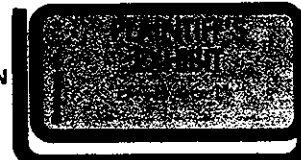


UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K



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

For the fiscal year ended March 31, 1996

OR

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

For the transition period from _____ to _____

Commission File Number 1-8430

McDERMOTT INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

REPUBLIC OF PANAMA

72-0593134

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

1450 POYDRAS STREET
NEW ORLEANS, LOUISIANA

70112-6050

(Address of principal executive offices)

(Zip Code)

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

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

Title of each class
Common Stock, \$1.00 par value

Name of each Exchange
on which registered
New York Stock Exchange

Rights to Purchase Common Stock
(Currently Traded with Common Stock)

New York Stock Exchange

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

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

YES



NO



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

☒

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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PART I

Items 1. and 2. BUSINESS AND PROPERTIES

A. GENERAL

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

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

McDermott International operates in two business segments:

- o Power Generation Systems and Equipment, whose principal businesses are the supply of fossil-fuel and nuclear steam generating equipment to the electric power generation industry, and nuclear reactor components to the U. S. Navy; and
- o Marine Construction Services, which supplies worldwide services for the offshore oil and gas exploration and production and hydrocarbon processing industries, and to other marine construction companies, primarily through JRM. Principal activities include the design, engineering, fabrication and installation of offshore drilling and production platforms and other specialized structures, modular facilities, marine pipelines and subsea production systems and onshore construction and maintenance services; and the maintenance and construction of a variety of marine vessels.

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

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

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

REVENUES

(Dollars in Millions)

FOR FISCAL YEARS ENDED MARCH 31,

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

OPERATING INCOME

(Dollars in Millions)

FOR FISCAL YEARS ENDED MARCH 31,

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

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

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

B. POWER GENERATION SYSTEMS AND EQUIPMENT

GENERAL

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

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

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

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

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

FOREIGN OPERATIONS

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

FISCAL YEAR	REVENUES		SEGMENT OPERATING INCOME	
	AMOUNT	PERCENT	AMOUNT	PERCENT
(Dollars in Thousands)				
1996	\$ 652,016	20%	\$ 32,766	56%
1995	521,657	17%	35,279	77%
1994	372,727	12%	29,091	38%

Revenue and segment operating income presented above do not include the operating results of this segment's equity investees. B&W primarily conducts its foreign business from its Calgary, Alberta and Cambridge, Ontario (which also serves the United States market) locations. Products for international installation are engineered and built in B&W's United States and Canadian facilities, as well as in the facilities of the segment's equity investees in China, Indonesia, India and Egypt.

RAW MATERIALS

The principal raw materials used by this segment to construct power generation systems and equipment consist of carbon and alloy steels in various forms, such as plate, forgings, structurals, bars, sheet, strip, heavy wall pipe and tubes. Significant amounts of components and accessories are also purchased for assembly for supplied systems and equipment. These raw materials and components generally are purchased as needed for individual contracts. Although shortages of certain of these raw materials have existed from time to time, no serious shortage exists at the present time.

This segment is not sole source dependent for any significant raw materials except for uranium which is furnished and owned by the U.S. Government, and used in the nuclear fuel assemblies supplied to the U.S. Navy for the Naval Reactors Program.

CUSTOMERS AND COMPETITION

The principal customers of this segment are the electric power generation industry (including government-owned utilities and independent power producers), the U.S. Government (including its contractors), and the pulp and paper and other process industries such as oil refineries and steel mills; and other industries and institutions. The electric power generation

industry accounted for approximately 22%, 30% and 26% of McDermott International's total revenues for fiscal years 1996, 1995 and 1994, respectively. For the fiscal years 1996, 1995 and 1994, the U.S. Government, excluding government-owned utilities, accounted for approximately 12%, 12% and 13% of total revenues, including 10%, 10% and 9% related to nuclear fuel assemblies and reactor components for the U.S. Navy.

Steam generating system equipment orders are customarily awarded after competitive bids have been submitted as proposals based on the estimated cost of each job. Within the United States, a number of domestic and foreign based companies, specializing in steam generating systems, equipment and services, compete with B&W in the fossil fuel steam generating system business. In international markets, these companies plus additional foreign-based companies compete with B&W. B&W also manufactures and sells components such as replacement recirculating steam generators, which are incorporated into nuclear steam generating systems designed by other firms. In the sale of these nuclear steam generating systems, B&W competes with a small number of companies. A number of companies are in competition with B&W in environmental control equipment, related specialized industrial equipment and the independent power producing business. Other suppliers of fossil fuel steam systems, as well as many other businesses, compete for replacement parts, repair and alteration, and other services required to backfit and maintain existing systems.

B&W is the sole supplier of nuclear fuel assemblies and reactor components to the U.S. Navy for the Naval Reactors Program. In fiscal year 1996, B&W was awarded approximately \$375,000,000 in new orders for aircraft carrier components and prototypical steam generation equipment for the newest submarine design. B&W is the sole supplier to the U.S. Navy for all major nuclear steam system equipment for the Naval Reactors Program. There are a small number of suppliers of small nuclear components with B&W being the largest based on revenues.

BACKLOG

Backlog as of March 31, 1996 and 1995 for the Power Generation Systems and Equipment segment was \$2,261,799,000 and \$2,130,754,000, or approximately 67% and 61%, respectively, of McDermott International's backlog. Of the March 31, 1996 backlog, it is expected that approximately \$1,128,937,000 will be recognized in revenues in fiscal year 1997, \$541,081,000 in fiscal year 1998 and \$591,781,000 thereafter, of which approximately 73% will be recognized in fiscal years 1999 through 2001. At March 31, 1996, this segment's backlog with the U.S. Government was \$816,783,000 (of which \$57,988,000 had not yet been funded), or approximately 24% of McDermott International's total backlog.

Included in backlog at March 31, 1996 are contract awards of approximately \$200,000,000 to supply two 660 megawatt coal-fired boilers and complete wet flue gas desulfurization systems to the Sumitomo Corporation of Tokyo for a power plant in central Java, Indonesia; two contracts totaling approximately \$110,000,000 signed with the Egyptian Electricity Authority for the supply of steam generating equipment for two new power stations; and awards of \$100,000,000 by Hyundai Heavy Industries Co., Ltd. to supply flue gas desulfurization equipment for ten 500 megawatt coal-fired power station units in Korea.

If in management's judgment it becomes doubtful whether contracts will proceed, the backlog is adjusted accordingly. If contracts are deferred or cancelled, B&W is usually entitled to a financial settlement related to the individual circumstances of the contract. Operations and maintenance contracts, which are performed over an extended period, are included in backlog based upon an estimate of the revenues from these contracts.

