.25	$ 1.12	$ 1.10	$ 0.75	$ 0.58
Market price per common share at fiscal year end	24¾	21⅝	29	33⅛	31
Average consumer price index	224.8	200.1	184.4	172.9	163.8

Corporate Information

Board of Directors

H. W. BAILEY
Executive Vice President and Chief Administrative Officer

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

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

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

§‡†*JAMES A. HUNT
Partner - Kalb, Voorhis & Co. - securities brokers

JOHN A. LYNOTT
Executive Vice President and Chief Financial Officer

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

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

‡†JOHN D. RITCHIE
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

‡WALTER O. SPENCER
Dean, Graduate School of Business Administration, Tulane University

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

WALTER M. VANNOY
President and Chief Operating Officer, Babcock & Wilcox Operating Unit

‡RUSSELL L. WAGNER
Chairman and Chief Executive Officer, NLT Corporation – insurance holding company

*Audit Committee
†Directors Nominating Committee
‡Officers Salary & Supplemental Compensation Committees
§Career Executive Stock Plan Committee

Corporate Officers

J. E. CUNNINGHAM Chairman of the Board and Chief Executive Officer
R. K. RICHIE President and Chief Operating Officer, McDermott Operating Unit
W. M. VANNOY President and Chief Operating Officer, Babcock & Wilcox Operating Unit
H. W. BAILEY Executive Vice President and Chief Administrative Officer
R. C. BASSETT Vice President, Materials and Transportation
P. BREITMEYER, II Vice President, Corporate Planning and Development
J. D DUPY Vice President, Public Affairs
R. E. WOOLBERT Vice President, Employee Relations
J. A. LYNOTT Executive Vice President and Chief Financial Officer
C. F. KRAUS Vice President, Tax Administration
E. A. ROBIDOUX Vice President and Controller
R. A. JOLLIFF Treasurer
K. J. GILLY Vice President, General Counsel, and Corporate Secretary

McDermott Operating Unit

R. K. RICHIE President and Chief Operating Officer
W. E. EARLES Senior Vice President and Group Executive, Fabrication and Structural, Gulf of Mexico
C. W. DYERSON Vice President and General Manager, Fabrication Divisions
I. R. FOSTER Senior Vice President and Group Executive, North, Central, and South America Areas
V. J. LEBLANC Vice President and Group Executive, Shipyards
J. W. McCARTE Vice President and Group Executive, Harvey, Mexico, Central and South America
R. V. JOFFRION Vice President and General Manager, Marine Pipeline, and Harvey Fabrication
R. E. CURTIS Vice President, Mexico, Lan-Dermott Joint-Venture
W. M. DOUGLAS Vice President, Mexico, CMM Joint-Venture
R. E. HOWSON Senior Vice President and Group Executive, McDermott Engineering
G. C. LEE Vice President and Group Executive, Research and Development, and Technical Services
C. E. YOUNG Vice President, Research and Development
J. L. BATES Vice President and General Manager, Houston Engineering
E. J. DRESSEL Vice President and General Manager, Equipment and Materials Operations
W. H. FRASER Vice President and General Manager, London Engineering
R. P. STAGG Vice President and General Manager, New Orleans Engineering
S. P. VICTORY Vice President and General Manager, Singapore Engineering
J. C. ANDREWS Vice President, Business Development

H. R. REEVES Senior Vice President and Group Executive, North Sea Area
M. H. LAM Vice President and General Manager, European Area, Marine Operations
R. J. MACHEN Vice President and General Manager, United Kingdom Area
E. R. H. SELLEY Senior Vice President and Group Executive, Middle East, Southeast Asia, and West Africa Areas
E. P. CLINE Vice President and Group Executive, Southeast Asia
L. E. WALKER Vice President and General Manager, Southeast Asia Operations
R. D. MILLER Vice President and Group Executive, Middle East and West Africa Area
W. L. HIGGINS Vice President and General Manager, Middle East and Egypt Operations
W. D. HOWELL Vice President and General Manager, West Africa Operations

Babcock & Wilcox Operating Unit

W. M. VANNOY President and Chief Operating Officer
L. M. FAYRET Executive Vice President and Group Executive, Business Integration Group
J. J. STEWART President, Babcock & Wilcox Canada Ltd.
D. K. DAVIES Vice President, International Operations
J. F. EWING Vice President, Quality and Technology
W. MARKERT, JR. Vice President, Research and Development, and Contract Research Divisions
J. W. THOMPSON Vice President, Utility Sales and Marketing
G. W. KROSS Executive Vice President and Group Executive, Materials Group
T. M. KREBS Vice President and General Manager, Tubular Products Division
R. P. STUNTZ Vice President and General Manager, Insulating Products Division
E. M. GRIFFIN Senior Vice President and Group Executive, Fossil Power and Construction Group
J. S. DZIEWISZ Vice President and General Manager, Fossil Power Generation Division
W. D. WICK Vice President and General Manager, B&W Construction Company
D. E. HEYBURN Senior Vice President and Group Executive, Industrial Products and Services Group
J. R. HILL Vice President and General Manager, Automated Machine Division
R. J. CAMPBELL President, Bailey Controls Company and Control Components International
E. C. SMITH President, Hudson Products Corporation
E. C. MONCRIEF Vice President, Industrial and Marine Division
F. G. RAYNOR President, TLT-Babcock, Inc.
J. H. MacMILLAN Senior Vice President and Group Executive, Nuclear Power Group
W. B. BEISEL Vice President and General Manager, Nuclear Equipment Division
D. E. GUILBERT Vice President and General Manager, Nuclear Power Generation Division
J. P. ECKERT Vice President and General Manager, Naval Nuclear Fuel Division

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

Trustees and Paying Agents

Morgan Guaranty Trust Company
30 West Broadway
New York, New York 10015
9⅝% Sinking Fund Debentures Due March 15, 2004

10.20% Sinking Fund Debentures Due December 1, 1999

9.40% Notes Due December 1, 1984

Pittsburgh National Bank
Post Office Box 340747
Pittsburgh, Pennsylvania 15230

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

Trustee, Paying Agent and Conversion Agent

Citibank, N.A.
111 Wall Street
New York, New York 10015
4¾% Convertible Subordinated Debentures Due October 15, 1987

Certified Public Accountants

Arthur Young & Company
New Orleans, Louisiana 70112

Form 10-K

A copy of the Annual Report to the Securities and Exchange Commission (Form 10-K) may be obtained, without charge, by writing Vice President, Public Affairs, J. Ray McDermott & Co., Inc., Post Office Box 60035, New Orleans, Louisiana 70160. (504) 587-4411

Annual Meeting

The Annual Meeting of the Stockholders of J. Ray McDermott & Co., Inc., for the fiscal year ended March 31, 1980 will be held in the Grand Salon of the Royal Orleans, 621 St. Louis Street, New Orleans, Louisiana, on Tuesday, August 12, 1980 at 9:30 a.m. local time.