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

FACTORS AFFECTING DEMAND

Electric utilities in Asia and the Middle East are active purchasers of large, new baseload generating units, due to the rapid growth of their economies and to the small existing stock of electrical generating capacity in most developing countries. These newly emerging economies need power and steam generating systems, equipment and services to build their industrial base.

Electrical consumption has grown moderately in the United States in recent years. Competition within the electric power industry in the United States has intensified, as the Federal Energy Regulatory Commission has begun to implement the provisions of the Energy Policy Act of 1992, which deregulated the electric power generation industry by allowing independent power producers and other companies access to the electric utilities' transmission and distribution systems. The modest growth in demand and the changes associated with this transition from a regulated to a competitive industry have caused electric utilities to defer ordering of large, new baseload power plants in the United States. When electric utilities are in need of peaking capacity, many are purchasing combustion turbines with short lead-times or they are purchasing electricity from other utilities and non-regulated sources, such as cogenerators and independent power producers.

Substantially all the customers of B&W are affected by environmental regulations of the countries in which their facilities are located. In the United States, the Clean Air Act Amendments of 1990 required many customer industries to implement systems to limit or remove emissions. These mandated expenditures have caused some customers to defer repairs and refurbishments on existing plants. The same requirements have caused other customers to purchase environmental control equipment from B&W. Future changes in environmental regulations will continue to affect demand for B&W products and services.

The systems, products and services of B&W are capital intensive. As such, demand for the company's products is heavily affected by the variations in the business cycles in the customer industries and in the overall economies of their countries. Availability of funds for financing, investment and maintenance at B&W's customers varies with the conditions of their domestic businesses.

Even with the maturing of the U. S. Navy's shipbuilding program and U. S. Government defense budget reductions, the demand for nuclear fuel assemblies and reactor components for the U. S. Navy has continued to comprise a substantial portion of this segment's backlog

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

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

C. MARINE CONSTRUCTION SERVICES

GENERAL

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

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

This segment conducts operations both directly and through its participation in joint ventures, some of which it manages and others of which are managed by other marine construction contractors. Some of the joint ventures are consolidated for financial reporting purposes while others (including the HeereMac joint venture and McDermott-ETPM West, Inc. both of which are described below) are accounted for using the equity method. JRM's joint ventures are largely financed through their own resources, including, in some cases, stand-alone

borrowing arrangements. Historically, JRM has obtained funds from its joint ventures primarily through chartering arrangements, whereby it charters vessels to the joint ventures for use in their operations, as well as through distributions from the joint ventures. While JRM and the other parties to the joint venture arrangement generally must agree on the amount of cash flow to be distributed, the joint ventures have historically distributed to their respective owners cash in excess of estimated working capital requirements, based on the owners' relative ownership percentages.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

FOREIGN OPERATIONS

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

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

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

RAW MATERIALS

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

CUSTOMERS AND COMPETITION

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

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

BACKLOG

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

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

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

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

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

FACTORS AFFECTING DEMAND

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

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

rigs has increased and this, historically, has been a leading indicator for an increase in the need for marine construction services. This segment's markets are expected to begin to emerge from the competitive environment that has put pressure on margins in prior periods.

D. PATENTS AND LICENSES

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

E. RESEARCH AND DEVELOPMENT ACTIVITIES

McDermott International conducts its principal research and development activities at its research centers in Alliance, Ohio and Lynchburg, Virginia; and also conducts development activities at its various manufacturing plants and engineering and design offices. During the fiscal years ended March 31, 1996, 1995 and 1994, approximately \$68,106,000, \$64,145,000 and \$69,148,000, respectively, was spent by McDermott International on research and development activities, of which approximately \$45,106,000, \$44,240,000 and \$48,112,000, respectively, was paid for by customers of McDermott International. Research and development activities were related to development and improvement of new and existing products and equipment and conceptual and engineering evaluation for translation into practical applications. McDermott International's new multi-million dollar clean environment development facility in Alliance, Ohio was completed during fiscal year 1995. The facility was constructed in response to present and future emission pollution standards in the U.S. and worldwide. Approximately 300 employees were engaged full time in research and development activities at March 31, 1996.

F. INSURANCE

McDermott International maintains liability and property insurance that it considers normal in the industry. However, certain risks are either not insurable or insurance is available only at rates which McDermott International considers uneconomical. Among such risks are war and confiscation of property in certain areas of the world, pollution liability in excess of relatively low limits and, in recent years, asbestos liability. Depending on competitive conditions and other factors, McDermott International endeavors to obtain contractual protection against uninsured risks from its customers. However, there is no assurance that insurance or contractual indemnity protection, when obtained, will be sufficient or effective under all circumstances or against all hazards to which McDermott International may be subject.

McDermott International's insurance policies do not insure against liability and property damage losses resulting from nuclear accidents at reactor facilities of its utility customers. To protect against liability for damage to customer's property, McDermott International has obtained waivers of subrogation from the customer and its insurer and is generally named as an additional insured under the utility customer's nuclear property policy. To protect against

liability from claims brought by third parties, McDermott International is insured under the utility customer's nuclear liability policies and has the benefit of the indemnity and limitation of any applicable liability provision of the Price-Anderson Act, as amended (the "Act"). The Act limits the public liability of manufacturers and operators of licensed nuclear facilities and other parties who may be liable in respect of, and indemnifies them against, all claims in excess of an amount which is determined by the sum of commercially available liability insurance plus certain retrospective premium assessments payable by operators of commercial nuclear reactors. For those sites where McDermott International provides environmental remediation services, it seeks the same protection from its customers as it does for its other nuclear activities.

Although McDermott International does not own or operate any nuclear reactors, it has coverage under commercially available nuclear liability and property insurance for four of its five facilities which are licensed to maintain special nuclear materials. The fifth facility operates primarily as a conventional research center. However, this facility is licensed to possess special nuclear material and has a small and limited amount of special nuclear material on the premises. Two of the four owned facilities are located at McDermott International's Lynchburg, Virginia site. These facilities are insured under a nuclear liability policy which also insures the facility of B&W Fuel Company ("BWFC") that was sold during fiscal year 1993. All three facilities share the same nuclear liability insurance limit as the commercial insurer would not allow BWFC to obtain a separate nuclear liability insurance policy. Due to the type or quantity of nuclear material present, two of the five facilities have the benefit of the indemnity and limitation of liability provisions of the Act, pursuant to agreements entered into with the U. S. Government. In addition, contracts to manufacture and supply nuclear fuel or nuclear components to the U. S. Government generally contain contractual indemnity clauses, which become effective at the time of shipment, whereby the U. S. Government has assumed the risks of public liability claims.

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

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

The insurance coverage of McDermott International for products liability and employers' liability claims is subject to varying insurance limits which are dependent upon the year involved. The Babcock & Wilcox Company has an agreement with a majority of its principal insurers concerning the method of allocation of products liability asbestos claim payments to the years of coverage. Pursuant to the agreement, The Babcock & Wilcox Company

Item 3. LEGAL PROCEEDINGS

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

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

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

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

PART II

THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY

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

FISCAL YEAR 1995

<u>QUARTER ENDED</u>	<u>SALES PRICE</u>		<u>CASH DIVIDENDS DECLARED</u>
	<u>HIGH</u>	<u>LOW</u>	
April 15, 1994	\$ 25 - 7/8	\$ 19 - 3/8	\$0.25
July 15, 1994	27 - 1/4	24 - 1/4	0.25
October 15, 1994	26 - 1/8	23 - 1/2	0.25
January 15, 1995	29 - 1/8	23 - 3/4	0.25

FISCAL YEAR 1996

<u>QUARTER ENDED</u>	<u>SALES PRICE</u>		<u>CASH DIVIDENDS DECLARED</u>
	<u>HIGH</u>	<u>LOW</u>	
April 15, 1995	\$ 28	\$ 23 - 1/4	\$0.25
July 15, 1995	25 - 3/8	19 - 5/8	0.25
October 15, 1995	22 - 1/8	15 - 3/8	0.25
January 15, 1996	21 - 3/4	17 - 7/8	0.25

As of March 31, 1996, the approximate number of record holders of Common Stock was 1,000.

Item 6. SELECTED FINANCIAL DATA

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

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

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

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

GENERAL

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

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

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

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

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

FISCAL YEAR 1996 VS FISCAL YEAR 1995

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

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

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

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

associated with the fabrication yard in Scotland and accelerated depreciation of \$4,314,000 on certain marine equipment in the Far East.

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

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

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

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

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

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

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

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

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

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

FISCAL YEAR 1995 VS FISCAL YEAR 1994

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

Power Generation Systems and Equipment's segment operating income decreased \$28,365,000 to \$13,440,000 due to provisions for the decontamination, decommissioning and closing of certain nuclear manufacturing facilities and the closing of a manufacturing facility (\$46,489,000) and a favorable warranty reserve recorded in the prior year (\$11,000,000). Operating income increased due to lower operating expenses (including favorable workers compensation adjustments) and administrative expenses (including cost reduction initiatives); higher volume and margins on operations and maintenance contracts; and improved margins on plant enhancement projects. These

increases were partially offset by lower volume and margins on extended scope of supply and fabrication of industrial boilers, lower volume on replacement parts, and lower margins on nuclear fuel assemblies and reactor components for the U. S. Government.

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

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

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

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

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

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

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

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

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

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

Effect of Inflation and Changing Prices

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

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

Liquidity and Capital Resources

During fiscal year 1996, McDermott International's cash and cash equivalents increased \$152,754,000 to \$238,663,000 and total debt decreased \$176,173,000 to \$810,514,000. This included McDermott International's repayment of its 10.25% Notes of \$150,000,000 on June 1, 1995. During this period, McDermott International used cash of \$174,331,000 for repayment of long-term debt; \$165,836,000 in operating activities; \$85,838,000 for additions to property, plant and equipment; \$62,411,000 for dividends on International's common and preferred stocks; \$29,620,000 for the conversion of a barge to a floating production unit; \$23,364,000 for investments in equity investees; \$23,260,000 for acquisitions; and \$5,743,000 for the repurchase of a

subsidiary's preferred stock to satisfy current and future sinking fund requirements. Also during this period, McDermott International received cash of \$478,343,000 from the liquidation of its investment portfolio; \$165,060,000 from the proceeds of asset sales; \$30,000,000 as a deposit on the sale of certain marine equipment and \$46,497,000 from the return of capital from its equity investees.

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

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

McDermott International's expenditures for property, plant and equipment decreased \$5,341,000 to \$85,838,000 in fiscal year 1996. While the majority of these expenditures were incurred to maintain and replace existing facilities and equipment, \$8,669,000 was expended for the installation of a new pipe reel system on a marine barge. In addition to expenditures for property, plant and equipment, McDermott International expended \$29,620,000 for the conversion of a barge to a floating production unit which is now

Also during March 1996, McDermott International sold its interest in three Caspian Sea oil fields to Itochu Corporation, a Japanese trading company, and recognized a gain of \$34,788,000. The proceeds from the sale were used to repay outstanding short-term indebtedness.

Working capital increased \$372,776,000 to \$331,986,000 at March 31, 1996 from a deficit of \$40,790,000 at March 31, 1995. This increase reflects the liquidation of approximately \$348,000,000 of the long-term investment portfolio to repay short-term debt and the 10.25% Notes due June 1, 1995, and cash received from the vessel sales described above. During fiscal year 1997, McDermott International expects to obtain funds to meet capital expenditure, working capital and debt maturity requirements from operating activities, sales of non-strategic assets and borrowings under its short-term lines of credit. Leasing agreements for equipment, which are short-term in nature, are not expected to impact McDermott International's liquidity or capital resources. McDermott International's financial strategy is to rebuild its investment portfolio and maintain a level of cash and investments equal to or greater than its total debt. It intends to achieve this balance from improved operating performance and the disposition of unused, surplus and non-strategic assets which have been identified and placed in a program for their disposal. JRM is also considering the issuance of public debt, the proceeds of which, in part, would be used to repay its intercompany note payable of \$231,000,000 which was issued to International in consideration for the contribution of International's marine construction services businesses to JRM in the merger with OPI. International intends to reduce any short-term borrowings outstanding, and to invest any remaining funds from the settlement in its investment portfolio.

JRM's joint ventures are largely financed through their own resources, including, in some cases, stand-alone borrowing arrangements. Historically, JRM has obtained funds from its joint ventures through chartering arrangements, whereby JRM charters vessels to the joint ventures for use in their operations, as well as through distributions from the joint ventures. While JRM and the other parties to the joint venture arrangements generally must agree on the amount of cash flow to be distributed, the joint ventures have historically distributed to their respective owners cash in excess of estimated working capital requirements, based on the owners' relative ownership percentages.

International's quarterly dividends are \$0.25 per share on its Common Stock and \$0.71875 per share on its Series C Cumulative Convertible Preferred Stock. The Delaware Company's quarterly dividends are \$0.55 per share on the Series A \$2.20 Cumulative Convertible Preferred Stock and \$0.65 per share on the Series B \$2.60 Cumulative Preferred Stock. International's and the Delaware Company's quarterly dividends were at the same rates in 1996 and 1995. During fiscal year 1996, 458,382 shares of Series B Preferred Stock were converted into 1,065,193 shares of common stock and the remaining 250 shares were redeemed for cash. Prior to its redemption during fiscal 1996, JRM paid \$511,000 on its Series B Preferred Stock.

At March 31, 1996, the ratio of long-term debt to total stockholders' equity was 0.84 as compared with 0.81 at March 31, 1995.

McDermott International has provided a valuation allowance (\$30,889,000 at March 31, 1996) for deferred tax assets which cannot be realized through carrybacks and future reversals of existing taxable temporary differences. Management believes that remaining

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

New Accounting Standards

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

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

Item 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

COMPANY REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

May 15, 1996

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
McDermott International, Inc.

We have audited the accompanying consolidated balance sheet of McDermott International, Inc. as of March 31, 1996 and 1995, and the related consolidated statements of income (loss), stockholders' equity and cash flows for each of the three years in the period ended March 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDermott International, Inc. at March 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its methods of accounting for postemployment benefits and investment securities in 1995 and recoveries of products liability claims in 1994.

ERNST & YOUNG LLP

New Orleans, Louisiana
May 15, 1996

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
MARCH 31, 1996 and 1995

ASSETS		
	1996	1995
	(In thousands)	
Current Assets:		
Cash and cash equivalents	\$ 238,663	\$ 85,909
Short-term investments	2,077	132,691
Accounts receivable - trade	457,049	475,861
Accounts and note receivable - unconsolidated affiliates	57,691	75,709
Accounts receivable - other	162,335	104,155
Insurance recoverable - current	116,280	111,188
Contracts in progress	457,265	279,016
Inventories	77,592	64,044
Deferred income taxes	93,104	76,863
Other current assets	62,482	45,131
Total Current Assets	1,724,538	1,450,567
Property, Plant and Equipment, at Cost:		
Land	34,097	37,528
Buildings	240,393	257,228
Machinery and equipment	1,575,530	1,886,268
Property under construction	40,083	55,994
	1,890,103	2,237,018
Less accumulated depreciation	1,199,416	1,337,341
Net Property, Plant and Equipment	690,687	899,677
Investments:		
Government obligations	132,674	383,023
Other investments	109,352	199,379
Total Investments	242,026	582,402
Insurance Recoverable	606,963	750,219
Excess of Cost Over Fair Value of Net Assets of Purchased Businesses Less Accumulated Amortization of \$126,882,000 at March 31, 1996 and \$96,405,000 at March 31, 1995	460,058	381,491
Prepaid Pension Costs	283,656	277,814
Other Assets	379,323	409,500
TOTAL	\$4,387,251	\$4,751,670
See accompanying notes to consolidated financial statements.		

LIABILITIES AND STOCKHOLDERS' EQUITY

1996

1995

(In thousands)

Current Liabilities:

Notes payable and current maturities of long-term debt	\$ 234,258	\$ 407,586
Accounts payable	264,930	286,219
Environmental and products liabilities - current	161,062	133,280
Accrued employee benefits	98,159	104,883
Accrued liabilities - other	410,103	326,688
Advance billings on contracts	187,378	180,018
U.S. and foreign income taxes	36,662	52,683

Total Current Liabilities	1,392,552	1,491,357
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Long-Term Debt	576,256	579,101
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Accumulated Postretirement Benefit Obligation	401,321	393,744
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Environmental and Products Liabilities	721,740	913,939
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Other Liabilities	268,975	310,989
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Contingencies

Minority Interest:

Subsidiary's redeemable preferred stocks	173,301	179,251
Other minority interest	168,586	172,710
Total Minority Interest	341,887	351,961

Stockholders' Equity:

Preferred stock, authorized 25,000,000 shares;
outstanding 2,875,000 Series C \$2.875 cumulative
convertible, par value \$1.00 per share,
(liquidation preference \$143,750,000)

2,875	2,875
-------	-------

Common stock, par value \$1.00 per share,
authorized 150,000,000 shares; outstanding
54,435,823 at March 31, 1996 and
53,959,597 at March 31, 1995

54,436	53,960
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Capital in excess of par value

949,022	936,134
---------	---------

Deficit

(290,968)	(249,061)
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Minimum pension liability

(1,428)	(391)
---------	-------

Net unrealized loss on investments

(1,875)	(8,050)
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Currency translation adjustments

(27,542)	(24,888)
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Total Stockholders' Equity	684,520	710,579
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TOTAL	\$ 4,387,251	\$4,751,670
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MODERNITY REFINANCING, INC.
CONSOLIDATED STATEMENT OF INCOME (LOSS)
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1996

	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(In thousands)		
Revenues	\$ 3,279,106	\$ 3,043,680	\$ 3,059,912
Costs and Expenses:			
Cost of operations (excluding depreciation and amortization)	2,838,588	2,645,232	2,657,712
Depreciation and amortization	139,875	115,558	99,393
Selling, general and administrative expenses	274,772	276,076	262,873
	3,253,235	3,036,866	3,019,978
Operating Income before Equity in Income of Investees	25,871	6,814	39,934
Equity in Income of Investees	48,438	33,852	119,860
Operating Income	74,309	40,666	159,794
Other Income (Expense):			
Interest income	37,238	52,740	38,751
Interest expense	(84,312)	(57,115)	(63,975)
Minority interest	(10,030)	(12,167)	(15,251)
Other-net	4,499	(33,291)	(4,365)
	(52,605)	(49,833)	(44,840)
Income (Loss) before Provision for (Benefit from) Income Taxes and Cumulative Effect of Accounting Changes	21,704	(9,167)	114,954
Provision for (Benefit from) Income Taxes	1,079	(20,043)	24,998
Income before Cumulative Effect of Accounting Changes	20,625	10,876	89,956
Cumulative Effect of Accounting Changes	-	(1,765)	(100,750)
Net Income (Loss)	\$ 20,625	\$ 9,111	\$ (10,794)
Net Income (Loss) Applicable to Common Stock (after Preferred Stock Dividends)	\$ 12,359	\$ 845	\$ (16,878)

199619951994EARNINGS (LOSS) PER COMMON AND
COMMON EQUIVALENT SHARE:

Primary and Fully Diluted:

Income before cumulative effect of accounting changes	\$ 0.23	\$ 0.05	\$ 1.57
Accounting changes	-	(0.03)	(1.89)
Net income (loss)	\$ 0.23	\$ 0.02	\$ (0.32)

CASH DIVIDENDS:

Per common share	\$ 1.00	\$ 1.00	\$ 1.00
Per preferred share	\$ 2.88	\$ 2.88	\$ 2.12

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1996

(In thousands, except for share amounts)

	Preferred Stock		Common Stock	
	Series C			
	Shares	Par Value	Shares	Par Value
Balance March 31, 1993	-	\$ -	52,211,961	\$ 52,212
Net loss	-	-	-	-
Minimum pension liability	-	-	-	-
Translation adjustments	-	-	-	-
Common stock dividends	-	-	-	-
Preferred stock dividends	-	-	-	-
Preferred shares issued	2,875,000	2,875	-	-
Exercise of stock options	-	-	783,285	783
Restricted stock purchases - net	-	-	148,830	149
Contributions to thrift plan	-	-	300,391	300
Deferred career executive stock plan expense	-	-	-	-
Balance March 31, 1994	2,875,000	2,875	53,444,467	53,444
Adoption of SFAS 115	-	-	-	-
Net income	-	-	-	-
Minimum pension liability	-	-	-	-
Loss on investments	-	-	-	-
Translation adjustments	-	-	-	-
Common stock dividends	-	-	-	-
Preferred stock dividends	-	-	-	-
Acquisition of OPI by JRM	-	-	-	-
Exercise of JRM stock options	-	-	-	-
Exercise of stock options	-	-	147,217	148
Tax benefit on exercise of stock options	-	-	-	-
Restricted stock purchases - net	-	-	55,030	55
Redemption of preferred shares	-	-	-	-
Contributions to thrift plan	-	-	312,883	313
Deferred career executive stock plan expense	-	-	-	-
Balance March 31, 1995	2,875,000	2,875	53,959,597	53,960
Net income	-	-	-	-
Minimum pension liability	-	-	-	-
Gain on investments	-	-	-	-
Translation adjustments	-	-	-	-
Common stock dividends	-	-	-	-
Preferred stock dividends	-	-	-	-
JRM equity transactions	-	-	-	-
Exercise of stock options	-	-	76,005	76
Restricted stock purchases - net	-	-	99,270	99
Redemption of preferred shares	-	-	-	-
Contributions to thrift plan	-	-	300,951	301
Deferred career executive stock plan expense	-	-	-	-
Balance March 31, 1996	2,875,000	\$ 2,875	54,435,823	\$ 54,436

See accompanying notes to the consolidated financial statements.

<u>Capital in Excess of Par Value</u>	<u>Retained Earnings (Deficit)</u>	<u>Minimum Pension Liability</u>	<u>Unrealized Loss on Investments</u>	<u>Currency Translation Adjustment</u>	<u>Total Stockholders' Equity</u>
\$ 568,329	\$(126,264)	\$ (74)	\$ -	\$ (33,785)	\$ 460,418
-	(10,794)	-	-	-	(10,794)
-	-	(857)	-	-	(857)
-	-	-	-	(14,116)	(14,116)
-	(53,074)	-	-	-	(53,074)
-	(6,084)	-	-	-	(6,084)
137,191	-	-	-	-	140,066
15,509	-	-	-	-	16,292
-	-	-	-	-	149
7,684	-	-	-	-	7,984
2,274	-	-	-	-	2,274
730,987	(196,216)	(931)	-	(47,901)	542,258
-	-	-	(4,095)	-	(4,095)
-	9,111	-	-	-	9,111
-	-	540	-	-	540
-	-	-	(3,955)	-	(3,955)
-	-	-	-	15,597	15,597
-	(53,690)	-	-	-	(53,690)
-	(8,266)	-	-	-	(8,266)
189,793	-	-	-	7,416	197,209
(151)	-	-	-	-	(151)
2,991	-	-	-	-	3,139
2,642	-	-	-	-	2,642
-	-	-	-	-	55
239	-	-	-	-	239
7,400	-	-	-	-	7,713
2,233	-	-	-	-	2,233
936,134	(249,061)	(391)	(8,050)	(24,888)	710,579
-	20,625	-	-	-	20,625
-	-	(1,037)	-	-	(1,037)
-	-	-	6,175	-	6,175
-	-	-	-	(2,654)	(2,654)
-	(54,266)	-	-	-	(54,266)
-	(8,266)	-	-	-	(8,266)
2,382	-	-	-	-	2,382
1,935	-	-	-	-	2,011
(308)	-	-	-	-	(209)
206	-	-	-	-	206
6,046	-	-	-	-	6,347
2,627	-	-	-	-	2,627
\$ 949,022	\$ (290,968)	\$ (1,428)	\$ (1,875)	\$ (27,542)	\$ 684,520

McDERMOTT INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1996

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>1996</u>	<u>1995</u>	<u>1994</u>
		(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	\$ 20,625	\$ 9,111	\$ (10,794)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	139,875	115,558	99,393
Equity in income of investees			
less dividends	(5,963)	42,629	(54,646)
Gain on sale and disposal of assets	(9,115)	(1,874)	(4,369)
Provision for (benefit from) deferred taxes	9,121	(3,896)	3,875
Cumulative effect of accounting changes	-	1,765	100,750
Other	(8,786)	1,954	9,724
Changes in assets and liabilities, net of effects from acquisitions:			
Accounts receivable	(16,613)	1,688	134,517
Accounts payable	(43,187)	(34,637)	(34,944)
Inventories	(11,638)	5,000	1,768
Net contracts in progress and advance billings	(164,805)	(37,891)	54,768
Income taxes	(32,957)	(38,277)	(37,118)
Accrued liabilities	28,774	(32,243)	(92,349)
Other, net	(26,687)	(20,609)	60,813
Proceeds from insurance for products liabilities claims	107,481	105,314	103,994
Payments of products liabilities claims	(151,961)	(126,151)	(112,271)
NET CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES	(165,836)	(12,559)	223,111
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions	(23,260)	10,828	(85,894)
Purchases of property, plant and equipment	(85,838)	(91,179)	(76,321)
Investment in asset held for lease	(29,620)	(6,711)	-
Purchases of short-term investments, government obligations and other investments	(413,912)	(520,007)	(794,234)
Sales and maturities of short-term investments, government obligations and other investments	892,255	512,786	746,514
Proceeds from sale and disposal of assets	165,060	22,430	6,539
Deposit in advance of sale of certain equipment	30,000	-	-
Investments in equity investees	(23,364)	(26,156)	(1,108)
Returns of capital from equity investees	46,497	-	-
Other	-	-	(4,287)
NET CASH PROVIDED BY (USED IN)			
INVESTING ACTIVITIES	557,818	(98,009)	(208,791)

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(In thousands)		
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of long-term debt	\$ (174,331)	\$ (35,553)	\$ (222,646)
Issuance of long-term debt	34,506	3,482	92,841
Increase (decrease) in short-term borrowing	(31,488)	167,987	16,639
Issuance of common stock	1,802	3,194	16,441
Issuance of preferred stock	-	-	140,066
Dividends paid	(62,411)	(61,827)	(56,773)
Repurchase of subsidiary's preferred stock	(5,743)	(17,185)	(3,587)
Other	(2,071)	1,747	(950)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(239,736)	61,845	(17,969)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH	508	823	(2,064)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	152,754	(47,900)	(5,713)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	85,909	133,809	139,522
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 238,663	\$ 85,909	\$ 133,809
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest (net of amount capitalized)	\$ 88,640	\$ 76,519	\$ 72,159
Income taxes (net of refunds)	\$ 36,738	\$ 10,664	\$ 18,726
See accompanying notes to consolidated financial statements.			

McDERMOTT INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE FISCAL YEARS ENDED MARCH 31, 1996

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements are presented in U.S. Dollars in accordance with accounting principles generally accepted in the United States. The consolidated financial statements include the accounts of McDermott International, Inc. and all subsidiaries and controlled joint ventures. Investments in joint venture and other entities which McDermott International, Inc. does not control but has significant influence are accounted for on the equity method. Differences between the cost of equity method investments and the amount of underlying equity in net assets of the investees are amortized systematically to income. All significant intercompany transactions and accounts have been eliminated. Certain amounts previously reported have been reclassified to conform with the presentation at March 31, 1996.

Unless the context otherwise requires, hereinafter "International" will be used to mean McDermott International, Inc., a Panamanian corporation; "JRM" will be used to mean J. Ray McDermott, S.A., a Panamanian corporation, which is a majority owned subsidiary of International, and its consolidated subsidiaries; and the "Delaware Company" will be used to mean McDermott Incorporated, a Delaware corporation which is a subsidiary of International, and its consolidated subsidiaries (including Babcock & Wilcox Investment Company and its principal subsidiary, The Babcock & Wilcox Company); and "McDermott International" will be used to mean the consolidated enterprise.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Changes in Accounting Policies

Products Liability - As a result of the consensus reached on Emerging Issues Task Force ("EITF") Issue No. 93-5, a company is no longer permitted to offset, for recognition purposes, reasonable possible recoveries against probable losses which until fiscal year 1994 had been McDermott International's practice with respect to estimated future costs for non-employee products liability asbestos claims. Effective April 1, 1993, McDermott International adopted this provision of EITF Issue No. 93-5 as a change in accounting principle and provided for estimated future costs to the extent that recovery from its insurers was not determined to be probable. The cumulative effect of the accounting change at April 1, 1993 was a charge of \$100,750,000 (net of income taxes of \$54,250,000), or \$1.89 per share. The adoption of this provision of EITF Issue No. 93-5 resulted in an increase in pre-tax income before Cumulative Effect of Accounting Change of \$19,947,000 (\$12,168,000 net of tax, or \$0.23 per share) in fiscal year 1994, as

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

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

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

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

Income Taxes

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

Foreign Currency Translation

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

Contracts and Revenue Recognition

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

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

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

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

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

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

Inventories

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

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

Warranty Expense

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

Environmental Clean-up Costs

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

Research and Development

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

Depreciation, Maintenance and Repairs and Drydocking Expenses

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

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

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

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

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

Capitalization of Interest Cost

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

Earnings Per Share

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

Cash Equivalents

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

Derivative Financial Instruments

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

Accounting for Long-Lived Assets

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

Stock-Based Compensation

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

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

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

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

NOTE 4 - INCOME TAXES

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

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

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

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

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

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

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

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

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

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

NOTE 5 - LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt consists of:

1996

1995

(in thousands)

Unsecured Debt:

Series A Medium Term Notes (maturities ranging from 1 to 7 years; interest at various rates ranging from 7.92% to 9.00%)

\$ 75,000

\$ 75,000

Series B Medium Term Notes (maturities ranging from 2 to 27 years; interest at various rates ranging from 6.50% to 8.75%)

101,000

101,000

9.375% Notes due 2002 (\$225,000,000 face value)

224,538

224,482

10.25% Notes due June 1, 1995

-

150,000

12.875% Guaranteed Senior Notes due 2002 (\$70,000,000 face value)

74,473

74,933

Other notes payable through 2009 (interest at various rates ranging to 6.80%)

38,255

31,669

Secured Debt:

10.375% Note payable due 1998

55,300

73,800

Other notes payable through 2012 and capitalized lease obligations

42,881

25,167

611,447

756,051

Less: Amounts due within one year

35,191

176,950

\$ 576,256

\$ 579,101

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

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

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

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

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

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

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

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

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

	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(In thousands)		
Current:			
U. S. - Federal	\$ (17,323)	\$ (35,891)	\$ (15,029)
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Provision for (Benefit from)			
Income Taxes	\$ 1,079	\$ (20,043)	\$ 24,998

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

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

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

NOTE 5 - LONG-TERM DEBT AND NOTES PAYABLE

Long-term debt consists of:

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(In thousands)

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

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

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

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

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

NOTE 6 - PENSION PLANS AND POSTRETIREMENT BENEFITS

Pension Plans - McDermott International provides retirement benefits, primarily through non-contributory pension plans, for substantially all of its regular full-time employees, except certain non-resident alien employees of foreign subsidiaries who are not citizens of a European Community country or who do not earn income in the United States, Canada, or the United Kingdom. Salaried plan benefits are based on final average compensation and years of service, while hourly plan benefits are based on a flat benefit rate and years of service. McDermott International's funding policy is to fund applicable pension plans to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and, generally, to fund other pension plans as recommended by the respective plan actuary and in accordance with applicable law. At January 1, 1995 and 1994, approximately one-half of total plan assets were invested in listed stocks and bonds. The remaining assets were held in foreign equity funds, U.S. Government securities and investments of a short-term nature.

U.S. Pension Plans:

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

	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(In thousands)		
Service cost - benefits earned during the period	\$ 21,599	\$ 22,917	\$21,035
Interest cost on projected benefit obligation	69,911	62,650	62,827
Actual return on plan assets	(218,895)	16,701	(166,978)
Net amortization and deferral	122,281	(114,343)	81,509
Net periodic pension benefit	\$ (5,104)	\$ (12,035)	\$ (1,607)

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

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

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

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

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

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

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

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

Non-U.S. Pension Plans:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 7 - SALE OF ACCOUNTS RECEIVABLE

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

NOTE 8 - SUBSIDIARIES' STOCKS

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

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

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

NOTE 9 - CAPITAL STOCK

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

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

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

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

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

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

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

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

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

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

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

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

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

Thrift Plan - On November 12, 1991 and June 5, 1995, a maximum of 5,000,000 each of the authorized and unissued shares of International's Common Stock and JRM's Common Stock was reserved for possible issuance to be used as the employer match for employee contributions to the Thrift Plan for Employees of McDermott Incorporated and Participating Subsidiary and Affiliated Companies. Such employer contributions equal 50% of the first 6% of compensation, as defined in the Plan, contributed by participants, and fully vest and are non-forfeitable after five years of service or upon retirement, death, lay-off or approved disability. During fiscal years 1996, 1995 and 1994, 300,951, 312,883 and 300,391 of International's shares, respectively, were issued as employer contributions pursuant to the Plan. During fiscal year 1996, 80,356 of JRM's shares were issued as employer contributions pursuant to the Plan. At March 31, 1996, 3,622,934 and 4,919,644 of International and JRM shares, respectively, remained available for issuance.

NOTE 10 - CONTINGENCIES AND COMMITMENTS

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 11 - RELATED PARTY TRANSACTIONS

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

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

JRM entered into agreements with an affiliate of another director of JRM pursuant to which, JRM acquired interests in certain offshore oil and gas property. During fiscal years 1996 and 1995, JRM paid \$2,036,000 and \$3,000,000 to the affiliate under the

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

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

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

NOTE 12 - FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

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

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

NOTE 13 - INVESTMENTS

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

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

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

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

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

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

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

NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

NOTE 15 - FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

Interest rate swap agreements: The fair values of interest rate swaps are the amounts at which they could be settled and are estimated by obtaining quotes from brokers. At March 31, 1996 and 1995, McDermott International had an interest rate swap outstanding on

current notional principal of \$55,300,000 with a fair value of (\$470,000) and \$73,800,000 with a fair value of (\$2,541,000), respectively, which represents the estimated amount, McDermott International would have to pay to terminate the agreement.

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

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

NOTE 16 - SEGMENT REPORTING

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

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

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

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

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

revenues. These revenues are principally included in the Power Generation Systems and Equipment segment.

At March 31, 1996 and 1995 receivables of \$6,824,000 and \$6,230,000, respectively, were due from minority shareholders, primarily ETPM S.A., participating in McDermott International's majority-owned joint ventures. There were no sales to ETPM S.A. in fiscal year 1996; sales to ETPM S.A. were \$1,801,000 and \$3,358,000 in fiscal years 1995 and 1994, respectively. In fiscal years 1996, 1995 and 1994 equipment charters and overhead expenses of \$4,118,000, \$4,938,000 and \$6,330,000, respectively, were charged by ETPM S.A. to the McDermott-ETPM joint venture.

In fiscal year 1996, the write-off of an insurance claim due to an unfavorable arbitration ruling resulted in a decrease in the Power Generation Systems and Equipment segment operating income of \$12,600,000. The gain resulting from the sale of McDermott International's interest in three Caspian Sea oil field and a favorable insurance adjustment resulted in an increase in the Marine Construction Services segment operating income of \$38,744,000 and \$12,000,000, respectively. The provisions for the closing of certain facilities in fiscal year 1995 resulted in a decrease in the Power Generation Systems and Equipment segment operating income of \$46,489,000. The adoption of EITF Issue No. 93-5 in fiscal year 1994 resulted in an increase in the Power Generation Systems and Equipment segment operating income of \$19,947,000.

Segment Information for the Three Fiscal Years Ended March 31, 1996.

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

<u>REVENUES</u> ⁽¹⁾	<u>1996</u>	<u>1995</u>	<u>1994</u>
Power Generation Systems and Equipment	\$1,708,566	\$1,663,235	\$ 1,614,206
Marine Construction Services ⁽²⁾	1,590,318	1,390,919	1,452,497
Intersegment Transfer Eliminations	(19,778)	(10,474)	(6,791)
Total Revenues	\$3,279,106	\$3,043,680	\$ 3,059,912
<u>OPERATING INCOME</u>			
Segment Operating Income: ⁽³⁾			
Power Generation Systems and Equipment	\$ 20,579	\$ 13,440	\$ 41,805
Marine Construction Services ⁽²⁾	38,447	32,189	34,174
Total Segment Operating Income	59,026	45,629	75,979
Equity in Income of Investees:			
Power Generation Systems and Equipment	36,489	8,364	12,032
Marine Construction Services	11,949	25,488	107,828
Total Equity in Income of Investees	48,438	33,852	119,860
General Corporate Expenses ⁽³⁾	(33,155)	(38,815)	(36,045)
Total Operating Income	\$ 74,309	\$ 40,666	\$ 159,794

⁽¹⁾ Segment revenues include intersegment transfers as follows:

Power Generation Systems and Equipment	\$ 11,928	\$ 9,669	\$ 6,365
Marine Construction Services	7,850	805	426
Total	\$ 19,778	\$ 10,474	\$ 6,791

⁽²⁾ See Note 2 regarding the acquisition of OPI during fiscal year 1995 and the acquisitions of NOS and MECL during fiscal year 1994.

⁽³⁾ Fiscal years 1995 and 1994 have been restated to reflect the allocation of certain expenses to the business segments which were previously included in General Corporate Expenses. This restatement reduced Segment Operating Income and General Corporate Expenses by \$19,800,000 and \$18,356,000 in fiscal years 1995 and 1994, respectively, from amounts previously reported.

	<u>1996</u>	<u>1995</u>	<u>1994</u>
	(In thousands)		
<u>CAPITAL EXPENDITURES</u>			
Power Generation Systems and Equipment	\$ 27,322	\$ 45,306	\$ 47,898
Marine Construction Services ⁽¹⁾	98,102	224,251	123,055
Corporate	1,232	1,467	851
Total Capital Expenditures	\$ 126,656	\$ 271,024	\$ 171,804

DEPRECIATION AND AMORTIZATION

Power Generation Systems and Equipment	\$ 41,835	\$ 34,828	\$ 36,567
Marine Construction Services	93,224	76,563	59,454
Corporate	4,816	4,167	3,372
Total Depreciation and Amortization	\$ 139,875	\$ 115,558	\$ 99,393

IDENTIFIABLE ASSETS

Power Generation Systems and Equipment	\$2,105,880	\$2,099,223	\$ 2,188,202
Marine Construction Services	1,637,033	1,716,912	1,107,956
Corporate	644,338	935,535	927,411
Total Identifiable Assets	\$4,387,251	\$4,751,670	\$ 4,223,569

⁽¹⁾ Includes property, plant and equipment of \$11,198,000, \$173,134,000 and \$79,233,000 of acquired companies in fiscal years 1996, 1995 and 1994, respectively, expenditures on an asset held for lease of \$29,620,000 and \$6,711,000 in fiscal years 1996 and 1995, respectively, and the purchase of a fabrication yard financed by a note payable of \$16,250,000 in fiscal year 1994.

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

		<u>1996</u>	<u>1995</u>	<u>1994</u>
		(In thousands)		
Revenues ⁽¹⁾	- United States	\$1,488,458	\$1,500,037	\$1,614,533
	- Canada	883,883	739,663	583,169
	- Europe and West Africa	517,190	348,486	153,709
	- Far East	206,913	326,523	545,545
	- Middle East	177,814	128,860	162,956
	- Other Foreign	4,848	111	-
Total		\$3,279,106	\$3,043,680	\$3,059,912
Segment Operating Income (Loss) by Geographic Area ⁽²⁾	- United States	\$ (17,534)	\$ (48,284)	\$ 3,506
	- Canada	18,838	27,233	34,248
	- Europe and West Africa	24,962	24,980	3,013
	- Far East	(961)	35,911	35,065
	- Middle East	33,609	9,904	3,062
	- Other Foreign	112	(4,115)	(2,915)
Total		\$ 59,026	\$ 45,629	\$ 75,979
Identifiable Assets	- United States	\$2,324,949	\$2,267,800	\$2,288,950
	- Canada	344,984	348,200	265,342
	- Europe and West Africa	570,367	736,442	455,511
	- Far East	279,575	208,655	156,088
	- Middle East	170,154	209,221	108,596
	- Other Foreign	52,884	45,817	21,671
	- Corporate	644,338	935,535	927,411
Total		\$4,387,251	\$4,751,670	\$4,223,569

⁽¹⁾ Net of inter-geographic area revenues in fiscal years 1996, 1995 and 1994 as follows: United States- \$69,872,000, \$69,432,000 and \$38,666,000; Canada - \$22,389,000, \$11,538,000 and \$12,082,000; Europe and West Africa - \$6,036,000, \$13,200,000 and \$15,868,000; Far East - \$486,000, \$18,414,000 and \$474,000; Middle East - \$15,152,000, \$37,303,000 and \$2,686,000; and Other Foreign - \$13,519,000, \$26,259,000 and \$25,770,000, respectively.

⁽²⁾ Fiscal years 1995 and 1994 have been restated to reflect the allocation of certain expenses to the geographic areas which were previously included in General Corporate Expenses.

NOTE 17 - QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables set forth selected unaudited quarterly financial information for the fiscal years ended March 31, 1996 and 1995:

	<u>1996</u> Q U A R T E R E N D E D			
	<u>JUNE 30,</u> <u>1995</u>	<u>SEPT. 30,</u> <u>1995</u>	<u>DEC. 31,</u> <u>1995</u>	<u>MARCH 31,</u> <u>1996</u>
(In thousands, except for per share amounts)				
Revenues	\$ 816,474	\$ 806,756	\$ 766,538	\$ 889,338
Operating income (loss)	38,042	15,453	37,430	(16,616)
Net income (loss)	8,832	9,054	6,606	(3,867)
Primary and Fully Diluted Earnings (Loss) per Share:	0.12	0.13	0.08	(0.11)

Pre-tax results for the quarter ended June 30, 1995 include an equity income gain of \$30,612,000 resulting from the sale of two power purchase contracts. Results for the quarter ended September 30, 1995 include a favorable insurance adjustment of \$12,000,000. Results for the quarter ended December 31, 1995 include favorable worker's compensation cost adjustments of \$12,640,000. Results for the quarter ended March 31, 1996 include a gain of \$34,788,000 resulting from the sale of McDermott International's interest in three Caspian Sea oil fields and the write-off of an insurance claim of \$12,600,000 due to an unfavorable arbitration ruling related to the recovery of cost incurred for corrective action in certain utility and industrial installations.

Continued

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

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

**Item 9. DISAGREEMENTS WITH AUDITORS ON ACCOUNTING AND FINANCIAL
DISCLOSURE**

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

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

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

Item 11. EXECUTIVE COMPENSATION

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

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

NONE

PART IV

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

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

1. CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

Consolidated Balance Sheet
March 31, 1996 and 1995

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

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

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

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

2. CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

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

3. EXHIBITS

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

- 10.1* McDermott International, Inc.'s Supplemental Executive Retirement Plan, as amended (incorporated by reference to Exhibit 10 of McDermott International Inc.'s 10-K/A for fiscal year end March 31, 1994 filed with the Commission on June 27, 1994).
- 10.2* McDermott International, Inc.'s 1983 Long-Term Performance Incentive Compensation Program (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983).
- 10.3 Intercompany Agreement (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1983).
- 10.4* Trust for Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1990).
- 10.5* McDermott International, Inc.'s 1994 Variable Supplemental Compensation Plan (incorporated by reference to Exhibit A to McDermott International, Inc.'s Proxy Statement for its Annual Meeting of Stockholders held on August 9, 1994 as filed with the Commission).
- 10.6* McDermott International, Inc.'s 1987 Long-Term Performance Incentive Compensation Program (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report of Form 10-K, as amended, for the fiscal year ended March 31, 1988).
- 10.7* Retirement Plan for Non-Management Directors of McDermott International, Inc. (incorporated by reference to Exhibit 11 to McDermott International, Inc.'s current report on Form 8-K filed with the Commission December 10, 1991).
- 10.8* McDermott International, Inc.'s 1992 Senior Management Stock Option Plan (incorporated by reference to Exhibit 10 of McDermott International, Inc.'s 10-K/A for fiscal year ended March 31, 1994 filed with the Commission on June 27, 1994).
- 10.9* McDermott International, Inc.'s 1992 Officer Stock Incentive Program (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended for the fiscal year ended March 31, 1992).

10.10*	McDermott International, Inc.'s 1992 Director Stock Program (incorporated by reference to Exhibit 10 to McDermott International, Inc.'s annual report on Form 10-K, as amended, for the fiscal year ended March 31, 1992).
11	Statement Re Computation of Per Share Earnings (Loss)
21	Significant Subsidiaries of the Registrant
23	Consent of Independent Auditors
27	Financial Data Schedule

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 14(c) of Form 10-K.

FORM 8-K REPORTS

None

SIGNATURES

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

McDERMOTT INTERNATIONAL, INC.

s/Robert E. Howson

June 4, 1996

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

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

<u>Signature</u>	<u>Title</u>
<u>s/ Robert E. Howson</u> Robert E. Howson	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
<u>s/ Brock A. Hattox</u> Brock A. Hattox	Executive Vice President, Chief Financial Officer and Director (Principal Financial Officer)
<u>s/ Daniel R. Gaubert</u> Daniel R. Gaubert	Vice President, Finance and Controller (Principal Accounting Officer)
<u>Thomas D. Barrow</u>	Director

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

June 4, 1996

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

(In thousands, except shares and per share amounts)

PRIMARY AND FULLY DILUTED

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

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

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

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

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

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Forms S-8 No. 2-83692, No. 33-16680, No. 33-51892, No. 33-51894, No. 33-63832 and No. 33-55341) of McDermott International, Inc. and the Registration Statement (Form S-3 No. 33-54940) of McDermott Incorporated and in the related Prospectuses of our report dated May 15, 1996 with respect to the consolidated financial statements of McDermott International, Inc. included in this Annual Report (Form 10-K) for the year ended March 31, 1996.

ERNST & YOUNG LLP

**New Orleans, Louisiana
June 3, 1996**